

Willmott Forests

Great Southern Collapse, where to for MIS?

- The appointment of voluntary administrators by Great Southern Plantations (GTP) signals another implosion in the MIS sector, and follows Timbercorp's (TIM) recent collapse.
- We view tax deductible MIS as a mechanism to facilitate investment in projects whereby the long lead time to revenue would otherwise make it difficult to attract investment. Although the MIS structure is similar among providers, the quality of products differs widely. We maintain the view that WFL is a high quality provider of forestry MIS, with reasons including:
 1. A 29 year record in plantation establishment and management
 2. A product centred on softwood pine, which has a deep, established global market and positive long term fundamentals. WFL operates in regions with established infrastructure and markets
 3. Product extensions confined to a blended forestry offering. No expansion into areas outside its expertise
 4. Conservative accounting policies: 1) Recognition of revenue as work is performed, not when sales received 2) No revaluation of land recognised as income
 5. Relationships with leading industry and government bodies, including leasing deals with Hancock Victorian Plantations (HVP) and Forests NSW, which deliver land at significantly lower rates
 6. Medium term capital needs met through extended debt facility signed in March 2009.
- The collapse of GTP and TIM have led to calls for a review of the sector with a Commonwealth senate inquiry into food production to be expanded to examine the companies' collapses and a House Committee inquiry to be launched into the role of financial advisers and tax incentives in encouraging people into the schemes.
- Whilst we cannot discount the possibility that upfront tax deductibility may again be examined, we believe that of all the product areas that offer MIS, softwood plantations present one of the strongest cases for continued regulatory support. Pine has strong fundamental demand drivers, and plantation forestry is a key component of ensuring adequate supply.
- We believe WFL utilises MIS in the manner in which it should be used – to offer upfront deductibility for non capital expenditure in the establishment of plantations. The project returns, as in any investment, are uncertain, however a grower in a well run project can achieve expected returns and add diversification to a portfolio, as timber has historically shown low correlation with other asset classes and performed well in periods of high inflation.

WFL.ASX

BUY

Wednesday 20 May , 2009

Price	\$0.65
Target price	\$1.45
Valuation	\$2.71
Target valuation method	PER

GICS sector	Materials
Avg monthly t/o	m 0.9
Diluted mkt capitalisation	\$m 39
Shares on issue	m 59
Enterprise value	\$m 129
Previous rating	Buy

Year Ended June 30		07A	08A	09E	10E
Operating revenue	\$m	69.1	89.2	127.1	138.2
EBITDA	\$m	19.0	25.8	33.7	40.5
EBITDA margin		27.5%	28.9%	26.5%	29.3%
EBIT	\$m	17.0	24.0	32.1	39.1
EBIT margin		24.7%	26.9%	25.3%	28.3%
Adjusted NPAT	\$m	8.1	11.3	14.9	17.9

EPS adj	c	14.3	20.4	24.0	29.6
EPS adj growth		-31%	42%	18%	23%
DPS	c	10.0	10.0	10.0	10.0
Franking		100%	100%	100%	100%
PER	x	4.5	3.2	2.7	2.2
PER rel Ex-100 ex Fins	x	22%	17%	17%	15%
Dividend yield		15.4%	15.4%	15.4%	15.4%
NTA/share	\$	1.55	1.73	1.87	2.08

EV/EBITDA	x	3.9	5.0	5.0	4.2
P/OCF	x	4.4	0.8	13.5	-66.3
ROA		4.2%	4.8%	5.3%	5.6%
ROE		8.5%	10.9%	13.2%	14.3%
Interest cover (EBIT)	x	4.0	3.8	3.0	3.1



Source: IRESS

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Willmott Forests Ltd (WFL)

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Profit & Loss

Year ending June	2007A	2008A	2009E	2010E
Revenue:				
Operating revenue	69.1	89.2	127.1	138.2
Operating expenses	50.1	63.4	93.4	97.7
EBITDA	19.0	25.8	33.7	40.5
D&A	2.0	1.7	1.6	1.4
EBIT	17.0	24.0	32.1	39.1
Net interest	-4.2	-6.3	-10.6	-12.8
EBT	12.8	17.7	21.6	26.3
Tax	-4.4	-5.7	-7.3	-8.7
Adjusted NPAT	8.1	11.3	14.9	17.9
Non-recurring items	0.0	-3.1	0.0	0.0
Reported NPAT	8.1	8.3	14.9	17.9

Cashflow

Year ending June	2007A	2008A	2009E	2010E
EBITDA	19.0	25.8	33.7	40.5
Change in working capital	-6.8	30.4	-13.0	-19.6
Net Interest	-1.2	-4.9	-10.6	-12.8
Income taxes paid & other	-2.2	-3.1	-7.3	-8.7
Cashflow from ops	8.8	48.2	2.9	-0.6
Capex	-18.1	-27.0	-28.3	-27.8
Other investing cashflows	92.7	-9.7	0.0	0.0
Total FCF	-9.3	11.5	-25.5	-28.4
Borrowings	-44.7	9.5	40.0	20.0
Equity raisings/(buybacks)	0.4	0.0	0.0	0.0
Dividends paid	-5.9	-5.9	-5.9	-5.9
Net change in cash	33.3	15.2	8.6	-14.4

Balance Sheet

Year ending June	2007A	2008A	2009E	2010E
Cash	46.2	61.4	70.0	55.6
Debtors	30.2	37.2	40.6	43.4
Other current assets	20.0	42.4	46.4	48.5
Current assets	96.4	141.0	157.1	147.6
Debtors	56.2	66.6	66.6	66.6
PPE	88.6	111.7	138.4	164.8
Intangibles	2.7	1.1	1.1	1.1
Other non-current assets	19.1	31.3	48.7	68.5
Non-current assets	166.7	210.7	254.9	301.0
Total assets	263.0	351.7	412.0	448.6
Payables	17.7	36.0	39.0	42.8
Short term borrowings	3.1	1.6	1.6	1.6
Other current liabilities	48.0	103.0	111.4	111.9
Total current liabilities	68.9	140.5	152.0	156.4
Long term borrowings	77.9	89.0	129.0	149.0
Other non-current liabilities	21.2	18.5	18.5	18.5
Total non-current liabilities	99.1	107.5	147.5	167.5
Total liabilities	167.9	248.0	299.4	323.8
Net assets	95.1	103.7	112.5	124.7

Market Measures

Year ending June		2007A	2008A	2009E	2010E
EPS reported	cps	13.8	14.0	25.0	30.1
EPS adjusted	cps	14.3	20.4	24.0	29.6
EPS growth	%	-31%	42%	18%	23%
PE multiple	x	4.5	3.2	2.7	2.2
PE relative (ex-100)	%	22%	17%	17%	15%
EBITDA per share	cps	32.0	43.4	56.7	68.2
EBITDA growth	%	-14%	36%	31%	20%
P/OCF	x	4.4	0.8	13.5	-66.3
FCF per share	\$	-0.16	0.19	-0.43	-0.48
FCF yield	%	nm	30%	nm	nm
DPS	cps	10.0	10.0	10.0	10.0
Dividend yield	%	15.4%	15.4%	15.4%	15.4%
Franking	%	100	100	100	100
Enterprise value	\$m	73.4	129.2	169.2	
EV/EBITDA	x	3.9	5.0	5.0	4.2

Profitability & Liquidity Ratios

Year ending June		2007A	2008A	2009E	2010E
ROE	%	8.5%	10.9%	13.2%	14.3%
ROA	%	4.2%	4.8%	5.3%	5.6%
NPAT/sales	%	11.7%	12.7%	11.7%	12.9%
EBITDA/sales	%	27.5%	28.9%	26.5%	29.3%
EBIT/interest	x	4.0	3.8	3.0	3.1
Gearing (ND/[ND+E])	%	27%	47%	54%	55%
NTA/share	\$	1.55	1.73	1.87	2.08

Valuation

	\$m	\$/share
NPV of Cash Flows		-30.4
Terminal Value		100.7
Net Cash (Debt)		-130.6
Land and receivables		195.1
DCF value		134.8
DCF JV (50% share)		26.2
DCF Total		221.3
Price target*		\$1.45
Upside/downside		123%
*DCF+Asset Value		

WACC

Risk free rate of return	6.0%
Post-tax cost of debt	6.3%
Equity risk premium	5.5%
Beta target	1.2
Cost of Equity	12.6%
Terminal Growth Rate	3.0%
WACC	10.1%

Company Statistics

	\$ps	\$0.65
Current share price		
Ordinary shares	m	59.4
Options	m	0.0
Diluted market capitalisation	\$m	\$38.6

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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

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