

Willmott Forests

1H09 result a standout in MIS sector

- WFL's strong 1H09 follows its record MIS sales in FY08, which rose 110% to \$97m. WFL recognised \$26.4m of this in 1H09, with the balance carried forward to 2H09
- EBITDA margin for the MIS business declined from 40% to 35.8%. A fall in margin was expected given the additional costs associated with an increased sales team
- Gearing increased to 53% from 47% at June 2008 as typically weak 1H cashflows required additional borrowing. Cashflows are expected to improve substantially in 2H09, as cash is received for FY09 MIS sales
- Willmott Timbers posted a breakeven result which continues to be consolidated within WFL's result despite the formation of a 50/50 JV with Dongwha Group. This operation is not expected to contribute significant earnings until FY11, when the expanded manufacturing facility is fully operational
- WFL's product has always been well accepted in the marketplace, with its appeal recently enhanced by the combination of several tree species which produce more regular income streams. The exit of several large players from the MIS market underpins WFL's role as a leading provider of MIS products.
- We believe this substantial decrease in competition will offset the anticipated decline in demand for MIS, allowing WFL to continue growing MIS sales. WFL noted that MIS sales in FY09 are tracking higher than pcp

Significant discount to NTA underpins value

- NTA per share improved 12% to \$1.79. WFL's NTA consists predominantly of land and asset backed receivables. The large share price discount to NTA reflects the market's aversion to MIS providers. We believe that WFL operates a superior model to other MIS providers, given its foundation as a forestry company with significant pine land holdings.
- The funding arrangement with CBA and land leasing deals, including the recent deal with Forests NSW, fortifies the model's sustainability in our view
- We have revised our earnings for FY09 and FY10. FY09 EBITDA increases by 3%, with adjusted NPAT increasing by 16% due to lower depreciation assumptions. FY10 EBITDA increases by 14% driven by operating leverage, leading to margin improvement. Adjusted NPAT increases by 19.3%
- Our tp is reduced to \$1.45 and is set at a PER of 6 times FY09 earnings. **Maintain BUY**

WFL.ASX

BUY

Thursday 26 February, 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

Table 1: Changes to earnings

		FY09E			FY10E		
		Old	New	Change	Old	New	Change
Revenue	\$m	123.9	127.1	3%	129.6	138.2	7%
Operating costs	\$m	91.3	93.4	2%	93.9	97.7	4%
EBITDA	\$m	32.6	33.7	3%	35.7	40.5	14%
D&A	\$m	1.7	1.6	-7%	2.3	1.4	-39%
EBIT	\$m	30.4	32.1	6%	33.4	39.1	17%
Margin	%	24.5%	25.3%		25.8%	28.3%	
Adjusted NPAT	\$m	12.8	14.9	16%	14.4	17.2	19.3%
Adjusted EPS	cps	22.4	24.0	7%	24.7	28.4	15.0%
DPS	cps	10.0	10.0	0%	10.0	10.0	0%

Source: Veritas Securities, Company reports

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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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