ASX Announcement

Cedar Woods posts FY20 net profit of $20.9m

Cedar Woods Properties Limited (ASX: CWP) (‘Cedar Woods’ or ‘the Company’) has today reported a full year FY20 net profit after tax (NPAT) of $20.9 million, which is in line with guidance provided on 17 July 2020. This result reflects the extraordinary impact of the COVID-19 pandemic which delayed a significant number of settlements that were originally targeted to occur in June 2020 and which have now been progressively realised during July and August.

At the end of June 2020, the Company had approximately $360 million in presales which compares favourably with $330 million at the same time last year. Cedar Woods’ portfolio in Western Australia is recording strong presales since the announcement of Federal and State Government housing stimulus.

Cedar Woods’ Managing Director, Nathan Blackburne, said the Company performed well in the context of challenging external factors and is well positioned to navigate the current environment.

“I’m pleased that Cedar Woods has significantly outperformed peer companies and key share market indices, on both short and long term total shareholder return metrics, demonstrating the resilience of our business,” Mr Blackburne said.

“Our diversification by geography, product type and price point has served us well during these challenging conditions and it is pleasing to see that the market in most states is responding positively to the various incentives now available to homebuyers.

“Encouraged by the number of settlements early in the new financial year, we are focused on adapting to the new landscape, advancing new stages and meeting demand generated by the stimulus.

“Our solid balance sheet, low gearing and strong support from our financiers position us well to endure the current economic downturn and we are capitalising on acquisition opportunities that are arising in the market,” Mr Blackburne said.

27 August 2020

Cedar Woods Properties Limited

ASX Code: CWP

Key Points

- FY20 NPAT of $20.9 million ($48.6 million pcp), down 57.0%
- Fully franked final dividend of 6.5 cents per share declared
- Forward presales of $360 million ($330 million pcp)
- Cedar Woods significantly outperforms peer companies and key indices for total shareholder return
- Strong balance sheet, low debt, and over $68 million in undrawn finance facilities available to fund operations and acquisitions
- Higher earnings expected in FY21, subject to market conditions

For further information

Nathan Blackburne
Managing Director
(08) 9480 1500

Nyomi Horgan
Citadel-MAGNUS
0412 415 573

Financial Commentary

While sales centres remained open by appointment, social restrictions and weak buyer demand impacted enquiry and sales over the final quarter of FY20 and social distancing requirements for construction sites slowed the rate of construction and therefore completion dates in that period. Delays to settlements contributed to revenue and profit being significantly down in FY2020 on the prior year. Full year revenue of $260.7 million was 30.6 per cent down on the prior corresponding period (pcp) and NPAT of $20.9 million was 57.0 per cent lower than the pcp. Gross margin remained solid at 27 per cent, mildly moderated on the 29 per cent delivered in FY19 due to changes in product mix and some discounting to accommodate market conditions.

At 30 June 2020 net bank debt stood at $142.7 million, with gearing (Net bank debt-to-total tangible assets (less cash)) at a comfortable 22.0 per cent and Net bank debt-to-equity at 38 per cent, which are both at the lower end of the Company's target ranges. Interest cover was a strong 5.9 times for the financial year. At 30 June the Company had more than $68 million in available headroom under current bank facilities and subsequent settlements in July 2020 further increased available capacity to more than $85 million by the end of July 2020.

The Board has declared a fully franked final dividend of 6.5 cents per share which, together with the 12.5 cent interim dividend paid earlier in the year, brings total financial year dividends to 19.0 cents per share (fully franked), currently representing a yield of 3.8 per cent fully franked. Given the strong balance sheet and anticipation of earnings growth in FY21, the Board has temporarily changed dividend policy by increasing the full year distribution from approximately 50 per cent, to approximately 73 per cent of full year net profit. The Dividend Reinvestment and Bonus Share Plans will be in operation for the final dividend.

The company significantly outperformed relevant indices and peer companies in terms of total shareholder return across the past year, as well as across 2 years, 3 years and 5 years. This past year's total shareholder return, and whilst negative at 2.4 per cent, significantly outperformed the All Ordinaries index (negative 10.4 per cent), the Small Industrials index (negative 10.2 per cent) and a peer group average of negative 21.3 per cent with the peer group referring to six ASX listed residential property developers.

Market Conditions

The COVID-19 pandemic has given rise to difficult economic conditions that are having an adverse impact on property markets, with the usual drivers of economic growth, employment and population growth all affected.

Residential development activities have been impacted in a number of ways including delays to some of the company's construction programs, weaker buyer demand in some states and an elevated sales fallover rate.

These impacts however are currently being significantly mitigated by targeted economic and housing stimulus initiatives from Federal and State Governments. Upon the introduction of a Federal Government housing grant in June 2020, enquiry and sales levels in all states have increased markedly, but particularly in Western Australia where an additional State Government grant has propelled the Company's sales in the state to record levels. Sales in Western Australia in FY21 to date remain up 100 per cent on the level experienced in FY19, however are expected to taper off by mid FY21. Queensland sales are also benefitting from government stimulus, however conditions in South Australia remain soft. Targeted marketing initiatives in Victoria have kept sales steady in FY21 to date with softening conditions expected over the balance of FY21.

Portfolio Highlights

Cedar Woods' strategy to grow a national project portfolio diversified by geography, product type and price point continues to prove successful. In FY20 there were many highlights across the portfolio despite the challenging conditions. These include:

- In Western Australia, the launch of *Solaris*, a 290-lot land subdivision within the strong inner south east growth corridor of Perth in March 2020, which was met with strong demand.

- Very strong sales across the WA portfolio in June 2020 of more than four times usual levels, in response to federal and state government housing stimulus.
- In South Australia, completion of the *Botanica Apartments* in June 2020 which saw the first residents move into the community at *Glenside*.
- Commencement of construction of *Grace Apartments*, also at *Glenside*, after encouraging early sales that included a penthouse apartment priced at $2.7 million.
- In Victoria, completion of *101 Overton Road* and *107 Overton Road* offices at Williams Landing with the Victorian State Government moving into *107 Overton Road* to operate an emergency communications facility from the offices.
- Commencement of construction of *Huntington Apartments* at *Jackson Green* in Victoria with the 165 apartments also selling out in FY20.
- In Queensland, continuing strong sales at the *Ellendale* estate in Upper Kedron.

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

A focus on maintaining a high performing and high-spirited work environment continued in FY20. Refinement of the Company's reward and accountability systems, recruitment practices and career management has further aligned employee performance to Cedar Woods' objectives.

During FY20 approximately 10 per cent of existing staff members were promoted to more senior roles, continuing the Company's culture of people development and internal promotions.

Operational Excellence

Important milestones were achieved in the year through the implementation of new technologies and systems. The Company's new Microsoft ERP system went live in October 2019. This new system has improved processes and created efficiencies in procurement, payments, document storage, reporting and data access, and has provided a cloud-based platform to support future business growth. During the onset of the COVID-19 pandemic, staff were able to move seamlessly from being office based to working from home because of the flexibility these new systems provided. The Company has embarked on initiatives in digital marketing to improve customer experience and create a more powerful platform for lead generation and sales.

The Company's excellent safety record continues with the Company having no reportable incidents during the year and maintaining industry-standard safety practices across workplaces and projects.

Sustainability, efficiency and quality continue to drive project design across the portfolio. The Company will again review its sustainability practices in FY21 with a view to further reducing environmental and climate-change impacts across its operations. An enhanced Environment, Social and Governance (ESG) report is incorporated into this year's annual financial report.

Supporting local community groups remains an important part of the Company's core values. The Company's 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

During the year the Company announced the introduction of National Australia Bank (NAB) to the $205 million corporate finance facility and an extension of a component of the facility from 3 to 5 years, diversifying the Company's funding sources and providing a longer maturity date for approximately 20 per cent of the facility. NAB joined ANZ and Bankwest as club facility lenders to the Company.

In February 2020, the Company completed the annual review of the 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).

In June 2020, the Company also extended the tenure of its $30 million finance facility for the Williams Landing Shopping Centre at Williams Landing in Victoria. The facility term was extended to have a further 3-year tenure to June 2023.

Earnings Growth

Cedar Woods' strategically located projects across four states and its diversified product mix has proven resilient during the current pandemic-led downturn, notwithstanding the reduction in market demand during the second half, resulting in strong pre-sales at the start of FY21.

The Company has maintained a growth mindset taking advantage of soft market conditions to secure four development sites during the year. 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. The company also conditionally acquired 28 hectares of land in Burpengary, Queensland, located within the high growth area of Moreton Bay. These acquisitions add more than 1,100 dwellings/lots to the Company's national portfolio.

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.

Board Succession

The Board notes that Mr Packer is due to retire by rotation at the forthcoming Annual General Meeting (AGM) and is not intending to seek re-election to the Board. Accordingly, the Board wishes to sincerely thank Mr Packer for his long service to the company and wishes him well in his retirement. Shareholders are invited to join the Board to farewell Mr Packer at the AGM.

The Board is well progressed with a process to recruit a new independent director, having commenced a national search prior to the onset of COVID-19. A new director is expected to be appointed once the Board is able to meet candidates face to face and complete the recruitment process.

Company Outlook

While national property market conditions remain challenging with uncertainty over the depth and duration of the economic downturn due to COVID-19, Cedar Woods starts FY21 in a strong position with $360 million in presales expected to settle over FY21 and FY22. Subject to the ability of federal and state governments to effectively manage COVID-19, the company is targeting strong growth on FY20 earnings for FY21.

Cedar Woods remains well placed for the medium term with more than 9,000 undeveloped lots/units in its development pipeline across four states, maintaining the ability to respond quickly to improved market conditions.

A number of new projects are expected to contribute to earnings from FY22, including Grace Apartments and Fletcher's Slip in South Australia, Subiaco and Hamersley in Western Australia, Greville (Wooloowin) and Burpengary in Queensland and Wollert and several apartment buildings in Victoria. Further acquisitions are anticipated to supplement the portfolio in future years.

Authorised by: Cedar Woods' Board of Directors

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