

# Willmott Forests

## 1H08 Result

### Strong 2007 MIS sales reflected in 1H08 result

- 1H08 EBITDA was up 138% to \$7.0m on revenue growth of 13% to \$32.0m, driven by higher 2007 MIS sales as well as the improvement of the milling business (EBITDA \$0.6m vs \$0.4m loss in pcp). EPS increased 28.1% to 5.25cps
- WFL declared a dividend of 5 cps, payable in March 2008
- We believe that MIS sales are the most relevant measure of WFL's performance. MIS sales increased 22% in FY07 to \$45.1m vs a 4% decline in timber industry MIS sales. Of this amount, \$34.7m was carried forward into FY08 of which \$16.5m was recognized in 1H08
- Veritas is forecasting MIS sales of \$56m in FY08, an increase of 24.5%

### Willmott Timbers JV to transform company

- The preferred tenderer status and proposed JV change the nature of WFL's milling operations. Although the timber processing division reported an impressive turnaround in profit, its long term viability was questionable
- The proposed JV, which will include the existing milling assets, will have scale, distribution, brand, timber supply (20 year+ agreement) and an experienced JV partner, allowing it to become a dominant player in timber decking and related markets
- We value WFL's share of the JV at \$0.45 per share

### Other key Points

- Payments for land were \$19.4m vs \$8.2m pcp, which is higher than expected. We have revised our assumptions for the full year from \$19.2m to \$29.2m. The land purchased is expected to be surplus to FY08 requirements and available for FY09 planting
- WFL has tendered for second rotation land from Forests NSW, which if successful, we assume would be similar to the deal with Hancock. This will enhance land availability and reduce cash required for land acquisition

### Valuation and Recommendation

- We retain our FY08 NPAT forecast of \$9.0m and maintain our \$2.74 tp, which includes \$0.45 for the JV and recommend a BUY

WFL.ASX

BUY

Tuesday 26 February, 2008

|                         |        |
|-------------------------|--------|
| Price                   | \$1.53 |
| Target price            | \$2.74 |
| DCF valuation           | \$2.74 |
| Target valuation method | DCF    |

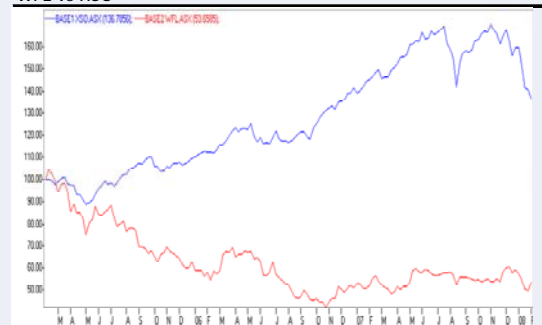
|                            |           |
|----------------------------|-----------|
| GICS sector                | Materials |
| Avg monthly t/o            | m 0.9     |
| Diluted mkt capitalisation | \$m 91    |
| Shares on issue            | m 59      |
| Enterprise value           | \$m 154   |
| Previous rating            | Buy       |

| Year Ended June 30 |     | 07A   | 08E   | 09E   | 10E   |
|--------------------|-----|-------|-------|-------|-------|
| Operating revenue  | \$m | 69.1  | 74.7  | 70.4  | 83.6  |
| EBITDA             | \$m | 19.0  | 21.6  | 27.3  | 30.4  |
| EBITDA margin      |     | 27.5% | 29.0% | 38.8% | 36.3% |
| EBIT               | \$m | 17.0  | 19.3  | 24.6  | 27.6  |
| EBIT margin        |     | 24.7% | 25.9% | 35.0% | 33.0% |
| Adjusted NPAT      | \$m | 8.1   | 9.0   | 12.1  | 13.8  |

|                        |    |      |      |      |      |
|------------------------|----|------|------|------|------|
| EPS adj                | c  | 14.3 | 15.0 | 21.2 | 23.7 |
| EPS adj growth         |    | -31% | 5%   | 42%  | 12%  |
| DPS                    | c  | 10.0 | 10.0 | 11.0 | 11.0 |
| Franking               |    | 100% | 100% | 100% | 100% |
| PER                    | x  | 10.7 | 10.2 | 7.2  | 6.5  |
| PER rel Ex-100 ex Fins | x  | 52%  | 56%  | 44%  | 44%  |
| Dividend yield         |    | 6.5% | 6.5% | 7.2% | 7.2% |
| NTA/share              | \$ | 1.55 | 1.50 | 1.58 | 1.73 |

|                       |   |      |      |       |       |
|-----------------------|---|------|------|-------|-------|
| EV/EBITDA             | x | 6.6  | 7.1  | 5.6   | 5.1   |
| P/OCF                 | x | 10.3 | 9.3  | 6.9   | 6.1   |
| ROA                   |   | 4.2% | 4.4% | 5.0%  | 5.2%  |
| ROE                   |   | 8.5% | 9.8% | 12.6% | 13.1% |
| ROIC                  |   | 9.6% | 9.5% | 11.5% | 11.9% |
| Interest cover (EBIT) | x | 4.0  | 3.7  | 4.6   | 4.4   |

### WFL vs XSO



Source: IRESS

**Wassim Kisirwani**  
**02 8252 3270**  
**wkisirwani@veritassecurities.com.au**

## Willmott Forests Ltd (WFL)

Analyst: Wassim Kisirwani

### Profit & Loss

| Year ending June    | 2007A       | 2008E       | 2009E       | 2010E       |
|---------------------|-------------|-------------|-------------|-------------|
| <b>Revenue:</b>     |             |             |             |             |
| Operating revenue   | 69.1        | 74.7        | 70.4        | 83.6        |
| Operating expenses  | 50.1        | 53.1        | 43.1        | 53.2        |
| <b>EBITDA</b>       | <b>19.0</b> | <b>21.6</b> | <b>27.3</b> | <b>30.4</b> |
| D&A                 | 2.0         | 2.3         | 2.7         | 2.8         |
| EBIT                | 17.0        | 19.3        | 24.6        | 27.6        |
| Net interest        | -4.2        | -5.2        | -5.4        | -6.2        |
| EBT                 | 12.8        | 14.1        | 19.3        | 21.3        |
| Tax                 | -4.4        | -5.1        | -6.6        | -7.2        |
| Reported NPAT       | 8.1         | 9.0         | 12.1        | 13.8        |
| Non-recurring items | 0.3         | 0.0         | 0.0         | 0.0         |
| Adjusted NPAT       | 8.1         | 9.0         | 12.1        | 13.8        |

### Cashflow

| Year ending June            | 2007A       | 2008E        | 2009E       | 2010E       |
|-----------------------------|-------------|--------------|-------------|-------------|
| EBITDA                      | 19.0        | 21.6         | 27.3        | 30.4        |
| Increase in working capital | -6.8        | -1.6         | -2.1        | -2.1        |
| Net Interest                | -1.2        | -5.2         | -5.4        | -6.2        |
| Income taxes paid & other   | -2.2        | -5.1         | -6.6        | -7.2        |
| <b>Cashflow from ops</b>    | <b>8.8</b>  | <b>9.8</b>   | <b>13.2</b> | <b>14.8</b> |
| Capex                       | -18.1       | -29.2        | -19.7       | -19.5       |
| <b>Total FCF</b>            | <b>-9.3</b> | <b>-19.4</b> | <b>-6.5</b> | <b>-4.7</b> |
| Other investing cashflows   | 92.7        | -2.9         | 0.0         | 0.0         |
| Borrowings                  | -44.7       | 0.0          | 0.0         | 0.0         |
| Equity raisings/(buybacks)  | 0.4         | 0.0          | 0.0         | 0.0         |
| Dividends paid              | -5.9        | -5.9         | -6.2        | -6.5        |
| Net change in cash          | 33.3        | -28.2        | -12.8       | -11.3       |

### Balance Sheet

| Year ending June                     | 2007A        | 2008E        | 2009E        | 2010E        |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Cash                                 | 46.2         | 18.0         | 5.2          | -6.0         |
| Debtors                              | 30.2         | 22.2         | 27.8         | 32.3         |
| Other current assets                 | 20.0         | 22.0         | 22.8         | 23.9         |
| <b>Current assets</b>                | <b>96.4</b>  | <b>62.2</b>  | <b>55.8</b>  | <b>50.2</b>  |
| Debtors                              | 56.2         | 55.7         | 55.1         | 54.6         |
| PPE                                  | 88.6         | 114.1        | 131.2        | 148.0        |
| Intangibles                          | 2.7          | 2.7          | 2.7          | 2.7          |
| Other non-current assets             | 19.1         | 27.6         | 37.6         | 51.6         |
| <b>Non-current assets</b>            | <b>166.7</b> | <b>200.1</b> | <b>226.6</b> | <b>256.8</b> |
| <b>Total assets</b>                  | <b>263.0</b> | <b>262.3</b> | <b>282.5</b> | <b>307.0</b> |
| Payables                             | 17.7         | 14.2         | 17.1         | 21.0         |
| Short term borrowings                | 3.1          | 3.1          | 3.1          | 3.1          |
| Other current liabilities            | 48.0         | 52.5         | 66.1         | 69.3         |
| <b>Total current liabilities</b>     | <b>68.9</b>  | <b>69.9</b>  | <b>86.3</b>  | <b>93.4</b>  |
| Long term borrowings                 | 77.9         | 77.9         | 77.9         | 77.9         |
| Other non-current liabilities        | 21.2         | 17.8         | 16.9         | 16.1         |
| <b>Total non-current liabilities</b> | <b>99.1</b>  | <b>100.7</b> | <b>99.5</b>  | <b>107.9</b> |
| <b>Total liabilities</b>             | <b>167.9</b> | <b>170.5</b> | <b>185.8</b> | <b>201.3</b> |
| <b>Net assets</b>                    | <b>95.1</b>  | <b>91.8</b>  | <b>96.6</b>  | <b>105.7</b> |

### Market Measures

| Year ending June            |            | 2007A       | 2008E       | 2009E       | 2010E       |
|-----------------------------|------------|-------------|-------------|-------------|-------------|
| EPS reported                | cps        | 13.8        | 15.0        | 20.4        | 23.2        |
| <b>EPS adjusted</b>         | <b>cps</b> | <b>14.3</b> | <b>15.0</b> | <b>21.2</b> | <b>23.7</b> |
| EPS growth                  | %          | -31%        | 5%          | 42%         | 12%         |
| <b>PE multiple</b>          | <b>x</b>   | <b>10.7</b> | <b>10.2</b> | <b>7.2</b>  | <b>6.5</b>  |
| <b>PE relative (ex-100)</b> | <b>%</b>   | <b>52%</b>  | <b>56%</b>  | <b>44%</b>  | <b>44%</b>  |
| EBITDA per share            | cps        | 32.0        | 36.4        | 45.9        | 51.0        |
| EBITDA growth               | %          | -14%        | 14%         | 26%         | 11%         |
| P/OCF                       | x          | 10.3        | 9.3         | 6.9         | 6.1         |
| FCF per share               | \$         | -0.16       | -0.33       | -0.11       | -0.08       |
| FCF yield                   | %          | nm          | nm          | nm          | nm          |
| DPS                         | cps        | 10.0        | 10.0        | 11.0        | 11.0        |
| Dividend yield              | %          | 6.5%        | 6.5%        | 7.2%        | 7.2%        |
| Franking                    | %          | 100         | 100         | 100         | 100         |
| Enterprise value            | \$m        | 125.8       | 154.0       |             |             |
| EV/EBITDA                   | x          | 6.6         | 7.1         | 5.6         | 5.1         |

### Profitability & Liquidity Ratios

| Year ending June    |    | 2007A | 2008E | 2009E | 2010E |
|---------------------|----|-------|-------|-------|-------|
| ROE                 | %  | 8.5%  | 9.8%  | 12.6% | 13.1% |
| ROA                 | %  | 4.2%  | 4.4%  | 5.0%  | 5.2%  |
| ROIC                | %  | 9.6%  | 9.5%  | 11.5% | 11.9% |
| NPAT/sales          | %  | 11.7% | 12.1% | 17.2% | 16.5% |
| EBITDA/sales        | %  | 27.5% | 29.0% | 38.8% | 36.3% |
| EBIT/interest       | x  | 4.0   | 3.7   | 4.6   | 4.4   |
| Gearing (ND/[ND+E]) | %  | 27%   | 41%   | 44%   | 45%   |
| NTA/share           | \$ | 1.55  | 1.50  | 1.58  | 1.73  |

### Valuation

|                           | \$m          | \$/share    |
|---------------------------|--------------|-------------|
| NPV of Cash Flows         | -4.9         | -0.08       |
| Terminal Value            | 39.6         | 0.68        |
| Net Cash (Debt)           | -34.8        | -0.60       |
| Land and receivables      | 133.4        | 2.30        |
| <b>DCF value</b>          | <b>133.3</b> | <b>2.29</b> |
| <b>DCF JV (50% share)</b> | <b>26.2</b>  | <b>0.45</b> |
| <b>DCF Total</b>          | <b>159.6</b> | <b>2.74</b> |
| Price target*             |              | \$2.74      |
| Upside/downside           |              | 79%         |
| DCF                       |              |             |

### WACC

|                          |              |
|--------------------------|--------------|
| Risk free rate of return | 6.0%         |
| Post-tax cost of debt    | 6.3%         |
| Equity risk premium      | 5.5%         |
| Beta target              | 1.0          |
| Cost of Equity           | 12.6%        |
| Terminal Growth Rate     | 2.0%         |
| <b>WACC</b>              | <b>10.1%</b> |

### Company Statistics

|                               |      |               |
|-------------------------------|------|---------------|
| Current share price           | \$ps | <b>\$1.53</b> |
| Ordinary shares               | m    | 59.5          |
| Options                       | m    | 0.0           |
| Diluted market capitalisation | \$m  | \$91.0        |

Sales

Tony Bonello +61 2 8252 3230  
 Bryce Reynolds +61 2 8252 3215  
 Robert Scappatura +61 2 8252 3240  
 Clay Melbourn +61 2 8252 3220  
 Stephen Murphy +61 8 9380 8351

Research

Resources  
 Piers Reynolds +61 3 8601 1196  
 Industrials  
 Wassim Kisirwani +61 2 8252 3270

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

This report has been issued by Veritas Securities Limited A.B.N. 94 117 124 535, Australian Financial Services Licence Number 297043.

Disclaimer. The information contained in this document is general information only and is not financial or investment advice, and does not take into account your specific financial situation, particular needs and investment objectives. This document has been prepared from sources which Veritas Securities Limited ("Veritas") believes to be reliable, but none of Veritas, its directors, employees and associates ("Veritas Parties") give or make any representation or warranty that any such information is accurate, complete, reliable or up-to-date, and Veritas disclaims all liability for loss or damage, direct or indirect, suffered by any person arising from any use of or reliance on such information. Veritas recommends that you consult your financial adviser before making any financial or investment decision. Veritas does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect any of the information contained in this document.

Disclosure of interest. Veritas Parties may receive or may have received fees, commissions and brokerage by acting as corporate adviser or broker for companies described in this document, and may hold directorships or other offices with such companies. Veritas Parties may hold an interest in securities or financial products described in this document, may benefit from an increase in the price or value of them, and may effect or participate in transactions which are inconsistent with any statement made in this document.

|                                 |                               |                             |                         |
|---------------------------------|-------------------------------|-----------------------------|-------------------------|
| Veritas Securities Limited      | Sydney                        | Melbourne                   | Perth                   |
| A.B.N. 94 117 124 535           | Level 4, 175 Macquarie Street | Level 8, 350 Collins Street | Suite 5, 531 Hay Street |
| AFSL No. 297 043                | Sydney, NSW, 2000             | Melbourne, VIC, 3000        | Subiaco, WA, 6008       |
| GPO Box 4877, Sydney, NSW, 2001 | Tel: (02) 8252 3200           | Tel: (03) 8601 1196         | Tel: (08) 9380 8351     |
| www.veritassecurities.com.au    | Fax: (02) 8252 3299           | Fax: (03) 8601 1180         | Fax: (08) 9380 8300     |