ASX ANNOUNCEMENT
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CEDAR WOODS
DEVELOPING TOMORROW TODAY

CEDAR WOODS DELIVERS STRONG UPLIFT IN PROFIT, EXPECTS FURTHER GROWTH IN FY23

25 AUGUST 2022

HIGHLIGHTS

- FY22 NPAT of $37.4 million ($32.8 million pcp), up 13.9%
- Earnings per share of 45.7 cents (40.7 cents pcp) up 12.3%
- Fully franked final dividend of 14.5 cents per share (13.5 cents pcp) declared
- Forward presales of more than $500 million ($478 million pcp)
- Strong balance sheet, moderate debt, and significant undrawn finance facilities available to fund operations and acquisitions
- Growth in earnings expected in FY23, subject to market and construction sector conditions

SUMMARY

Cedar Woods Properties Limited (ASX: CWP) ('Cedar Woods' or 'the Company') has today reported a net profit after tax ('NPAT') of $37.4 million for the 2022 financial year ('FY22'), above guidance of $35 million and representing a 13.9% uplift on the prior corresponding period ('pcp').

Presales contracts at 30 June 2022 were at $500 million, up $22 million or 5% on the $478 million reported in the pcp. Approximately 70% of presales are expected to settle in FY23 with the balance contributing to later years.

Cedar Woods' projects experienced good demand during the year across jurisdictions and most product types, although sales rates have weakened in recent months in response to interest rate increases.

Project construction continues in all four states in which the Company operates, with numerous significant stages completed in the second half of FY22. The construction sector continues to experience supply constraints and cost pressures, which is impacting developers across the nation.

During the year the Company made several strategic acquisitions in WA, QLD and VIC, which are expected to contribute earnings in the medium to long term.

"Our impressive presales, coupled with a national pipeline of more than 10,300 dwellings, lots and offices, firmly positions the business to grow earnings," Mr Blackburne said.

"The undersupply of dwellings, low rental vacancy rates and the recovery in inbound migration are expected to underpin housing demand in the medium term so the outlook for our business is positive, he said.

FINANCIAL COMMENTARY

Full year NPAT of $37.4 million was 13.9% higher than pcp, with revenue at $333 million, up 11.1% on the pcp. Gross margin remained strong at 29%, although down on the 31% recorded in FY21 and was largely a result of changes in product mix and higher costs at some projects.

At 30 June 2022 net bank debt stood at $198.7 million, with gearing (net bank debt-to-total tangible assets (less cash)) at 25.6% and net bank debt-to-equity at 47.2%, both in the middle of the Company's target ranges. Interest cover was a strong 9 times for the financial year. At 30 June, more than $87.8 million of headroom was available under bank facilities.

The Board has declared a fully franked final dividend of 14.5 cents per share which, together with the 13 cent interim dividend paid in April, brings total financial year dividends to 27.5 cents per share (fully franked), up 3.8% on pcp, currently representing a yield of approximately 6%, fully franked. The total dividends of 27.5 cents represent a payout ratio of approximately 60%. The Dividend Reinvestment and Bonus Share Plans remain suspended.

PORTFOLIO PERFORMANCE

The construction sector continues to experience supply constraints and cost pressures, with a combination of labour shortages, increased labour costs, supply chain disruptions and materials price rises impacting developers across the nation. While cost increases for most Cedar Woods projects have been offset by price rises to date, some stages at particular projects have been delayed until conditions improve, and more capacity comes back into the sector.

Despite a softer final quarter, FY22 was a solid year for sales across Cedar Woods land projects with strong sales and significant price growth recorded at Ellendale in Queensland and the new Victorian land projects, Mason Quarter and Clara Place. Q4 FY22 sales results were also impacted by the fact that some projects saw no new stages released in the quarter as planning approvals were still being sought.

Some of the Company's projects continued to outperform including Boston Commons, strata offices at Williams Landing Victoria, which benefited from the post pandemic resurgence of suburban offices and the Company's Adelaide projects, where sales have continued at a steady rate.

MARKET CONDITIONS

The fundamentals that most impact the new housing sector are economic conditions, interest rates, consumer sentiment, unemployment and population growth. Economic conditions, record low unemployment and population growth will all significantly support the sector but with rising interest rates, inflationary pressures and poor consumer sentiment currently counteracting those fundamentals.

Sales volumes were strong across the portfolio through most of FY22, however the last quarter saw sales rates slow as a result of interest rate increases and low stock levels for that quarter. Slower sales could persist for some states over FY23 however it is expected the more affordable markets of WA, SA and Queensland will outperform.

Significant price growth was experienced at most company projects in Queensland, Victoria and SA in FY22 which in most cases served to counteract cost increases experienced. Recent price falls need to be viewed in the context of the dramatic price increases which nationally were 24% (source ABS) in 2021 alone.

Rental vacancies decreased markedly over FY22, resulting in strong rental growth and growing yields with demand from investors expected to remain relatively strong as a result.

Strong population growth is expected as the Federal government responds to nationwide skills shortages, and migrant numbers are expected to be increased and brought forward.

Noting low rental vacancy rates, the expected increase in inbound migration and project deferrals industry wide, new dwelling supply across most housing types and jurisdictions is expected to be insufficient to meet demand, which will extend and intensify the current housing shortage across the nation. Cedar Woods is well placed to capitalise on any uptick in demand in an undersupplied market.

Construction cost increases were experienced during FY22 but are moderating as stimulus related construction activity is progressively completed and builder capacity improves. Enquiry from builders for work commencing in 2023 increased in Q4 FY22 serving as an indicator of improved capacity and the expected moderation of costs.

DELIVERING ON STRATEGIC PRIORITIES:

High Performance Culture

A focus on maintaining a high performing and high-spirited work environment continued in FY22, evidenced by ongoing strength in employee satisfaction results. Staff training and career development programs were broadened during the year, and flexible working practices were further embedded.

In FY22 more than 10% of existing staff members were promoted to more senior roles, continuing the Company's culture of people development and internal promotions.

Operational Excellence

The Company achieved a number of milestones in the continued execution of its Digital and Technology Strategy throughout FY22 improving processes for sales, customers, human resources and payroll.

Sustainability and quality remain central to the Company's values. The Company made good progress in implementing its Environment Social and Governance (ESG) strategy during the year and for the first time, implemented a carbon footprint mapping of FY22 Greenhouse Gas Emissions.

Cedar Woods continued its national partnership with The Smith Family, Australia's leading children's education charity. The partnership is providing support for young Australians from disadvantaged backgrounds through primary and secondary education. The Company also continues to support community groups nationally as part via its Community Grants Program, now running for the 16th year.

Financial Strength

During the year the Company completed the annual review of its corporate finance facility and as part of the review the limit was increased to $300 million and the terms extended to 30 January 2025 for the three-year facility ($240 million) and to 30 January 2027 for the five-year facility ($60 million). The facility is provided by three of the 'Big-4' banks and provides long tenure and security of funding with ongoing compliance of facility covenants.

Earnings Growth

In FY22 over 2,000 lots were unconditionally acquired and included Fraser Rise and Southbank in Victoria and Eglinton, Henley Brook and Rockingham in WA. The Company also holds conditional contracts with a combined value of $60 million to acquire additional land holdings in Queensland and Victoria, which could add another 800 lots to the portfolio.

COMPANY OUTLOOK

Cedar Woods starts FY23 in a strong position with $500 million in presales expected to settle over FY23, FY24 and FY25. The Company is targeting growth in earnings in FY23 and is well placed for the medium term with a pipeline of more than 10,300 undeveloped dwellings/ lots/ offices across four states. FY23 earnings are expected to be weighted to the second half due to the timing of stage completions.

The Company's outlook is subject to market and construction sector conditions. The Company's expectation for FY23 full year earnings takes into account current conditions, although there remains some residual risk that a limited number of forecast Q4 FY23 stage completions, and hence revenue, may move into early FY24.

Several new projects are expected to contribute to earnings from FY23, including Mason Quarter, Fraser Rise and Lincoln and Aster apartments in Victoria, Monarch and Sirocco apartments in South Australia, Incontro townhouses, Eglington and Rockingham in Western Australia, and Sage and South Maclean in Queensland.

Authorised by: Cedar Woods Board of Directors

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