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Cedar Woods Properties (CWP)

Downgrade to FY23 profit guidance

Recommendation
Buy (unchanged)
Price
$4.80
Target (12 months)
$5.20 (previously $5.40)

GICS Sector

Real Estate

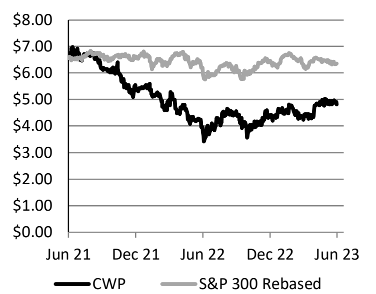
Expected Return	
Capital growth	**8.3%**
Dividend yield	**5.4%**
Total expected return	**13.8%**

Company Data & Ratios	
Enterprise value	**$618m**
Market cap	**$395m**
Issued capital	**82.2m**
Free float	**78.5%**
Avg. daily val. (52wk)	**$430k**
12 month price range	**$3.42-5.03**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	4.76	4.35	4.25
Absolute (%)	1.3	10.8	13.4
Rel market (%)	3.0	13.2	13.6

Absolute Price



SOURCE: IRESS

FY23 NPAT expected to be $30m, from $37.4m

The company announced lower guidance for FY23 NPAT to approximately $30.0m, which compares to previous guidance of meeting or exceeding FY22 NPAT of $37.4m. This was attributed to weather conditions and supply chain constraints which have delayed settlements from Q4 FY23 into FY24. The statement highlights that enquiry levels and sales rates have strengthened in H2 FY23 compared to H1, and that sales in the three months to end May 2023 are the strongest seen since Apr 2022. New home sales appear to have slowed in June, as the RBA increased rates, and continue to be impacted by cost-of-living pressures, weak consumer confidence and the elevated risk of builder insolvencies. The sale of the Williams Landing shopping centre is now anticipated in FY24, which will impact FY23 gearing and any profit on sale will not contribute to FY23 earnings.

Investment view: BUY, Valuation A$5.20 per share

This is slightly disappointing news from the company, although needs to be put in context. We see this as a delay to settlement, rather than a cancellation of sales, and we could expect the shortfall in settlements from FY23 to appear in FY24, (which would otherwise imply to an upgrade to our FY24 forecasts). To maintain conservatism in our forecasts we are leaving our FY24 estimates little changed. As a result, our EPS forecast reduces by 20.1% for 2023, 1.2% for 2024, and 3.5% for 2025. Our DCF valuation decreases to $5.19 from $5.39 and we round our price target to $5.20 ($5.40 previously). CWP shares have performed well in CY23 to date (rising 10.8% from $4.33 at 31 December), but continue to trade at an undemanding 9.1x FY24e EPS, or a 12% discount to FY24e NTA (of $5.50 per share). The potential for improving sales as the interest rate cycle peaks, combined with an undemanding valuation means we maintain our BUY recommendation. The company are due to report FY23 earnings on 23 August.

Earnings Forecast

Year end June 30	2022a	2023e	2024e	2025e
Sales revenue (A$m)	333.0	312.5	348.4	378.1
EBITDA (A$m)	57.1	45.4	62.5	73.9
NPAT (adjusted) (A$m)	37.4	30.3	43.9	53.6
EPS (adjusted) (cps)	45.2	35.2	52.9	64.6
EPS growth (%)	12.1%	-22.1%	50.1%	22.1%
PER (x)	10.6	13.6	9.1	7.4
EV/EBITDA (x)	11.0	13.8	10.0	8.5
Price/CF (x)	-6.0	-12.9	7.3	7.4
Dividend (¢ps)	27.5	26.0	32.0	36.0
Franking (%)	100.0%	100.0%	100.0%	100.0%
Yield (%)	5.7%	5.4%	6.7%	7.5%
ROE (%)	9.1%	7.1%	10.0%	11.5%
P/NAV (x)	0.94	0.92	0.87	0.83

SOURCE: BELL POTTER SECURITIES ESTIMATES

Forecasts

Forecasts

Our forecasts are shown in the table in Figure 2 and the changes to our forecasts are shown in Figure 3.

Figure 1 – Forecasts

INCOME STATEMENT									
Y/e June 30 ($m)	**2021a**	**1H22a**	**2H22a**	**2022a**	**1H23a**	**2H23e**	**2023e**	**2024e**	**2025e**
Sales revenue	299.8	174.4	158.6	333.0	152.3	160.2	312.5	348.4	378.1
Operating Expenses	246.2	151.6	124.3	275.9	136.6	130.4	267.0	285.9	304.1
EBITDA	**53.5**	**22.8**	**34.3**	**57.1**	**15.7**	**29.8**	**45.4**	**62.5**	**73.9**
Depreciation & Amortisation	-2.9	-1.1	0.0	-3.1	-1.1	-1.1	-2.2	-1.2	-0.9
EBIT	**50.6**	**21.7**	**34.3**	**54.1**	**14.6**	**28.6**	**43.2**	**61.3**	**73.1**
Net Interest	-3.0	-1.6	1.1	-0.4	-1.5	0.1	0.2	1.5	3.6
Pre-tax profit	**47.5**	**20.1**	**35.5**	**53.6**	**13.0**	**28.8**	**43.4**	**62.8**	**76.7**
Tax	-14.7	-6.1	-10.2	-16.2	-3.9	-8.7	-13.1	-18.9	-23.1
Adjusted profit	**32.9**	**14.1**	**25.3**	**37.4**	**9.1**	**20.1**	**30.3**	**43.9**	**53.6**
Non-operating profit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported net profit	**32.9**	**14.1**	**25.3**	**37.4**	**9.1**	**20.1**	**30.3**	**43.9**	**53.6**
EPS Adj	**40.3**	**17.1**	**30.5**	**45.2**	**11.0**	**24.2**	**35.2**	**52.9**	**64.6**
DPS (cps)	26.5	13.0	14.5	27.5	13.0	13.0	26.0	32.0	36.0
Franking	100%	100%	100%	100%	100%	100%	100%	100%	100%
NAV per share ($)	4.92	4.97	5.13	5.13	5.10	5.21	5.21	5.50	5.81

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Changes forecasts

Figure 2 - Changes to forecasts

Earnings Revisions	FY23e (new)	FY23e (previous)	% Change	FY24e (new)	FY24e (previous)	% Change	FY25e (new)	FY25e (previous)	% Change
Reported revenue (S$m)	312.5	322.0	-3.0%	348.4	349.4	-0.3%	378.1	379.1	-0.3%
EBITDA underlying (S$m)	45.4	56.0	-18.8%	62.5	62.3	0.2%	73.9	75.0	-1.4%
NPAT (underlying) (S$m)	30.3	37.6	-19.5%	43.9	44.4	-1.2%	53.6	55.6	-3.5%
EPS (underlying) cps	35.2	44.1	-20.1%	52.9	53.5	-1.2%	64.6	67.0	-3.5%
Dividend (¢ps)	26.0	31.0	-16.1%	32.0	32.0	0.0%	36.0	37.0	-2.7%

SOURCE: BELL POTTER SECURITIES ESTIMATES

We have made the following changes to our forecasts:

- Our revenue forecast reduces by 3.0% for 2023, and 0.3% for 2024 and 2025.
- Our EBITDA forecast reduces by 18.8% for 2023, is little changed at up 0.2% for 2024, and 1.4% lower for 2025.
- Our EPS forecast reduces by 20.1% for 2023, 1.2% for 2024, and 3.5% for 2025.

Valuation

DCF Valuation

We value CWP using DCF valuation, with a WACC of 10.3% applied to EBITDA after tax adjusted for working cap and inventory. A summary of our valuation is shown in Figure 19.

We use our forecasts for the next 4 years and then project forward using the long-term real growth rate of 4.5%.

We value the next 10 years EBITDA after tax at $0.2bn. We value the terminal value at $0.9bn, assuming no long-term growth plus inflation of 2.5%, which discounted to present value terms, gives a present value of $435m. This gives a total NPV of $605m.

Deducting the forecast end 2023 net debt of $224m, and adding an uplift from the potential sale of the Williams Landing shopping centre (which we estimate will be at least $45m) gives a value for the business of $427m or $5.79 per share at June 2023. We round to a price target of $5.20 per share (previously $5.40).

Figure 3 – DCF valuation

WACC Calculation / key assumptions	
Risk free rate	4.0%
Market risk premium	6.0%
ß = beta	1.20
Borrowing rate	6.0%
Tax rate	30.0%
Target gearing	15.0%
Cost of equity	11.2%
Cost of debt	4.2%
WACC / Discount rate	**10.3%**
Inflation	**2.5%**
Nominal growth rate	**2.0%**
Long-term real growth rate	**4.5%**

($m)		2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	Beyond
EBITDA		45	62	74	86							
Provisions		7	1	1	1							
Working Capital/Inventory		-57	8	-2	-1							
Tax paid		-21	-19	-23	-27							
Total Cashflow		**-25**	**52**	**50**	**58**	**61**	**64**	**67**	**70**	**73**	**76**	**917**
Total operational NPV (AUD 000's)	605											
Net cash/(debt)	-224											
Expected disposals	45											
Total NPV	**427**											
Shares in issue (m)	82											
Value per share (AUD 000's)	**5.19**											

SOURCE: BELL POTTER SECURITIES ESTIMATES

Cedar Woods Properties (CWP)

Company description

Cedar Woods Properties is a leading national developer of residential communities and commercial projects. Its typical operation is to acquire land, and either subdivide and sell lots of land, or to build townhouses, apartments or commercial developments.

It was established in Perth in 1987 and listed on the Australian Stock Exchange in 1994. It has grown to become one of Australia's leading property companies with a portfolio diversified by geography, price point and product type.

Investment thesis

- **Historic performance:** the company was established in 1987 and through its entrepreneurial culture it has grown into four Australian states and has a strong track record of growing revenue and earnings.
- **CWP is profitable, and cash generative:** The cashflow of the business is used to pay dividends and to reinvest in the business by growing the landbank and developing projects. The company made considerable additions to the landbank in 2022, and we expect that the next two years will see more modest reinvestment in the business, allowing the company to release $25m from its inventory. The company should also benefit from the sale of the Williams Landing shopping centre.
- **Diversification:** The company has projects in four States that are both close to the capital city CBD and on the urban fringe, offering a mixture of property types (land lots, townhouses, apartments, commercial), which are priced to suit customer demand.
- **Conservative accounting:** the company carries property at cost plus development expenses (provided this is greater than realisable value). This is well below market value as evidenced by the 30% gross margins achieved on sales. The current NAV is $5.10, at H1 FY23, however the mark to market figure is probably be between $7-8 per share.
- **The share price** fell in 2022, with investor concern about the effect of interest rates upon development and building cycle. We anticipate that the cycle will be relatively short with interest rates peaking in Q2/Q3 CY23, and CWP will be able to trade through the cycle, with a limited impact on FY23 earnings before returning to growth in FY24.
- **Franking Credits:** The company has franking credits of $113.6m available equating to around $1.39 per share. This compares to the FY22 dividend cost of $21.5m, and net assets of $421m. This reflects in part that the company has grown from retained earnings. There may be some way to utilise this balance through corporate restructuring, or this could be attractive to a potential acquirer.

Risks

CWP is subject to all of the following risks:

Key people risk: The loss of any key personnel may result in the loss of investment mandates.

Land prices and house prices: the company makes a margin on the difference between land costs prior and post development. Rising land prices and falling house prices are unhelpful to margins and profitability.

Building costs and availability: the availability and cost of building materials and labour impact the direct cost of developing and building property. This may also indirectly affect the propensity of end clients to undertake land purchase.

Interest rates: rising interest rates directly impact the debt cost. The company attempt to mitigate this effect with the use of derivatives. Specifically interest rates caps are applied to around half the debt portfolio, to terms between one to three years. Interest rates will also affect house prices end customer propensity to buy.

Approvals processes: the company relies on the approvals and permits in order to develop, and subdivide land into residential property. The group is exposed to increasingly strict processes, additional environmental concerns and new legislation that could alter the ability of the group to undertake certain developments or increase the costs associated with those developments.

Liquidity risk: the group has debt obligations and has agreed to buy land at set price at set points in the future.

Credit risk: the group has some exposure to receivables. Customers pay a deposit up front and may not settle under certain circumstances. This risk is mitigated as ownership of the asset will not pass until settlement occurs, however if this is due to falling property values then there is a risk to profitability if the asset is sold or re-sold at lower prices than expected.

Capitalisation of expenses: certain development and interest expenses are capitalised. While the annual report shows these at the lower of cost or realisable value, there may be circumstances where these costs may not be recoverable.

Cedar Woods Properties
as at 13 June 2023

Recommendation	Buy
Price	$4.80
Target (12 months)	$5.20

Table 1 - Financial summary

Cedar Wooods (CWP)	Price Target (A$)	5.20	Share Price (A$)	4.80
	Recommendation:	Buy	Market Cap (A$m)	402.83

INCOME STATEMENT

Y/e June 30 ($m)	2021a	2022a	2023e	2024e	2025e
Sales revenue	299.8	333.0	312.5	348.4	378.1
Operating Expenses	246.2	275.9	267.0	285.9	304.1
EBITDA	**53.5**	**57.1**	**45.4**	**62.5**	**73.9**
Depreciation & Amortisation	-2.9	-3.1	-2.2	-1.2	-0.9
EBIT	**50.6**	**54.1**	**43.2**	**61.3**	**73.1**
Net Interest	-3.0	-0.4	0.2	1.5	3.6
Pre-tax profit	**47.5**	**53.6**	**43.4**	**62.8**	**76.7**
underlying Tax	-14.7	-16.2	-13.1	-18.9	-23.1
Adjusted profit	**32.9**	**37.4**	**30.3**	**43.9**	**53.6**
One-off items	0.0	0.0	0.0	0.0	0.0
Reported net profit	**32.9**	**37.4**	**30.3**	**43.9**	**53.6**

CASHFLOW

Y/e June 30 ($m)	2021a	2022a	2023e	2024e	2025e
EBITDA	53.5	57.1	45.4	62.5	73.9
Change in provisions	0.1	0.0	7.1	1.0	0.8
Working capital change	-19.6	-153.5	-57.3	7.8	-1.8
Net interest	-4.0	-6.1	-5.2	1.5	3.6
Tax paid	-11.5	-17.4	-20.5	-18.9	-23.1
Other	23.2	54.1	0.0	0.0	0.0
Operating cashflow	**41.6**	**-65.8**	**-30.5**	**53.8**	**53.5**
Capex	-0.1	-0.1	-0.1	-0.1	-0.1
Investments	0.0	0.0	0.0	0.0	0.0
Asset sales	0.0	0.0	0.0	0.0	0.0
Other	8.4	14.9	8.4	8.4	8.4
Investing cashflow	**8.3**	**14.8**	**8.3**	**8.3**	**8.3**
Equity raised	0.0	0.0	0.0	0.0	0.0
Dividends paid	-15.7	-21.7	-22.6	-20.6	-28.0
Other	0.0	0.0	0.0	0.0	0.0
Financing cashflow	**-15.7**	**-21.7**	**-22.6**	**-20.6**	**-28.0**
Net change in cash	**34.2**	**-72.7**	**-44.8**	**41.6**	**33.8**
Cash at end of period	**5.4**	**3.0**	**14.7**	**62.4**	**92.4**

BALANCE SHEET

Y/e June 30 ($m)	2021a	2022a	2023e	2024e	2025e
Cash	5.4	3.0	14.7	62.4	92.4
Deferred costs	5.5	4.0	1.4	1.4	1.4
Inventory	572.9	701.5	731.0	730.4	725.0
Receivables	13.4	17.1	17.5	19.5	21.1
PPE	9.3	8.5	4.2	3.1	2.3
Intangibles	0.0	0.0	0.0	0.0	0.0
Other	45.3	45.8	70.2	49.3	52.7
Total assets	**651.8**	**779.8**	**838.9**	**866.1**	**894.8**
Payables	72.6	51.3	24.4	27.2	29.6
Debt	118.7	201.6	238.3	238.3	238.3
Provisions	1.6	1.6	8.6	9.6	10.4
Other	58.6	104.1	139.1	139.1	139.1
Total liabilities	**251.4**	**358.6**	**410.5**	**414.3**	**417.4**
Shareholders' equity	134.4	139.1	139.3	139.3	139.3
Total shareholders funds	**400.4**	**421.2**	**428.4**	**451.8**	**477.4**
W/A shares on issue	**80.8**	**81.9**	**82.2**	**82.2**	**82.2**

VALUATION DATA

Y/e June 30 ($m)	2021a	2022a	2023e	2024e	2025e
Net profit adj ($m)	32.9	37.4	30.3	43.9	53.6
Adjusted EPS (c)	40.3	45.2	35.2	52.9	64.6
EPS growth (%)	54.6%	12.1%	-22.1%	50.1%	22.1%
P/E ratio (x)	11.9	10.6	13.6	9.1	7.4
CFPS (c)	51	-80	-37	65	65
Price/CF (x)	9.3	-6.0	-12.9	7.3	7.4
DPS (c)	26.5	27.5	26.0	32.0	36.0
Yield (%)	5.5%	5.7%	5.4%	6.7%	7.5%
Franking (%)	100%	100%	100%	100%	100%
EV/EBITDA (x)	11.7	11.0	13.8	10.0	8.5
Price/book (x)	0.98	0.94	0.92	0.87	0.83
NTA ($)	4.92	5.13	5.21	5.50	5.81

PROFITABILITY RATIOS

Y/e June 30 ($m)	2021a	2022a	2023e	2024e	2025e
EBIT/sales (%)	16.9%	16.2%	13.8%	17.6%	19.3%
Return on assets (%)	7.8%	7.6%	5.3%	7.2%	8.3%
Return on equity (%)	**8.4%**	**9.1%**	**7.1%**	**10.0%**	**11.5%**
Dividend cover (x)	1.5	1.6	1.4	1.7	1.8
Effective tax rate (%)	30.9%	30.3%	30.3%	30.3%	30.3%

LIQUIDITY AND LEVERAGE RATIOS

Y/e June 30 ($m)	2021a	2022a	2023e	2024e	2025e
Net debt/(cash) ($m)	113.3	198.7	223.6	175.9	145.9
Net debt/equity (%)	**28%**	**47%**	**52%**	**39%**	**31%**
Current ratio (x)	2.7	1.5	1.7	1.9	2.0
Net debt/Tangible assets (ex cash)	**17%**	**26%**	**29%**	**23%**	**19%**

INTERIMS

Half end December 31 ($m)	1H21a	1H22a	1H23a	1H24e	1H25e
Sales revenue	169.2	174.4	152.3	169.8	184.2
EBIT	**34.3**	**21.7**	**14.6**	**22.9**	**28.2**
Pre tax profit	32.8	20.1	13.0	23.3	29.9
Adjusted profit	**22.7**	**14.1**	**9.1**	**16.3**	**20.9**
One-off items	0.0	0.0	0.0	0.0	0.0
Reported profit	**22.7**	**14.1**	**9.1**	**16.3**	**20.9**
Interim DPS (cents)	13.0	13.0	13.0	12.0	14.0
Interim adjusted EPS (cents)	28.0	17.1	11.0	19.6	25.2

ASSUMPTIONS

Y/e June 30	2021a	2022a	2023e	2024e	2025e
Revenue growth	11.3%	13.6%	1.0%	11.5%	8.5%
Cost of sale of land and buildings	7.0%	17.0%	4.0%	7.0%	6.5%
Other expenses	19.4%	-7.3%	5.0%	5.0%	5.0%
% of cash reinvested	101.1%	143.0%	85.0%	97.0%	101.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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