

Some shine for the Coast

Yesterday's rate cut by the Reserve Bank of Australia will no doubt prove a welcome shot in the arm for a number of industries. **We see the domestic housing sector as being a particular beneficiary, with retail banks set to pass on part of the rate cut to borrowers, stimulating further demand.** Weakness in the Australian dollar following the rate cut will also attract additional foreign flows in our view.

Other regions specifically hampered by the high local currency in recent years will receive a further boost. And the tourism industry has of course been one of the hardest hit by the high Australian dollar. **We expect regional property prices in tourist areas will receive a dual kick from the latest bout of easing by the RBA.**

One area which we expect to benefit accordingly is Queensland, where property prices have underperformed much of the nation.

And in this vein we have identified **Sunland Group as having significant leverage to the pickup in the Sunshine State's property market.**

Sunland is a Queensland-based property developer which was founded back in 1983. The company has a significant portfolio of properties across residential housing, urban developments and residential multi-storey sites in Australia.



Sunland is also targeting growth overseas, with an office in Dubai, although this has not been entirely smooth sailing. The Dubai authorities have brought a bribery case against two independent developers, whom Sunland paid around \$14 million to in 2007 in connection with a plot of land on a Dubai waterfront. However, Sunland is not a party to the case, and while it has made many headlines, we do not consider it to be overly relevant to the investment case here.

Operationally the company has been performing admirably despite a challenging environment. Development revenue for the six months to 31 December 2012 came in at \$77.4 million, with management expecting the second half to come in at \$100 million.

Meanwhile, the company's development portfolio has an end value of around \$1.3 billion. More than half of the group's residential developments for this year will be centred in south-east Queensland, further bolstering the leverage to a recovery in the region's property prices.

Developments include the Parkway Collection at Sanctuary Cove, the Marina Residences and Concourse Villas at Royal Pines, and The Glades Peninsula at Robina, also on the Gold Coast.

The group generated an after-tax profit of \$8.4 million for the half year, albeit this was boosted by tax benefits from the sale of the Palazzo Versace Gold Coast.



We regard Sunland's valuation as far from demanding with the shares trading on 14 times full year earnings forecasts, and an EV/EBITDA multiple of less than 10 times.

The company boasts a strong balance sheet as well, with a net tangible asset backing of \$1.86 per share as at 31 December 2012. At the half year the company had a cash balance of \$32.1 million and \$94.6 million unutilised in its credit facilities. Consequently, there is plenty of room for Sunland to pursue growth opportunities as they arise. Sunland's current gearing ratio (debt-to-equity) is very conservative at around 5%.

Meanwhile, cash flows from existing projects are set to be strong, allowing Sunland to continue with a share buyback program to reduce shares on issue to 150 million, from the current count of 186 million.

Additionally management have committed to reinstating a structured dividend program once the buyback is complete.

We believe Sunland to be an excellent exposure to the recovery in the domestic property market, particularly in the Queensland region. The strength of the balance sheet and a moderate valuation make for a compelling investment case.

Therefore, we recommend Sunland as a buy to all Members around current prices.

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Snapshot SDG

Sunland Group

Latest Closing Price: \$1.42

Sunland Group Limited is engaged in property development and construction together with project services and hotel investments and operations. The Company operates in five segments: land and housing, multistorey Australia, multistorey International, hotel investments and operations, and project services. Land and housing includes development and sale of land and medium density housing products within Australia. Multistorey Australia includes development and sale of high rise products within Australia. Hotel investments and operations include hotel ownership and management. Project services include project management and design services to development properties within Australia.

Market Capitalisation: \$284m

	FY1	FY2
Price to Earnings	13.9	10.7
Dividend Yield (%)	1.4	1.4
Price to Book	0.8	0.7
Return on Equity (%)	4.2	5.2
EV/EBITDA	10.9	8.9