

ASX Announcement and Media Release

22 August 2017

The logo for Cedar Woods, featuring the company name in a white sans-serif font on a blue background. A stylized white diamond shape with a circular arrow inside is positioned between the words 'Cedar' and 'Woods'.

Cedar Woods Properties Limited

ASX Code: CWP

FY2017 summary:

- Record full year profit of \$45.4m, up 4.2% on prior year
- Final fully franked dividend of 18.0 cents declared; record total fully franked dividend of 30.0 cents for FY2017
- New projects contributing to earnings in FY2018 and FY2019 in Melbourne and Perth
- Well positioned with presales of \$260m, up more than 40% on prior year, settling in FY2018 and FY2019
- Strong balance sheet, low debt, \$205m finance facility in place for projects

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Cedar Woods announces record full year net profit of \$45.4m, record dividend

Cedar Woods Properties Limited (ASX: CWP) ('Cedar Woods' or 'the Company') is pleased to report a record net profit after tax (NPAT) of \$45.4 million for the 2017 financial year (FY2017), an increase of 4.2 per cent on the previous financial year.

The Board has declared a fully franked final dividend of 18.0 cents per share, bringing total dividends for FY2017 to a record 30.0 cents per share compared to 28.5 cents for FY2016. This is consistent with the Board's policy of distributing approximately 50 per cent of full year net profit to shareholders, providing a high-yield return on investment of approximately 6 per cent.

The result was underpinned by an increase in lot sales from the Company's residential communities in Victoria, Queensland and Western Australia, and strong apartment sales in Victoria.

The Company has already secured presales of more than \$260 million for settlement in FY2018 and FY2019, compared to \$184 million at the same time last year, representing an increase of more than 40 per cent.

The balance sheet remains strong with net bank debt-to-equity of 24 per cent, as at 30 June 2017, and more than \$100 million of undrawn capacity under current facilities.

Cedar Woods' Managing Director, Paul Sadleir, said it was pleasing to achieve a seventh consecutive year of profit and dividend growth.

"Our diversification strategy is paying off, with revenues from three states contributing to profit, and a product range that provides broad customer appeal across a range of price points," Mr Sadleir said.



“We are well-positioned for the current year with a record level of presales, across Victoria, Queensland and Western Australia. Furthermore, a number of significant new projects in our portfolio, including in South Australia, are now progressing to the development stage and will be major contributors to earnings in FY2019 and beyond.”

Financial Commentary

Revenue was 27 per cent higher than the prior year due to a 29 per cent increase in lots settled, with gross profit increasing by 7 per cent. The reduction in gross margin percentage on the sale of land and buildings reflected more significant contributions from apartment projects, sales incentives and pricing in the Western Australian land market, and the commencement of new projects in the portfolio, which typically have lower margins in the initial stages and improve over time. The growth in revenue and gross profit translated to a 4.2 per cent increase in NPAT for the year.

At 30 June 2017, net bank debt stood at a conservative \$78.9 million. Net bank debt-to-equity at 30 June was 24 per cent with interest cover at 13.9 times for the year. During the year the corporate bank facility was increased by \$40 million to \$175 million to assist with expansion into Queensland and South Australia. That facility currently provides more than \$100 million of headroom to fund current and future acquisitions, and the development of the existing portfolio. Together with the \$30 million finance facility for the Williams Landing shopping centre total finance facilities available to the Company stand at \$205 million.

Presales in excess of \$260 million have been achieved for delivery in FY2018 and FY2019, with a significant proportion in FY2018. In addition to this, the Company has secured the \$58 million presale of the Target HQ at Williams Landing in FY2019, as noted in the ASX announcement dated 29 June 2017.

Victoria Project Highlights

The projects in Victoria again performed well during the year, with strong sales and settlement results, and good margins achieved.

The medium density housing developments, *St A.* in St Albans and *Jackson Green* in Clayton South, have progressed well with housing construction now underway at both projects. Demand for housing at these projects has been very strong with significant price growth starting to be achieved, especially for townhouse product. *Jackson Green's* first apartment building, comprising 60 one and two bedroom apartments, is fully sold and under construction with settlements due around the end of FY2018.

The *Banbury Village* development in Footscray is now 100 per cent complete and settled. The *Banbury Village* and *Williams Landing* were both finalists in the 2017 Property Council of Australia national awards.



Several new projects and stages within *Williams Landing* achieved significant milestones during FY2017:

- *Residential Land* - good presales and price growth achieved for stages to be delivered in FY2018.
- *Apartments* – 50 settlements were achieved in FY17. Several other projects are being designed or delivered with very strong presales which are expected to settle in FY2018 and FY2019. A 10 year pipeline of apartment projects exists at Williams Landing.
- *Target head office* – during FY2017 the Company secured an agreement for lease with Target Australia for a new 12,700m² eight level office building. Construction has commenced and the building has been pre-sold with settlement due after completion in FY2019. The sale is subject to building completion and rental commencement.
- *Strata office* – 111 *Overton Road*, offering a ground floor medical centre and 40 office suites launched in June 2017 and is approximately 50 per cent sold and leased. Construction is anticipated to commence in FY2018, with completion in FY2019, subject to satisfactory completion of the sale and leasing campaign.
- *Shopping Centre* – the centre is performing well with low vacancy rates and increasing visitation. An extension to the shopping centre was completed adding a childcare centre, gym, restaurants and other specialty tenancies. The 100 *Overton Road* office building adjacent to the shopping centre is now 100 per cent leased.
- *Balance land* – numerous other projects are being planned and marketed, which will supplement earnings over the next 10 years.

Just prior to the end of the financial year the company acquired an 11 hectare development site in Bonnie Brook for \$4.2 million plus GST, which settled on 2 July 2017. Located 30 kilometres west of the Melbourne CBD, the project is anticipated to realise 135 residential lots, with development commencing around 2020. Bonnie Brook is a new residential suburb located between Plumpton and Rockbank in Melbourne's quickly developing western growth corridor. The region is currently experiencing strong demand and price growth.

The company has recently acquired an infill development site of approximately 1390m² in North Melbourne for \$9.8m, GST incl. Located 2 kilometres north of the Melbourne CBD, it is anticipated that this medium density project will comprise premium 3 and 4 bedroom townhouses, with construction anticipated to commence shortly after settlement in June 2018. North Melbourne is a vibrant inner city location with the site enjoying close proximity to Flagstaff Gardens, Queen Victoria Market, University High School, University of Melbourne, The Royal Melbourne Hospital, Royal Park and The Melbourne Zoo.

Queensland Project Highlights

Sales at the Company's first Queensland project, *Ellendale* in Upper Kedron, progressed well in FY2017 with settlements achieved in line with expectations. Construction on stage 2 commenced in late 2016 and is well advanced. The planning process for the balance of the site is progressing and is expected to conclude in late 2017.



Planning is progressing for the Company's project in the inner ring suburb of *Wooloowin* and the planning permit is expected to be in place by mid FY2018 with civil and housing construction on the first stage anticipated to commence in 2018. The project plans include 279 medium-density residential dwellings in a sought after location near train stations, shopping centres, schools and parks.

Western Australia Project Highlights

Market conditions stabilised in Western Australia during FY2017 with strong sales recorded in several estates, particularly in the second half.

Bushmead, launched in July 2016 and which was met with strong initial demand, has continued this momentum over FY2017 with stage one comprising 87 single residential lots now more than 85 per cent sold and presales of stage 2 having commenced. Located 15 kilometres east of the Perth CBD, *Bushmead* comprises a project of unique natural attributes and beauty within an urban infill location. The recognition by the Western Australian Government of the suburb of *Bushmead* in February 2017 has provided the project its own unique identity. The project site covers 273 hectares and will be developed in stages to deliver approximately 1054 lots over the next 6-8 years.

Strong sales activity continues to be experienced at *Ariella Estate* in Brabham, which is located 17 kilometres north-east of Perth's CBD. Over three hundred lots remain at the estate with several stages being progressed and contributions expected in FY2018 and beyond.

Harrisdale Green, Cedar Woods' development project with the West Australian Housing Authority, has recorded strong sales with substantially all of stage 5, comprising 40 lots having sold during FY2017. Planning is now underway in the redesign of the balance of this project which is expected to yield 300 dwellings.

Early works have commenced in FY2017 on two new projects named *Millars Landing* and *Karmara*. *Millars Landing*, located in North Baldivis immediately adjacent the Kwinana Freeway, comprises a total of 119 hectares and is expected to yield a total of 1580 lots over the next 10-15 years. Construction works have commenced on site. *Karmara*, located within the inner south eastern suburb of Piara, comprises a total of 130 lots. Construction will commence in September 2017. First settlements for both *Millars Landing* and *Karmara* are expected to be achieved in H2 FY2018.

Planning delays have been experienced in rezoning of the *Mangles Bay* marina-based tourist precinct, 39 kilometres south of the Perth CBD. It is now expected that completion of statutory planning will be achieved in mid FY2018 with first construction to occur in mid FY2019. This mixed use project will provide much needed boating and tourism facilities, together with a range of housing options for the Rockingham region, as well as improved public access to the *Mangles Bay* beach front.



Slower sales activity has been recorded at *The Rivergums*, located within the highly competitive south Baldivis region where price discounting has reduced margins. Current sales activity involves the sale of remaining lots within stages 10A and 10B, beyond which 270 lots remain within this flagship estate.

The Brook and *The Scarp*, located within the south eastern suburb of Byford and offering first and second home buyer product, have recorded lower than expected sales activity. Increased builder packaging and refocused marketing initiatives are expected to result in improved performance from these estates in FY2018.

South Australia Project Highlights

Initial site preparation works have commenced at *Glenside*, the Company's first development in South Australia. The 16-hectare site is well located, three kilometres south east of the Adelaide CBD, and is expected to deliver around 1,000 apartments and townhouses. Planning approvals are underway and the first sales release is expected in H2 FY2018

The Company's offer to purchase a 12.6 hectare site at *Port Adelaide* has been accepted by the State Government. The site is 14 kilometres north-west of the Adelaide CBD, 7 kilometres south of Adelaide's new submarine and frigate building precinct and only 1.5 kilometres from Semaphore Beach. The site is expected to yield around 500 dwellings with the majority being two and three storey townhouses. The contract of sale is being finalised and planning approvals for the initial stages of work are expected in FY2018.

Market Outlook

Nationally the housing sector experienced strong levels of activity in FY2017 with the number of housing starts only marginally lower than the record level set in FY2016. Building approvals continued at high levels through most of the year in all states in which the company operates, except Western Australia where FY2017 is expected to be the lowest year in the current cycle. The Housing Industry Association (HIA) is forecasting national dwelling starts to moderate further in FY2018, with the largest drop in NSW, and a more modest easing in activity in Victoria and Queensland.

In Victoria, the State government forecasts strong population growth, a steadily growing economy and increasing employment in FY2018 and these factors are expected to continue to support the housing sector. Prices have continued to grow in the Melbourne market over the past 12 months, although they are expected to ease over the next year.

In Western Australia, forward indicators on population growth, economic growth and employment indicate that the State economy has begun a modest recovery. The Housing Industry Forecasting Group anticipates an 11 per cent increase in Western Australian dwelling commencements in FY2018.



In Queensland, State Treasury is forecasting 3.5 per cent growth in the economy in FY2018, which continues to be faster than every other state in Australia, driven by strong export activity. Employment growth is expected to accelerate and dwelling investment is forecast to continue to grow at a steady rate. Dwelling prices in Sydney and Melbourne are now considerably higher than in Brisbane and this is expected to lead to a greater demand for property in Queensland as investors chase higher returns and owner-occupiers seek greater affordability.

In South Australia the economy is expected to grow by 2.25 per cent in FY2018 as low interest rates, government infrastructure spending and shipbuilding stimulate that market.

The Reserve Bank's monetary policy continues to stimulate the housing market, with the cash rate continuing at a low 1.5 per cent during the financial year. Affordability of housing and economic conditions remain supportive for the residential property sector in the states in which the company operates.

Board and Management

Since 30 June, the Company has announced the transition of current Chief Operating Officer, Nathan Blackburne, into the role of Managing Director, succeeding Paul Sadleir.

Mr Blackburne has more than 24 years' experience in the property sector, the past 15 years with Cedar Woods in a variety of roles, including the expansion of the Company into Victoria, Queensland and South Australia. Mr Blackburne will formally assume his new role from the 18th September 2017.

On 17 August, the Company announced the appointment of Mrs Jane Muirsmith to the Company's Board of Directors as an independent Non-Executive Director, effective from 2 October 2017.

Mrs Muirsmith is a Fellow of Chartered Accountants Australia and New Zealand and a graduate of the Australian Institute of Company Directors. She is currently on the boards of Australian Finance Group (AFG) and Healthdirect Australia.

Mrs Muirsmith will join the Audit and Risk committee and Robert Brown will step down from that committee, so that it is comprised only of independent directors.

Company Outlook

Cedar Woods is well positioned moving into FY2018 with strong pre-sales, low debt, substantial funding capacity and a diverse portfolio of well-located developments in Melbourne, Brisbane, Perth and Adelaide.



The development program for FY2018 will see the completion of a number of stages at new projects, including at *Jackson Green, St. A, Karmara, Millars Landing* and at *Williams Landing*.

The Company anticipates that earnings will be skewed significantly to the second half of FY2018, however the first half profit is expected to exceed that recorded in first half of FY2017.

At this early stage in the financial year, it is difficult to forecast the exact timing of settlements of pre-sales at a number of new projects which are currently in the construction phase. These settlements are expected to commence late in FY2018 and continue into FY2019, and accordingly earnings guidance will be provided later in the financial year.

A number of new projects, including the *Target office* at Williams Landing, *Glenside, Port Adelaide* (both in South Australia), *Mangles Bay* and *Millars Landing* (both in Western Australia), provide a positive growth outlook for future financial years.

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