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# Cedar Woods Properties Limited

By **Kevin Bowman** ASA Company Monitor



Cedar Woods Properties Limited (ASX Code CWP), was founded in 1987 by Ross Neumann and William Hames. They had formed the view that there was a shortage of residential lots in the Perth metropolitan area so they decided to form a company and acquire large scale sites with the potential to be developed as residential projects. This was July 1987 and just prior to the October 1987 share market crash.

When I asked Managing Director, Nathan Blackburne why the company was called Cedar Woods his response was simply “that was the name of the shelf company”. It was changed to Cedar Woods Properties Limited prior to listing as a public company in 1994, but the company still receives the occasional telephone call from the public seeking to purchase some cedar wood!!

Ross was appointed as Managing Director and successfully managed the company in its early years through to the listing. The first project was a small subdivision in Canning Vale, however the company quickly identified a number of opportunities that demanded additional capital. The Brown family and Midland Brick became equal shareholders, enabling the first major development at Palm Springs in Warnbro and the Helena Valley Private Estate. William Hames and Robert Brown remain on the Board as Chairman and Deputy Chairman, as significant founding shareholders.

Their first project in the Mandurah region of WA, about 70 km south of the Perth CBD, was Port Mandurah. This area, as well as the north eastern and foothills area of Perth, was undergoing a rapid urban development. In a short space of time the company acquired land in Mandurah that would later become the Port Mandurah and Mariners Cove canal developments. Both these projects were partly developed or substantially progressed by the time the company listed in 1994.

The Port Mandurah project, in particular was not without its challenges, requiring considerable skill and expertise to develop. Port Mandurah had a 1km frontage to the Peel estuary and the first stage of 168 canal lots was completed in 1990. The balance

of the land comprising a further 450 canal lots was developed and sold over the next decade. Today, Port Mandurah is still considered by some to be the iconic residential canal project in Mandurah, if not in Western Australia.

This project was the first of many “pioneering projects” for the new company.

The company listed on the ASX in September 1994 issuing 11,500,000 shares at 70 cents per share and raising just over \$8 million.

The major shareholders at that time were companies associated with William Hames, companies associated with Robert Brown and companies associated with Ross Neumann. There was also a major Singaporean investor, Ventrade (Asia) Pte Ltd, which maintained a shareholding in the company for many years. Ventrade continues to have an association through one of Cedar Woods’ joint ventures. A number of institutions also came onto the share register at that time.

From the 2018 Annual Report, the Chairman William Hames still holds 12.90% of the company, Robert Brown 10.9%, Australian Super Pty Ltd, 5.24% and Westoz Funds Management Pty Ltd, 5.10%.

Many of the original shareholders are still shareholders and regular attendees at the Annual General Meeting.

Since listing, the company has never failed to generate a profit and has always paid an annual dividend. Regular interim dividends were introduced in 2006 and last year the total dividend was 30.0 cents, fully franked. The company has a long-standing policy of paying approximately 50% of annual profits in dividends which provides a balance between returns to shareholders and retaining funds to grow the business. This policy has served shareholders well over time, allowing the directors and management to grow the company and improve the share price and without resorting to frequent capital raisings.

Probably the most notable event in the 1990’s was the company’s expansion into Victoria in 1997 under managing Director Nick Perrignon, when it was decided to purchase the land in





Melbourne, now known as the project and suburb of Williams Landing. The land was a disused airfield which was being sold off by the Commonwealth Government. The company was attracted to the potential offered by the Western suburbs of Melbourne and was seeking to diversify geographically. The land was purchased for \$10 million through a tender process and while the acquisition was completed in 1998, it took almost a decade before the land was subsequently approved for residential development. Williams Landing is about midway between the Melbourne CBD and the City of Geelong and is well serviced by the rail network.

After the company acquired the Williams Landing land it was a while before the company made a further acquisition. Paul Sadleir became Managing Director in 2001 and he recommenced the strategy of growing the business in WA to take advantage of the expanding WA economy. The Mandurah based projects and a number of new projects such as The Kestrels, The Rivergums, and three Rockingham apartment projects progressively helped to contribute to the company's earnings through to 2007.

The share market also started to recognise the potential of Cedar Woods and the burgeoning WA property market. The WA property market peaked in 2007/08 and this was closely followed by financial market volatility that eventually led to the GFC.

Unlike some of its competitors, Cedar Woods came through the GFC in a reasonable shape and without the need for any capital raisings when share prices were low. The company has always maintained a conservative debt to equity ratio (a target range of 20-75% and 31% at 30 June 2018), a well-disciplined acquisition policy and a focus on a diverse range of products. The company has always enjoyed strong support from its banks and was able to maintain the required credit lines during the GFC.

As the economy started to recover from the GFC, the WA market also commenced a recovery on the back of the resources boom. In addition, the company realised its first revenues in FY2009 from its projects in Melbourne. In the ensuing years, the contributions have increased significantly from a growing number of projects in Victoria. As revenue and profits steadily increased, surpassing previous records and the share price rose accordingly, the company shares were included in the ASX 300, which further improved the company's market rating.

Although the company was now well established in Perth and Melbourne, around 2011 under the guidance of then State Manager for Victoria, Nathan Blackburne, now the Managing Director of Cedar Woods, the company started to investigate the Queensland market. About 3 years were spent building

up networks and an understanding of the market before the company decided to move to secure a significant scale land holding at Upper Kedron, which has now become the Ellendale estate, approximately 12 km from the Brisbane CBD. The Board recognised that property markets in the various states move in different cycles and that geographical diversification would bring stability and also provide new opportunities. Following the establishment of a second project in Queensland, more recently the company decided to enter the Adelaide market acquiring two projects from the State Government development arm, Renewal SA. With operations in four states, the company now has a national focus. It has also achieved its longer term goal to be diversified geographically, by product (residential lots, townhouses, apartments and commercial buildings) and by entry price point.

Cedar Woods is now a truly national business and the company has grown significantly over the last decade. Most of the company's activities are now in the eastern states. It still has a large portfolio in WA that gives the company the potential to leverage off an upturn in the WA economy that is now well overdue.

However, the national focus has allowed Cedar Woods to perform well over the years despite the cycles that occur in individual state markets. Many of the institutional investors now understand this story although some are still not aware of the extent of the business.

When I asked Managing Director, Nathan Blackburne what his future plans for Cedar Woods were within the next 5-10 years, his response was

"We intend to continue our strategy of growing our national portfolio by geography, product mix and price point. We would like to embellish the portfolios we have established in Victoria and Queensland and we are also adding to the product mix by developing an increasing number of commercial buildings, which supplement the revenue stream from the residential portfolio. We are also looking to do a little more built form in WA based on the model that's been successful in Victoria.

We are developing new systems to ensure we retain a competitive edge and remain lean and efficient. We plan to continue to promote our new corporate brand that reflects our culture and to grow the business nationally and increase market awareness. We expect to maintain our strategy of organic growth.

We may also have moved into another state over that time frame".

At the current share price of \$5.12, Cedar Woods offers an historical dividend yield of 5.9% fully franked. **E**