Cedar Woods' first half profit in line with guidance; remains on track for strong second half

19 February 2020

Cedar Woods Properties Limited
ASX Code: CWP

Cedar Woods Properties Limited (ASX: CWP) ('Cedar Woods' or 'the Company') has today reported a net profit after tax for the first half of the 2020 financial year (FY20) of $10.2 million ($30.8 million in the previous corresponding period). The result was in line with guidance of first half earnings being lower than in the previous year, with full year earnings weighted to the second half.

In anticipation of a strong second half, the Board has declared a fully franked interim dividend of 12.5 cents per share. The Dividend Reinvestment and Bonus Share Plans remain available for the interim dividend. The Board maintains the policy of distributing approximately 50 per cent of full year net profit to shareholders via dividends.

During the first half the Company advanced its development and construction program across its national portfolio making solid progress on projects in Queensland, Western Australia, South Australia and Victoria.

Cedar Woods' Managing Director, Nathan Blackburne, said this first half activity positioned the Company well for the second half and into FY21.

"The completion of significant development stages during this period underpins a significantly stronger second half, when we will see three new projects deliver revenue for the first time," Mr Blackburne said.

Pre-sales at the end of December stood at $340 million ($358 million pcp), with approximately half of these pre-sales expected to settle in FY20 and the balance in FY21.

Presales include $49 million of commercial developments ($56 million pcp), at two separate projects, reflecting the Company's ongoing commercial development activities and continued commitment to diversifying its portfolio.

Highlights:

- H1 FY20 NPAT of $10.2 million, significantly stronger second half expected
- Fully franked interim dividend of 12.5 cents per share declared
- Pre-sales of $340 million supporting FY20 and FY21
- Moderately lower earnings still expected in FY20, due to challenging market conditions
- Strong balance sheet, low debt, and substantial undrawn finance facilities available to fund operations and acquisitions
- Three significant counter-cyclical acquisitions completed in Victoria and Western Australia

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Cedar Woods' balance sheet remains robust with net bank debt-to-equity of 38 per cent as at 31 December 2019, and substantial undrawn capacity under current bank facilities available to fund operations and future growth.

"Consistent with our strategy of counter-cyclical purchasing, we acquired three quality developments in Western Australia and Victoria during the first half, supplementing our national portfolio to more than 9400 dwellings, lots and offices.

"These acquisitions contribute to a healthy forward development pipeline that will continue to diversify our portfolio by geography, product type and price point," Mr Blackburne said.

Financial Commentary

First half NPAT of $10.2 million was lower than the previous corresponding period (pcp), with first half revenue of $128.8 million, down 37 per cent on pcp, reflecting the weighting of project stage delivery to the second half. Gross margin remains strong at 30 per cent (31 per cent pcp).

At 31 December 2019, net bank debt stood at $143.3 million, with gearing comfortably within the Company's target range. Net bank debt to equity at the same time was 38 per cent, net bank debt to total tangible assets (less cash) was 22 per cent, and interest cover was a comfortable 6.9 times for the 2019 calendar year.

In February 2020 the Company completed the annual review of its $205 million corporate finance facility and extended the terms to 30 January 2023 for the 3-year debt ($165 million) and to 30 January 2025 for the 5-year debt ($40 million).

The Board has declared a fully franked interim dividend of 12.5 cents per share. This is down on the 18 cents per share interim dividend in the previous corresponding period when earnings were weighted to the first half. Total FY20 dividends will be weighted to the full year dividend.

Portfolio Highlights

Several of the Company's estates have been shortlisted for national industry awards, testament to the Company's focus on delivering high quality, market leading projects.

Glenside in South Australia has been shortlisted for three Urban Development Institute of Australia (UDIA) national awards while *Bushmead* in Western Australia and the Target Headquarters in Victoria are also listed for national recognition. These three projects showcase the Company's broad capabilities in land development, residential built form and commercial development.

Construction activities continued across the portfolio with the Company's latest project in Forrestdale, Western Australia, commencing construction. *Solaris* incorporates 301 lots and is expected to contribute to earnings over a five year period, commencing mid calendar year 2020.

In South Australia construction of the six-storey *Botanica* apartment project at *Glenside* is well progressed with settlements also expected in mid-2020. The next stage, *Grace* apartments, is expected to be released to the market shortly.

The Company launched a new medium density residential precinct at *Williams Landing* in Victoria, known as *Marshall Place*, comprising approximately 150 lots. *Marshall Place* is designed to meet demand for small-lot housing within the walkable catchment of the train station and shopping centre and will deliver settlements across FY21 and FY22.

Two office projects are also nearing completion at *Williams Landing* and will contribute to earnings in the fourth quarter of FY20. *107 Overton Road* is a purpose built four-storey office building that has been leased to the Victorian Government and pre-sold for $25.9 million. *101 Overton Road* is a five-storey strata office building comprising 70 office suites.

The completion of these buildings will increase employment at *Williams Landing* to more than 2,000 jobs and further increase footfall and turnover at Williams Landing Shopping Centre. *Williams Landing* has more than 17 hectares of development land available with flexible planning controls which will enable a mix of office, retail and residential projects to be delivered over the next 10 years.

Delivering on Strategic Priorities

The Company continues to deliver on its four strategic priorities of a High-Performance Culture, Operational Excellence, Financial Strength and Earnings Growth.

High-Performance Culture

Cedar Woods' strong culture continues to provide a competitive advantage, with staff surveys demonstrating high satisfaction and engagement levels; 84 per cent of staff surveyed are satisfied in their roles and the survey outcomes generally compare favourably to global averages.

Operational Excellence

Important milestones were achieved in the first half through the implementation of new technologies and systems. The Company's new Microsoft ERP system went live in early October. This new system is expected to improve controls and create efficiencies in procurement, payments, document storage, reporting and data access, and provide a cloud-based platform to support future business growth. Efforts to further exploit the systems' capability are underway.

The Company's excellent safety record continues with no serious incidents during the first half and industry-standard safety practices in place across offices and projects.

Sustainability, efficiency and quality continue to drive project design across the portfolio. Thoughtful and innovative designs define Cedar Woods' projects with deliberate attention to minimising environmental impact and the application of sustainable building materials wherever possible.

Supporting local community groups remains an important part of the Company's core values. The Neighbourhood Grants Scheme provides funds for small community groups such as sporting clubs, special interest groups and emergency services around the country, funding and supporting activities that play important roles in creating and maintaining community spirit.

Financial Strength

The Company's balance sheet remains strong with low gearing and substantial headroom for further acquisitions and growth. The Company continues to be well supported by its financiers and recently extended the tenure of its corporate finance facility.

Earnings Growth

The Company has actively taken advantage of soft market conditions to secure three significant development sites. In October 2019 the Company announced the acquisition of a 43-hectare site at Wollert, Victoria, and earlier, infill projects in Subiaco and Hamersley in Western Australia, adding more than 800 dwellings/lots to the national portfolio.

The Company plans to continue to take advantage of favourable buying conditions as development finance proves difficult to secure for some property developers and the property cycle justifies buying in several markets.

Market Conditions

Key economic drivers of the housing market, being population growth, economic growth, employment and interest rates, continue to support the sector. Nationally, population growth continued at a healthy rate of 1.5 per cent in the year to 30 June 2019, generating demand for new and established housing.

GDP growth remains strong with 2.75 per cent forecast for 2020, despite potential impacts from the Australian bushfires and coronavirus. The unemployment rate decreased slightly in December to 5.1 per cent. Record low interest rates and the prospect of further cuts are continuing to stimulate housing demand.

Conditions for new housing currently remain challenging, with enquiry and sales at low levels relative to market peaks. Buyers remain cautious and housing finance continues to be difficult to secure for some buyer segments.

There are however clear signs of an improvement in East Coast markets and leading indications that the Perth market has bottomed. National median house prices increased by 4 per cent over the December quarter, led by increases of 6 per cent in Melbourne and Sydney with more modest gains in Brisbane and Adelaide, and flat prices in Perth (Source: CoreLogic).

New home sales are showing mixed results across the states in which the Company operates. Private detached house sales in the December 2019 quarter were higher than in the previous quarter in Western Australia (+12.8 per cent) but declined over this period in Queensland (-5.7 per cent), Victoria (-9.9 per cent) and South Australia (-12.8 per cent) (Source: HIA).

The recovery seen in median house prices occurred primarily for established housing and the Company notes that it is usual for the recovery of new housing to lag established housing.

Owner occupier lending increased in value by 10 per cent over the 12 months to November 2019 whilst investor home loans increased by 2.2 per cent in the month of November but remains 3.2 per cent lower than 12 months earlier (Source: ABS).

The easing of Australian Prudential Regulation Authority’s (APRA) lending restrictions, coupled with low interest rates, has made servicing a home loan cheaper and has thereby widened the pool of potential buyers.

In line with improving conditions in the broader market, several of the Company’s projects have experienced modest increases in enquiry and sales over the first half of FY20 with *Williams Landing* and *Carlingford* in Victoria recording incremental price increases.

In Western Australia, projects located north of Perth such as *Bushmead* and *Ariella* have continued to perform well, whereas areas south of Perth, such as *Baldivis*, remain highly competitive.

Company Outlook

Conditions for housing are expected to remain subdued in the short term with the pace of recovery differing from state to state. The improvement in East Coast markets is expected to continue, eventually flowing through to new housing sales.

Differentiated by a unique portfolio of well-located and resilient projects, a proven strategy of diversification and a track record of strong returns for shareholders, Cedar Woods remains well placed for the medium term, particularly as market conditions progressively improve across the various states.

While the project development and settlement program for the second half of FY20 is currently on track, management continues to monitor potential impacts coronavirus may have on the property industry for matters such as building materials availability.

Subject to the comments above, the Company is anticipating moderately lower full year earnings in FY20 compared to FY19, with the balance of earnings weighted to the second half including several stages being delivered in the final quarter. Cedar Woods has significant presales due to the quality of its portfolio which support the earnings outlook for FY20 and FY21.

A number of new projects are expected to contribute to earnings from FY21, including *Huntington Apartments* in Victoria, *Ariella* (adjoining parcel) and *Solaris* in Western Australia. Additionally, FY22 and later years will see first contributions to earnings from *Wollert* in Victoria, *Fletcher's Slip* in South Australia, *Wooloowin* in Queensland and *Subiaco* in Western Australia, placing the Company well for the medium term, with further acquisitions also anticipated to supplement the portfolio.

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Authorised by: Board of Directors