Equity | Australia | Real Estate

RBS Morgans

22 February 2011

Produced by: RBS Morgans Limited

Cedar Woods Properties

Setting records in resi

CWP reported record 1H profit of A$24.2m, up 144%. Strong margins and pre-sales see a positive outlook for the business. On a 7.7x FY12F PE and a 5.5% FY11F dividend yield, CWP is our preferred small residential developer. Buy.

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$5.20 (from A$5.11)

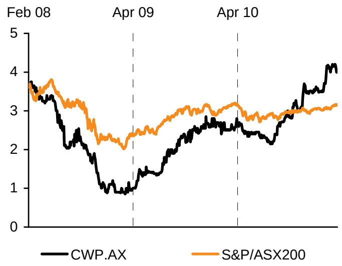
Price
A$4.15

Short term (0-60 days)
n/a

CWP110222

Price performance

	(1M)	(3M)	(12M)
Price (A$)	4.10	3.50	2.60
Absolute (%)	1.2	18.6	59.6
Rel market (%)	-1.8	12.0	51.0
Rel sector (%)	5.3	21.4	45.4



Market capitalisation
A$254.81m (US$255.50m)

Average (12M) daily turnover
A$0.08m (US$0.08m)

Sector: BBG AP Real Estate
RIC: CWP.AX, CWP AU
Priced A$4.15 at close 22 Feb 2011.
Source: Bloomberg

Analysts

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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	27.80	34.10	39.30
Normalised net profit (A$m)¹	15.70	18.70	27.80	34.10	39.30
Normalised EPS (c)¹	27.50	31.40	45.30	54.20	60.60
Normalised EPS growth (%)	-27.6	14.10	44.30	19.70	11.90
Dividend per share (c)	7.00	13.00	23.00	27.00	30.00
Dividend yield (%)	1.69	3.13	5.54	6.51	7.23
Normalised PE (x)	15.10	13.20	9.16	7.65	6.84
Book value per share (c)	160.4	179.6	203.1	227.7	253.7
Disc/(prem) to NTA (%)	-158	-131	-104	-82.3	-63.6

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
1. Pre non-recurring items and post preference dividends
Accounting standard: IFRS
Source: Company data, RBS Morgans forecasts

year to Jun, fully diluted

A record result on strong margins

CWP announced a record operating profit of A$24.8m, up 130% on the pcp. Statutory profit of A$24.2m was impacted by an impairment (A$0.8m) and small gain on interest rate swaps (A$0.2m). Revenue was up 58% on the pcp, benefiting from a strong skew of settlements to the 1H (~90/10% 1H/2H skew). A key positive from the result was the margin uplift. EBIT margins lifted to 37% (from 27.8% in the pcp), benefiting from: 1) the settlement skew to the 1H; and 2) strong price growth across Melbourne projects over the past 18 months. FY11 EBIT margin guidance is 33% (up from 25% in FY10). The balance sheet remains strong with gearing of 15.9% (net debt/equity) and interest cover of 12.9x. A fully franked interim dividend of 11cps was declared in line with expectations (vs 5cps in the pcp).

A$100m pre-sales + strong margins = confidence in FY12

The highlight of the result was the margin uplift and A$100m of pre-sales locked in for FY12. These pre-sales represent ~60% of our FY12 forecast revenue, which gives us a high level of confidence. FY11 NPAT guidance of A$27m should be easily achievable given the stated A$30m of FY11 pre-sales in hand. We have made small upgrades to our FY12 forecasts, with 23.3% NPAT growth forecast. We estimate ~78% of revenue in FY11 will be derived from Melbourne project sales. Importantly, this pipeline still looks strong for the next 24+ months which will underpin earnings. The Perth market is seeing steady sales and should see medium-term growth (+25% in FY12) on the back of this resources-fuelled economy.

Investment view – Buy, A$5.20 price target

CWP's 1H11 result reflects the quality and positioning of CWP's Melbourne projects which should continue to deliver strong earnings growth over the next few years. We believe CWP represents a compelling investment with strong growth due to: a solid track record of returns; the right product (affordable land) in the right place (WA & VIC); and a mature development portfolio with 'embedded' profits. Our valuation and price target is A$5.20 (from A$5.11). CWP remains our preferred small residential property play: Buy maintained.

1H11 result – strong margins leading to record result

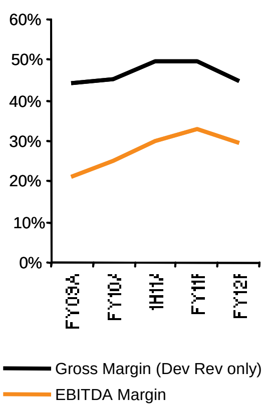
CWP announced a record operating profit of A$24.8m, up 130% on the pcp. Statutory profit of A$24.2m was impacted by an impairment (A$0.8m) and a small gain on interest rate swaps (A$0.2m). Revenue growth of 58% benefited from a strong skew of settlements to the 1H (~90/10% skew expected) and a strong sales environment in Melbourne. EBIT margins lifted to 37% (from 27.8% in the pcp), benefiting from: 1) the settlement skew to the 1H; and 2) strong price growth across Melbourne projects over the past 18 months. FY11 EBIT margin guidance is 33% (up from 25% in FY10). The balance sheet remains strong with gearing of 15.9% (net debt/equity) and interest cover of 12.9x. A fully franked interim dividend of 11cps was declared in line with expectations (vs 5cps in the pcp).

Table 1 : Result snapshot

	1H11	1H10	Change (%)
Revenue	96.0	60.8	58%
NPAT (reported)	24.2	9.9	144%
EPS	39.8	16.9	136%
DPS (interim)	11	5	120%
NTA	2.12	1.72	23%

Source: Company data, RBS Morgans forecasts

Chart 1 : Profit margins

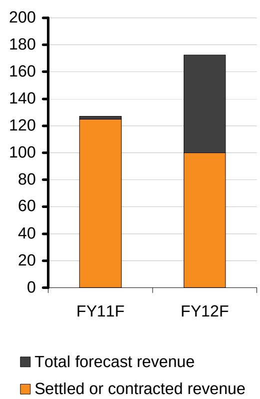


Source: Company data, RBS Morgans

Key highlights

- **Strong margins** – both gross margin and EBIT margin improved strongly, on the back of stronger Melbourne land prices now flowing through. The gross margin of 48.9% is up from 44.7% in the pcp, while management has guided the FY11 EBIT margin to be 33% (from 25% in FY10). Price growth in CWP's Melbourne projects is now hitting the bottom line and we expect margins to remain relatively strong in FY12 (29.5%).
- **P&L** – timing of settlements skewed to the 1H saw revenue up 58% (A$96m vs A$59.4m in the pcp), EBIT of A$35.6m (up 128%) and NPAT of A$24.2m (up 144%). Interest expense in the half fell 38% (A$0.85m) as drawn debt reduced A$20m via operating cash flow. The tax rate of 30.2% was in line with the pcp.
- **Balance sheet** – net debt stands at A$20.7m (from A$39.7m as at 30 June 2010), equating to 15.9% (net debt/equity) and 12% (net debt/property assets). Interest cover stands at a comfortable 12.9x. CWP expects net debt to increase to ~A$50 in 2H11 with the settlement of Camberwell and ongoing project works. CWP has a A$110m facility in place providing adequate headroom to seek acquisition opportunities over the medium term.
- **Cash flow** – operating cash flow of A$21.7m (up from A$16m in the pcp) benefited from the strong settlement skew in the 1H.
- **NTA** – official NTA is A$2.12 (from A$1.80 as at 30 June, 2010). Management has given guidance that, at current market values, NTA would be A$6 per share. A small impairment of A$0.8m was taken against the Waterline apartments in Mandurah (five remaining apartments), with no material impairments expected going forward.
- **Dividend** – an interim dividend of 11 cps (ff) was declared (vs 5cps in the pcp), in line with our expectations. Going forward, CWP will aim to pay a 50/50 skew to 1H/2H dividends, based on the company's FY result expectations.
- **FY12 pre-sales** – A$100m of pre-sales are in place for FY12 which is 58% of our FY12 forecast revenue.
- **WA market improving** – management has guided that the sales profile (WA/VIC) is likely to re-balance in FY12 with the WA market starting to see improvement.

Chart 2 : Pre-sales vs forecast revenue



Source: RBS Morgans

Management outlook and guidance

Management has given FY11 guidance of A$27m with A$30m of pre-sales in hand. We believe this should be easily achievable based on historic margins and we forecast FY11 NPAT of A$27.8m. Management has also stated that A$100m of pre-sales are in hand for FY12, which underpins 58% of our full-year revenue forecast. Management has indicated it expects a recovery in the WA economy to flow through to sales in this CY, with rental vacancy rates still low in the state (~3.2%). No further material price growth in Melbourne is expected over the next

12 months, however sales rates are still strong and expected to remain firm through 2011. Demand at Williams Landing remains very strong with the last release selling 21 of 24 lots in the opening weekend and the remainder shortly after.

Investment view and valuation – Buy, A$5.20 price target

Table 2 : CWP Valuation

	PE Multiple	EPS	Value
FY11	11	45.1	4.96
FY12	10	54.3	5.43
Average valuation			**A$5.20**

We have made small upgrades to our FY12 EPS forecast (up 3.5%), which lifts our valuation and price target to A$5.20 (from 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$5.20 per share, providing 25% upside to the current share price.

We believe this result highlights 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 (particularly CWP's Melbourne projects). CWP trades on a FY11 PE multiple of 9.2x, against a peer average of 11x, and with above average growth. We value CWP at A$5.20 (PE based) and maintain our Buy recommendation. The next catalyst will be the third quarter update on pre-sales and any significant progress on anchor tents for the WL Town Centre.

Our positive stance is predicted on:

- **Strong pre-sales in place** – CWP has A$100m of pre-sales in place for FY12, the same level the company had for FY11 at the beginning of that year. Simplistically, this underpins ~60% 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** – we forecast an EBIT margin of 29.5% in FY12 (from 32.5% FY11F) based on our expectation of more built form delivered and flat price growth. We believe this assumption is prudent, however may prove conservative;
- **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 ~30% 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.

Key upside risks include: stronger than expected sales and margins achieved, progress on the WL town centre.

Key downside risks include: a weaker sales outlook than expected, project delivery risk, timing of expected sales.

Table 3 : CWP peer analysis

Stock	Market Cap (A$m)	Price	PE FY11	PE FY12	EV/EBITDA FY11	EPS GROWTH FY11	EPS GROWTH FY12	DPS FY11	Yield FY11	NTA	Prem /(Disc) to NTA	ROA	ROE
Stockland	9008	3.78	11.9	11.4	13.5	9%	4%	0.24	6.2%	3.59	5%	5.7%	8.5%
Mirvac Group	4321	1.26	12.2	11.6	13.8	30%	5%	0.08	6.5%	1.66	-24%	5.3%	6.3%
Lend Lease Group	5090	9.00	12.5	11.6	9.8	-7%	19%	0.36	4.0%	4.76	89%	4.5%	10.4%
Australand Property	1759	3.05	13.0	12.1	11.5	333%	6%	0.22	7.0%	3.44	-11%	6.6%	6.1%
FKP Property	1016	0.87	7.8	6.4	8.7	13%	22%	0.03	3.4%	1.26	-31%	5%	12%
Peet	577	1.90	12.8	12.4	9.9	6%	4%	0.09	4.7%	1.24	54%	13%	18%
Sunland Group	181	0.80	8.7	7.4	5.2	42%	17%	0.00	0.0%	1.39	-42%	3.9%	6.0%
Devine	200	0.31	8.7	6.6	5.3	-26%	33%	0.02	6.3%	0.53	-41%	7.8%	6.4%
Average			**11.0**	**10.0**	**9.7**	**50%**	**14%**		**4.8%**		**-0.2%**	**6.5%**	**9.2%**
Cedar Woods Properties	251	4.15	9.2	7.5	6.9	56%	20%	0.23	5.5%	4.74	-12%	17.1%	21.0%

Source: Company data, RBS Morgans forecasts

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	41.6	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	41.3	50.8	58.9
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	22.7	26.7	41.3	50.8	58.9
EBIT(incl associate profit)	22.7	26.7	41.3	50.8	58.9
Net interest expense	-2.7	-0.6	-1.6	-2.1	-2.8
Pre-tax profit	20.0	26.2	39.7	48.7	56.1
Income tax expense	-4.3	-7.5	-11.9	-14.6	-16.8
After-tax profit	15.7	18.7	27.8	34.1	39.3
Minority interests					
NPAT	15.7	18.7	27.8	34.1	39.3
Significant items	-6.5	-1.4	0.0	0.0	0.0
NPAT post abnormals	9.3	17.2	27.8	34.1	39.3

Cash flow statement	**2009A**	**2010A**	**2011F**	**2012F**	**2013F**
EBITDA	22.9	27.0	41.6	51.1	59.2
Change in working capital	68.0	57.9	54.8	57.2	59.5
Net interest (pd)/rec	-6.8	-3.7	-1.6	-2.1	-2.8
Taxes paid	-5.7	-7.2	-11.9	-14.6	-16.8
Other oper cash items					
Cash flow from ops (1)	78.4	74.1	82.9	91.6	99.0
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	-11.9	-15.6	-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	3.1	-15.6	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	10.7	5.7	5.6
Equity FCF (1+2+4)	78.1	73.9	82.6	91.3	98.8

Balance sheet	**2009A**	**2010A**	**2011F**	**2012F**	**2013F**
Cash & deposits	1.6	0.5	11.3	17.0	22.6
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	217.9	237.0	289.5
Short-term borrowings	0.0	0.0	5.5	5.5	8.5
Trade payables	11.4	28.1	9.4	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	93.2	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	83.4	101.9	123.0
Other equity	0.0	0.0	0.0	0.0	0.0
Total equity	93.3	108.8	124.7	143.3	164.3
Total shareholders' equity	93.3	108.8	124.7	143.3	164.3
Total liabilities & SE	162.7	205.7	217.9	237.0	289.5

Closing price (A$)		**4.15**		**Price target (A$)**	**5.20**
Valuation metrics					
Preferred methodology	PE			Val'n (A$) $	5.20

Multiples	**2010A**	**2011F**	**2012F**	**2013F**
Enterprise value (A$m)	287.8	292.0	286.3	310.7
EV/Sales (x)	2.7	2.3	1.7	1.6
EV/EBITDA (x)	10.7	7.0	5.6	5.3
EV/EBIT (x)	10.8	7.1	5.6	5.3
PE (pre-goodwill) (x)	12.9	8.9	7.5	6.7
PEG (pre-goodwill) (x)				

At target price	**2010A**	**2011F**	**2012F**	**2013F**
EV/EBITDA (x)	13.3	8.7	7.0	6.5
PE (pre-goodwill) (x)	16.6	11.5	9.6	8.6

Comparable company data (x)		**2011F**	**2012F**	**2013F**
Devine	EV/EBITDA	5.5	3.3	3.3
Year to 30 Jun	EV/EBIT	5.6	3.4	3.3
	PE	9.2	6.9	6.2
	PEG			
Peet	EV/EBITDA	9.8	9.3	8.7
Year to 30 Jun	EV/EBIT	10.0	9.5	8.9
	PE	12.8	12.3	11.5
	PEG	4.3	4.1	3.8

Per share data	**2010A**	**2011F**	**2012F**	**2013F**
No. shares	60.6	61.4	62.9	64.8
EPS (cps)	29.0	45.3	54.2	60.6
EPS (normalised) (c)	31.4	45.3	54.2	60.6
Dividend per share (c)	13.0	23.0	27.0	30.0
Dividend payout ratio (%)	41.4	50.8	49.8	49.5
Dividend yield (%)	3.2	5.7	6.7	7.4
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%	6.7%	41.8%	14.2%
EBITDA growth	17.8%	54.2%	22.8%	15.8%
EBITA growth	17.9%	54.6%	23.0%	15.9%
Divisional EBIT growth				
EBIT growth	17.9%	54.6%	23.0%	15.9%
NPAT growth	18.8%	48.8%	22.7%	15.1%
Pre-goodwill NPAT growth	18.8%	48.8%	22.7%	15.1%
Pre-goodwill EPS growth	14.1%	44.3%	19.7%	11.9%
Normalised EPS growth	14.1%	44.3%	19.7%	11.9%

Operating performance	**2010A**	**2011F**	**2012F**	**2013F**
Asset turnover (%)	14.5	15.0	19.0	18.8
EBITDA margin (%)	25.2	32.7	29.6	29.9
EBIT margin (%)	25.0	32.5	29.5	29.8
Net profit margin (%)	17.4	21.9	19.8	19.9
Return on net assets (%)	24.6	33.2	35.5	35.9
Net debt (A$m)	39.7	44.0	38.3	62.7
Net debt/equity (%)	36.5	35.3	26.7	38.1
Net interest/EBIT cover (x)	7.3	9.7	11.8	11.1
ROIC (%)	13.0	19.0	20.7	22.3

Internal liquidity	**2010A**	**2011F**	**2012F**	**2013F**
Current ratio (x)	3.8	5.3	5.4	5.1
Receivables turnover (x)	20.2	14.3	15.2	14.1
Payables turnover (x)	4.1	4.6	12.5	13.0

Source: Company data, RBS Morgans forecasts

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