

Willmott Forests

FY08 result

WFL profit up on strong MIS sales

- WFL reported a 41% increase in EBITDA to \$26.9m (Veritas \$28.9m) on revenue growth of 31% to \$90.3m. MIS sales for FY08 were up 116% to \$97.3m, with \$22.3m booked in FY08 and \$75m carried into FY09.
- NPAT was impacted by write downs to goodwill and PPE related to the Willmott Timbers JV. Adjusted NPAT was up 40% to \$11.3m.
- OPCF increased from \$8.8m to \$48.8m aided by the CBA funding deal whereby the majority of MIS sales are received by June 30. Payment for land purchases was \$25.6m in FY08.

MIS market share gains point to positive FY09

- WFL's products performed strongly in FY08, with the blended product particularly popular as it delivers income at shorter and more regular intervals than the pine product.
- WFL's growth of 116% in an otherwise soft MIS market resulted in market share gains, which WFL is well placed to maintain. Continuing product innovation, including an offering with an early sale mechanism, is helping expand the distribution network.
- Our forecasts assume FY09 MIS sales of \$104m. The CBA funding deal removes the majority of the working capital burden of MIS sales, allowing WFL to sustain strong MIS sales levels.

Willmott Timbers JV progress on track

- WFL's entered into a 50% JV with Dongwha Australia to build a manufacturing facility in Bombala, with capacity to produce 150,000 tonnes of sawn timber p.a. The JV is underpinned by a 20 year wood supply agreement with Forests NSW.
- WFL contributed its existing milling assets which were matched by a capital contribution from Dongwha. Estimated construction costs of \$40m (WFL's share is \$20m) are expected to be project financed.

Earnings revisions

- We have upgraded our FY09 EBITDA by 19% to \$32.6m and our FY10 EBITDA by 20% to \$33.4m. Higher interest cost assumptions result in NPAT revisions of 5% in FY08 and 4% in FY10. **Maintain BUY and \$2.74 tp.**

WFL.ASX

BUY

Wednesday 27 August, 2008

Price	\$1.43
Target price	\$2.74
Valuation	\$2.77
Target valuation method	DCF + Asset value

GICS sector	Materials
Avg monthly t/o	m 0.9
Diluted mkt capitalisation	\$m 85
Shares on issue	m 59
Enterprise value	\$m 195
Previous rating	Buy

Year Ended June 30		07A	08A	09E	10E
Operating revenue	\$m	69.1	90.3	123.9	129.6
EBITDA	\$m	19.0	26.9	32.6	35.7
EBITDA margin		27.5%	29.7%	26.3%	27.6%
EBIT	\$m	17.1	25.1	30.4	33.4
EBIT margin		24.7%	27.8%	24.6%	25.8%
Adjusted NPAT	\$m	8.1	11.3	12.8	14.4

EPS adj	c	14.3	20.4	22.4	24.7
EPS adj growth		-31%	42%	10%	10%
DPS	c	10.0	10.0	10.0	10.0
Franking		100%	100%	100%	100%
PER	x	9.9	7.0	6.4	5.8
PER rel Ex-100 ex Fins	x	48%	38%	39%	40%
Dividend yield		7.0%	7.0%	7.0%	7.0%
NTA/share	\$	1.55	1.72	1.84	2.00

EV/EBITDA	x	6.3	7.3	6.0	5.5
P/OCF	x	9.6	1.8	2.8	6.8
ROA		4.2%	5.1%	5.2%	5.1%
ROE		8.5%	10.9%	11.6%	12.0%
ROIC		9.6%	16.2%	15.7%	15.2%
Interest cover (EBIT)	x	4.0	3.4	3.0	3.0

WFL vs XSO



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	90.3	123.9	129.6
Operating expenses	50.1	63.4	91.3	93.9
EBITDA	19.0	26.9	32.6	35.7
D&A	2.0	1.7	2.2	2.3
EBIT	17.1	25.1	30.4	33.4
Net interest	-4.2	-7.4	-10.2	-11.2
EBT	12.8	17.7	20.3	22.2
Tax	-4.4	-5.7	-6.9	-7.5
Adjusted NPAT	8.1	11.3	12.8	14.4
Non-recurring items	0.0	-3.1	0.0	0.0
Reported NPAT	8.1	8.3	12.8	14.4

Cashflow

Year ending June	2007A	2008A	2009E	2010E
EBITDA	19.0	26.9	32.6	35.7
Change in working capital	-6.8	29.3	14.3	-4.5
Net Interest	-1.2	-4.9	-10.2	-11.2
Income taxes paid & other	-2.2	-3.1	-6.9	-7.5
Cashflow from ops	8.8	48.2	29.8	12.5
Capex	-18.1	-27.0	-30.8	-25.8
Other investing cashflows	92.7	-9.7	-9.7	-9.7
Total FCF	-9.3	11.5	-10.7	-23.0
Borrowings	-44.7	9.5	20.0	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	3.4	-8.9

Balance Sheet

Year ending June	2007A	2008A	2009E	2010E
Cash	46.2	61.4	64.8	55.8
Debtors	30.2	37.2	32.3	33.7
Other current assets	20.0	42.4	54.8	56.5
Current assets	96.4	141.0	151.9	146.0
Debtors	56.2	66.6	65.9	65.3
PPE	88.6	111.7	140.3	163.8
Intangibles	2.7	1.1	1.1	1.1
Other non-current assets	19.1	31.3	43.2	57.4
Non-current assets	166.7	210.7	250.6	287.6
Total assets	263.0	351.7	402.4	433.6
Payables	17.7	36.0	49.9	51.6
Short term borrowings	3.1	1.6	1.6	1.6
Other current liabilities	48.0	103.0	95.1	98.2
Total current liabilities	68.9	140.5	146.6	151.5
Long term borrowings	77.9	89.0	109.0	129.0
Other non-current liabilities	21.2	18.5	36.2	33.0
Total non-current liabilities	99.1	107.5	145.2	162.0
Total liabilities	167.9	248.0	291.8	313.4
Net assets	95.1	103.7	110.7	120.2

Market Measures

Year ending June		2007A	2008A	2009E	2010E
EPS reported	cps	13.9	14.0	21.6	24.2
EPS adjusted	cps	14.3	20.4	22.4	24.7
EPS growth	%	-31%	42%	10%	10%
PE multiple	x	9.9	7.0	6.4	5.8
PE relative (ex-100)	%	48%	38%	39%	40%
EBITDA per share	cps	32.0	45.1	54.8	60.0
EBITDA growth	%	-14%	41%	21%	10%
P/OCF	x	9.6	1.8	2.8	6.8
FCF per share	\$	-0.16	0.19	-0.18	-0.39
FCF yield	%	nm	14%	nm	nm
DPS	cps	10.0	10.0	10.0	10.0
Dividend yield	%	7.0%	7.0%	7.0%	7.0%
Franking	%	100	100	100	100
Enterprise value	\$m	119.6	195.3		
EV/EBITDA	x	6.3	7.3	6.0	5.5

Profitability & Liquidity Ratios

Year ending June		2007A	2008A	2009E	2010E
ROE	%	8.5%	10.9%	11.6%	12.0%
ROA	%	4.2%	5.1%	5.2%	5.1%
ROIC	%	9.6%	16.2%	15.7%	15.2%
NPAT/sales	%	11.8%	12.5%	10.4%	11.1%
EBITDA/sales	%	27.5%	29.7%	26.3%	27.6%
EBIT/interest	x	4.0	3.4	3.0	3.0
Gearing (ND/[ND+E])	%	27%	47%	50%	52%
NTA/share	\$	1.55	1.72	1.84	2.00

Valuation

	\$m	\$/share
NPV of Cash Flows		-10.2
Terminal Value		71.2
Net Cash (Debt)		-90.6
Land and receivables		168.1
DCF value		138.5
DCF JV (50% share)		26.2
DCF Total		194.3
Price target*		\$2.74
Upside/downside		92%
*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	2.5%
WACC	10.1%

Company Statistics

Current share price	\$ps	\$1.43
Ordinary shares	m	59.5
Options	m	0.0
Diluted market capitalisation	\$m	\$84.8

Result Snapshot

Table 1: Result Snapshot

	FY07	FY08	Change pcp	Veritas FY08	Change Veritas
Operating Revenue	69.1	90.3	31%	90.3	0%
EBITDA	19.0	26.9	41%	28.9	8%
% margin			na		na
Dep'n & Amort	2.0	1.7	-13%	5.6	220%
EBIT	17.1	25.1	47%	23.3	-7%
% margin			na		na
Net Interest Expense	-4.2	-7.4	76%	-6.7	-9%
EBT	12.8	17.7	38%	16.5	-7%
Tax Expense	-4.4	-5.7	30%	-5.8	1%
Reported NPAT	8.1	8.3	2%	9.9	20%
One-off Adjustments	0.0	-3.1		-2.7	na
Adjusted NPAT	8.1	11.3	40%	12.6	11%
Adjusted EPS	14.3	20.4	42%	18.0	-12%
DPS	10.0	10.0	0%	10.0	0%

Source: Company reports, Veritas Securities

Earnings revision

Table 2: Earnings revisions

		FY09E			FY10E		
		Old	New	Change	Old	New	Change
Revenue	\$m	70.4	123.9	76%	86.3	129.6	50%
Operating costs	\$m	43.0	91.3	112%	53.0	93.9	77%
EBITDA	\$m	27.4	32.6	19%	30.5	35.7	17%
D&A	\$m	2.7	2.2	-20%	2.8	2.3	-17%
EBIT	\$m	24.7	30.4	23%	27.8	33.4	20%
Margin	%	35.1%	24.6%				
EBT	\$m	19.3	20.3	5%	21.5	22.2	3%
Adjusted NPAT	\$m	12.2	12.8	5%	13.9	14.4	4%
Adjusted EPS	cps	21.3	22.4	5%	23.9	24.7	3%
DPS	cps	11.0	10.0	-9%	11.0	10.0	-9%

Source: Veritas Securities

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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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