

31 January 2011

Produced by: RBS Morgans Limited

# Cedar Woods Properties

## Ce-dar profits grow

### Buy

**Important:** The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

### Moderate Volatility

#### Target price

A\$5.11 (from A\$4.49)

#### Price

A\$4.10

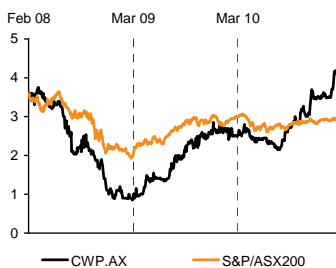
#### Short term (0-60 days)

n/a

CWP110131

### Price performance

	(1M)	(3M)	(12M)
Price (A\$)	3.48	3.00	2.65
Absolute (%)	17.8	36.7	54.7
Rel market (%)	17.9	34.1	51.4
Rel sector (%)	18.5	40.2	39.9



#### Market capitalisation

A\$251.74m (US\$250.38m)

#### Average (12M) daily turnover

A\$0.09m (US\$0.09m)

Sector: BBG AP Real Estate  
 RIC: CWP.AX, CWP AU  
 Priced A\$4.10 at close 28 Jan 2011.  
 Source: Bloomberg

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**CWP announced 1H11 NPAT of A\$24m, in line with its previous full-year guidance. FY11 guidance is now A\$27m (up 12.5%), which could still prove conservative. We expect strong margins to flow through to a record FY12. Buy.**

### Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Total property income (A\$m)	107.4	107.2	133.9	172.4	197.8
Reported net profit (A\$m)	9.26	17.20	27.80 ▲	33.00 ▲	38.50 ▲
Normalised net profit (A\$m) <sup>1</sup>	15.70	18.70	27.80 ▲	33.00 ▲	38.50 ▲
Normalised EPS (c) <sup>1</sup>	27.50	31.40	45.30 ▲	52.40 ▲	59.50 ▲
Normalised EPS growth (%)	-27.6	14.10	44.30	15.70	13.60
Dividend per share (c)	7.00	13.00	23.00 ▲	26.00 ▲	30.00 ▲
Dividend yield (%)	1.71	3.17	5.61	6.34	7.32
Normalised PE (x)	14.90	13.10	9.05	7.82	6.89
Book value per share (c)	160.4	179.6	203.1	226.4	252.0
Disc/(prem) to NTA (%)	-155	-128	-101	-81.1	-62.7

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

year to Jun, fully diluted

1. Pre non-recurring items and post preference dividends

Accounting standard: IFRS

Source: Company data, RBS forecasts

### FY11 guidance to be met in 1H11. FY11 guidance upgraded 12.5%

CWP has announced unaudited 1H11 NPAT of A\$24m, in line with its previous full-year guidance. A strong 1H was previously flagged due to the timing of settlements, however margins have surprised on the upside. FY11 NPAT guidance has been upgraded to A\$27m, with A\$28m in presales in place for 2H. Given historical NPAT margins (~20%) this should be easily achievable and we forecast FY11 NPAT of A\$27.8m. The 1H dividend will be paid based on 50% of the expected FY result (we forecast FY11 DPS of 23cps).

### FY12 stacking up well, A\$100m sales already in place

CWP has stated there is A\$100m of pre-sales in place for FY12, which is ~58% of our full-year forecast revenue. This gives us our first level of confidence in our FY12 forecasts. Despite a flat outlook for the residential sector through CY11, CWP's Melbourne projects are well positioned to continue solid sales rates. Secondly, we had previously expected the strong Melbourne price appreciation (experienced through CY10) to flow through in FY12, and today's announcement validates this assumption in our view.

### Solid upgrades – we forecast 18.6% NPAT growth in FY12

We have upgraded our FY11 and FY12 NPAT by 14.4% and 13.3% respectively. Our upgrades are based on stronger margin assumptions, which have flowed through from strong land price escalation in Melbourne. Our forecasts do not include any material increase in sales prices over the current levels being achieved.

### Investment view – Buy, A\$5.11 price target

Today's upgrade continues management's reputation of over-delivering on guidance. We believe CWP represents a compelling investment with strong growth due to: a solid track record of returns; right product (affordable land) in the right place (WA & VIC); and a mature development portfolio with 'embedded' profits. CWP trades on a FY11 PE multiple of 9x, against a peer average of 11x, and with above average growth. We value CWP at A\$5.11 (PE based) and maintain our Buy recommendation.

## Changes to forecasts

Following today's update and our changes to margin assumptions, we have made the following upgrades:

**Table 1 : Changes to forecasts**

	Old 2011F	New 2011F	Old 2012F	New 2012F	Old 2013F	New 2013F
NPAT	24.3	27.8	29.1	33.0	34.0	38.5
% change		14.4%		13.3%		13.2%
EPS (c)	39.5	45.3	46.4	52.4	52.8	59.5
% change		14.7%		13.0%		12.7%
DPS (c)	20.0	23.0	23.0	26.0	26.0	30.0
% change		15.0%		13.0%		15.4%

Source: RBS Morgans forecasts

## Valuation and target price – A\$5.11

We value CWP using a PE valuation, based on equally weighted FY11 and FY12 earnings given our 12-month valuation horizon. We set our PE multiples at the average current trading multiple of CWP's peer group (11x FY11 EPS and 10x FY12 EPS). Our price target is set at the valuation of A\$5.11 per share, providing 25% upside to the current share price.

**Table 2 : CWP valuation**

	PE multiple	EPS	Value	Weighting	Value per share
FY11	11	45.3	4.98	50%	2.49
FY12	10	52.4	5.24	50%	2.62
<b>Value per share</b>					<b>5.11</b>

Source: RBS Morgans forecasts

## Peer compco

**Table 3 : CWP peer analysis**

Stock	Market Cap (A\$m)	Price	PE		EV/EBITDA FY11	EPS GROWTH		DPS FY12	YIELD FY11	NTA	Prem/ (Disc) to NTA	ROA	ROE
			FY11	FY12		FY11	FY12						
Stockland #	8627	3.62	11.6	11.0	13.4	7%	6%	0.23	6.5%	3.59	1%	5.3%	8.5%
Mirvac Group #	4270	1.25	12.0	11.5	13.7	31%	5%	0.08	6.6%	1.66	-25%	5.3%	6.3%
Lend Lease Group	5005	8.85	13.1	11.9	10.0	-8%	15%	0.34	3.8%	4.76	86%	4.6%	10.7%
Australand Property #	1690	2.93	13.8	12.3	11.4	291%	11%	0.21	7.0%	3.44	-15%	6.6%	5.9%
FKP Property	963	0.82	7.5	6.1	8.5	13%	22%	0.03	3.6%	1.26	-35%	5%	12%
Peet	582	1.92	12.9	12.4	9.9	6%	4%	0.09	4.7%	1.24	55%	13%	18%
Sunland Group	179	0.79	9.7	9.3	4.7	28%	4%	0.00	0.0%	1.39	-43%	3.8%	5.7%
Devine	181	0.28	8.3	6.2	5.1	-26%	33%	0.02	7.0%	0.53	-46%	7.8%	6.4%
<b>Average</b>			<b>11.1</b>	<b>10.1</b>	<b>9.6</b>	<b>43%</b>	<b>13%</b>		<b>4.9%</b>		<b>-2.8%</b>	<b>6.4%</b>	<b>9.2%</b>
Cedar Woods Properties	251	4.09	9.0	7.8	6.9	44%	16%	0.23	5.6%	4.74	-14%	13.6%	23.9%

Source: RBS Morgans forecasts, # Thompson One consensus data, \*CWP NTA tax effected estimate

**CWP – financial summary**

AIFRS 2009A	AIFRS 2010A	AIFRS 2011F	AIFRS 2012F	AIFRS 2013F	Closing price (A\$) 4.09	Price target (A\$) 5.11
107.4	107.2	133.9	172.4	197.8	<b>Valuation metrics</b>	
107.4	107.2	133.9	172.4	197.8	Preferred methodology	PE
22.9	27.0	41.5	48.9	57.4		Val'n (A\$) \$ 5.11
0.0	0.0	0.0	0.0	0.0	<b>Multiples</b>	<b>2010A 2011F 2012F 2013F</b>
-0.2	-0.2	-0.3	-0.3	-0.3	Enterprise value (A\$m)	291.5 287.9 280.5 307.9
22.7	26.7	41.3	48.6	57.1	EV/Sales (x)	2.7 2.2 1.6 1.6
0.0	0.0	0.0	0.0	0.0	EV/EBITDA (x)	10.8 6.9 5.7 5.4
22.7	26.7	41.3	48.6	57.1	EV/EBIT (x)	10.9 7.0 5.8 5.4
22.7	26.7	41.3	48.6	57.1	PE (pre-goodwill) (x)	13.1 9.1 7.8 6.9
-2.7	-0.6	-1.5	-1.5	-2.1	PEG (pre-goodwill) (x)	
20.0	26.2	39.7	47.1	55.0	<b>At target price</b>	<b>2010A 2011F 2012F 2013F</b>
-4.3	-7.5	-11.9	-14.1	-16.5	EV/EBITDA (x)	13.1 8.4 7.0 6.5
15.7	18.7	27.8	33.0	38.5	PE (pre-goodwill) (x)	16.3 11.3 9.8 8.6
					<b>Comparable company data (x)</b>	<b>2011F 2012F 2013F</b>
15.7	18.7	27.8	33.0	38.5	<b>Devine</b>	EV/EBITDA 5.1 3.0 3.0
-6.5	-1.4	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT 5.2 3.0 3.0
9.3	17.2	27.8	33.0	38.5		PE 8.3 6.2 5.6
						PEG
<b>2009A 2010A 2011F 2012F 2013F</b>					<b>Peet</b>	EV/EBITDA 9.9 9.4 8.7
22.9	27.0	41.5	48.9	57.4	Year to 30 Jun	EV/EBIT 10.1 9.6 8.9
68.0	57.9	57.6	59.7	57.0		PE 12.9 12.4 11.6
-6.8	-3.7	-1.5	-1.5	-2.1		PEG 4.3 4.1 3.9
-5.7	-7.2	-11.9	-14.1	-16.5		
					<b>Per share data</b>	<b>2010A 2011F 2012F 2013F</b>
78.4	74.1	85.7	92.9	95.8	No. shares	60.6 61.4 62.9 64.7
-0.3	-0.2	-0.2	-0.3	-0.3	EPS (cps)	29.0 45.3 52.4 59.5
-45.3	-56.6	-70.0	-60.0	-60.0	EPS (normalised) (c)	31.4 45.3 52.4 59.5
0.0	-7.3	0.0	-10.0	-45.0	Dividend per share (c)	13.0 23.0 26.0 30.0
-45.6	-64.2	-70.2	-70.3	-105.3	Dividend payout ratio (%)	41.4 50.8 49.6 50.4
4.0	2.2	0.0	0.0	0.0	Dividend yield (%)	3.2 5.6 6.3 7.3
-31.6	-9.2	10.0	0.0	30.0	Franking	100% 100% 100% 100%
-4.0	-3.9	-11.9	-15.2	-17.9		
0.0	0.0	0.0	0.0	0.0	<b>Growth ratios</b>	<b>2010A 2011F 2012F 2013F</b>
-0.1	-0.1	0.0	0.0	0.0	Sales growth	-0.2% 24.9% 28.8% 14.7%
-31.7	-11.0	-1.9	-15.2	12.1	Operating cost growth	-5.1% 15.2% 33.8% 13.6%
0.0	0.0	0.0	0.0	0.0	EBITDA growth	17.8% 53.9% 17.6% 17.4%
1.1	-1.1	13.6	7.4	2.6	EBITA growth	17.9% 54.3% 17.8% 17.5%
78.1	73.9	85.5	92.7	95.5	<b>Divisional EBIT growth</b>	
<b>2009A 2010A 2011F 2012F 2013F</b>					EBIT growth	17.9% 54.3% 17.8% 17.5%
1.6	0.5	14.1	21.5	24.1	NPAT growth	18.8% 48.8% 18.6% 16.7%
2.5	8.1	10.1	13.1	15.0	Pre-goodwill NPAT growth	18.8% 48.8% 18.6% 16.7%
148.0	184.8	184.8	184.8	184.8	Pre-goodwill EPS growth	14.1% 44.3% 15.7% 13.6%
5.6	5.9	5.9	5.9	5.9	Normalised EPS growth	14.1% 44.3% 15.7% 13.6%
5.0	6.4	6.4	16.4	61.4	<b>Operating performance</b>	<b>2010A 2011F 2012F 2013F</b>
162.7	205.7	221.2	241.6	291.1	Asset turnover (%)	14.5 15.7 18.6 18.6
0.0	0.0	5.0	5.0	8.0	EBITDA margin (%)	25.2 31.0 28.3 29.0
11.4	28.1	17.7	20.3	19.2	EBIT margin (%)	25.0 30.8 28.2 28.9
49.5	40.2	45.2	45.2	72.2	Net profit margin (%)	17.4 20.8 19.1 19.5
3.2	3.5	3.5	3.5	3.5	Return on net assets (%)	24.6 33.1 34.1 35.0
5.4	25.1	25.1	25.1	25.1	Net debt (A\$m)	39.7 36.2 28.7 56.1
69.4	96.9	96.5	99.1	128.0	Net debt/equity (%)	36.5 29.0 20.2 34.4
34.8	40.4	40.4	40.4	40.4	Net interest/EBIT cover (x)	7.3 10.2 13.3 12.5
1.1	0.9	0.9	0.9	0.9	ROIC (%)	13.0 19.0 20.7 22.9
57.3	67.5	83.4	101.1	121.7		
0.0	0.0	0.0	0.0	0.0	<b>Internal liquidity</b>	<b>2010A 2011F 2012F 2013F</b>
93.3	108.8	124.7	142.4	163.1	Current ratio (x)	3.8 4.5 4.5 4.4
93.3	108.8	124.7	142.4	163.1	Receivables turnover (x)	20.2 14.7 14.9 14.1
162.7	205.7	221.2	241.6	291.1	Payables turnover (x)	4.1 4.0 6.5 7.1

Source: Company data, RBS Morgans forecasts

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For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

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