

Willmott Forests

WFL remains a standout in the sector

- The current issues faced by several MIS operators are related to aggressive growth that ultimately proved unsustainable. We believe that WFL has consistently led the industry in developing a sustainable model.
- WFL's move to secure land in 2006 through a leasing deal with Hancock and management's refusal to move into non forestry MIS, despite the potential for high short term profit, point to a commitment to long term viability in our view. The more recent leasing deal with Forests NSW is unique in the industry and has the potential to re-cast the MIS model.

Key Indicators remain strong

- **Balance sheet strength:** With NTA per share of \$1.73 comprised predominantly of land, plantations and receivables underwritten by harvesting rights, we view the asset base as high quality.
- **Cash flow:** The CBA grower funding arrangement delivers a large cash inflow at the time of sale, securing working capital needs for the year ahead.
- **Earnings:** Our forecast compound average earnings growth rate of 21% p.a. from FY08-FY11 is supported by \$75m of revenue carried from FY08, as well as continuing strong demand for WFL's highly rated product. We believe that WFL will gain market share over the next 3 years. Furthermore, the JV mill due for first production by FY11 provides an alternative future earnings stream underpinned by a valuable 20 year supply agreement with Forests NSW.
- **Capital Needs:** With no new equity issued since December 2005, WFL has managed growth well in our view. The recently secured extension and increase to its debt facility (\$135m syndicated facility through CBA signed in March 2009) will secure WFL's capital needs for up to three years.

Maintain BUY and \$1.45 tp

WFL.ASX

BUY

Monday 27 April , 2009

Price	\$0.77
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 38
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	3.1	2.7	2.2
PER rel Ex-100 ex Fins	x	22%	17%	16%	15%
Dividend yield		13.0%	13.0%	13.0%	13.0%
NTA/share	\$	1.55	1.73	1.87	2.08

EV/EBITDA	x	3.8	5.0	5.0	4.2
P/OCF	x	4.3	0.8	13.3	-65.3
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	3.1	2.7	2.2
PE relative (ex-100)	%	22%	17%	16%	15%
EBITDA per share	cps	32.0	43.4	56.7	68.2
EBITDA growth	%	-14%	36%	31%	20%
P/OCF	x	4.3	0.8	13.3	-65.3
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	%	15.6%	15.6%	15.6%	15.6%
Franking	%	100	100	100	100
Enterprise value	\$m	72.8	128.6	168.6	
EV/EBITDA	x	3.8	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		127%
*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	\$0.64
Current share price		
Ordinary shares	m	59.4
Options	m	0.0
Diluted market capitalisation	\$m	\$38.0

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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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