CEDAR WOODS REPORTS $9.1 MILLION FIRST HALF NET PROFIT, ON TRACK TO MEET OR EXCEED FY22 EARNINGS

22 FEBRUARY 2023

HIGHLIGHTS

- H1 FY23 net profit after tax (NPAT) of $9.1 million ($14.1 million in the previous corresponding period (pcp))
- Expects to equal or exceed FY22 full year earnings, based on settlement projections for Q3 and Q4
- Fully franked interim dividend of 13.0 cents per share declared (13.0 cents pcp); a yield of 6.0% based on current share price
- Presales of more than $509 million ($560 million pcp)
- Maintaining a solid balance sheet with moderate debt and sufficient undrawn finance facilities

FINANCIAL COMMENTARY

Cedar Woods Properties Limited (ASX: CWP) ('Cedar Woods' or 'the Company') has today reported a NPAT of $9.1 million for the first half of the 2023 financial year (FY23).

Consistent with the last two years and in line with previous guidance, earnings for FY23 will be weighted to the second half, coinciding with the expected timing of stages completing.

First half revenue was $152 million, down 13% on pcp with gross margin remaining steady at 25% (pcp 25%). Full year margin will depend on the final mix of product that settles in the second half and is expected to be in the mid to high 20%s (pcp 29%).

At the end of the first half, the Company had $509 million in presales with approximately 50% of this expected to settle in the second half of FY23 and the balance contributing to earnings in FY24 and FY25.

At 31 December 2022, net bank debt stood at $233 million, with gearing (net bank debt-to-total tangible assets less cash) at 29% (net bank debt-to-equity at 56%). Whilst elevated compared to the pcp, both measures are expected to fall to the middle of their target ranges by 30 June, as a result of higher second half settlements. Interest cover was a solid 5.2 times for the 2022 calendar year and at 31 December the Company had more than $42 million in available bank facility headroom.

In January 2023, the Company completed the annual review of its corporate finance facilities, increasing the facilities from $300 million to $330 million and extending the terms to 31 January 2026 for the 3-year debt (80 per cent) and to 31 January 2028 for the 5-year debt (20 per cent). The facilities are provided by three of the 'Big-4' banks and provide long tenure and security of funding.

In addition, the Company extended its $30 million Williams Landing Shopping Centre (WLSC) facility for a further year to 1 July 2024. As previously announced, the WLSC is being offered for sale and it is expected that the asset will be sold in FY23 or FY24 and the associated finance facility retired.

The Board has declared a fully franked interim dividend of 13.0 cents per share, in line with the pcp. The Dividend Reinvestment and Bonus Share Plans remain suspended for the interim dividend.

PORTFOLIO PERFORMANCE

As advised in the first quarter update on 11 October 2022, sales rates slowed across the Company's portfolio as a result of interest rate increases and have remained weak during the first half as the Reserve Bank continued to raise the cash rate. First half gross sales were down approximately 50% on the strong prior corresponding period (H1 FY22).

During the first half a number of developments progressed, with some completed. At Williams Landing in Melbourne, Lincoln Apartments comprising 69 lots, were settled. At St. A., also in Melbourne, the final three townhouse stages of this masterplanned community were completed, concluding this successful development.

The Company achieved major planning approvals and confirmed the previously announced acquisition of 39.7 hectares at Fieldstone, Vic. Anticipated to comprise over 500 residential lots, the acquisition will settle during the second half, with development expected to commence in 2026.

Early in the first half, construction commenced on the Company's latest large-scale masterplanned community, Eglinton Village. Located 45 kilometres north-west of Perth's CBD, Eglinton Village will be on the doorstep of the Eglinton train station, which is currently being delivered by the WA Government and is forecast to open later in 2023. The first release of lots at Eglinton Village is expected in 2023.

A number of major stage completions are scheduled in the second half, including the first townhouses at Incontro, Subiaco, WA, the 128-lot Aster apartments at Jackson Green, first residential lot settlements at Mason Quarter (both in Vic) and the Monarch apartments at Glenside is SA. These and other stages will contribute to a busy second half for the Company.

Cedar Woods has established a partnership with Tokyo Gas Real Estate Australia Pty Ltd (TGRE) to develop Banksia Apartments, the fourth apartment stage at the company's 1000 dwelling Glenside development, close to the Adelaide CBD. Banksia Apartments consists of 72 apartments over 8 levels, with pricing between $380,000 and $1.5m, that will be constructed between FY23 and FY25. TGRE is a subsidiary of Tokyo Gas Co., Ltd, a substantial Japanese public company that has made a strategic decision to invest in Australian real estate as part of its sustainability and growth strategy. Cedar Woods and TGRE intend to pursue further property development opportunities as they arise.

MARKET CONDITIONS

Rising interest rates, inflationary pressures and some weak sentiment continue to impact demand for new housing with lower sales volumes persisting across most jurisdictions.

The construction sector continues to deliver the sales generated from the 2020 building stimulus, with build timeframes still extended, causing buyers to defer purchase decisions. Builders are however reporting forward orders dropping off significantly and front-end labour and materials prices starting to moderate.

Supportive macro themes and fundamentals will continue to underpin the sector and ultimately drive its recovery:

- Unemployment is expected to remain at historically low levels, with job security a key driver of home buyer sentiment and housing demand.
- Historically low supply levels driven by the lack of new launches and commencements, and the extent of paused projects, will support pricing.

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- Historically low vacancy rates and rapidly rising rents is resulting in good investor demand, which is projected to further increase. A balanced market is considered to show a vacancy rate of around 3%. Perth and Adelaide sit at around 0.5% with the national rate nearing 1%.
- Historically high levels of overseas migration coupled with the relaxation of the strict Chinese border will also drive demand for new housing.

Conditions vary across the country for the established housing sector with some markets remaining robust and others softer. Further price moderation is expected but pricing is expected to be stable in the more affordable markets of WA and SA. Importantly, prices generally are expected to remain above pre-Covid-19 levels given the extent of rises in 2021 and new supply limitations.

The more affordable markets of WA and SA are also expected to outperform for new housing and the Company has strong representation in those markets.

COMPANY OUTLOOK

Backed by presales of $509 million, the Company is expecting a strong second half and to equal or exceed the prior year's earnings, with the extent of full year earnings growth dependent upon timing of settlements. The Company's full year outlook is subject to weather and construction sector conditions, with workforce and supply chain constraints affecting delivery timeframes at some locations. The Company's expectation for full year earnings takes into account known delays, although there remains some risk that some of the forecast second half FY23 settlements will move into early FY24. An update on earnings will be provided after the third quarter.

The Company has a pipeline of more than 10,500 undeveloped lots/dwellings across four states and is positioned well for any market upturn. A number of new projects are expected to contribute to earnings from FY24, including Clara Place and Boston Commons offices in Melbourne, Sirocco apartments in Adelaide, Eglinton and Atwater in Perth, and Sage in Brisbane. Further acquisitions are anticipated to supplement the Company's portfolio in future years.

Authorised by: Cedar Woods Board of Directors

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