Equity | Australia | Real Estate

RBS Morgans

12 April 2011

Produced by: RBS Morgans Limited

Cedar Woods Properties

Laying the FY12 foundation

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.**

Mod-High **Volatility**

Target price
A$5.43 (from A$5.20)

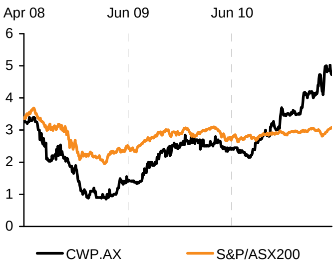
Price
A$4.73

Short term (0-60 days)
n/a

CWP110412

Price performance

	(1M)	(3M)	(12M)
Price (A$)	4.60	3.50	2.55
Absolute (%)	2.8	35.1	85.5
Rel market (%)	-3.9	28.1	84.6
Rel sector (%)	-1.7	39.5	83.6



Market capitalisation
A$290.42m (US$305.01m)

Average (12M) daily turnover
A$0.10m (US$0.10m)

Sector: BBG AP Real Estate
RIC: CWP.AX, CWP AU
Priced A$4.73 at close 11 Apr 2011.
Source: Bloomberg

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CWP has effectively bedded down FY11, increasing NPAT guidance to A$28m (from A$27m). The focus is now on FY12 and, with A$120m of pre-sales in the bag, the company looks set to deliver another record profit. With the stock trading on 8.7x FY12F PE and 5.7% yield, we maintain our Buy recommendation.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Total property income (A$m)	107.4	107.2	127.2	172.4	197.8
Reported net profit (A$m)	9.26	17.20	28.40	34.20	39.30
Normalised net profit (A$m)[1]	15.70	18.70	28.40	34.20	39.30
Normalised EPS (c)[1]	27.50	31.40	46.30	54.30	60.70
Normalised EPS growth (%)	-27.6	14.10	47.50	17.30	11.80
Dividend per share (c)	7.00	13.00	23.00	27.00	30.00
Dividend yield (%)	1.48	2.75	4.86	5.71	6.34
Normalised PE (x)	17.20	15.10	10.20	8.71	7.79
Book value per share (c)	160.4	179.6	204.6	228.7	254.8
Disc/(prem) to NTA (%)	-194	-163	-131	-106	-85.6

1. Pre non-recurring items and post preference dividends
Accounting standard: IFRS
Source: Company data, RBS Morgans forecasts

year to Jun, fully diluted

Third quarter update – on track for another record profit in FY12F

CWP has slightly upgraded its NPAT guidance to A$28m (from A$27m). Given management's history of providing conservative guidance and delivering, we expect a slight outperformance of this. CWP now has A$120m of pre-sales in place for FY12 (up from A$100m as at 31 December 2010), in our view underpinning strong growth in FY12. Significant stages of Williams Landing, Banbury Village and The Jetty are due to settle in 1H12, so we expect a strong result for this period. Management said enquiry levels remain high across the Melbourne projects, while WA land estates have maintained prices and continued steady sales.

Melbourne projects performing well, subdued WA conditions already in the numbers

CWP's A$120m of FY12 pre-sales represents c70% of our FY12 forecast revenue. This is a solid sales result and positions the company for strong growth in FY12, despite challenging residential property markets. To add further perspective, CWP had A$100m of pre-sales going into FY11. This level has now been surpassed going into FY12, with an additional three months of sales to contribute. We estimate c72% of revenue in FY12 will be derived from Melbourne project sales. Given the maturity of the Melbourne projects, solid margins should be maintained, but we forecast a slight decline given the greater contribution from built form. We believe this assumption may present upside risk to our forecasts.

Investment view – Buy, A$5.43 target price

CWP's announcement reaffirms our view that the group is well placed to deliver strong medium-term growth. CWP has well-positioned Melbourne projects with visible upside and also has the market presence to benefit from a medium-term recovery in WA. We believe CWP is a compelling investment, with strong growth due to a solid track record of returns, the right product (affordable land) in the right place (WA and VIC) and a mature development portfolio with 'embedded' profits. With FY12 in sight, we roll forward our PE-based valuation to FY12 earnings. Our valuation and target price increase to A$5.43 (from A$5.20). Buy.

Third quarter update – the details

CWP's third quarter update provided the following details:

- NPAT guidance upgraded to A$28m (from A$27m).
- FY12 pre-sales now total A$120m and the company expects to "comfortably exceed" its 10% pa growth target.
- Enquiries on existing Melbourne projects remain high. The Realm Camberwell project has received all approvals and is progressing to sales commencing June 2011. Consultants have been appointed for stage one of the Williams Landing town-centre precinct and the completion of the government infrastructure is due late in 2012.
- WA land estates maintained prices and continued to sell at steady rates. Some improvement is being seen in the Mandurah area and The Jetty apartment project is on schedule to complete early in FY12 (11 of 16 apartments are pre-sold).
- CWP has acquired a 29ha land parcel in Baldivis for A$9.1m. The land is between two existing projects and will service the demand in this area as the existing projects move to completion (300 land lots with expected commencement in five years). Expansion of the property portfolio remains a key objective for the company.
- Our view: while the update was largely expected, it has given us further confidence in the company's ability to deliver earnings growth in line with our FY12 forecasts.

Where's the growth coming from?

We forecast CWP will achieve NPAT growth of 20% in FY12 and 15% in FY13. This would seem to defy current residential property market conditions, particularly in WA, where CWP has a large presence. We maintain comfort in our forecasts based on the following:

FY12F

- **Revenue**: CWP has A$120m of pre-sales already in place, well in front of the A$100m of pre-sales it had recorded moving into FY11. This underpins c70% of our forecast revenue. We estimate 72% of FY12 sales (in dollar terms) will come from Melbourne projects (which, in our view, are all well placed to exceed the prior year's contribution). In addition, we estimate The Jetty project (11 pre-sales compared to our 12 settlement forecast) secures a further 8% of our forecast, with these settlements due in 1H12.
- **Margins**: given a greater contribution of built-form product and additional long-term (non-active) projects added to the pipeline, we forecast margins will decline in FY12 (EBITDA of 29.6% compared to 33.4% FY11F). This assumption may prove conservative given the continued improved pricing in the Williams Landing project and potentially higher-than-expected margins across the built-form product. We provide an earnings sensitivity analysis overleaf.

FY13F and beyond

- **Greater scale**: we believe CWP will have one project completing in FY12 and two new projects commencing settlements in FY13, giving the company greater sales capacity in FY13. Management said the Camberwell project (Melbourne higher-end product, well located) has received strong enquiries from a registration-of-interest campaign.
- **WL Town Centre**: the town-centre project provides significant potential from FY14. We expect the current book value of land portioned to the 50ha site is minimal compared to the potential (given the whole WL site was acquired for A$10m in 1998). CWP has the option to develop parts of the site for sale (or hold for income), and potentially to sell individual undeveloped land parcels for other uses, eg, school or hospital sites.
- **Improved WA market**: CWP has some land lots in more discretionary areas of the WA market (ie, Mandurah). We believe current weakness in the WA market is already in the earnings, so any improvement would provide upside.

Replenishing and funding the pipeline

CWP announced its acquisition of a 29ha parcel in Baldivis, WA for A$9.1m. The site is between two existing projects and compliments these as they move to completion. CWP's balance sheet provides sufficient funding for the company to continue to seek opportunities as they arise. As at 1H11, CWP had net debt of A$20.7m, resulting in ND/E of 16% and debt/total asset of 10.6%. We expect net debt to increase to cA$43m at FY end given the settlement of recent acquisitions (Camberwell) and ongoing project works. CWP maintains significant headroom under its finance facility of A$110m.

Upside risk: our margin assumptions could be conservative

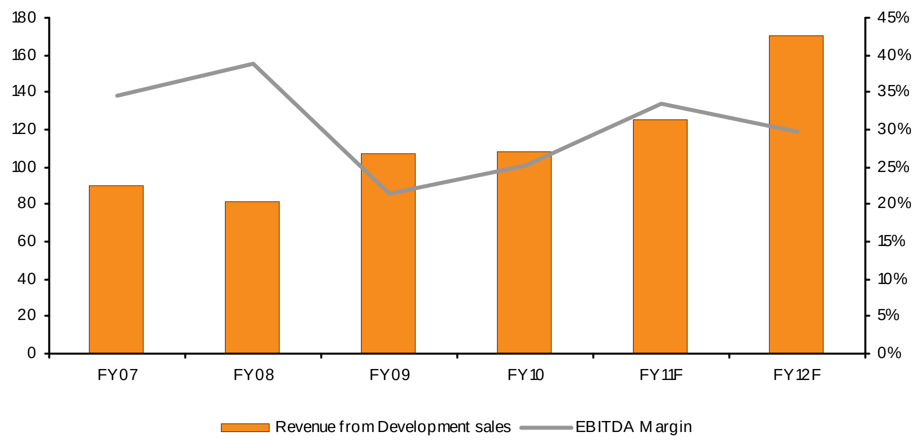
We forecast a decline in the overall EBITDA margin in FY12 given the greater contribution of built form (The Jetty, Banbury Village). We believe this assumption is valid, but it may prove conservative if prices grow further in Melbourne or the built-form margins are greater than we expect. We provide a table illustrating the sensitivity to the margin below, and Chart 1 shows historical and forecast revenue and EBITDA margins.

Table 1 : FY12F sensitivity to EBITDA margin

FY12F EBITDA margin	FY11F NPAT (A$m)	FY12F NPAT (A$m)	FY12F growth	FY12F EPS (c)	Valuation (at 10x FY12F EPS)
Current forecast 29.6%	28.4	34.2	20%	54.28	A$5.43
31%		35.8	26%	56.92	A$5.69
32%		37.0	30%	58.81	A$5.88
33%		38.2	34%	60.70	A$6.07

Source: RBS Morgans forecasts

Chart 1 : Revenue and EBITDA margins (A$m)



Source: Company data, RBS Morgans forecasts

Key risks: WA needs to continue 'steady' sales

- **Residential market**: affordability remains a key issue in the residential market and CWP is not immune to this broadly difficult macro environment. That said, CWP is a niche player, so individual project appeal and performance is important. In our view, the Melbourne projects are well placed to experience continued demand. Camberwell, which should contribute in FY13, is relatively untested and provides some risk to our FY13 forecasts. To meet our forecasts it is also important that sales rates remain steady in WA and that no further deterioration in the market is experienced.
- **Project timing and delivery**: both remain a risk. We note management has a solid track record of informing the market of project timing and delivery.

Investment view and valuation – Buy, A$5.43 target price

We have made small upgrades to our FY11 EPS forecast (up 2.2%) based on updated guidance. Given the focus now moves to FY12, we roll forward our PE-based valuation to FY12 earnings. We set our PE multiple at the average current trading multiple of CWP's peer group (10x FY12F EPS, based on Thomson One consensus estimates). Our target price is set at the valuation of A$5.43 (from A$5.20), providing 15% potential upside to the current share price.

CWP's 3Q11 update reaffirms management's track record of under-promising and over-delivering. CWP's portfolio is delivering embedded profits from quality Melbourne projects, with further upside potential from an improving WA property market. We see strong growth continuing in FY12, driven by continued strong margins and solid sales due to the underlying demand for quality housing. CWP trades on an FY12F PE multiple of 8.7x, against a peer average of 10x, while in our view offering above average growth. We maintain our Buy recommendation.

Our positive stance is predicated on:

- **Strong pre-sales in place** – CWP has A$120m of pre-sales in place for FY12. This underpins c70% of our FY12 earnings forecast.
- **Quality Melbourne projects** – despite a tough residential sales outlook, we believe CWP's Melbourne projects are well positioned in terms of quality and price-point to continue to achieve consistent sales rates.
- **Strong margins to continue** – CWP is delivering predominantly embedded profits from a mature landbank, which should see margins remain solid.
- **WA exposure** – CWP's landbank exposure to WA provides strong leverage to the resource economy over the medium term. Over the next two years we forecast c30% of sales will be derived from WA, providing upside if the market improves over this time.
- **Williams Landing Town Centre** – the WL town-centre provides potential strong contributions to earnings from FY14.
- **Balance sheet capacity** – CWP has sufficient debt headroom to acquire further development sites as opportunities arise.

Table 2 : CWP valuation

	PE multiple	EPS (c)	Value (A$)	Weighting	Value per share (A$)
FY12F	10x	54.3	5.43	100%	5.43
Value per share					**A$5.43**

Source: Company data, RBS Morgans forecasts

Table 3 : CWP peer analysis

Stock	Market cap (A$m)	Price (A$)	PE FY11F	PE FY12F	EV/EBITDA FY11F	EPS growth FY11F	EPS growth FY12F	Yield FY11F	Yield FY12F	NTA	Prem/(disc) to NTA	ROA	ROE
Stockland	9,079	3.81	12.0	11.6	13.6	9%	4%	6.2%	6.5%	3.59	6%	5.5%	8.5%
Mirvac Group	4,374	1.28	12.1	11.7	13.9	32%	3%	6.5%	6.7%	1.66	-23%	4.8%	6.4%
Lend Lease Group	5,133	8.99	12.3	10.1	9.9	-5%	19%	4.1%	4.9%	4.76	89%	4.3%	11.1%
Australand Property	1,748	3.03	12.9	12.0	11.5	335%	8%	7.1%	7.4%	3.44	-12%	5.2%	6.3%
FKP Property*	992	0.85	7.7	6.9	8.8	13%	11%	3.5%	4.0%	1.26	-33%	5%	12%
Peet*	564	1.86	12.3	11.7	9.3	7%	5%	4.6%	5.4%	1.24	50%	14%	19%
Sunland Group*	156	0.69	7.6	6.5	4.6	42%	17%	0.0%	4.3%	1.39	-50%	3.9%	6.0%
Devine*	175	0.28	8.4	7.1	6.0	-29%	17%	7.3%	9.1%	0.53	-48%	7.5%	6.1%
Average			**10.7**	**9.9**	**9.7**	**50%**	**11%**	**4.9%**	**6.1%**		**-2.6%**	**6.2%**	**9.3%**
Cedar Woods Properties*	290	4.73	10.2	8.7	8.0	48%	17%	4.9%	5.7%	2.12	123%	19.5%	23.8%

Source: Company data, *RBS Morgans forecasts, Thomson One consensus

CWP – financial summary

Year to 30 Jun (A$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS
Income statement	**2009A**	**2010A**	**2011F**	**2012F**	**2013F**
Divisional sales	107.4	107.2	127.2	172.4	197.8
Total revenue	107.4	107.2	127.2	172.4	197.8
EBITDA	22.9	27.0	42.5	51.1	59.2
Associate income	0.0	0.0	0.0	0.0	0.0
Depreciation	-0.2	-0.2	-0.3	-0.3	-0.3
EBITA	22.7	26.7	42.2	50.8	58.9
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	22.7	26.7	42.2	50.8	58.9
EBIT(incl associate profit)	22.7	26.7	42.2	50.8	58.9
Net interest expense	-2.7	-0.6	-1.6	-2.0	-2.8
Pre-tax profit	20.0	26.2	40.6	48.8	56.1
Income tax expense	-4.3	-7.5	-12.2	-14.6	-16.8
After-tax profit	15.7	18.7	28.4	34.2	39.3
Minority interests					
NPAT	15.7	18.7	28.4	34.2	39.3
Significant items	-6.5	-1.4	0.0	0.0	0.0
NPAT post abnormals	9.3	17.2	28.4	34.2	39.3

Cash flow statement	**2009A**	**2010A**	**2011F**	**2012F**	**2013F**
EBITDA	22.9	27.0	42.5	51.1	59.2
Change in working capital	68.0	57.9	54.7	57.3	59.5
Net interest (pd)/rec	-6.8	-3.7	-1.6	-2.0	-2.8
Taxes paid	-5.7	-7.2	-12.2	-14.6	-16.8
Other oper cash items					
Cash flow from ops (1)	78.4	74.1	83.4	91.7	99.1
Capex (2)	-0.3	-0.2	-0.2	-0.3	-0.3
Disposals/(acquisitions)	-45.3	-56.6	-75.0	-60.0	-60.0
Other investing cash flow	0.0	-7.3	0.0	-10.0	-45.0
Cash flow from invest (3)	-45.6	-64.2	-75.2	-70.3	-105.3
Incr/(decr) in equity	4.0	2.2	0.0	0.0	0.0
Incr/(decr) in debt	-31.6	-9.2	15.0	0.0	30.0
Ordinary dividend paid	-4.0	-3.9	-11.6	-15.9	-18.2
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	-0.1	-0.1	0.0	0.0	0.0
Cash flow from fin (5)	-31.7	-11.0	3.4	-15.9	11.8
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0
Inc/(decr) cash (1+3+5+6)	1.1	-1.1	11.6	5.6	5.6
Equity FCF (1+2+4)	78.1	73.9	83.2	91.4	98.8

Balance sheet	**2009A**	**2010A**	**2011F**	**2012F**	**2013F**
Cash & deposits	1.6	0.5	12.1	17.6	23.2
Trade debtors	2.5	8.1	9.6	13.1	15.0
Inventory	148.0	184.8	184.8	184.8	184.8
Investments	5.6	5.9	5.9	5.9	5.9
Other assets	5.0	6.4	6.4	16.4	61.4
Total assets	162.7	205.7	218.7	237.7	290.2
Short-term borrowings	0.0	0.0	5.5	5.5	8.5
Trade payables	11.4	28.1	9.3	10.0	11.4
Long-term borrowings	49.5	40.2	49.7	49.7	76.7
Provisions	3.2	3.5	3.5	3.5	3.5
Other liabilities	5.4	25.1	25.1	25.1	25.1
Total liabilities	69.4	96.9	93.1	93.8	125.2
Share capital	34.8	40.4	40.4	40.4	40.4
Other reserves	1.1	0.9	0.9	0.9	0.9
Retained earnings	57.3	67.5	84.3	102.6	123.7
Other equity	0.0	0.0	0.0	0.0	0.0
Total equity	93.3	108.8	125.6	143.9	165.0
Total shareholders' equity	93.3	108.8	125.6	143.9	165.0
Total liabilities & SE	162.7	205.7	218.7	237.7	290.2

Closing price (A$)		**4.73**		**Price target (A$)**	**5.43**
Valuation metrics					
Preferred methodology	PE		Val'n (A$)	$	5.43

Multiples	**2010A**	**2011F**	**2012F**	**2013F**
Enterprise value (A$m)	330.1	333.6	328.0	352.4
EV/Sales (x)	3.1	2.6	1.9	1.8
EV/EBITDA (x)	12.2	7.9	6.4	6.0
EV/EBIT (x)	12.3	7.9	6.5	6.0
PE (pre-goodwill) (x)	15.1	10.2	8.7	7.8
PEG (pre-goodwill) (x)				

At target price	**2010A**	**2011F**	**2012F**	**2013F**
EV/EBITDA (x)	13.8	8.9	7.3	6.7
PE (pre-goodwill) (x)	17.3	11.7	10.0	8.9

Comparable company data (x)		**2011F**	**2012F**	**2013F**
Devine	EV/EBITDA	6.0	5.1	5.0
Year to 30 Jun	EV/EBIT	6.1	5.1	5.1
	PE	8.4	7.1	6.5
	PEG			
Peet	EV/EBITDA	9.3	8.8	8.3
Year to 30 Jun	EV/EBIT	9.5	9.0	8.5
	PE	12.3	11.7	11.1
	PEG	4.1	3.9	3.7

Per share data	**2010A**	**2011F**	**2012F**	**2013F**
No. shares	60.6	61.4	62.9	64.8
EPS (cps)	29.0	46.3	54.3	60.7
EPS (normalised) (c)	31.4	46.3	54.3	60.7
Dividend per share (c)	13.0	23.0	27.0	30.0
Dividend payout ratio (%)	41.4	49.7	49.7	49.4
Dividend yield (%)	2.7	4.9	5.7	6.3
Franking	100%	100%	100%	100%

Growth ratios	**2010A**	**2011F**	**2012F**	**2013F**
Sales growth	-0.2%	18.7%	35.6%	14.7%
Operating cost growth	-5.1%	5.6%	43.2%	14.2%
EBITDA growth	17.8%	57.5%	20.3%	15.8%
EBITA growth	17.9%	57.9%	20.4%	15.9%
Divisional EBIT growth				
EBIT growth	17.9%	57.9%	20.4%	15.9%
NPAT growth	18.8%	52.1%	20.2%	15.1%
Pre-goodwill NPAT growth	18.8%	52.1%	20.2%	15.1%
Pre-goodwill EPS growth	14.1%	47.5%	17.3%	11.8%
Normalised EPS growth	14.1%	47.5%	17.3%	11.8%

Operating performance	**2010A**	**2011F**	**2012F**	**2013F**
Asset turnover (%)	14.5	15.0	18.9	18.7
EBITDA margin (%)	25.2	33.4	29.6	29.9
EBIT margin (%)	25.0	33.2	29.5	29.8
Net profit margin (%)	17.4	22.3	19.8	19.9
Return on net assets (%)	24.6	33.6	35.3	35.7
Net debt (A$m)	39.7	43.2	37.6	62.0
Net debt/equity (%)	36.5	34.4	26.1	37.6
Net interest/EBIT cover (x)	7.3	9.9	12.0	11.2
ROIC (%)	13.0	19.4	20.7	22.3

Internal liquidity	**2010A**	**2011F**	**2012F**	**2013F**
Current ratio (x)	3.8	5.3	5.5	5.1
Receivables turnover (x)	20.2	14.3	15.2	14.1
Payables turnover (x)	4.1	4.5	12.6	13.0

Source: Company data, RBS Morgans forecasts

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QUEENSLAND

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BUNDABERG	(07) 4153 1050
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CALOUNDRA	(07) 5491 5422
CAPALABA	(07) 3245 5466
CHERMSIDE	(07) 3350 9000
EDWARD ST	(07) 3121 5677
EMERALD	(07) 4988 2777
GLADSTONE	(07) 4972 8000
GOLD COAST	(07) 5592 5777
IPSWICH	(07) 3202 3995
MACKAY	(07) 4957 3033
MILTON	(07) 3114 8600
NOOSA	(07) 5449 9511
REDCLIFFE	(07) 3897 3999
ROCKHAMPTON	(07) 4922 5855
SPRING HILL	(07) 3833 9333
SPRINGWOOD	(07) 3808 7588
STANTHORPE	(07) 4681 6702
SUNSHINE COAST	(07) 5479 2757
TOOWOOMBA	(07) 4639 1277
TOWNSVILLE	134 226
YEPPOON	(07) 4939 3021

NEW SOUTH WALES

SYDNEY	(02) 8215 5000
SYDNEY – LEVEL 7	(02) 8215 5000
SYDNEY – LEVEL 33	(02) 8215 5111
ARMIDALE	(02) 6770 3300
BALLINA	(02) 6686 4144
BALMAIN	(02) 8755 3333
CHATSWOOD	(02) 8116 1700
COFFS HARBOUR	(02) 6651 5700
GOSFORD	(02) 4325 0884
HURSTVILLE	(02) 9570 5755
MERIMBULA	(02) 6495 2869
NEUTRAL BAY	(02) 8969 7500
NEWCASTLE	(02) 4926 4044
NEWPORT	(02) 9998 4200
ORANGE	(02) 6361 9166
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RICHMOND	(03) 9916 4000
SOUTH YARRA	(03) 9098 8511
TRARALGON	(03) 5176 6055
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