ASX Announcement and Media Release

CEDAR WOODS

Cedar Woods posts record profit, up 14%

Cedar Woods Properties Limited (‘Cedar Woods’ or ‘the Company’) (ASX: CWP) is pleased to report a record net profit after tax (NPAT) of $48.6 million for the 2019 financial year (FY19). The result represents a strong uplift of 14.2 per cent on the $42.6 million profit achieved in the prior corresponding period (pcp).

Cedar Woods’ Managing Director, Nathan Blackburne, said the Company’s strategy of diversifying its portfolio was proving successful and positioning Cedar Woods well for the future.

“We are pleased to have delivered strong growth in profit, with all four states in which we operate contributing to revenue for the first time in FY19. Apart from the strength of the result achieved in FY19, we have also delivered a number of other initiatives to continue to improve the business.”

Presales at year end were $330 million, $10 million higher than the pcp, driven by sales activity across the national portfolio. Approximately two thirds of pre-sales are expected to settle in FY20 with the balance contributing in FY21.

Presales include $43 million of commercial developments, across three separate projects, reflecting the growth in the Company’s commercial development activities, and further diversifying the portfolio.

“Moving into FY20, presales are at healthy levels and the business is well-placed despite difficult market conditions,” Mr Blackburne said.

“The past year has seen a challenging market nationally but we anticipate gradual improvement over FY20.

Our strong balance sheet and substantial funding capacity provides the ability for us to make strategic, counter-cyclical acquisitions, and we continue to assess opportunities in a number of markets,” Mr Blackburne said.

28 August 2019

Cedar Woods Properties Limited

ASX Code: CWP

Highlights:

- FY19 NPAT of $48.6 million ($42.6 million pcp), up 14.2%
- Fully franked final dividend of 13.5 cents per share declared, full year dividend up 5% on pcp
- Forward presales of $330 million ($10 million higher than the pcp)
- Revenue from four states generated for the first time in FY19
- Strong balance sheet, low debt, and over $100 million in undrawn finance facilities available to fund operations and acquisitions
- Lower earnings expected in FY20, due to challenging market conditions

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Financial Commentary

Full year NPAT of $48.6 million was 14.2 per cent higher than the pcp, with revenue at $375.9 million, up 56.3 per cent on the pcp. Gross margin remained solid at 29 per cent, with some moderation on the FY18 level due to changes in product mix with a significant increase in built form settlements, including the Target Head Office at *Williams Landing*, and some discounting to accommodate current market conditions.

At 30 June 2019 net bank debt stood at $105.3 million, with gearing (net bank debt-to-equity) at 28 per cent, which is at the lower end of the Company's target range. Net bank debt to total tangible assets (less cash) was at a comfortable 18.9 per cent and interest cover was a strong 8.4 times for the financial year. The Company has more than $100 million in headroom available under current bank facilities to fund future growth and current projects.

The Board has declared a fully franked final dividend of 13.5 cents per share which, together with the 18 cent interim dividend paid earlier in the year, brings total financial year dividends to 31.5 cents per share (fully franked), up 5 per cent on pcp, and currently representing a yield of 5.0 per cent. The Board intends to maintain the policy of distributing approximately 50 per cent of full year net profit to shareholders via dividends. The Dividend Reinvestment and Bonus Share Plans will be in operation for the final dividend.

Market Conditions

FY19 was characterised by soft market conditions across most states, attributed to tighter home lending criteria, tax policy uncertainty and the distraction of the 2019 Federal election. These factors dampened enquiry and sales for the Company around the country.

Two recent interest rate reductions, regulatory easing, the Federal election result and improved sentiment in some markets are all serving to support housing nationally and conditions are expected to improve gradually over the next 12 months. The extent of improvement will depend mainly on finance availability to homebuyers. These factors further support other positive sector drivers such as population growth and stable employment conditions.

Several market analysts have forecast conditions to stabilise through the remainder of calendar year 2019 with improving conditions leading to a return to moderate pricing growth in 2020.

BIS Oxford Economics is predicting median house price increases between 2019 and 2022 of 7 per cent for Perth and Melbourne, 11 per cent for Adelaide and as high as 20 per cent for Brisbane. The Company's outlook for median house price growth is that it will occur more gradually.

The Housing Industry Association (HIA) has forecast solid increases to housing starts in Western Australia and South Australia over FY2020 and FY2021. A decline in housing starts is forecast for New South Wales, Victoria and Queensland.

Cedar Woods' diversified portfolio ensures it is positioned to perform well through different property cycles across state markets.

Portfolio Highlights

Cedar Woods' strategy to grow a national project portfolio diversified by geography, product type and price point continues to prove successful. In FY19:

- Settlements were achieved from all four states in which the Company operates for the first time (Victoria, Queensland, South Australia, Western Australia);
- Multiple product types contributed to earnings including residential lots, townhouses, apartments and office developments; and
- A variety of price points were offered across the portfolio appealing to a broad customer base.

Particular highlights include:

- Expansion into South Australia is progressing well, with the first residents moving in to the initial stage of *Glenside* townhouses in FY19. The first apartment building at *Glenside*, *Botanica Apartments*, is under construction with completion anticipated mid calendar year 2020. The Company's second project in South Australia, *Fletcher's Slip*, is achieving good townhouse presales with site preparation works underway and first settlements due in FY22.
- In Victoria, townhouse settlements are making solid contributions with a number of stages completed and settled in FY19 at *St A.* and *Jackson Green*.
- Settlement of the *Target Head Office* building occurred in December 2018 and the fully leased and presold *107 Overton Road* office development is on track for completion in FY20.
- Strata office development product is successfully being delivered with *111 Overton Road* strata offices completed and settled in June 2019 and *101 Overton Road* currently under construction with settlements scheduled for the 2020 calendar year.
- An increase in the number of commercial and residential projects in progress at the Company's mixed use, masterplanned development at *Williams Landing* in Victoria, with a significant pipeline of projects to come.
- Strong sales at the *Ariella* estate, at Brabham, Western Australia.
- Customer surveys during the year produced pleasing results with our aim to deliver innovative products, with lasting quality, being recognised by our customers.

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

Significant activities have been undertaken in FY19 to refine business culture and human resources practices, creating a high-spirited work environment. Reward and performance management systems have been restructured to better align reward with performance and strong accountability and delegation systems were also put in place, optimising and balancing appropriate oversight and staff empowerment. High staff engagement scores were recorded in surveys during the year.

Operational Excellence

Management continues to implement new technologies and systems that will generate efficiencies and provide a better platform for growth. A new budgeting system has recently been implemented and further finance system enhancements are planned for completion in FY20, largely completing the Company's digital transformation program. High quality projects have been delivered across the portfolio and the Company's work health safety (WHS) systems have resulted in a strong safety record across projects and offices.

Financial Strength

In July 2019 the Company announced it had modified and extended its corporate finance facility. The changes include the introduction of National Australia Bank (NAB) to the $205 million facility, as well as longer facility tenure with the previous three-year facility now comprising a mix of three and five-year debt. NAB joins ANZ and Bankwest as club facility lenders to the Company.

The introduction of a third bank to the club facility diversifies the Company's funding sources and the longer maturity date, for approximately 20 per cent of the facility limit, further enhances Cedar Woods' security of funding. The facility supports the Company's expanded operations and growth plans.

Earnings Growth

Cedar Woods' strategically located projects across four states and its diversified product mix positions the Company to perform well through varying property market cycles.

The Company made three strategic acquisitions in Western Australia in 2019, capitalising on attractive buying conditions in the state.

During FY19 the Company successfully acquired a parcel of land adjoining the *Ariella Estate* which will add 380 lots and several years to the life of this project. *Ariella* has been the Company's highest-selling project nationally during FY19.

Cedar Woods acquired the 1.4 hectare Subiaco TAFE site in Western Australia, with the intention of delivering a significant urban renewal project comprising townhouses and apartments. The Company also acquired a small parcel of land adjoining its *Karmara Estate*, extending the life of this successful project.

The Company plans to continue to take advantage of relatively favourable buying conditions as development finance proves difficult to secure for some property developers and the property cycle justifies buying in several markets. Cedar Woods is currently assessing a number of acquisition opportunities in Queensland, Victoria and Western Australia.

Company Outlook

While Cedar Woods has a good level of presales to be carried into future financial years, the national property market has been challenging throughout the year. Based on current market conditions the Company is anticipating moderately lower full year earnings in FY20 compared to FY19.

Cedar Woods remains well placed for the medium term with more than 9,600 lots/units in its development pipeline across four states, with the ability to respond quickly to improved market conditions.

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, and *Wooloowin* in Queensland. Further acquisitions are anticipated to supplement the portfolio for future years.

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