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Cedar Woods Properties (CWP)

WA's leading property developer

Recommendation
Buy (Initiation)

Price
\$4.04
Target (12 months)
\$5.40 (previously Initiation)

GICS Sector
Real Estate
Expected Return

Capital growth	33.7%
Dividend yield	8.2%
Total expected return	41.8%

Company Data & Ratios

Enterprise value	\$497m
Market cap	\$332m
Issued capital	82.1m
Free float	100%
Avg. daily val. (52wk)	\$0.97m
12 month price range	\$3.42-5.59

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	3.81	4.45	5.58
Absolute (%)	6.0	-9.2	-27.6
Rel market (%)	0.8	-9.4	-23.2

Absolute Price


SOURCE: IRESS

Attractive business model

Cedar Woods CWP is a medium sized Australian property developer that operates in four states in Australia, with around half of its operations in its home state of WA. The main business model is to buy land, seek approvals to develop, then either subdivide and sell the land, or build apartments and townhouses. The company may also build commercial developments where this fits into the scope of the project. CWP is currently involved in 34 projects in four States, covering around 10,300 potential lots. CWP aims to complete c1,000 lots per year, and achieved revenue of \$333m in FY22.

Despite the slowdown in the property markets caused by rising interest rates and supply side shortages, the company starts 2023 with \$500m presales and we believe 2023 earnings are well underpinned. CWP's sales are supported by low unemployment, a national shortage of housing, and being exposed to more affordable markets. It is diversified across a range of property types and locations with the ability to tailor its product to appeal to different customers such as first homebuyers, upgraders, downsizers and investors.

Investment view: Valuation A\$5.40 per share

Rising interest rates have had an impact on sentiment and the share price and, we believe the shares have been indiscriminately sold off. The share price has retreated from over \$7 per share in 2021, to just above \$4, with the forward PE multiple declining from 14.3x forecast earnings in 2021 to 9.2x now. The company stood back from adding to the property portfolio in 2020 and 2021, but has added to its land bank in 2022. Net sales from the land bank will increase cash generation by \$25m in the next 2 years, and this will be aided by the sale of a shopping centre. We value the company at \$5.40 per share using a modified DCF valuation (adjusting for inventory release). We expect that if interest rates peak in Q1/Q2 2023, then as the economy adjusts, we expect CWP shares should perform strongly and see a one-year total return of 41.8%.

Earnings Forecast

Year end June 30	2022a	2023e	2024e	2025e
Sales revenue (A\$m)	333.0	339.7	366.9	396.2
EBITDA (A\$m)	57.1	54.1	58.0	68.7
NPAT (adjusted) (A\$m)	37.4	36.3	41.3	51.1
EPS (adjusted) (cps)	45.2	42.7	49.9	61.8
EPS growth (%)	12.1%	-5.5%	16.7%	24.0%
PER (x)	8.9	9.5	8.1	6.5
EV/EBITDA (x)	8.7	9.2	8.6	7.2
Price/CF (x)	-5.0	6.9	5.7	6.4
Dividend (¢ps)	27.5	33.0	36.0	40.0
Franking (%)	100.0%	100.0%	100.0%	100.0%
Yield (%)	6.8%	8.2%	8.9%	9.9%
ROE (%)	9.1%	8.4%	9.1%	10.7%
P/NAV (x)	0.81	0.79	0.75	0.72

SOURCE: BELL POTTER SECURITIES ESTIMATES

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Investment thesis

We initiate coverage of Cedar Woods Properties with a BUY recommendation and target price of \$5.40.

- **Historic performance:** the company was established in 1987 and through its entrepreneurial culture it has grown into four Australian states and has a strong track record of growing revenue and earnings.
- **CWP is profitable, and cash generative:** The cashflow of the business is used to pay dividends and to reinvest in the business by growing the landbank and developing projects. The company made considerable additions to the landbank in 2022, and we expect that the next two years will see more modest reinvestment in the business, allowing the company to release \$25m from its inventory. The company should also benefit from the sale of the Williams Landing shopping centre.
- **Diversification:** The company has projects in four States that are both close to the capital city CBD and on the urban fringe, offering a mixture of property types (land lots, townhouses, apartments, commercial), which are priced to suit customer demand.
- **Conservative accounting:** the company carries property at cost plus development expenses (provided this is greater than realisable value). This is well below market value as evidenced by the 30% gross margins achieved on sales. The current NAV of \$5.13
- **The share price** has fallen in 2022, with investor concern about the effect of interest rates upon development and building cycle. We anticipate that the cycle will be relatively short with interest rates peaking in Q1/Q2 2023, and CWP will be able to trade through the cycle, with a limited impact on FY23 earnings before returning to growth in FY24.
- **Valuation:** We value the shares at \$5.40, implying 41.8% upside from the current share price including the prospective yield of 8.2%.
- **Franking Credits:** The company has franking credits of \$113.6m available equating to around \$1.39 per share. This compares to the FY22 dividend cost of \$21.5m, and net assets of \$421m. This reflects in part that the company has grown from retained earnings. There may be some way to utilise this balance through corporate restructuring, or this could be attractive to a potential acquirer.

Current trading

FY22 results / current trading

The company reported FY 22 results on 25 August. The figures showed a strong trading performance with NPAT up by 13.9% on stronger sales.

- **Revenue** of \$333.0m up 11.1% compared to \$299.8m in FY21.
- **NPAT** of \$37.4m up 13.9% compared to \$32.8m in FY21.
- **EPS** of 45.7 cents per share up 12.3% compared to 40.7cps in FY21.
- **Dividend** was 27.5c per share for the year (fully franked), up 3.8% compared to 26.5cps in FY21.
- **NTA** per share of \$5.13/share compared to \$4.92/share at FY21.
- **Bank debt** was \$198.7m compared to 113.3m, headroom from unused facilities was \$87.8m (\$94m at FY21).
- **Pipeline** of 10,300 lots compared to 9,600 at FY21.
- **Presale contract values** were \$500m across 1,199 lots at FY22 this compared to \$478m over 1,159 lots at FY21.
- The company sold 1,108 lots in FY22 and settled on 955 lots (no prior comparatives given).

The company commented that:

“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. “*

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.”

Q1 Update: 11 October

The company issued a Q1 FY23 trading update on 11 October

Pre sales of \$514m, compared to \$500m at 30 June and \$460m at Q1 22, with 65% expected to settle in FY23.

Earnings are expected to be skewed to H2 FY23 given conditions in the property and construction markets. Construction cost increases moderated.

Rising interest rates has continued to impact consumer sentiment and gross sales have been 44% weaker than Q1 FY22.

Sale of Williams Landing shopping centre

On 1 November 2022 the company announced an open market process to sell the Williams Landing shopping centre.

This opened in 2014, centred around a Woolworths, with 30 retail units, childcare and office space. The centre is held on balance sheet as an investment property and generates rental income of \$5.7m, the majority of the \$6.0m of rental income shown in the P&L.

There is substantial land surrounding the centre which could allow for future expansion. This land will not be included in the sale, however CWP will restrict use of the land, to ensure it remains available for future use to the centre.

The accounting (book) value was \$38.6m for the centre and surrounding land, however the company had valued it at \$83.6m, of which \$63m relates to the centre which is for sale and \$20.6m for the surrounding land, which is not expected to be sold.

The group has a \$30m borrowing facility secured on the shopping centre and we assume that this will pass to the purchaser as part of the sale.

We expect the sale will be settled in late FY23 or FY24. We expect the sale to achieve a substantial profit over the book value which will be reported as other income in either FY23 or FY24. Depending upon the price achieved, we expect the sale will free up more than \$30m of cash for reinvestment in the business.

We have not included this sale in our forecasts, however we will adjust our forecasts for rental income, other income and cash when there is more certainty about the timing and amount of this sale.

Recent share price performance

We show how CWP shares have traded compared to some of the fundamental metrics: trading below its NAV, and with little regard to earnings or the expected direction of future earnings.

The shares traded above \$6 for most of 2021, reaching \$7 in April 2021. Recently the shares have traded below \$4, despite having an NAV above \$5 and producing strong FY 22 results in August.

Rising interest rates have undoubtedly had a big impact on investor sentiment, increasing the cost of borrowing to purchase a dwelling. As a result, house prices have stagnated (or fallen) forcing home purchasers to think carefully before committing.

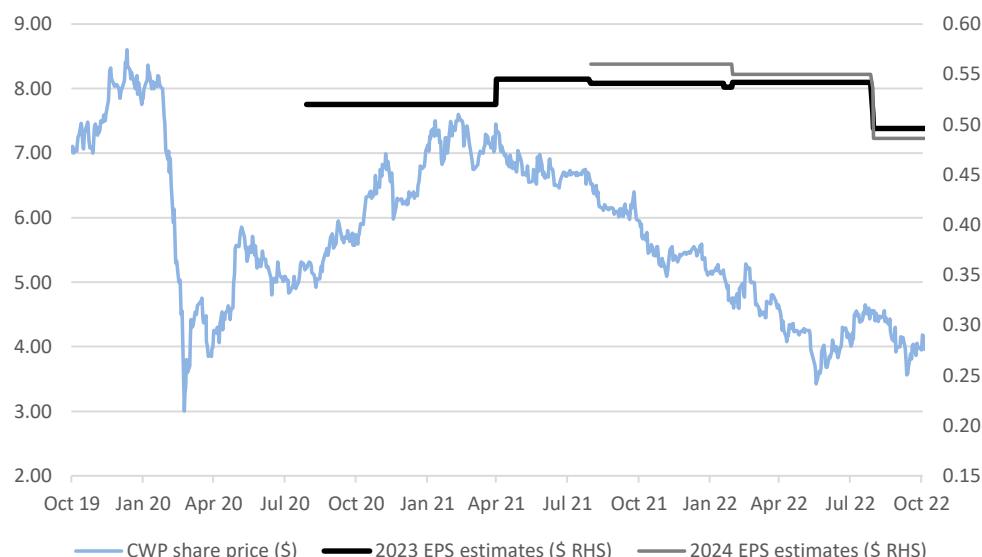
Share price relative to earnings expectations

The chart in Figure 1 shows CWP relative to forward earnings estimates for FY23 and FY24 taken from Bloomberg. Consensus estimates for FY23 have fallen by 8.5% from peak (from 54.2cps in April 2022 to 49.6c currently) and by 11.6% for FY24 (from 55.0cps in April 2022 to 48.6c currently). The forward PE has come down from about 14.3x in March 2021 to 9.2x currently.

This level of de-rating suggests to us that the market is expecting a considerable slowdown in earnings, of more than the 8-12% reduction seen in consensus. This seems too pessimistic to us. The company starts 2023 with presales of \$500m, and we would expect interest rates to peak around Q1/Q2 2023 at 3.25-3.50%. We would expect the outlook to be improving towards the late CY23 / early CY24.

Shares have derated, compared to earnings expectations

Figure 1 – CWP share price (\$, LHS) and forward earnings estimates (\$, RHS)



SOURCE: BLOOMBERG

Share price relative to trailing earnings

The chart in Figure 2 shows CWP relative to the last two published half year EPS. At the full year this is simply the reported EPS figure for the year, whereas at the half year this is the sum of the H1 EPS and the H2 EPS from the previous year. We have labelled to make this clearer. This illustrates that there has been some common direction between the share price and the trailing EPS figures.

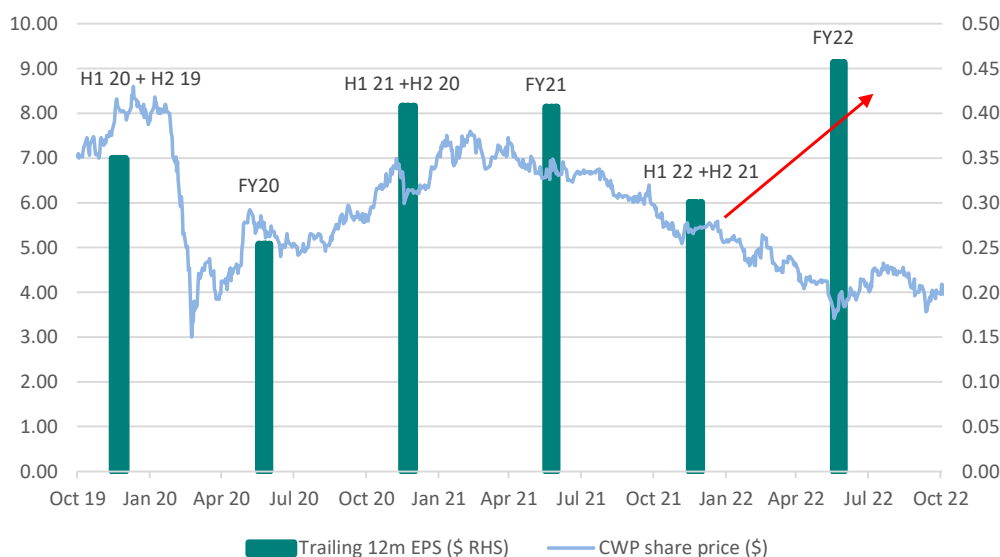
CWP's share price tracked trailing earnings in 20/21, but now lags

We doubt trailing EPS is driving the shares, but illustrates the derating

CWP's earnings can vary considerably from half year to half year. The company manages its business focussing to achieve growth in full year earnings, but the timing and lumpiness of sales means it may not be possible to manage half yearly earnings. For example, when pre-sold apartment buildings are completed, the settlement for all the apartments usually occurs shortly afterwards, meaning all of the sales and profits may be recognised in a single half year period.

FY21 earnings were relatively loaded into H1, whereas FY22 earnings were relatively loaded into H2. This gives rise to a weaker bar (labelled H1 22 + H2 21) in the chart below and the share price appears to follow this trend. We doubt that the share price has been tracking historic earnings, however if it was, we would have expected the share price to recover (with the red arrow shown in the chart) following the FY22 results.

Figure 2 – CWP share price (\$, LHS) and trailing EPS (\$, RHS)



SOURCE: BLOOMBERG

With CWP below NAV, management could consider a share buyback

....subject to franking credits

Share price relative to NAV

The chart in Figure 3 shows CWP in relation to its published NAV per share. This NAV largely reflects the property portfolio at cost plus capitalised development expenses. As the company is making gross margins of about 30%, or pre-tax margins of 11-18%, it is not unreasonable to assume the company should continue to trade at a premium to NAV.

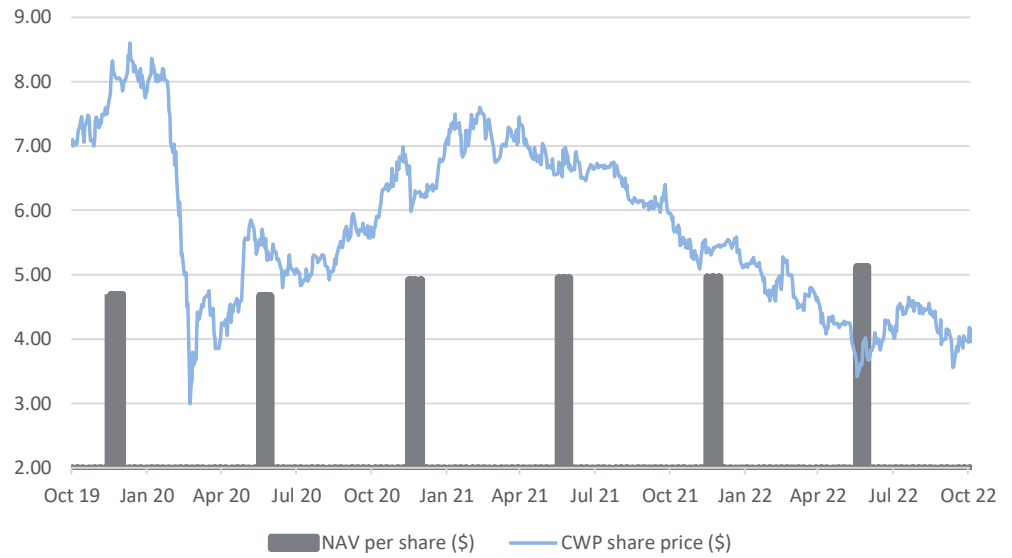
NAV is a historic cost metric; it does not move up or down to reflect revaluation or sentiment (although the NAV could be revalued down to reflect lower realisable values).

The price to NAV is below 1x for several property developers, perhaps as investors expect profitability is likely to fall as a result of higher interest rates and rising costs. Investors will also demand a higher cost of equity (a higher return as reward for the perceived current risks).

It is tempting to look at this and think the company could be acquired, the assets sold off with a profit going to the acquirer. This might be possible but, the company NAV is largely stock of land that is due to be sold anyway. The NAV does not take account of the closure costs of the business, which could be considerable.

The shares trading below NAV could also be an indicator to management that it may be a good time to focus excess cash flow on returns to shareholders such as through a share buy-back, rather than on building a land bank, the value of which is not reflected in the share price. We note the large franking credit balance of \$113m, meaning that shareholders may prefer dividends and special dividends.

Figure 3 – CWP share price and NAV (\$)



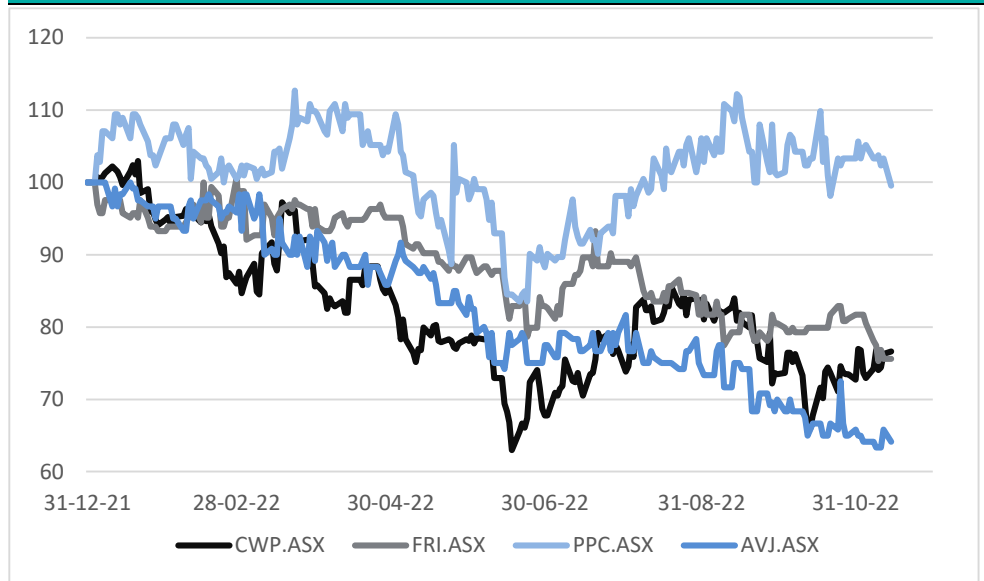
SOURCE: BLOOMBERG, COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

CWP has performed in line with its quoted competitors

Share price relative to competitors

The chart in Figure 4 shows CWP (black line) relative to three of its quoted competitors, Finbar Group (FRI.ASX), Peet Ltd (PPC.ASX) and AV Jennings limited (AVJ.ASX). CWP has performed much in line with Finbar and AV Jennings. It can be seen that Peet’s share price has performed relatively well and this coincides with the company buying back shares, with about 14.6m shares repurchased (around 3% of its issued capital) at the time of writing. We note that PPC has a relatively small free float and is thinly traded.

Figure 4 - Share price relative to quoted competitors through 2022, rebased to 100



SOURCE: IRESS

Economic background

The economic background for the company is mixed, with the following factors helping:

- **Unemployment** remains low at 3.5% and job security is high.
- **The supply of housing is** limited, particularly in the rental sector.
- **Investor demand** for rental property remains high, with a low supply of rental property
- **Affordability:** home prices are least affordable in VIC and NSW. CWP is exposed to the more affordable markets of WA, SA and QLD, with some exposure to VIC and no exposure to NSW
- **Population is growing** at around 1.3% per year, with around 0.8% expected to come from net migration.

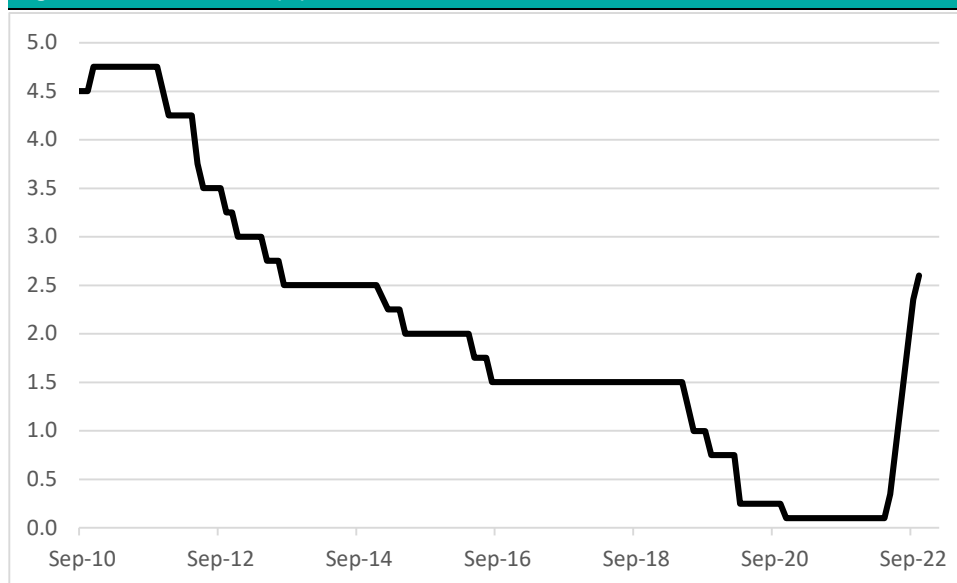
Set against this:

- **Rising interest rates** make it more expensive to buy a house, but are slowing the economy and are expected to reduce inflationary pressures.
- **House prices have fallen** from peak levels, particularly in Sydney and Melbourne, which have seen the strongest growth in house prices.
- **Input prices to the construction industry** have been increased by 17.3% in the last year.

Interest rates

The chart in Figure 5 shows the RBA cash rate since 2010. This shows the very low levels of interest rates in 2020 and 2021, in response to the Covid-19 pandemic, and the rises in interest rates since 2022, in response to rising inflation and supply side pressures. Higher interest rises will start to slow the economy and there are signs that this is starting to work through with some reduction in house prices.

Figure 5 – RBA cash rate (%) 2010 to 2022

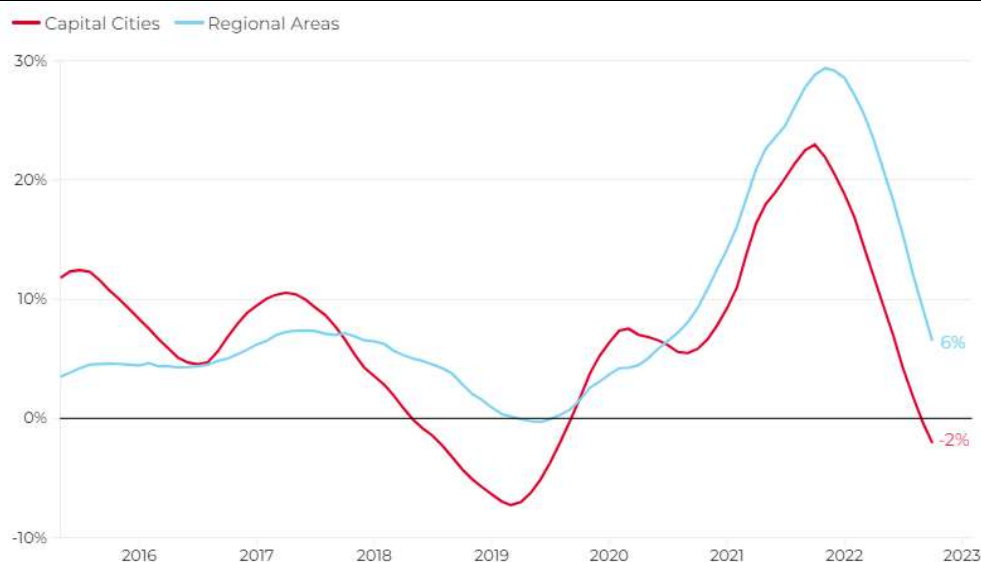


SOURCE: ABS

House prices

The chart in Figure 6 is taken from Proptack/realestate.com.au and shows the annual trend in dwelling prices (units and houses) in capital cities and regional areas since 2016. Annual house price growth in capital cities is now -2% over the last year, while up 6% in regional areas.

Figure 6 – House price changes in Australian capital cities 2016-2022 from realestate.com.au/PropTrack



Source: Proptrack

PropTrack

SOURCE: ABS

Table 1 below shows more detail from the Proptack/realestate.com.au by region. In the areas that CWP operates, dwelling prices have risen. Prices in Melbourne are down 3.5% over the last year whereas in Perth, Brisbane, and Adelaide these have risen by 5.7%, 7.5% and 14.2% respectively. All areas saw monthly declines in values in September, although the picture was more mixed in October with smaller moves and some areas gaining.

Table 1 - Proptack home price growth by GCCA for dwellings

Region	Monthly growth October (%)	Monthly growth September (%)	Annual growth to October (%)	Median value (\$)
National	-0.06%	-0.19%	0.3%	\$752,000
Capital Cities	-0.11%	-0.22%	-2.1%	\$801,000
Regional Areas	0.06%	-0.11%	6.5%	\$636,000
Sydney	-0.21%	-0.18%	-5.8%	\$962,000
Rest of NSW	0.11%	-0.04%	5.5%	\$733,000
Melbourne	0.02%	-0.29%	-3.5%	\$826,000
Rest of Vic.	0.02%	-0.29%	4.1%	\$610,000
Brisbane	-0.09%	-0.29%	7.5%	\$761,000
Rest of Qld	-0.05%	-0.19%	8.7%	\$634,000
Adelaide	0.12%	-0.16%	14.2%	\$651,000
Rest of SA	0.61%	0.55%	17.8%	\$371,000
Perth	0.11%	-0.29%	5.7%	\$553,000
Rest of WA	-0.15%	-0.17%	7.2%	\$439,000
Hobart	-0.46%	0.05%	3.0%	\$728,000
Rest of Tas.	0.06%	0.08%	10.4%	\$504,000
Darwin	0.21%	-0.37%	2.9%	\$499,000
Rest of NT	0.29%	-0.09%	3.6%	\$430,000
ACT	-0.37%	-0.09%	0.9%	\$891,000

SOURCE: PROPTACK/REALESTATE.COM.AU

In this report we are not forecasting property prices, however we expect that if interest rates succeed in slowing the economy, interest rates could peak at around 3.5% in Q1 or Q2 calendar 2023 and we would expect property prices to start to stabilise or recover as consumers adjust to the new normal.

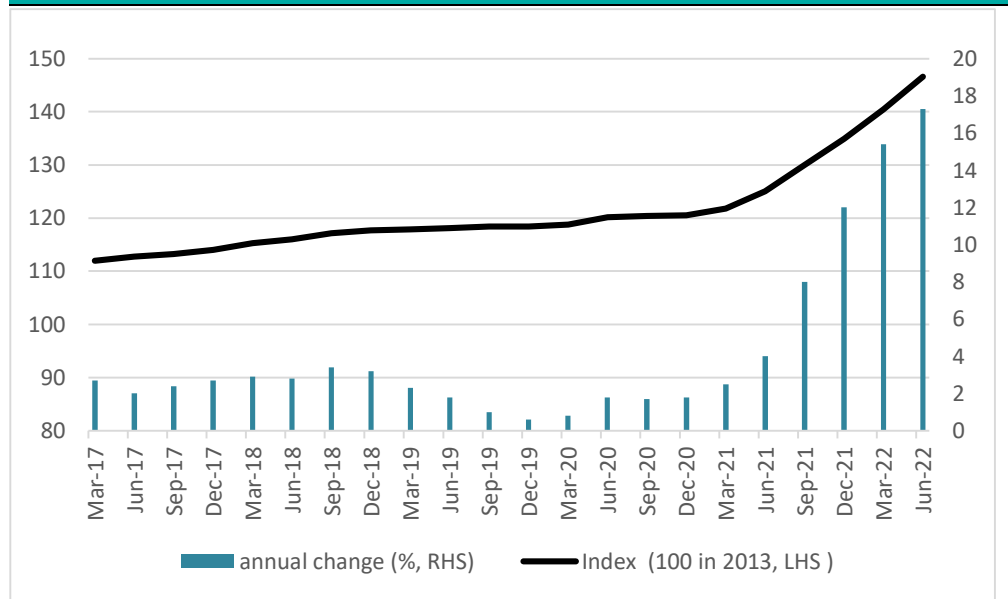
Construction price increases.

The chart in Figure 7 shows the ABS Producer Price Index for the house construction industry as well as the annual change. This has risen by 17.3% in the year to June 22, with particular increases seen in timber, window, metal and insulation.

CWP sells both land as well as completed dwellings, with around two thirds of sales being land packages. These include some construction work in clearing the site and laying amenities to individual lots. CWP is not as directly affected by this trend, compared to a company such as Finbar, which just sells apartments and is therefore relatively exposed to increases in input prices.

CWP will be affected indirectly because the cost of building is ultimately borne by the house purchaser and this will affect their desire to undertake building at this point,

Figure 7 - ABS Input prices to house construction ind'y (index, LHS) & annual change (% , RHS)



SOURCE: ABS

How does CWP create value?

The chart in Figure 8 is taken from CWP’s FY22 results presentation, showing the key areas where the company is adding value.

- **Acquisition:** CWP finds and acquires land that will be suitable for development or redevelopment. (This is typically 10-90 hectares with 40-1,000 lots).
- **Development:** CWP plans the development, submits and gains the necessary permits and approvals to develop. Larger projects are split into stages with around 50-100 lots released each year. It subdivides the land into smaller lots within these. CWP will use contractors to build infrastructure including roads, power, water, sewerage and other amenities as well as retaining walls, in order to offer level lots of land that are ready to build on. The development may offer land for houses, townhouses, apartments or commercial buildings.
- **Marketing:** CWP either sells land to individuals or pre-sells and builds apartments, townhouses or commercial properties. On larger developments the company may retain a number of builders who will build a range of display-homes tailored to fit the typical sized lots on offer. The group prefers to phase construction between stages, to allow early stages to complete, before later ones are released. This allows for better pricing as buyers in later stages can see what the development looks and feels like. This also allows for a smoother emergence of profits over a longer period.

Figure 8 - CWP value creation



SOURCE: COMPANY DATA

The company sells two main end products

Land – Usually packaged into 200-650sqm lots with associated infrastructure. These may be sold alongside a build package, from a builder who will build one of several designs which will be tailored to the buyers requirements.

Finished dwellings – Usually townhouses and apartments, which will have been designed and built to meet local demand. Most of this is pre-sold prior to construction, meaning that the group is not undertaking much speculative building.

The type of end product depends mainly upon the location. A Greenfield development is usually on the outskirts of a city. By contrast a brownfield/inner city redevelopment will typically have a higher density of housing, so it is preferable to build a combination townhouses and apartments to make the most of the available land.

Competition

CWP sees competition from a range of groups, including small local operators, both private and public, as well as larger national or multinational groups that might undertake a wide range of residential and commercial property projects. We list some of these in the comparative valuation section and profile the smaller competitors.

Current portfolio

Table 2 lists CWP's current projects as listed in the FY22 report and accounts.

Table 2 – CWP current national portfolio								
	Corridor/ Location	Project Type*	First settlement	Project finishes	Lots/units projected	Lots/units remain	Added/removed in FY22	Completed in FY22
WESTERN AUSTRALIA - PERTH								
Ariella, Brabham + Henley Brook	North East	RL		2028	1,183	504	303	98
The Brook at Byford	South East	RL		2024	428	70	0	49
Rivergums, Baldivis	South	RL		2027	1,432	266	-6	43
Byford on the Scarp	South East	RL		2024	277	57	-4	41
Solaris, Forrestdale	South East	RL		2027	307	154	-3	80
Bushmead	East	RL		2025	915	410	-31	113
Millars Landing, North Baldivis	South	RL		2028+	1,553	1,397	-2	35
Eglinton	North	RL	2024	2028+	1,200	1,200	1,200	0
Pinjarra	South	RL	Planning	2028+	1,080	1,080	0	0
Incontro, Subiaco	Inner East	TH/AP	2023	2026	131	131	0	0
The Acreage at Dalyellup	South	RL	2024	2024	41	41	41	0
Rockingham	South	RL	2024	2025	100	100	100	0
WESTERN AUSTRALIA - "JV" PROJECTS								
Harrisdale Green	South East	RL/TH		2025	431	103	-34	43
WESTERN AUSTRALIA - PERTH					9078	5513	1564	506
VICTORIA - MELBOURNE								
St A, St Albans	North West	TH		2023	254	70	0	6
Jackson Green, Clayton South	South East	TH/AP		2023	414	129	1	0
Huntington Apartments, Jackson Green	South East	AP		2023	166	2	0	164
88 Leveson, North Melbourne	North West of CBD	TH	2024	2024	15	15	0	0
Mason Quarter, Wollert	North	RL	2023	2028+	854	854	20	0
Clara Place, Fraser Rise	North West	RL	2024	2026	287	287	287	0
South Bank	South of CBD	AP/CO	Leasing / 2028	2028	183	183	183	0
Williams Landing	West	RL/TH/AP		2025	2,348	102	0	80
Williams Landing	West	AP	2023	2023	69	69	0	0
Williams Landing	West	CO		2023	74	1	0	12
Williams Landing	West	CO	2025	2025	82	82	82	0
Williams Landing	West	AP/TH/CO		2028+	203	203	-65	0
Williams Landing	West	CO	Leasing	2028+				
VICTORIA - MELBOURNE					4949	1997	508	265
QUEENSLAND - BRISBANE								
Greville, Woolloowin	Inner North	TH/AP	2023	2026	281	281	0	0
Ellendale, Upper Kedron	North West	RL		2027	889	431	0	24
South Maclean	South	RL	2024	2028+	516	516	0	0
Sage, Burpengary	North	RL	2023	2027	329	329	329	0
QUEENSLAND - BRISBANE					2015	1557	329	24
SOUTH AUSTRALIA - ADELAIDE								
Glenside	Inner South East	TH/AP		2028+	939	741	33	136
Grace Apartments, Glenside	Inner South East	AP		2023	44	1	0	43
Monarch Apartments, Glenside	Inner South East	AP	2023	2023	49	49	49	0
Fletcher's Slip, Port Adelaide	North West	TH/AP		2027	461	408	-41	53
Sirocco Apartments, Fletcher's Slip	North West	AP	2024	2024	41	41	41	0
SOUTH AUSTRALIA - ADELAIDE					1534	1240	82	237
TOTAL GROUP					17576	10307	2483	1032

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

* RL = RESIDENTIAL LAND, TH= TOWNHOUSES, AP =APARTMENTS, CO = COMMERCIAL, NOTE COMPLETED PROJECTS NOT SHOWN SO TOTALS MAY NOT ADD

CWP updates this biannually, showing the expected number of units in each project, the number that remain and the timescale until the project completes. Each year some projects

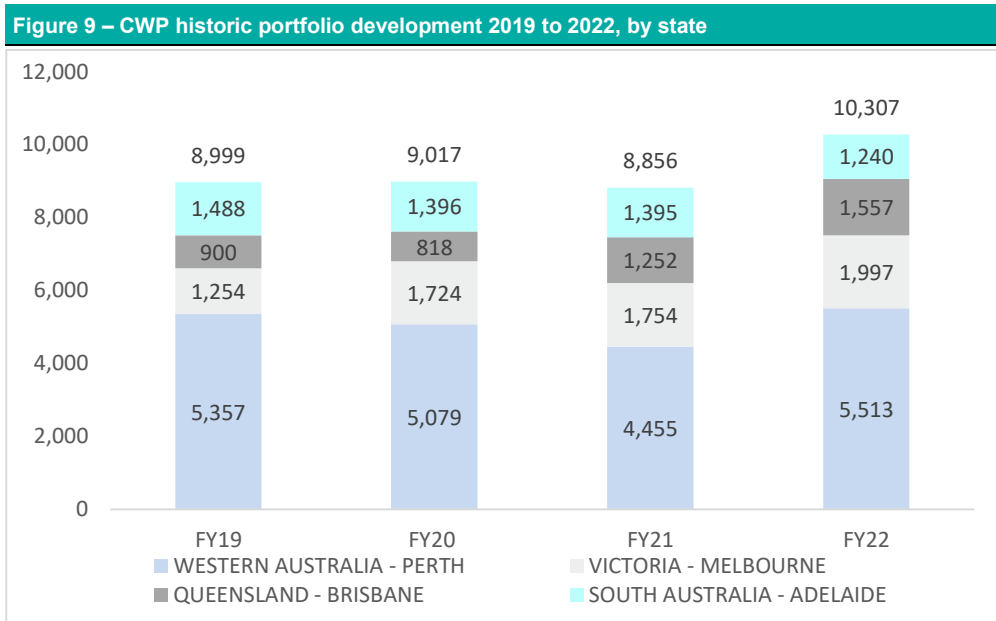
complete and new projects come on stream. As planning develops, projects may add to or reduce the number of expected lots/units. At FY22, the company had 34 active projects with 10,307 lots or units.

The group manages these projects to ensure delivery of earnings in the medium term. This depends upon having a diversified range of projects of sufficient quality, with a plan to release lots/units in each of the next few years. We analyse this portfolio pipeline because it demonstrates:

- **Diversification:** The diversification of the portfolio between states, and by product.
- **Timing:** the clarity to when projects are expected to start and complete, giving a long-term plan for revenue and profit generation.
- **Management levers:** The scope that management have to manage the portfolio by promoting geographies or products that are seeing stronger demand or better margins; to repurpose land into smaller or larger lots depending on market conditions; or to split out sub-projects into separate projects.
- **Completions and additions:** By analysing year-to-year we can see how many projects are being completed each year and how many units are being added and removed from existing projects.
- **Averages:** The value of properties in the portfolio varies greatly by factors such as location, State, unit size and type (whether it is a commercial project, a residential lot or a dwelling). We note that a single lot or unit in the portfolio varies from a small 200sqm lot of land right through to the 17-hectare commercial development in Williams Landing. With \$330m of revenue from around 1000 sales, an “average” unit could represent a 350sqm lot of land out of town in WA or a 250sqm lot closer to the CBD in the other three states.

Historic Development/geographic spread

The chart in Figure 9 shows the development of the portfolio over the last four years. The portfolio has varied from 8,856 lots at FY21 to 10,307 lots at FY22. The portfolio is weighted to WA, with a smaller proportion of lots in VIC, QLD and SA.



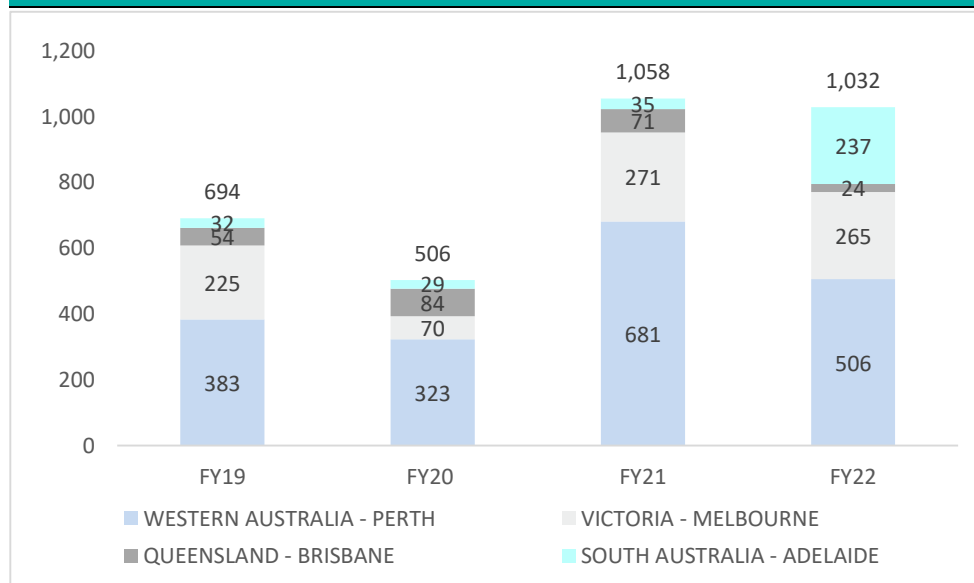
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The chart shows the number of units in the portfolio declining in 2020 and 2021, as completions ran faster than additions.

Completions

The chart in Figure 10 shows the number of completions from the portfolio in the period 2019-2022 by state. This is derived by comparing the outstanding projects year to year. It shows that the company has completed around 1,000 lots in each of the last two years. The company notes that in FY22 it settled 955 units –we understand this is closely related to the 1,032 completions shown below. The 1,108 lots/homes that were sold more closely aligns with the \$500m of presales. Much like the geographic exposure, the majority are in WA, followed by Victoria, the second largest operation for the group.

Figure 10 – CWP completions from the portfolio 2019-2022 by state.



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The number of lots completed in SA and QLD is more varied year to year, a result of the smaller number of projects and the time it takes time between acquisition and production. 2020 was disrupted by the Covid-19 pandemic and lockdowns which particularly affected Victoria. By contrast WA continued, helped by government stimulus, mining activity and border closures/lack of lockdown.

Additions to portfolio

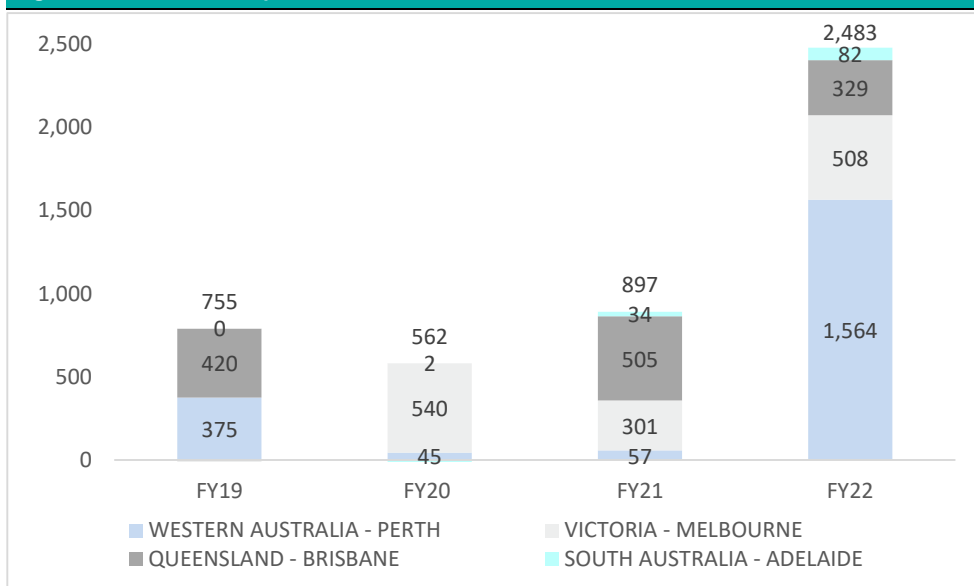
Additions to the portfolio represent acquisitions of land or altering the layout of existing planned developments to include more (or less) lots. The following chart shows additions to the portfolio over the last three years (the chart does not capture reductions). It can be seen that 2022 was a busy year for additions with the company adding 2,483 lots which was more than the previous three years combined.

Additions can be particularly volatile year-to-year as large lots of land such as Eglinton are included. The company often attempt to buy land through linked multi-year contracts to avoid too much land being included in the portfolio at any one time.

- 2022 additions include Eglinton (1,200 lots) and Ariella (134 lots) in WA; Clara Place (287 lots) and South Bank (183 apartments) in VIC; Sage (329 lots) in QLD; as well as Monarch apartments (49) and Glenside townhouses (33) in SA.
- 2021 additions include an additional 20 apartments at Subiaco and 27 lots in Baldivis in WA; Mason Quarter (an additional 291 lots) in VIC; as well as South Maclean (516 lots) in QLD.
- 2020 additions relate to 111 apartments at Subiaco in WA and Mason Quarter (543 lots) in VIC.

Significant additions to the portfolio in FY22, specifically Eglinton, WA

Figure 11 – Additions to portfolio



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Projects by location

We describe a number of the key projects to illustrate the key traits of CWP, such as the variety and geography of the projects, as well as the relative maturity of the pipeline. Key features we highlight include:

- Acquisition and future earnings potential (Eglington, WA),
- Quality and variety (Bushmead)
- Long term earnings potential & commercial (Williams Landing, VIC)
- Geographic diversity (Glenside, SA and Ellendale, QLD)

Western Australia -5,500 lots in pipeline

This is the home of CWP and the largest area for its developments and completions. Table 3 below shows the key developments in WA, and Figure 12 shows the location of these projects in relation to the CBD.

We would split these two ways between current production and future production. The projects in the top half of the table included over 400 completions in FY22, and this represents around half of the completions for the business.

In the last year the company has added 1,200 potential dwellings at Eglington, and 100 at Rockingham. These projects are both expected to contribute to FY23 earnings, along with townhouse development at Incontro, Subiaco. The projects at the Brook at Byford and Byford on the Scarp are due to finish in 2024.

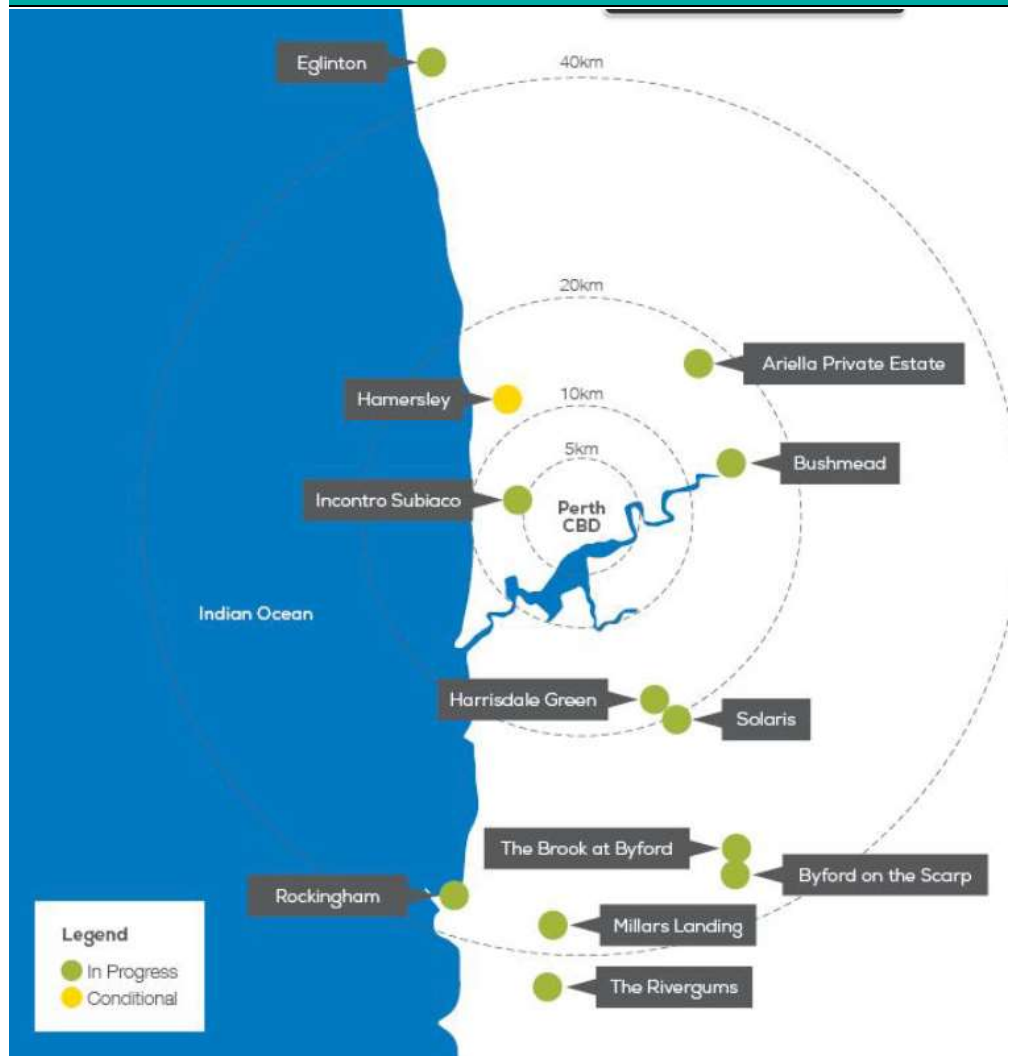
Table 3 – WA current projects: 12 projects with 5,513 lots/dwellings

	Project Type *	Projected dwellings	Remaining at FY22	Added/removed in FY22	Completed in FY 22	Settlement begins	Project Finish
In production							
Bushmead	RL	915	410	-31	113		2025
Ariella, Brabham	RL	1,183	504	303	98		2028
Solaris, Forrestdale	RL	307	154	-3	80		2027
Millars Landing, North Baldivis	RL	1,553	1,397	-2	35		2028+
Rivergums, Baldivis	RL	1,432	266	-6	43		2027
Byford on the Scarp	RL	277	57	-4	41		2024
The Brook at Byford	RL	428	70	0	49		2024
Future production							
Eglington	RL	1,200	1,200	1,200	0	2024	2028+
Pinjarra	RL	1,080	1,080	0	0		2028+
Incontro, Subiaco	TH/AP	131	131	0	0	2023	2026
The Acreage at Dalyellup	RL	41	41	41	0	2024	2024
Rockingham	RL/TH	100	100	100	0	2024	2025
Total		9078	5513	1564	506		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

* RL = RESIDENTIAL LAND, TH= TOWNHOUSES, AP =APARTMENTS

Figure 12 - WA current projects: 12 projects with 5,513 lots/dwellings



SOURCE: COMPANY DATA

Bushmead – Master planned development

This is one of CWP’s premier developments in WA, offering an attractive location and a range of affordable lots in attractive bush surroundings. As Such it has attracted a mixture of young families looking for space, older couples looking to downsize as well as investment buyers. This project is 270 hectares of land located 16km east of the Perth CBD, and close to the airport (which appeals to Fly-in, Fly-out workers). The site was acquired in 2010 and has been developed in a number of stages since 2017. Management aim to release 2 stages per year, with each stage containing approximately 50 lots, although this can be accelerated if sales are slower in other locations. When complete there are expected to be 934 dwellings.

The site was originally a rifle range used by the army, and the redevelopment has used around one-third of the available land (85 hectares), with the remaining two-thirds (185 hectares) being restored as natural bushland. The site has won several awards, including the 2021 UDIA Winner Environmental Excellence, for demonstrating commitment to environmental sustainability.

Prices

Typical land prices at the time of writing are around \$250k for a 250sqm 2 story townhouse lot, \$300k for a 350sqm lot suitable for a single story 3x2 house or \$400k for a 500sqm lot.

Eglinton - Master planned development

This is an 86 hectare site acquired in 2022 and located 45km north of Perth. It is conveniently located within 500 metres of a proposed train station, and close to the freeway. It is expected to provide around 1,200 lots/dwellings with first settlements due start in 2024. This is a sizeable development which should deliver earnings over 11 years starting from FY24. Figure 13 shows an aerial photograph from the company, which gives an idea of the scale of the project.

This is typical of Cedar Woods strategy, to buy a large greenfield site and develop it in stages over several years.

Figure 13 – Eglinton WA, proposed master planned community



SOURCE: COMPANY DATA

Victoria – 200 lots in pipeline

Victoria is the second most active region for CWP with 11 Projects at 8 sites (4 at Williams Landing). These are expected to deliver 1,997 lots/offices/dwellings as well as a 17 hectare town centre development. Table 4 below, shows the key developments in Victoria and Figure 14 shows the project locations in relation to the CBD.

Table 4 - Victoria current projects: 11 projects with 1,997 lots/dwellings, 17 hectares of commercial

	Project Type *	Projected dwellings	Remaining at FY22	Added/removed in FY22	Completed in FY 22	Settlement begins	Project Finish
VICTORIA - MELBOURNE							
St A, St Albans	TH	254	70	0	6		2023
Jackson Green, Clayton South	TH/AP	414	129	1	0		2023
Huntington Apartments, Jackson Green	AP	166	2	0	164		2023
88 Leveson, North Melbourne	TH	15	15	0	0	2024	2024
Mason Quarter, Wollert	RL	854	854	20	0	2023	2028+
Clara Place, Fraser Rise	RL	287	287	287	0	2024	2026
South Bank	AP/CO	183	183	183	0	2028	2028+
Williams Landing/ Residesntial Land	RL/TH/AP	2,348	102	0	80		2025
Williams Landing / Lincoln apartments	AP	69	69	0	0	2023	2023
Williams Landing /101 Overton Rd, Offices	CO	74	1	0	12		2023
Williams Landing/Boston Commons Offices	CO	82	82	82	0	2025	2025
Williams Landing/ Future apartments	AP/CO/TH	203	203	-65	0		2028+
Williams Landing/Comm 17 hectare	CO						2028+
Total		4949	1997	508	262		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

* RL = RESIDENTIAL LAND, TH= TOWNHOUSES, AP =APARTMENTS, CO = COMMERCIAL

Key completions in FY22 included Huntington Apartments, Jackson Green and residential land at Williams Landing. Settlement is due to start at Mason Quarter, Clara Place, 88 Leveson and the Lincoln Apartments. The St A, and Jackson Green developments are due to finish in 2023. Additions in FY22 included South Bank and Clara Place developments.

Figure 14 - Victoria current projects: 11 projects with 1,997 lots/dwellings



SOURCE: COMPANY DATA

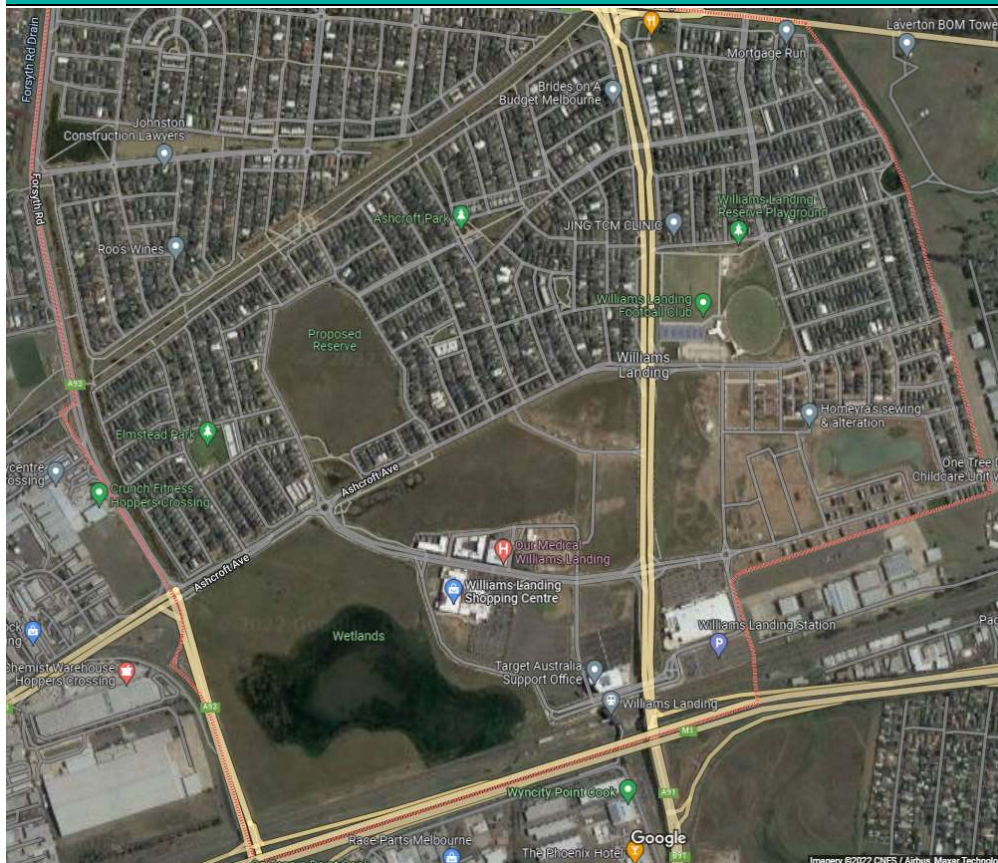
Williams Landing - Master planned development

Williams Landing is the largest project CWP has undertaken and has been a key driver of earnings for a number of years and is expected to continue for 8-9 more years.

Williams Landing is a 275 hectare site, as shown in Figure 15 below, located 19km south west of the centre of Melbourne. It is situated close to the Princess Freeway and the Williams Landing train station serving Melbourne. For more information see:

<https://www.cedarwoods.com.au/williams-landing-commercial/about/masterplan/>

Figure 15 - Williams Landing aerial image



This is a major master planned community of 3,000 homes and several commercial projects across 15 sites, both completed and in progress. The site 17 hectares of town centre land yet to be utilised to the north and east of the shopping centre and is likely to be used for a mixture of townhouses, apartments or commercial. A parcel of this land was recently sold to an aged care home developer.

The development is based around a 50 hectare town centre and four residential areas. Three of the four residential areas, Ashcroft, Kingwell and Elmstead are fully developed, with Addison still being developed. The town centre site includes a shopping centre, office buildings, and parkland, with a key development being the 2018 head office for Target, with 12,860 sqm for 850 employees.

The Williams Landing site was acquired by Cedar Woods in 1998, with first development starting in 2009. The location was originally part of the RAAF Williams Laverton airfield. Cedar Woods secured the new suburb name of Williams Landing in 2008, from what was previously part of Laverton.

Williams Landing: Residential land

The pipeline shows that 2,348 lots have been created, of which 102 were yet to sell at FY22.

Williams Landing: Apartments

The centre has completed or is planning the following apartment buildings:

- Newton apartments (57 apartments completed FY17)
- Oxford apartments (103 apartments completed FY18)
- Lancaster apartments (42 apartments completed FY19),
- Lincoln Apartments (69 apartments expected to settle in FY23)
- The pipeline lists 203 future apartments.

Williams Landing: Commercial

The following projects were completed or in progress:

- 111 Overton Road (completed May 2019 with 47 strata offices and a medical centre)
- 107 Overton Road (Government building, 3,126sqm, presold in 2018)
- Target headquarters (12,870 sqm completed in 2018)
- 101 Overton Road (74 strata offices over 6,000 sqm completed in May 2020)
- Boston Commons (82 office suites of 48-80sqm, in progress, with 80-90% presold)
- 95 Overton Road (9,000 Sqm office building in design stage)
- 1 Kendal street (20,000sqm in design stage)
- Shopping centre (98% leased with a Woolworths and 27 stores, restaurants, childcare facilities, and a gym)

The shopping centre and surrounding land is owned by Cedar woods as an investment property. The surrounding land potentially allows for future expansion of the shopping centre. The accounting (book) value is \$38.6m for the centre and surrounding land, however the company has valued this at \$83.6m, of which \$63m relates to the centre (which is for sale) and \$20.6m for the surrounding land, (which is not expected to be sold). It generates rental income of \$5.7m per year.

Prices

We understand that recent typical prices for properties are \$435k for Lincoln Apartments and \$310k for Marshall Place townhouse lots.

Queensland – 1500 lots in pipeline

The Table below shows four active projects underway in QLD, with Ellendale currently partway through settlement and with the other three projects due to start settlement in 2023 or 2024. Heritage Park is a recent acquisition.

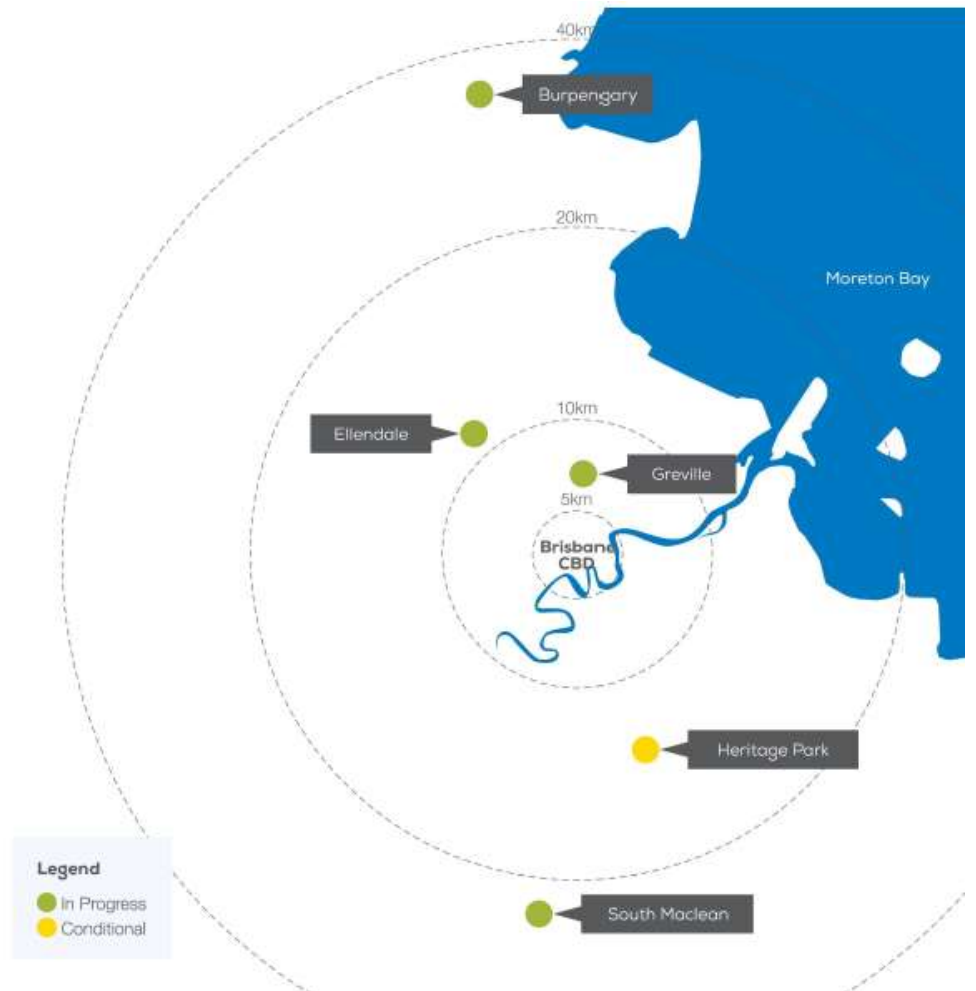
Table 5 - Queensland: 5 Projects, 1,500 lots/dwellings

	Project Type *	Projected dwellings	Remaining at FY22	Added/removed in FY22	Completed in FY 22	Settlement begins	Project Finish
QUEENSLAND - BRISBANE							
Greville, Woolloowin	TH/AP	281	281	0	0	2023	2026
Ellendale, Upper Kedron	RL	889	431	0	24		2027
South Maclean	RL	516	516	0	0	2024	2028+
Sage, Burpengary	RL	329	329	329	0	2023	2027
Heritage Park	TBC						
Total		2015	1557	329	24		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

*RL = RESIDENTIAL LAND, TH= TOWNHOUSES, AP =APARTMENTS

Figure 16 – Queensland: 5 Projects, 1,500 lots/dwellings



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Ellendale - Master planned development

This is a master planned community with around 900 residential lots on a 90 hectare site. It is located 12km northwest of the Brisbane CBD in suburb of Upper Kedron; and adjacent to South D'Aguilar National Park.

This is the largest development that CWP have underway in QLD. It is approximately 50% complete, and due to complete in 2027.

Prices

At the time of writing, the website listed 5 lots of land for sale around 500sqm and a number of 4bed and 2 bathroom property packages on 500sqm lots priced around \$1.2m.

South Australia – 1,200 lots in pipeline

Table 6 shows the active projects in Adelaide, SA, centred around Glenside and Fletcher's Slip. There are around 1,200 townhouses and apartments remaining.

Table 6 - South Australia: 5 Projects, 1,200 lots/dwellings

	Project Type *	Projected dwellings	Remaining at FY22	Added/removed in FY22	Completed in FY 22	Settlement begins	Project Finish
SOUTH AUSTRALIA - ADELAIDE							
Glenside	TH/AP	939	741	33	136		2028+
Grace Apartments, Glenside	AP	44	1	0	43		2023
Monarch Apartments, Glenside	AP	49	49	49	0	2023	2023
Fletcher's Slip, Port Adelaide	TH/AP	461	408	-41	53		2027
Sirocco Apartments, Fletcher's Slip	AP	41	41	41	0	2024	2024
SOUTH AUSTRALIA - ADELAIDE		1534	1240	82	237		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

TH= TOWNHOUSES, AP =APARTMENTS

Figure 17 – South Australia: 5 Projects (at two sites), 1,200 lots/dwellings



SOURCE: COMPANY DATA

Glenside

This is a 17 hectare site 3kms South East of the Adelaide CBD, with around 1,000 apartments and townhouses being built across three projects. Monarch apartments have been fully pre sold and are under construction. The Banksia apartments were 40% sold at 30 June 2022.

Prices

The company is currently listing 2 Bed Banksia apartments from \$519k and 3 bed apartments from \$1.2m. Glenside townhouses have typically sold for \$1m.

Forecasts & assumptions

We show our key assumptions that drive our forecasts in the following table.

Table 7 - BP assumptions						
Year end June 30	2021A	2022A	2023E	2024E	2025E	2026E
Revenue growth	11.3%	13.6%	2.0%	8.0%	8.0%	6.0%
Cost of sale of land and buildings	7.0%	17.0%	3.0%	8.0%	6.0%	6.0%
Other expenses	19.4%	-7.3%	5.0%	5.0%	5.0%	5.0%
Percentage of cashflow reinvested in the business	101.1%	143.0%	95.0%	95.0%	101.0%	101.0%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Revenue Growth

At the Q1 FY22 update, the company noted that sales have been under pressure, but statement guided to revenue being about 65% of presales of \$514m. This equates to around \$334m in FY23, up slightly from \$333m in FY22. Our assumption is for 2% growth.

We assume that post FY23 the company is able to return to revenue growth of about 8%p.a. as the economy adjusts to higher interest rates and demand for property resumes. We show the sensitivity of our valuation to varying this rate between 6% and 11% in Figures 20 and 21.

There is significant demand for housing and as we have shown, CWP offer a range of land/apartments and town houses with differing price points. CWP should be able to manage revenue by selling in alternative areas – for example accelerate the release of land in more affordable states such WA and SA, or more affordable out of town projects. There may also be scope to change the sub-division of land to offer smaller lots or focus on townhouses.

Cost of land and development/Margins have been fairly stable at around 30% gross, however rising development costs (particularly the build component of sub-division) will start to affect margins. We assume that cost of sale of land and buildings will rise faster than sales in FY22 at 3%, reflecting in part, fewer sales. In subsequent years we expect this line to grow at the same or slower rate than revenue as input costs recede.

Other costs encompass project expenses and admin expenses. The former varies year from year. We assume the combination of these costs will increase at 5% per year reflecting inflation and some growth in the business.

Percentage of cash reinvested in the business

Our cashflow forecasts are used in our DCF valuation. While operating cashflow should be linked to on-going profit or EBITDA, there are a couple of complications. We treat inventory of land in the same was as working capital, and this can vary significantly from year to year.

Development expenditure: much of the cash spent on development of land is capitalised. When this land is sold, this is released into the P&L into the cost of sale of land and buildings effectively the cost of goods sold). We can make an assumption that the amount of capitalised cost released from COGS, is approximately the same as the amount of development expenditure spent in each year.

Purchases of Land. The company buys land for future development and there is inherent “lumpiness” in large purchases. This line in the cash flow statement is difficult to forecast. We note that land purchases in FY22 were relatively large, given the number of lots added to the portfolio with the acquisition of Eglington and compared to similar expenditure in prior periods.

Replacement ratio / extension of working capital

In our model we treat inventory the same way as working capital, and model a replacement ratio, based on how much cash is spent on purchase and development as a percentage of the cost of goods sold. Over the medium to longer term we believe that this should be in the range 100-105% as the company will seek to replace sold property and grow. As shown in Figure 13, the company added a significant number of lots and this represented 143% of the cost of goods sold in FY22. We assume the next 2 years will be 95% before reverting to 101% in following years.

Note that although we can flex this short term assumption, we have not yet linked this assumption to a longer term growth rate. If the company slowed replacement of sold property this would reduce the long term growth rate.

Forecasts

Our forecasts are shown in the following table.

In the recent trading statement, the company noted that profit in FY23 can be expected to be skewed to H2 and this is reflected in our forecasts.

Figure 18 – Forecasts									
INCOME STATEMENT									
Y/e June 30 (\$m)	2021a	1H22a	2H22a	2022a	1H23e	2H23e	2023e	2024e	2025e
Sales revenue	299.8	174.4	158.6	333.0	177.9	161.8	339.7	366.9	396.2
Operating Expenses	246.2	149.8	126.1	275.9	156.1	129.6	285.6	308.9	327.5
EBITDA	53.5	24.6	32.5	57.1	21.8	32.2	54.1	58.0	68.7
Depreciation & Amortisation	-2.9	-2.9	-1.7	-3.1	-1.7	-1.0	-2.7	-1.0	-0.4
EBIT	50.6	21.7	30.8	54.1	20.1	31.2	51.4	57.0	68.3
Net Interest	-3.0	-1.6	1.1	-0.4	0.1	0.5	0.6	3.7	6.7
Pre-tax profit	47.5	20.1	31.9	53.6	20.3	31.8	52.0	60.7	75.0
Tax	-14.7	-6.1	-10.2	-16.2	-6.5	-10.1	-15.7	-19.4	-23.9
Adjusted profit	32.9	14.1	21.7	37.4	13.8	21.6	36.3	41.3	51.1
Non-operating profit	0.0	0.0	0.0	0.0	0.0	8.4	8.4	8.4	8.4
Reported net profit	32.9	14.1	21.7	37.4	13.8	30.0	44.7	49.7	59.5
DPS (cps)	26.5	13.0	14.5	27.5	13.0	20.0	33.0	38.0	46.0
Franking	100%	100%	100%	100%	100%	100%	100%	100%	100%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation

Methodology

We value CWP using a modified DCF valuation, but we discuss the relative merits of alternative valuation metrics, particularly given that the land is valued at cost and certain development and interest expenses are capitalised.

Point in time asset valuation or P/NAV: this is probably the simplest valuation, based on the last published reported NAV of \$5.13/share. This has the advantage that it is relatively easy to find and calculate and is published by the company. The company NAV includes land valued at cost plus capitalised development expenditure. The land is not revalued upwards but would be shown at the lower of cost or net realisable value if it was required.

We believe that CWP shares *should usually* trade at a premium to NAV, reflecting the uplift to value created by the development and that the company has historically made gross margins (vs land and development costs) of about 30% of sales.

But the NAV is not reflective of upwards or downwards movements in land or input costs and does not reflect sentiment. The current discount to NAV reflects short term uncertainty from the outlook for interest rates, house prices and end demand for land sales.

Cash flow valuation. This is the usual BP methodology for valuation, being a capitalisation/DCF of cashflow based off EBITDA after interest and tax and adjusting for working capital requirements.

For CWP we extend this by treating inventory (land and development spend) in the same way that we treat working capital. We make an assumption about how much cash needs to be spent each year to replace the pipeline portfolio that is sold. This is the “cost of sale of land and buildings” line in the accounts, being effectively the book cost of sales.

This is somewhat subjective depending upon the price of land, the availability and timing of new projects, or what proposals the company is offered.

With the purchase of Eglington in FY22, the company has rebuilt the pipeline and we assume that purchases of land will be lower in FY23 and FY24. Therefore we expect the business to release more cash in the next couple of years.

Run off valuation This is an extension of our DCF valuation assuming that the company does not buy additional land, but develops and sells the entire portfolio, and goes into run-off, returning cash from property sales to shareholders.

We haven't pursued this method further in this note, however the principal assumptions are the starting NAV of \$420m, how long it takes to run-off, the price sold at (perhaps consistent with 30% gross margin), how much is incurred in admin and closure costs of the business (currently around \$20m per year), as well as tax liabilities. One potential benefit would be that as the company distributed earnings, it should be able to utilise the franking credits of \$113.6m.

Depending upon the assumptions used and the point in the cycle, we estimate the run-off value could be worth between \$6-8 per share. In more normal conditions, this should represent a base case scenario, as the business should be worth more as a going concern.

EPS/PE based valuation. We could use an EPS based valuation, to value or compare to peer group companies. EPS offers a good method of smoothing and accruing profit.

However, because the cost of goods sold represents the historic value of land purchased plus development expenditure incurred in the past, the reported profit reported in any year can vary considerably based on when the land was purchased.

Therefore current earnings do not fully reflect current costs. As a result, in periods when the price of land and other inputs has risen and the price of the end product is uncertain, historic earnings may give a more attractive view of the company.

Franking Credits: The company has franking credits of \$113.6m available equating to around \$1.39 per share. This compares to the FY22 dividend cost of \$21.5m, and net assets of \$421m. This reflects in part that the company has grown from retained earnings, and franking credits not passed on through dividends. This balance could be attractive to a potential acquirer.

While this is potentially valuable, we do not add anything to our valuation for this balance. There is no easy way to realise this balance as a going concern (except raising the payout ratio). If CWP were acquired then the value of these credits depends upon the situation of the shareholders in the acquirer, rather than an acquiring company itself.

DCF

We value CWP using DCF valuation, with a WACC of 10.3% applied to EBITDA after tax adjusted for working cap and inventory. A summary of our valuation is shown in Figure 19.

We use our forecasts for the next 4 years and then project forward using the long-term real growth rate of 4.5%.

We value the next 10 years EBITDA after tax at \$1.3bn. We value the terminal value at \$0.8bn, assuming no long-term growth plus inflation of 2.5%, which discounted to present value terms, gives a present value of \$434. This gives a total NPV of \$608m.

Deducting the forecast end 2023 net debt of \$165m, gives a value for the business of \$443m or \$5.39 per share at June 2023. We round this to a target price of \$5.40.

Figure 19 – DCF valuation

WACC Calculation / key assumptions											
Risk free rate	4.0%										
Market risk premium	6.0%										
β = beta	1.20										
Borrowing rate	6.0%										
Tax rate	30.0%										
Target gearing	15.0%										
Cost of equity	11.2%										
Cost of debt	4.2%										
WACC / Discount rate	10.3%										
Inflation	2.5%										
Nominal growth rate	2.0%										
Long-term real growth rate	4.5%										

(\$m)	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	Beyond
EBITDA	54	58	69	73							
Provisions	0	0	0	0							
Working Capital/Inventory	10	15	0	5							
Tax paid	-17	-19	-24	-26							
Total Cashflow	48	54	45	52	54	56	59	62	65	67	814
Total operational NPV (AUD 000's)	608										
Net cash/(debt)	-165										
Total NPV	443										
Shares in issue (m)	82										
Value per share (AUD 000's)	5.39										

SOURCE: BELL POTTER SECURITIES ESTIMATES

Valuation Sensitivity

We show our valuation relative to some alternative assumptions in the following tables.

In Figure 20 we show the sensitivity of our valuation to changes in revenue growth in 2024 & 2025 and cashflow reinvestment in the business in 2023 & 2024. In Figure 21 we show the variation of our base valuation using revised assumptions.

These two assumptions could vary over a short time period but are likely to align over a longer period because turnover growth is dependent upon reinvestment in the business.

Our base case is that the company can grow its revenue at 8% in 2024 and 2025 (recall we have assumed 2% for FY23). We assume that the company will release cash in 2023 and 2024 (95% reinvestment) , following the heavy investment in FY22 (143%).

Figure 20 - Valuation sensitivity to cashflow reinvestment in FY23 & FY24 (rows) & turnover growth in FY24 & FY25 (columns)

	6.0%	8.0%	10.0%	11.0%
90.0%	4.30	5.65	7.02	7.71
95.0%	4.04	5.39	6.76	7.46
98.0%	3.89	5.24	6.61	7.30
102.0%	3.69	5.03	6.40	7.10

SOURCE: BELL POTTER SECURITIES

Figure 21 – As previous, % change from base

	6.0%	8.0%	10.0%	11.0%
90.0%	-20%	5%	30%	43%
95.0%	-25%	0%	25%	38%
98.0%	-28%	-3%	23%	36%
102.0%	-32%	-7%	19%	32%

SOURCE: BELL POTTER SECURITIES

In Figure 22 we show the sensitivity of our valuation to changing the discount rate and long-term growth assumption. The base case is a 10.3% discount rate and a long-term growth rate of 2% and is highlighted in red. In Figure 23 we show our sensitivity as a percentage change from our base case assumptions.

Figure 22 - Valuation vs Discount rate and LT nominal Growth

	8.0%	9.0%	10.3%	11.0%	12.0%
0.0%	6.22	5.25	4.28	3.86	3.35
1.0%	7.13	5.93	4.77	4.28	3.68
2.0%	8.34	6.81	5.38	4.78	4.08
3.0%	10.02	7.96	6.14	5.41	4.56

SOURCE: BELL POTTER SECURITIES

Figure 23 - As previous, % change from base

	8.0%	9.0%	10.3%	11.0%	12.0%
0.0%	16%	-2%	-20%	-28%	-38%
1.0%	33%	10%	-11%	-20%	-32%
2.0%	55%	27%	0%	-11%	-24%
3.0%	86%	48%	14%	1%	-15%

SOURCE: BELL POTTER SECURITIES

Relative valuations

In Figure 24 we compare the valuation of CWP against Australian property developers.

The best comparison is probably with smaller local residential property developers, such as Finbar, Peet and AV Jennings.

We include some larger more national property developers for comparison.

We use our forecasts for the companies we have under coverage and the Bloomberg Best Estimate of consensus for the others. Note that AV Jennings does not have any forecasts on Bloomberg.

Figure 24 - Australian property developers – relative valuations

Australian property developers	BP Rec	BP target price	Year end	Close Price in Local	Exp Tot Ret	Shr Price Ccy	Market Cap	PE Forecast	PE Next year	P/BK forecast	P/BK next year	Dividend Yield Forecast (%)	Dividend Yield Next year (%)
		(AUD)			(%)		(AUD Bn)	(X)	(X)	(X)	(X)		
Local Residential													
CEDAR WOODS PROPERTIES LTD	Buy	5.40	Jun	4.04	42%	AUD	0.34	9.23	8.10	0.75	0.72	8.17	8.91
PEET LTD			Jun	1.11		AUD	0.53	7.76	7.82	0.00	0.00	6.76	6.76
FINBAR GROUP LTD			Jun	0.66		AUD	0.18	22.76	8.57	0.76	0.74	6.06	9.09
AVJENNINGS LTD			Jun	0.41		AUD	0.17	0.00	0.00	0.00	0.00	0.00	0.00
Broader Property Groups													
LIFESTYLE COMMUNITIES LTD			Jun	18.80		AUD	1.97	26.11	19.40	3.83	3.38	0.65	0.80
LENDLEASE GROUP			Jun	7.91		AUD	5.38	14.51	8.68	0.80	0.82	2.78	4.63
CHARTER HALL GROUP			Jun	13.49		AUD	6.50	14.34	14.71	1.82	1.72	3.16	3.34
HOME CONSORTIUM LTD			Jun	5.10		AUD	1.51	21.89	19.69	1.74	1.63	2.35	2.39
STOCKLAND			Jun	3.74		AUD	8.76	11.33	11.91	0.86	0.85	7.19	6.95
Simple average of broader groups								17.64	14.88	1.81	1.68	3.23	3.62

SOURCE: BLOOMBERG & BELL POTTER SECURITIES ESTIMATES (CLOSING PRICES AT 24 OCTOBER)

Competitor profiles

We show a profile of the smaller competitors.

Peet Limited (PPC, not covered) acquires, develops, and markets residential land in Australia. It operates through Funds Management, Company-Owned Projects, and Joint Arrangements segments. The Funds Management segment provides underwriting, capital raising, and asset identification services. The Company-Owned Projects segment acquires parcels of land primarily for residential development purpose, as well as produces non-residential blocks of land. The Joint Arrangements segment undertakes the development of land through joint arrangements with government, statutory authorities, and private landowners. Peet Limited was founded in 1895 and is headquartered in Perth, Australia. It has operations in WA, QLD, VIC, NSW, ACT and SA.

Finbar Group Limited (FRI, not covered) through its subsidiaries, develops and invests in properties in Australia. It engages in the development of medium to high density residential buildings (apartments) and commercial properties, as well as rents its properties. The company was incorporated in 1984 and is based in East Perth, Australia. It operates in WA only.

AVJennings Limited (AVJ, not covered) operates in the land development and housing sectors. The Company constructs residential houses and communities in Australia along with residential land development. AVJennings has communities in VIC, NSW, QLD, SA, WA and NZ.

"

Cedar Woods Properties (CWP)

Company description

Cedar Woods Properties is a leading national developer of residential communities and commercial projects. Its typical operation is to acquire land, and either subdivide and sell lots of land, or to build townhouses, apartments or commercial developments.

It was established in Perth in 1987 and listed on the Australian Stock Exchange in 1994. It has grown to become one of Australia's leading property companies with a portfolio diversified by geography, price point and product type.

Investment thesis

- **Historic performance:** the company was established in 1987 and through its entrepreneurial culture it has grown into four Australian states and has a strong track record of growing revenue and earnings.
- **CWP is profitable, and cash generative:** The cashflow of the business is used to pay dividends and to reinvest in the business by growing the landbank and developing projects. The company made considerable additions to the landbank in 2022, and we expect that the next two years will see more modest reinvestment in the business, allowing the company to release \$25m from its inventory. The company should also benefit from the sale of the Williams Landing shopping centre.
- **Diversification:** The company has projects in four States that are both close to the capital city CBD and on the urban fringe, offering a mixture of property types (land lots, townhouses, apartments, commercial), which are priced to suit customer demand.
- **Conservative accounting:** the company carries property at cost plus development expenses (provided this is greater than realisable value). This is well below market value as evidenced by the 30% gross margins achieved on sales. The current NAV of \$5.13
- **The share price** has fallen in 2022, with investor concern about the effect of interest rates upon development and building cycle. We anticipate that the cycle will be relatively short with interest rates peaking in Q1/Q2 2023, and CWP will be able to trade through the cycle, with a limited impact on FY23 earnings before returning to growth in FY24.
- **Valuation:** We value the shares at \$5.40, implying 41.8% upside from the current share price including the prospective yield of 8.2%.
- **Franking Credits:** The company has franking credits of \$113.6m available equating to around \$1.39 per share. This compares to the FY22 dividend cost of \$21.5m, and net assets of \$421m. This reflects in part that the company has grown from retained earnings. There may be some way to utilise this balance through corporate restructuring, or this could be attractive to a potential acquirer.

Risks

CWP is subject to all of the following risks:

Key people risk: The loss of any key personnel may result in the loss of investment mandates.

Land prices and house prices: the company makes a margin on the difference between land costs prior and post development. Rising land prices and falling house prices are unhelpful to margins and profitability.

Building costs and availability: the availability and cost of building materials and labour impact the direct cost of developing and building property. This may also indirectly affect the propensity of end clients to undertake land purchase.

Interest rates: rising interest rates directly impact the debt cost. The company attempt to mitigate this effect with the use of derivatives. Specifically interest rates caps are applied to around half the debt portfolio, to terms between one to three years. Interest rates will also affect house prices end customer propensity to buy.

Approvals processes: the company relies on the approvals and permits in order to develop, and subdivide land into residential property. The group is exposed to increasingly strict processes, additional environmental concerns and new legislation that could alter the ability of the group to undertake certain developments or increase the costs associated with those developments.

Liquidity risk: the group has debt obligations and has agreed to buy land at set price at set points in the future.

Credit risk: the group has some exposure to receivables. Customers pay a deposit up front and may not settle under certain circumstances. This risk is mitigated as ownership of the asset will not pass until settlement occurs, however if this is due to falling property values then there is a risk to profitability if the asset is sold or re-sold at lower prices than expected.

Capitalisation of expenses: certain development and interest expenses are capitalised. While the annual report shows these at the lower of cost or realisable value, there may be circumstances where these costs may not be recoverable.

Cedar Woods Properties

as at 21 November 2022

Recommendation

Buy

Price

\$4.04

Target (12 months)

\$5.40

Table 8 - Financial summary

Cedar Woods (CWP)						Price Target (A\$)	5.40						Share Price (A\$)	4.04
						Recommendation:	Buy						Market Cap (A\$m)	331.80
INCOME STATEMENT														
Y/e June 30 (\$m)	2021a	2022a	2023e	2024e	2025e									
Sales revenue	299.8	333.0	339.7	366.9	396.2									
Operating Expenses	246.2	275.9	285.6	308.9	327.5									
EBITDA	53.5	57.1	54.1	58.0	68.7									
Depreciation & Amortisation	-2.9	-3.1	-2.7	-1.0	-0.4									
EBIT	50.6	54.1	51.4	57.0	68.3									
Net Interest	-3.0	-0.4	0.6	3.7	6.9									
Pre-tax profit	47.5	53.6	52.0	60.7	75.2									
underlying Tax	-14.7	-16.2	-15.7	-19.4	-24.0									
Adjusted profit	32.9	37.4	36.3	41.3	51.2									
One-off items	0.0	0.0	8.4	8.4	8.4									
Reported net profit	32.9	37.4	44.7	49.7	59.6									
CASHFLOW														
Y/e June 30 (\$m)	2021a	2022a	2023e	2024e	2025e									
EBITDA	53.5	57.1	54.1	58.0	68.7									
Change in provisions	0.1	0.0	0.2	0.1	0.2									
Working capital change	-19.6	-153.5	10.0	15.4	0.1									
Net interest	-4.0	-6.1	0.6	3.7	6.9									
Tax paid	-11.5	-17.4	-16.6	-19.4	-24.0									
Other	23.2	54.1	0.0	0.0	0.0									
Operating cashflow	41.6	-65.8	48.3	57.8	51.9									
Capex	-0.1	-0.1	-0.1	-0.1	-0.1									
Investments	0.0	0.0	0.0	0.0	0.0									
Asset sales	0.0	0.0	0.0	0.0	0.0									
Other	8.4	14.9	8.4	8.4	8.4									
Investing cashflow	8.3	14.8	8.3	8.3	8.3									
Equity raised	0.0	0.0	0.0	0.0	0.0									
Dividends paid	-15.7	-21.7	-22.6	-28.7	-31.2									
Other	0.0	0.0	0.0	0.0	0.0									
Financing cashflow	-15.7	-21.7	-22.6	-28.7	-31.2									
Net change in cash	34.2	-72.7	34.1	37.4	29.0									
Cash at end of period	5.4	3.0	36.2	73.2	109.0									
BALANCE SHEET														
Y/e June 30 (\$m)	2021a	2022a	2023e	2024e	2025e									
Cash	5.4	3.0	36.2	73.2	109.0									
Deferred costs	5.5	4.0	4.0	4.0	4.0									
Inventory	572.9	701.5	699.5	687.5	677.3									
Receivables	13.4	17.1	16.2	17.5	18.9									
PPE	9.3	8.5	1.5	0.6	0.3									
Intangibles	0.0	0.0	0.0	0.0	0.0									
Other	45.3	45.8	41.1	40.8	46.9									
Total assets	651.8	779.8	798.5	823.5	856.3									
Payables	72.6	51.3	48.5	52.4	56.6									
Debt	118.7	201.6	201.6	201.6	201.6									
Provisions	1.6	1.6	1.7	1.9	2.0									
Other	58.6	104.1	104.1	104.1	104.1									
Total liabilities	251.4	358.6	356.0	360.0	364.4									
Shareholders' equity	134.4	139.1	139.1	139.1	139.1									
Total shareholders funds	400.4	421.2	442.5	463.5	491.9									
W/A shares on issue	80.8	81.9	82.1	82.1	82.1									
VALUATION DATA														
Y/e June 30 (\$m)	2021a	2022a	2023e	2024e	2025e									
Net profit adj (\$m)	32.9	37.4	36.3	41.3	51.2									
Adjusted EPS (c)	40.3	45.2	42.7	49.9	61.8									
EPS growth (%)	54.6%	12.1%	-5.5%	16.7%	24.0%									
P/E ratio (x)	10.0	8.9	9.5	8.1	6.5									
CFPS (c)	51	-80	59	70	63									
Price/CF (x)	7.8	-5.0	6.9	5.7	6.4									
DPS (c)	26.5	27.5	33.0	36.0	40.0									
Yield (%)	6.6%	6.8%	8.2%	8.9%	9.9%									
Franking (%)	100%	100%	100%	100%	100%									
EV/EBITDA (x)	9.3	8.7	9.2	8.6	7.2									
Price/book (x)	0.8	0.8	0.7	0.7	0.7									
NTA (\$)	4.96	5.14	5.39	5.64	5.99									
PROFITABILITY RATIOS														
Y/e June 30 (\$m)	2021a	2022a	2023e	2024e	2025e									
EBIT/sales (%)	16.9%	16.2%	15.1%	15.5%	17.2%									
Return on assets (%)	7.8%	7.6%	6.5%	7.0%	8.1%									
Return on equity (%)	8.4%	9.1%	8.4%	9.1%	10.7%									
Dividend cover (x)	1.5	1.6	1.6	1.7	1.8									
Effective tax rate (%)	30.9%	30.3%	30.3%	30.3%	30.3%									
LIQUIDITY AND LEVERAGE RATIOS														
Y/e June 30 (\$m)	2021a	2022a	2023e	2024e	2025e									
Net debt/(cash) (\$m)	113.3	198.7	165.4	128.4	92.6									
Net debt/equity (%)	28%	47%	37%	28%	19%									
Current ratio (x)	2.7	1.5	1.7	1.9	2.1									
INTERIMS														
Half end December 31 (\$m)	1H21a	1H22e	1H23e	1H24e	1H25e									
Sales revenue	169.2	174.4	177.9	192.1	207.5									
EBIT	34.3	21.7	20.1	22.5	27.9									
Pre tax profit	32.8	20.1	20.3	24.0	31.0									
Adjusted profit	22.7	14.1	13.8	16.3	21.1									
One-off items	0.0	0.0	0.0	4.2	4.2									
Reported profit	22.7	14.1	13.8	20.5	25.3									
Interim DPS (cents)	13.0	13.0	13.0	15.0	17.0									
Interim adjusted EPS (cents)	28.0	17.1	16.6	19.7	25.4									
ASSUMPTIONS														
Y/e June 30	2021a	2022a	2023e	2024e	2025e									
Revenue growth	11.3%	13.6%	2.0%	8.0%	8.0%									
Cost of sale of land and buildings	7.0%	17.0%	3.0%	8.0%	6.0%									
Other expenses	19.4%	-7.3%	5.0%	5.0%	5.0%									
% of cash reinvested	101.1%	143.0%	95.0%	95.0%	101.0%									

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

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