



## Willmott Forests Limited (WFL)

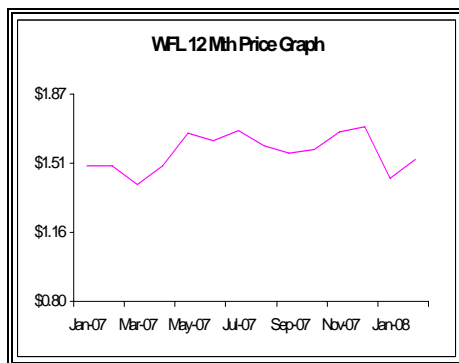
### HY08 Results

**Recommendation - BUY**

**Date: 27 February 2008**

**Valuation - \$2.29**

#### Price graph



#### Security details

**ASX code:** WFL  
**Last price:** \$1.53  
**12 Mth High/Low:** \$1.30 - \$1.90  
**Market cap:** \$90M  
**Shares on issue:** 58.8M

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- WFL recorded a HY08 profit from continuing operations of \$3.6M, NPAT after minority interests of \$0.532 (the majority of which is relating to the BioEnergy takeover), was up 29% to \$3.086M.
- Revenues were up 7% to \$34.3M slightly higher than our forecasts of \$33.9M and a final dividend of five cents was declared in line with our forecasts.
- Segment Results:
  - Woodlot investment projects** - WFL currently have on offer the following MIS products; 'Willmott Forests Project 2007', 'The BioForest Sustainable Timber & Biofuel Project' and 'Premium Forestry Blend'. Woodlot sales revenue reached \$23.99M, higher than our forecasts of \$21.3M and up 12.5% on the previous corresponding period.
  - Timber Processing activities** - Revenues from these operations were \$9.54M, slightly lower than our forecasts of \$9.7M and down 2% on HY07. EBITDA however was in the positive to \$0.56M from a loss of \$0.35 last year.
- Although the Agri MIS industry as a whole saw sales decline 4% in FY07, WFL was able to deliver strong MIS sales growth of 20%
- We have revised our forecasts to take into consideration the increase in debt used for the period:
  - FY08 forecasts: Revenue \$74.3, EBITDA \$22.8, NPAT \$8.7M (after allowing for \$0.5M in minority interests for HY08).
  - FY09 forecasts: Revenue \$80.9, EBITDA \$27.4M, NPAT \$11.2M.
- Shares on issue now equal 58.8M, therefore applying a combination of a 12 times PE multiple to FY09 earnings and DCF results in a valuation of **\$2.29 per share**.
- Bridges believe WFL is a strong company due to the turn around in its timber processing division from a loss, to winning the NSWFSF tender which will see significant revenue increases in the future, and their MIS division rolling out new products (SMSF & Blends) to their growing retail distribution network commencing in FY08. We maintain our **BUY recommendation**.

#### Key Financials

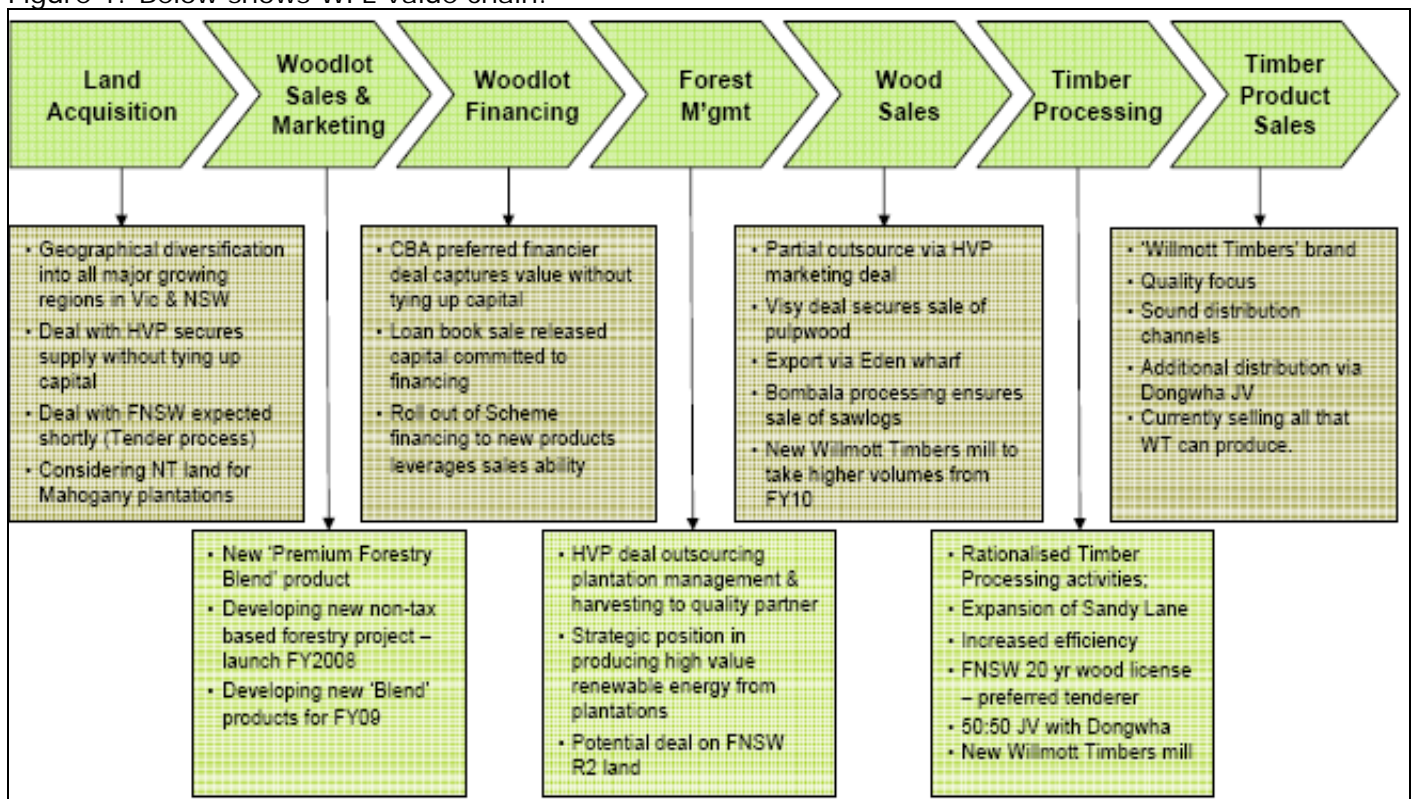
	NPAT (\$M)	EPS (c)	P/E (x)	EV/EBITDA (x)	Yield (%)
As at June					
2006A	8.1	14.9	10.3	8.5	6.5%
2007A	8.1	13.8	11.1	6.7	6.5%
2008E	8.7	14.9	10.3	7.5	6.5%
2009E	11.2	19.0	8.1	6.6	6.5%
2010E	13.7	23.1	6.6	4.7	6.5%

# Outlook

## WFL have the following competitive advantages:

- A growing retail Dealer Network with representation Australia Wide, experienced team with retail sales increasing by >20% pa over the last 4 years;
- Highly rated products by independent research houses; Woodlot project, Premium Forestry Blend Project and 'new' Super Fund Forestry Project;
- \$250m funds under management on behalf of over 4,000 Growers;
- Plentiful land opportunities through NSWFS in Boombala, HVP in the North Coast and Northern Territory 35,000 ha under management Bombala, Murray Valley, WFL is the major grower in the Boombala region apart from NSWFS, (combining the new tender WFL will grow to 60,000 hectares in the next three 3 years);
- WFL see commercial plantations increasing in value due to the developing biofuel markets which will add value to WFL resources, therefore WFL are developing forestry blends i.e. Mahogany, Silky Oak and She-Oak with Pinus radiata to enable fast growing plantations for energy & fuel (waste will play a key role in this process also); and
- Government support for forestry investment (MIS tax changes i.e. tax deductibility and WFL is a source of many rural jobs);

Figure 1: Below shows WFL value chain:



Source: WFL HY08 Investor Presentation

## Tender Winner!

- On 29 January WFL announced it won the major NSW Gov't wood supply tender and confirmed a strategic new timber processing facility for Bombala;
- The tender involved a 20 year wood licence, 250,000 m3 pa sawlogs, 70,000 m3 pa Biomass (yr 1-10), and 40,000 m3 pa (yr 11-20). **The tender win has cemented WFL as a timber company and not simply a MIS operator;**

- New \$60m integrated sawmill facility is 50:50 JV with Dongwha Holdings, with construction to commence in late 2008;
- The new mill will increase market share, return margins to the timber processing division, and increase capacity & export opportunities;
  - Stage 1 of the project will be the construction of a new timber processing facility;
  - Stage 2 of the project will involve a \$125M particleboard plant and bioenergy plant in conjunction with Dongwha holdings. Construction timings have not as yet been announced, however WFL have stated they will utilize their deep water port facility in Eden for distribution.
- Once this project is at full capacity, WFL see an extra \$3M NPAT (based on a worse case scenario numbers).

### **Renewable Fuel and Energy**

- WFL is developing a new division "Willmott Energy" to enable a strategic entry to this market via BioEnergy, BioForest & Ethtec; and
- WFL believe there are emerging opportunities for forestry creating valuable markets for waste, residues and pulpwood.

### **Ethanol Technologies Ltd (Ethtec)**

*"...The ALP intends to direct funds from the Ethanol Production Grants scheme to provide a total of \$15 million in the form of grants of up to **\$5 million per grant specifically for pilot plants** to demonstrate new second generation (i.e. lignocellulosics) ethanol technologies. Kevin Rudd 15 November 2007.*

- Ethtec is commercialising new technology for the production of second generation 'cellulosic' ethanol with the technology expected to have world-wide application;
- There will be enormous potential for the timber industry as it solves the emerging 'fuel vs food' dilemma; and
- WFL have a Pilot Plant under construction with first laboratory runs in early 2008.

### **BioEnergy Australia Limited**

- WFL holds 75.81% voting power in BioEnergy, the benefits to WFL will be entry to forestry driven high value renewable energy market; and
- Utilisation of their new Woodlot Products - Premium Forestry Blend which is a species diversification product that will enable early income to growers.

### **PINES - Perpetual reset preference shares (ASX: WFLPA)**

- Resets in September 2009 and WFL will have the following options;
  - Reset at prevailing market rate
  - Refinance with bank debt
  - Repurchase via fresh issue of securities – "PINES 2" or
  - Conversion to equity
  - WFL will announce their intentions at their HY09 results.

## Financial Forecasts

Table 1: Below shows the revenue model for WFL and our new forecasts:

Land Sales	FY06	FY07	FY08	FY09	FY10
Ha Purchased	3,100	3,000	3,166	3,515	3,901
Ha Leased	2,200	2,705	3,166	3,515	3,901
Total Sold	5,300	5,705	6,333	7,029	7,802
<i>% change on pcp</i>		8%	11%	11%	11%
Total Planted & Mgrd	54,200	64,937	77,250	90,723	106,225
Price per Ha sold (\$)	7,000	7,800	7,800	7,800	7,800
<i>% change on pcp</i>			10%	10%	10%
<b>Plantation/ Woodlot Rev</b>					
MIS Sales (\$)	37,100	45,100	49,394	54,827	60,858
MIS booked in current period	7,400	10,400	11,361	11,514	13,997
MIS booked in previous period	37,100	29,800	34,700	38,033	43,314
Lease & Maintenance Income		2,913	2,900	2,900	2,900
Other		2,900	0	0	
<b>Total Plantation/Woodlot Rev</b>	<b>44,130</b>	<b>46,013</b>	<b>48,961</b>	<b>52,447</b>	<b>60,211</b>
		10%	11%	11%	11%
<b>Timber Processing</b>	<b>20,011</b>	<b>16,804</b>	<b>18,879</b>	<b>21,403</b>	<b>25,995</b>
<b>NMV</b>	<b>723</b>	<b>960</b>	<b>939</b>	<b>1,000</b>	<b>1,000</b>
<b>Finance income</b>	<b>11,834</b>	<b>5,768</b>	<b>3,641</b>	<b>4,355</b>	<b>3,450</b>
<b>Other Income</b>	<b>569</b>	<b>770</b>	<b>1,927</b>	<b>1,701</b>	<b>1743</b>
<b>TOTAL REVENUE</b>	<b>77,267</b>	<b>70,315</b>	<b>74,346</b>	<b>80,906</b>	<b>92,399</b>

Source: Bridges Institutional Broking

- Our new forecasts for Plantation Rev. is 11% on the pcp due to new land opportunities with NSWFSF (WFL are currently part of a tender process for their 2<sup>nd</sup> rotation sites).
- We have maintained \$7,800 per Ha sold (\$) for land sales.
- We have increased our Timber processing forecasts FY10 due to the NSWFSF tender.
- We have forecast finance income to decline in FY08 due to the sale of the loan book to CBA.
- We have maintained ~\$1M p.a forecast for Net Market Value (Biological Assets).
- Other income is derived from revenues from cattle and rental properties owed by WFL and situated on their land. We have increased this amount in line with the HY08 result.

### Debt

- WFL currently have \$40M of debt on their balance sheet for PINES preference shares, the shares will reset in September 2009, interest costs were \$1.408M for the half;
- WFL operate a facility with CBA, the full facility is ~\$72M, and the facility is primarily on a rolling 180 day facility and bears an interest at market rates payable in advance on rollover. The facility is currently drawn to ~\$46.3M (of which \$15.3M was drawn to purchase land in HY08);
- The remaining debt of \$10M relates to Hire Purchases, Lease Liabilities and Term debtors – securitised;
- In FY07, WFL re-paid approximately \$44.6M of their debt, WFL are comfortable with their debt position at present, however they will look to reduce debt in the coming year.

## Valuation

Table 2: Industry Peer P/E Multiples:

Name	ASX Code	Current Share Price	Market Cap	P/E Multiple
Timbercorp Limited	TIM	1.31	460	5.8x
Great Southern Limited	GTP	1.69	546	7.5x
Forest Enterprises Australia Limited	FEA	0.55	222.8	8.09x
Gunns Limited	GNS	3.53	1420.6	14.7x
				Average P/E Multiple 9x

Table 3: Below shows our WFL valuation using DCF

Valuation	\$M	\$ per Share
NPV Cash Flows	12.41	0.21
Terminal Value	33.27	0.57
Net Cash (Debt)	-76.70	-1.31
Land & Receivables	166.00	2.83
<b>Total</b>	<b>134.98</b>	<b>2.30</b>

\* We have valued WFL land at cost on the balance sheet, although this does not reflect the full value of WFL land, we believe this is the best way to value the land as the majority of WFL land assets are tied up in long term (14-17 year) leases with growers.

WACC	10.29%
Risk free rate	6.00%
Cost of Debt	7.00%
Beta	1.00
Equity Risk Premium	5.50%
Cost of Equity	16.00%
Terminal Growth Rate	2.85%

Shares on issue now equal 58.8M, therefore applying a combination of DCF and conservative 12 times PE multiple to FY09 earnings results in a valuation of **\$2.29 per share**. Based on the current share price of \$1.53, WFL is trading on a FY08 PE of ~10.5 times.

Our valuation of \$2.29 per share represents a ~49.5% premium to the current share price.

We maintain our **BUY recommendation**.

