

# Willmott Forests

## Standout result from industry leader

- WFL reported a strong FY09 result, with revenue up 33.5% to \$121m and NPAT up 78.6% to \$14.7m. Strong revenue growth was driven by \$75m of FY08 woodlot sales booked in FY09.
- FY09 woodlot sales were down 32% compared to a fall of approx 68% in industry sales, doubling WFL's market share to ~30%. WFL was the leading player in the agri-investment sector in FY09, reflecting the strong support for its product in the market.

### WFL adapting model – diversifying revenue streams

- WFL has outlined steps to mitigate the downturn in woodlot sales which we believe provide the basis for a sustainable model. Reductions in the fixed cost base of \$4.8m have been implemented.
- WFL's strategy of diversifying the revenue base to reduce reliance on agri-MIS is a positive. Initiatives include a Timberland fund targeted at SMSF's, a carbon offset product aimed at corporates as well as the upgrade to the JV mill.
- Plantation harvesting revenue of \$300k in FY09 (\$150k FY08) is expected to become a significant revenue stream over the next 3 years, and highlights the value inherent in the harvesting rights that WFL has over plantations.

### Smaller Agri-MIS industry to suit leading players

- We believe that the MIS industry will not recover to peak levels reached in FY08, instead settling at more sustainable sales around the current level. Our forecasts assume FY10 woodlot sales of \$78m, which includes \$5m in Timberland sales. Furthermore, WFL will carry \$49m of FY09 sales into FY10 revenue.
- The industry troubles should increase investor focus on higher quality products and managers, and we believe that WFL falls into this category. Calls for increased scrutiny in the financial planning industry should also benefit leading providers, with a likely reduction in external commissions.

### Earnings revisions

- We have revised our FY10 and FY11 forecasts in line with our reduced sales forecasts. We have also accounted for the PINES conversions, which reduces interest expense by \$1.57m and increases the number of shares on issue to 93m.
- Our valuation, which is a blended DCF and asset valuation methodology, falls from \$2.71 to \$1.46, reflecting our changed sales assumptions and the additional shares on issue. Our land valuation component is carried at historical cost, which we believe is below replacement value. Our tp remains at \$1.45. **Maintain BUY.**

WFL.ASX

BUY

Wednesday 26 August , 2009

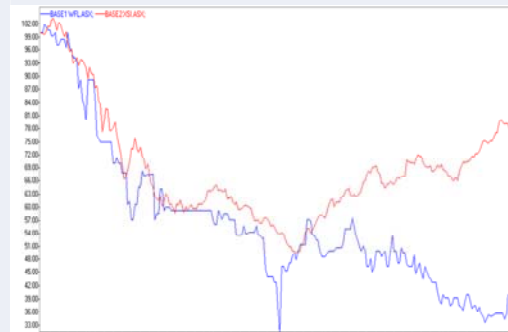
Price	\$0.56
Target price	\$1.45
Valuation	\$1.46
Target valuation method	Asset Value

GICS sector	Materials
Avg monthly t/o	m 0.9
Diluted mkt capitalisation	\$m 52
Shares on issue	m 93 (Post pines conversion)
Enterprise value	\$m 142
Previous rating	Buy

Year Ended June 30		08A	09A	10E	11E
Operating revenue	\$m	89.2	120.2	106.9	121.0
EBITDA	\$m	25.8	31.2	29.9	34.5
EBITDA margin		28.9%	25.9%	28.0%	28.5%
EBIT	\$m	24.0	29.8	28.5	33.1
EBIT margin		26.9%	24.8%	26.6%	27.4%
Adjusted NPAT	\$m	11.3	14.7	12.9	15.1

EPS adj	c	20.4	24.1	13.6	16.0
EPS adj growth		42%	18%	-44%	18%
DPS	c	10.0	8.0	6.0	6.0
Franking		100%	100%	100%	200%
PER	x	2.8	2.3	4.1	3.5
PER rel Ex-100 ex Fins	x	20%	14%	28%	31%
Dividend yield		17.9%	14.3%	10.7%	10.7%
NTA/share	\$	1.11	1.23	1.58	1.69

EV/EBITDA	x	5.5	5.9	6.1	5.3
P/OCF	x	1.1	-1.4	-3.2	-9.0
ROA		4.8%	4.7%	4.4%	4.6%
ROE		10.9%	12.8%	8.7%	9.6%
Interest cover (EBIT)	x	3.8	3.8	2.9	2.9



## Willmott Forests Ltd (WFL)

Analyst: Wassim Kisirwani

### Profit & Loss

Year ending June	2008A	2009A	2010E	2011E
<b>Revenue:</b>				
Operating revenue	89.2	120.2	106.9	121.0
Operating expenses	63.4	89.0	77.0	86.5
<b>EBITDA</b>	<b>25.8</b>	<b>31.2</b>	<b>29.9</b>	<b>34.5</b>
D&A	1.7	1.4	1.5	1.3
EBIT	24.0	29.8	28.5	33.1
Net interest	-6.3	-7.9	-10.0	-11.4
EBT	17.7	21.9	18.5	21.7
Tax	-5.7	-7.5	-5.9	-6.9
Adjusted NPAT	11.3	14.7	12.9	15.1
Non-recurring items	-3.1	0.0	0.0	0.0
Reported NPAT	8.3	14.7	12.9	15.1

### Cashflow

Year ending June	2008A	2009A	2010E	2011E
EBITDA	25.8	31.2	29.9	34.5
Change in working capital	30.4	-45.3	-30.2	-22.0
Net Interest	-4.9	-5.9	-10.0	-11.4
Income taxes paid & other	-3.1	-16.4	-5.9	-6.9
<b>Cashflow from ops</b>	<b>48.2</b>	<b>-36.4</b>	<b>-16.2</b>	<b>-5.8</b>
Capex	-27.0	-32.3	-18.7	-18.7
Other investing cashflows	-9.7	-0.8	0.0	0.0
<b>Total FCF</b>	<b>11.5</b>	<b>-69.5</b>	<b>-34.8</b>	<b>-24.5</b>
Borrowings	9.5	39.7	25.0	26.0
Equity raisings/(buybacks)	0.0	0.2	0.0	0.0
Dividends paid	-5.9	-6.0	-4.6	-5.6
Net change in cash	15.2	-38.2	-14.4	-4.0

### Balance Sheet

Year ending June	2008A	2009A	2010E	2011E
Cash	61.4	23.2	8.8	4.7
Debtors	37.2	36.7	40.0	41.9
Other current assets	42.4	49.5	49.9	48.8
<b>Current assets</b>	<b>141.0</b>	<b>109.4</b>	<b>98.6</b>	<b>95.4</b>
Debtors	66.6	75.5	75.5	75.5
PPE	111.7	134.1	151.3	168.6
Intangibles	1.1	1.1	1.1	1.1
Other non-current assets	31.3	47.6	62.7	81.3
<b>Non-current assets</b>	<b>210.7</b>	<b>258.3</b>	<b>290.6</b>	<b>326.6</b>
<b>Total assets</b>	<b>351.7</b>	<b>367.7</b>	<b>389.2</b>	<b>422.0</b>
Payables	36.0	32.7	32.4	38.1
Short term borrowings	1.6	1.1	1.1	1.1
Other current liabilities	103.0	66.4	54.5	45.6
<b>Total current liabilities</b>	<b>140.5</b>	<b>100.2</b>	<b>88.0</b>	<b>84.9</b>
Long term borrowings	89.0	129.6	131.6	157.6
Other non-current liabilities	18.5	22.4	22.0	22.0
<b>Total non-current liabilities</b>	<b>107.5</b>	<b>152.0</b>	<b>153.6</b>	<b>179.6</b>
<b>Total liabilities</b>	<b>248.0</b>	<b>252.2</b>	<b>241.7</b>	<b>264.5</b>
<b>Net assets</b>	<b>103.7</b>	<b>115.5</b>	<b>147.5</b>	<b>157.5</b>

### Market Measures

Year ending June		2008A	2009A	2010E	2011E
EPS reported	cps	14.0	24.7	13.9	16.3
<b>EPS adjusted</b>	<b>cps</b>	<b>20.4</b>	<b>24.1</b>	<b>13.6</b>	<b>16.0</b>
EPS growth	%	42%	18%	-44%	18%
<b>PE multiple</b>	<b>x</b>	<b>2.8</b>	<b>2.3</b>	<b>4.1</b>	<b>3.5</b>
<b>PE relative (ex-100)</b>	<b>%</b>	<b>20%</b>	<b>14%</b>	<b>28%</b>	<b>31%</b>
EBITDA per share	cps	27.8	33.6	32.3	37.2
EBITDA growth	%	35%	21%	-4%	15%
P/OCF	x	1.1	-1.4	-3.2	-9.0
FCF per share	\$	0.12	-0.75	-0.38	-0.26
FCF yield	%	22%	nm	nm	nm
DPS	cps	10.0	8.0	6.0	6.0
Dividend yield	%	17.9%	14.3%	10.7%	10.7%
Franking	%	100	100	100	101
Enterprise value	\$m	142.3	182.7		
EV/EBITDA	x	5.5	5.9	6.1	5.3

### Profitability & Liquidity Ratios

Year ending June		2008A	2009A	2010E	2011E
ROE	%	10.9%	12.8%	8.7%	9.6%
ROA	%	4.8%	4.7%	4.4%	4.6%
NPAT/sales	%	12.7%	12.3%	12.1%	12.5%
EBITDA/sales	%	28.9%	25.9%	28.0%	28.5%
EBIT/interest	x	3.8	3.8	2.9	2.9
Gearing (ND/(ND+E))	%	47%	53%	47%	50%
NTA/share	\$	1.11	1.23	1.58	1.69

### Valuation

	\$m	\$/share
NPV of Cash Flows		-78.3
Terminal Value		106.7
Net Cash (Debt)		-130.7
Land and receivables		196.1
<b>DCF value</b>		<b>93.7</b>
<b>DCF JV (50% share)</b>		<b>26.2</b>
<b>DCF Total</b>		<b>222.3</b>
Price target*		\$1.45
Upside/downside		159%
*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%
<b>WACC</b>	<b>10.1%</b>

### Company Statistics

Current share price	\$ps	<b>\$0.56</b>
Ordinary shares	m	92.8
Options	m	0.0
Diluted market capitalisation	\$m	\$52.0

**Table 1: FY09 result Snapshot**

	FY08	FY09	Change pcp	Veritas FY09	Change Veritas
<b>Operating Revenue</b>	<b>89.2</b>	<b>120.2</b>	<b>35%</b>	<b>127.1</b>	<b>6%</b>
<b>EBITDA</b>	<b>25.8</b>	<b>31.2</b>	<b>21%</b>	<b>33.7</b>	<b>8%</b>
% margin	28.9%	25.9%	na	26.5%	na
Dep'n & Amort	1.7	1.4	-20%	1.6	18%
<b>EBIT</b>	<b>24.0</b>	<b>29.8</b>	<b>24%</b>	<b>32.1</b>	<b>8%</b>
% margin	26.9%	24.8%	na		na
Net Interest Expense	6.3	7.9	25%	10.6	35%
EBT	17.7	21.9	24%	21.6	-2%
Tax Expense	5.7	7.5	32%	7.3	-3%
Reported NPAT	11.3	14.7	30%	14.9	1%
One-off Adjustments	-3.1	0.0		0.0	na
<b>Adjusted NPAT</b>	<b>8.3</b>	<b>14.7</b>	<b>78%</b>	<b>14.9</b>	<b>1%</b>
Adjusted EPS	20.4	24.1	18%	24.0	0%
<b>DPS</b>	<b>10.0</b>	<b>8.0</b>	<b>-20%</b>	<b>10.0</b>	<b>25%</b>

Source: Veritas Securities, Company Reports

**Table 2: Earnings revisions**

		FY10E		
		Old	New	Change
<b>Revenue</b>	<b>\$m</b>	138.2	<b>106.9</b>	<b>-23%</b>
Operating costs	\$m	97.7	77.0	-21%
EBITDA	\$m	40.5	29.9	-26%
D&A	\$m	1.4	1.5	4%
<b>EBIT</b>	<b>\$m</b>	<b>39.1</b>	<b>28.5</b>	<b>-27%</b>
Margin	%	28.3%	26.6%	
EBT	\$m	26.3	18.5	-29.6%
<b>Adjusted NPAT</b>	<b>\$m</b>	<b>17.9</b>	<b>12.9</b>	<b>-28.0%</b>
Adjusted EPS	cps	29.6	13.6	-54.1%
DPS	cps	10.0	6.0	-40%

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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