

4 April 2018

**Kangaroo Island Plantation Timbers (KPT) BUY Share Price: \$2.32**

**Still chipping away Target Price: A\$2.71**

**Recent news flow from KPT and its peers supports our view that the company's shares continue to offer good value at the current price.**

**Recent events and news flow**

- **Land purchase** – KPT has purchased (A\$2.2m) 173ha of land that adjoins its existing site at Smith Bay. While management reiterated that KPT's initial 12ha of land is sufficient to develop its proposed onshore facility, the additional land provides greater flexibility regarding the layout, capability, capacity and management of the associated impacts of its proposed onshore facility.
- **Additional disclosures** – to pre-empt uninformed speculation regarding the rationale for KPT's recent land purchase, management has clarified that (i) while the previously disclosed easements pertaining to the 12ha parcel of land remain unresolved, none prevent the proposed development from proceeding, and (ii) the recent land purchase is not affected by any easements.
- **State election** – although there appears to be bipartisan support for KPT's proposed wharf development at Smith Bay, the election of the Liberal Party in SA and the ALP's Leon Bignell as the State Member for Mawson arguably provides the path of least resistance for the company's ambitions on Kangaroo Island.
- **Harwood woodchip price** – recent discussions with industry contacts suggests that the export price for hardwood woodchips from Portland is exhibiting significant strength, with indications that the Chinese are currently the marginal buyer at circa US\$170 per BDT. While this is primarily a reflection of strong demand, it also reflects tightening supply.

**Key dates**

- Management announced in February 2018 that it no longer expects a final decision on its proposed wharf development by June 2018. While no revised indicative timetable has been forthcoming, submission of the project's EIS remains the key focus. From that point, we estimate another 5-6 months to final decision, and a further 6-9 months to construct the wharf (i.e. FY20).

**Valuation**

- Our price target has fallen to \$2.71ps on the higher share count. While our earnings forecasts remain unchanged, we note the (i) potential for the commencement of harvesting at KPT to extend beyond our base case for July 2019, and (ii) current export price for hardwood woodchips from Portland, which is currently trending above our base estimate.

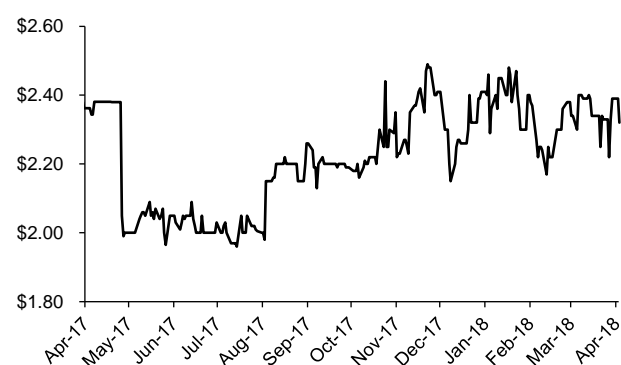
**Company Data**

Shares – ordinary (M)	50.9
Dilution (M)	0.0
Total (fully diluted) (M)	50.9
Market capitalisation (\$M)	118.0
12 month low/high (\$)	1.95/2.5
Average monthly turnover (\$M)	0.43
Index	All Ords
GICS Industry	Paper & Forest Products

**Financial Summary (fully diluted/normalised)**

Year end June	2018F	2019F	2020F	2021F	2022F
Revenue (\$M)	0.1	0.1	37.6	52.9	55.8
Costs (\$M)	0.4	-0.6	24.9	34.8	36.4
EBITDA (\$M)	-0.3	0.7	12.6	18.0	19.4
Operating NPAT (\$M)	-1.1	-1.1	8.3	9.1	10.4
Operating EPS (cps)	-2.4	-2.2	16.3	18.0	20.3
EPS growth (%)	NM	NM	>100%	10.2	13.2
PER (x)	-95.7	-107.3	14.2	12.9	11.4
Free cash flow (\$M)	-15.8	-28.6	7.4	16.9	17.0
FCFPS (cps)	-34.5	-56.2	14.5	33.2	33.4
PFCFPS (x)	-6.7	-4.1	16.0	7.0	7.0
Enterprise Value (\$M)	132.8	161.4	154.8	141.4	130.2
EV / EBITDA (x)	NM	NM	12.3	7.8	6.7
Payout ratio (%)	0.0	0.0	30.6	61.2	59.0
Dividends (cps)	0.0	0.0	5.0	11.0	12.0
Yield (%)	0.0	0.0	2.2	4.7	5.2
Franking (%)	0.0	0.0	0.0	0.0	0.0

**KPT – performance over one year**



**Disclosure and Disclaimer**

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was Broker for KPT's Placement to raise \$33.5M at \$2.00/sh on 12 April 2017 and \$15M at \$2.00/sh on 30 November 2017, for which a fee was received.

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## Analysis

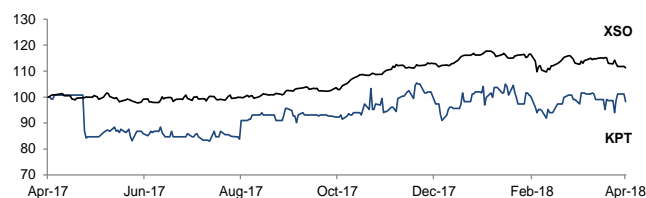
### Kangaroo Island Plantation Timbers

Year End June

#### MARKET DATA

Recommendation		Buy
Price	\$	2.32
Price target (12-month)	\$	2.71
52 week high / low		1.95 - 2.5
Market capitalisation	\$m	118.0
Shares on issue (basic)	no.	50.9
Performance rights	no.	0.0
Other equity	no.	0.0
Shares on issue (diluted)	no.	50.9

#### 12-MONTH SHARE PRICE PERFORMANCE



#### INVESTMENT FUNDAMENTALS

	2018F	2019F	2020F	2021F	2022F	
Reported net profit	\$m	(1.1)	(1.1)	8.3	9.1	10.4
Normalised net profit	\$m	(1.1)	(1.1)	8.3	9.1	10.4
Reported EPS (diluted)	¢	(2.4)	(2.2)	16.3	18.0	20.3
Normalised EPS (diluted)	¢	(2.4)	(2.2)	16.3	18.0	20.3
...Growth	%	NM	NM	>100%	10.2	13.2
Normalised diluted PER	x	(95.7)	(107.3)	14.2	12.9	11.4
Operating CFPS	¢	(17.1)	(14.9)	18.8	37.5	37.7
FCFPS	¢	(34.5)	(56.2)	14.5	33.2	33.4
Price to FCFPS	x	(6.7)	(4.1)	16.0	7.0	7.0
Free cash flow yield	%	(14.9)	(24.2)	6.2	14.3	14.4
Dividend per share	¢	0.0	0.0	5.0	11.0	12.0
Payout ratio	%	0.0	0.0	30.6	61.2	59.0
Yield	%	0.0	0.0	2.2	4.7	5.2
Franking	%	0.0	0.0	0.0	0.0	75.0

Enterprise value	\$m	132.8	161.4	154.8	141.4	130.2
EV/EBITDA	x	NM	NM	12.3	7.8	6.7
EV/EBIT	x	NM	NM	14.7	8.9	7.5
Price to book (NAV)	x	1.04	1.05	1.00	0.97	0.93
Price to NTA	x	1.04	1.05	1.00	0.97	0.93

#### KEY RATIOS

	2018F	2019F	2020F	2021F	2022F	
EBITDA margin	%	NM	NM	33.6	34.1	34.8
EBIT margin	%	NM	NM	28.1	30.2	31.0
Net profit margin	%	NM	NM	22.1	17.3	18.6
Return on avg equity	%	NM	NM	7.2	7.6	8.3
Return on avg assets	%	NM	NM	5.4	7.7	8.0
NTA per share	¢	224.0	221.8	233.1	240.1	248.5
Net debt / (cash)	\$m	14.8	43.4	36.8	23.4	12.1
Interest cover (EBIT)	x	(0.2)	0.3	3.3	5.5	6.9
Leverage (net debt / EBITDA)	x	(54.7)	59.0	2.9	1.3	0.6
Gearing (ND/ND+E)	%	11.5	27.8	23.7	16.1	8.8

#### DUPONT ANALYSIS

	2018F	2019F	2020F	2021F	2022F	
Net Profit Margin	%	NM	NM	22.1	17.3	18.6
Asset Turnover	x	NM	NM	0.2	0.2	0.3
Return on Assets	%	NM	NM	4.1	4.3	4.7
Financial Leverage	x	NM	NM	1.7	1.7	1.8
Return on Equity	%	NM	NM	7.0	7.5	8.2

#### Key assumptions

	2018F	2019F	2020F	2021F	2022F
Harvest	0.0	0.0	353.6	482.1	499.1
- Hardwood (gmt)	0.0	0.0	203.6	332.1	349.1
- Softwood (gmt)	0.0	0.0	150.0	150.0	150.0
Average price	103.6	106.9	109.2	111.5	113.9
- Hardwood (A\$/gmt)	104.0	106.1	108.2	110.4	112.6
- Softwood (A\$/cbm)	93.6	95.5	97.4	99.3	101.3
Key costs (A\$/gmt)	0.0	0.0	(50.7)	(50.9)	(51.9)
- Plantation maintenance and mgmt	0.0	0.0	(5.1)	(4.0)	(4.1)
- Harvest preparation	0.0	0.0	(1.2)	(1.2)	(1.2)
- Harvesting	0.0	0.0	(19.8)	(20.2)	(20.6)
- Chipping	0.0	0.0	(5.1)	(6.2)	(6.4)
- Haulage	0.0	0.0	(10.2)	(10.4)	(10.7)
- Pre-export cost	0.0	0.0	(6.8)	(6.2)	(6.3)
- Marketing commission	0.0	0.0	(2.6)	(2.7)	(2.7)

#### PROFIT AND LOSS

	2018F	2019F	2020F	2021F	2022F	
Total revenue	\$m	0.1	0.1	37.6	52.9	55.8
EBITDA	\$m	(0.3)	0.7	12.6	18.0	19.4
Depreciation & amortisation	\$m	0.0	0.0	2.1	2.1	2.1
EBIT	\$m	(0.3)	0.7	10.5	16.0	17.3
Net interest	\$m	1.3	2.3	3.2	2.9	2.5
Non-operating income	\$m	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m	(1.6)	(1.6)	7.3	13.1	14.8
Tax expense	\$m	(0.5)	(0.5)	(1.0)	3.9	4.4
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Operating NPAT	\$m	(1.1)	(1.1)	8.3	9.1	10.4
Significant items	\$m	0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m	(1.1)	(1.1)	8.3	9.1	10.4

#### GROWTH PROFILE

	2018F	2019F	2020F	2021F	2022F	
Operating revenue	%	NM	NM	>100%	40.8	5.5
EBITDA	%	NM	NM	>100%	42.9	7.5
EBIT	%	NM	NM	>100%	51.4	8.5
Operating NPAT	%	NM	NM	>100%	10.2	13.2
Normalised EPS	%	NM	NM	>100%	10.2	13.2
DPS	%	NM	NM	>100%	120.0	9.1

#### BALANCE SHEET

	2018F	2019F	2020F	2021F	2022F	
Cash	\$m	10.2	13.6	20.2	33.6	44.9
Receivables	\$m	0.0	0.0	1.9	2.6	2.8
Inventory	\$m	0.0	0.0	1.9	2.6	2.8
Other	\$m	0.8	0.8	0.8	0.8	0.8
Current	\$m	11.0	14.4	24.7	39.7	51.2
Prop, plant & equip	\$m	53.7	74.7	74.8	74.9	75.0
Standing timber	\$m	86.8	94.5	94.3	91.3	88.1
Other	\$m	7.0	7.7	7.6	7.4	7.2
Non current	\$m	147.6	176.9	176.8	173.6	170.3
Total assets	\$m	158.5	191.3	201.5	213.3	221.5
Accounts Payable	\$m	0.0	0.0	1.9	2.6	2.8
Borrowings	\$m	25.0	57.0	57.0	57.0	57.0
Other	\$m	19.6	21.5	24.0	31.5	35.3
Total liabilities	\$m	44.6	78.5	82.9	91.1	95.1
Net assets	\$m	114.0	112.9	118.6	122.2	126.4
Equity	\$m	114.0	112.9	118.6	122.2	126.4
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	\$m	114.0	112.9	118.6	122.2	126.4
Shares on issue	m	50.9	50.9	50.9	50.9	50.9

#### CASH FLOW

	2018F	2019F	2020F	2021F	2022F	
Operating EBITDA	\$m	(6.2)	(5.3)	14.6	22.7	24.1
Change in working capital	\$m	(0.4)	0.0	(1.9)	(0.8)	(0.1)
Net interest	\$m	(1.3)	(2.3)	(3.2)	(2.9)	(2.5)
Tax paid	\$m	0.0	0.0	0.0	0.0	(2.3)
Other	\$m	0.0	0.0	0.0	0.0	0.0
Operating cash flow	\$m	(7.8)	(7.6)	9.5	19.1	19.2
Capital expenditure	\$m	(8.0)	(21.0)	(2.2)	(2.2)	(2.2)
Acquisitions/divestment/other	\$m	0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m	(8.0)	(21.0)	(2.2)	(2.2)	(2.2)
Free cash flow	\$m	(15.8)	(28.6)	7.4	16.9	17.0
Equity	\$m	20.0	0.0	0.0	0.0	0.0
Increase / (decrease) in debt	\$m	0.0	32.0	0.0	0.0	0.0
Dividend/other	\$m	0.0	0.0	(0.8)	(3.5)	(5.7)
Financing cash flow	\$m	20.0	32.0	(0.8)	(3.5)	(5.7)
Net cash flow	\$m	4.2	3.4	6.6	13.4	11.2

Source: Petra Capital

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