

Willmott Forests

MIS sales up 110%

Strong products well received

- WFL reported an outstanding MIS result for FY08, with the sales result of \$95m up 110% on last year and ahead of our forecast of \$56m.
- WFL's products have always been well received by its planner distribution base and are consistently among the highest rated products by agribusiness ratings agencies. WFL has expanded its sales team over the past twelve months and was well placed to leverage the anticipated shift towards forestry MIS products following the adverse government decision that affected non-forestry MIS.
- The acquisition of BioForests in February 2007 expanded the product range and allowed WFL to offer a blended product with shorter duration income streams.
- WFL is well placed to maintain the MIS market share gains made in FY08 with continuing product innovation expected in FY09.

Earnings Impact – under review

- The translation of MIS sales to earnings is dependant on revenue and expense recognition which is influenced by decisions related to optimal land preparation and planting. Although WFL provides the amount of revenue to be recognised in FY08 (\$22m), the earnings contribution in FY09 is unclear. Earnings are further impacted by the mix of leased vs owned land, which affects the land amortization expense.
- Land acquisitions also impact gearing levels, which affect financing costs.
- Our FY08, FY09 and FY10 forecasts are under review and will be updated following a discussion with management to clarify the timing and scope of some of these factors.
- We do not expect substantial changes to FY09 NPAT forecasts as higher EBITDA is offset by higher interest costs.
- WFL's guidance for FY08 NPAT is in excess of \$10.5m, and excludes non recurring expenses.

MIS is part of broader strategy

- Growth in MIS sales increases the requirement for land, which WFL accesses through leasing and purchasing. Both options require upfront cash payments, however leasing requires substantially less cash. WFL's decision to purchase land is part of a strategy to accumulate a forestry land bank
- WFL's NTA of approx \$1.50 includes 28,000 ha of land, conservatively valued at cost. The sharp rise in the value of forestry land since 2000, and the positive outlook for forestry assets are not factored into WFL's share price in our view.
- An updated report will be released following a meeting with management.

WFL.ASX

BUY

Tuesday 1 July, 2008

Price	\$1.41
Target price	\$2.80
DCF valuation	\$2.80
Target valuation method	DCF

GICS sector	Materials
Avg monthly t/o	m 0.9
Diluted mkt capitalisation	\$m 84
Shares on issue	m 59
Enterprise value	\$m 147
Previous rating	Buy

Year Ended June 30		07A	08E	09E	10E
Operating revenue	\$m	69.1	74.7	70.4	83.6
EBITDA	\$m	19.0	21.8	27.4	30.5
EBITDA margin		27.5%	29.2%	38.9%	36.5%
EBIT	\$m	17.1	19.5	24.7	27.8
EBIT margin		24.7%	26.1%	35.1%	33.2%
Adjusted NPAT	\$m	8.1	9.1	12.2	13.9

EPS adj	c	14.3	15.4	21.3	23.9
EPS adj growth		-31%	7%	39%	12%
DPS	c	10.0	10.0	11.0	11.0
Franking		100%	100%	100%	100%
PER	x	9.8	9.2	6.6	5.9
PER rel Ex-100 ex Fins	x	48%	50%	40%	41%
Dividend yield		7.1%	7.1%	7.8%	7.8%
NTA/share	\$	1.55	1.50	1.58	1.74

EV/EBITDA	x	6.2	6.7	5.4	4.8
P/OCF	x	9.5	8.5	5.1	5.2
ROA		4.2%	4.4%	5.1%	5.3%
ROE		8.5%	10.0%	12.6%	13.1%
ROIC		9.6%	9.6%	11.8%	12.3%
Interest cover (EBIT)	x	4.0	3.7	4.6	4.5

WFL vs XSO



Source: IRESS

Wassim Kisirwani
02 8252 3270
wkisirwani@veritassecurities.com.au

Willmott Forests Ltd (WFL)

Analyst: Wassim Kisirwani

Profit & Loss

Year ending June	2007A	2008E	2009E	2010E
Revenue:				
Operating revenue	69.1	74.7	70.4	83.6
Operating expenses	50.1	52.9	43.0	53.0
EBITDA	19.0	21.8	27.4	30.5
D&A	2.0	2.3	2.7	2.8
EBIT	17.1	19.5	24.7	27.8
Net interest	-4.2	-5.2	-5.4	-6.2
EBT	12.8	14.3	19.3	21.5
Tax	-4.4	-5.1	-6.6	-7.3
Reported NPAT	8.1	9.1	12.2	13.9
Non-recurring items	0.3	0.0	0.0	0.0
Adjusted NPAT	8.1	9.1	12.2	13.9

Cashflow

Year ending June	2007A	2008E	2009E	2010E
EBITDA	19.0	21.8	27.4	30.5
Increase in working capital	-6.8	-1.6	0.9	-0.8
Net Interest	-1.2	-5.2	-5.4	-6.2
Income taxes paid & other	-2.2	-5.1	-6.6	-7.3
Cashflow from ops	8.8	9.9	16.3	16.2
Capex	-18.1	-29.2	-19.7	-19.5
Total FCF	-9.3	-19.3	-3.4	-3.3
Other investing cashflows	92.7	-2.9	0.0	0.0
Borrowings	-44.7	0.0	0.0	0.0
Equity raisings/(buybacks)	0.4	0.0	0.0	0.0
Dividends paid	-5.9	-5.9	-6.2	-6.5
Net change in cash	33.3	-28.1	-9.7	-9.9

Balance Sheet

Year ending June	2007A	2008E	2009E	2010E
Cash	46.2	18.1	8.4	-1.4
Debtors	30.2	22.2	24.7	28.0
Other current assets	20.0	22.0	22.8	23.9
Current assets	96.4	62.3	56.0	50.5
Debtors	56.2	55.7	55.1	54.6
PPE	88.6	114.1	131.2	148.0
Intangibles	2.7	2.7	2.7	2.7
Other non-current assets	19.1	27.6	37.6	51.6
Non-current assets	166.7	200.1	226.6	256.8
Total assets	263.0	262.4	282.6	307.3
Payables	17.7	14.2	17.1	20.9
Short term borrowings	3.1	3.1	3.1	3.1
Other current liabilities	48.0	52.5	66.1	69.3
Total current liabilities	68.9	69.8	86.3	93.3
Long term borrowings	77.9	77.9	77.9	77.9
Other non-current liabilities	21.2	17.8	16.9	16.1
Total non-current liabilities	99.1	100.7	99.5	107.9
Total liabilities	167.9	170.5	185.8	201.3
Net assets	95.1	91.9	96.8	106.0

Market Measures

Year ending June		2007A	2008E	2009E	2010E
EPS reported	cps	13.9	15.4	20.5	23.4
EPS adjusted	cps	14.3	15.4	21.3	23.9
EPS growth	%	-31%	7%	39%	12%
PE multiple	x	9.8	9.2	6.6	5.9
PE relative (ex-100)	%	48%	50%	40%	41%
EBITDA per share	cps	32.0	36.7	46.0	51.3
EBITDA growth	%	-14%	15%	26%	12%
P/OCF	x	9.5	8.5	5.1	5.2
FCF per share	\$	-0.16	-0.32	-0.06	-0.06
FCF yield	%	nm	nm	nm	nm
DPS	cps	10.0	10.0	11.0	11.0
Dividend yield	%	7.1%	7.1%	7.8%	7.8%
Franking	%	100	100	100	100
Enterprise value	\$m	118.7	146.8		
EV/EBITDA	x	6.2	6.7	5.4	4.8

Profitability & Liquidity Ratios

Year ending June		2007A	2008E	2009E	2010E
ROE	%	8.5%	10.0%	12.6%	13.1%
ROA	%	4.2%	4.4%	5.1%	5.3%
ROIC	%	9.6%	9.6%	11.8%	12.3%
NPAT/sales	%	11.8%	12.2%	17.3%	16.7%
EBITDA/sales	%	27.5%	29.2%	38.9%	36.5%
EBIT/interest	x	4.0	3.7	4.6	4.5
Gearing (ND/[ND+E])	%	27%	41%	43%	44%
NTA/share	\$	1.55	1.50	1.58	1.74

Valuation

	\$m	\$/share
NPV of Cash Flows	-1.6	-0.03
Terminal Value	39.6	0.68
Net Cash (Debt)	-34.8	-0.60
Land and receivables	133.4	2.30
DCF value	136.7	2.35
DCF JV (50% share)	26.2	0.45
DCF Total	159.6	2.80

Price target*	\$2.80
Upside/downside	98%
DCF	

WACC

Risk free rate of return	6.0%
Post-tax cost of debt	6.3%
Equity risk premium	5.5%
Beta target	1.0
Cost of Equity	12.6%
Terminal Growth Rate	2.0%
WACC	10.1%

Company Statistics

Current share price	\$ps	\$1.41
Ordinary shares	m	59.5
Options	m	0.0
Diluted market capitalisation	\$m	\$83.9

Sales

Tony Bonello +61 2 8252 3230
 Bryce Reynolds +61 2 8252 3215
 Robert Scappatura +61 2 8252 3240
 Clay Melbourn +61 2 8252 3220
 Stephen Murphy +61 8 9380 8351
 Andrew McCauley +61 2 8252 3260

Research

Resources
 Piers Reynolds +61 3 8601 1196
 Industrials
 Wassim Kisirwani +61 2 8252 3270

RATING

BUY – anticipated stock return is greater than 10%
 SELL – anticipated stock return is less than -10%
 HOLD – anticipated stock return is between -10% and +10%
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

This report has been issued by Veritas Securities Limited A.B.N. 94 117 124 535, Australian Financial Services Licence Number 297043.

Disclaimer. The information contained in this document is general information only and is not financial or investment advice, and does not take into account your specific financial situation, particular needs and investment objectives. This document has been prepared from sources which Veritas Securities Limited ("Veritas") believes to be reliable, but none of Veritas, its directors, employees and associates ("Veritas Parties") give or make any representation or warranty that any such information is accurate, complete, reliable or up-to-date, and Veritas disclaims all liability for loss or damage, direct or indirect, suffered by any person arising from any use of or reliance on such information. Veritas recommends that you consult your financial adviser before making any financial or investment decision. Veritas does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect any of the information contained in this document.

Disclosure of interest. Veritas Parties may receive or may have received fees, commissions and brokerage by acting as corporate adviser or broker for companies described in this document, and may hold directorships or other offices with such companies. Veritas Parties may hold an interest in securities or financial products described in this document, may benefit from an increase in the price or value of them, and may effect or participate in transactions which are inconsistent with any statement made in this document.

Veritas Securities Limited A.B.N. 94 117 124 535 AFSL No. 297 043 GPO Box 4877, Sydney, NSW, 2001 www.veritassecurities.com.au	Sydney Level 4, 175 Macquarie Street Sydney, NSW, 2000 Tel: (02) 8252 3200 Fax: (02) 8252 3299	Melbourne Level 8, 350 Collins Street Melbourne, VIC, 3000 Tel: (03) 8601 1196 Fax: (03) 8601 1180	Perth Suite 5, 531 Hay Street Subiaco, WA, 6008 Tel: (08) 9380 8351 Fax: (08) 9380 8300
--	--	--	---