

11 July 2018

Kangaroo Island Plantation Timbers Ltd (KPT) BUY Share Price: A\$2.15

A few more twists and turns to wharf approval Target Price: A\$2.71

The revised indicative dates for KPT's wharf DA suggest the business could be operational by 2H20. Accordingly, we have revised our earnings forecasts to reflect this delay. While we have opted to leave our target price unchanged at \$2.71ps (1.1x FY18F NTA), our estimated fair value (unrisked DCF) has increased to \$3.30ps (from \$3.25ps), with a higher timber price assumption more than offsetting cash flow deferment.

Event

- KPT has provided an update regarding the approval process for its proposed wharf at Smith Bay, on Kangaroo Island.

Key points

- Delays in completing the EIS reflect management's preference for eliminating "all outstanding matters of contention" prior to submitting the document.
- The key matters of contention appear to stem from the neighbouring abalone farm, which has current concerns about creek effluent and ocean sediment disturbances.
- Other matters of contention include the road route finalisation and the use of high-productivity vehicles thereon, and the extent of operating capabilities on-site.

Key takeaways

- While the decision to address all outstanding matters of contention before completing the EIS has caused some delays, it should expedite the process thereafter.
- As previously stated, the purchase of additional land does provide KPT with greater flexibility in the layout and capability (i.e. efficiency) of its onshore facilities.

Indicative dates

- August 2018:** Completion of coastal process modelling for the wharf's revised in-water structure.
- September 2018:** lodgement of the EIS following elimination of all outstanding matters.
- December 2018:** Completion of the public and agency consultation period.

Investment view

- KPT offers investors exposure to an asset class that (i) has high utility and consistent growth, and (ii) generates returns that are uncorrelated to the broader market.
- Based on the indicative dates above, we now expect (i) a final decision on the proposed wharf by March 2019, and (ii) an operating wharf by December 2019.
- Assuming KPT's wharf proceeds as planned, we expect the company to generate a sustainable free cash flow yield in excess of 15% per annum from FY21.

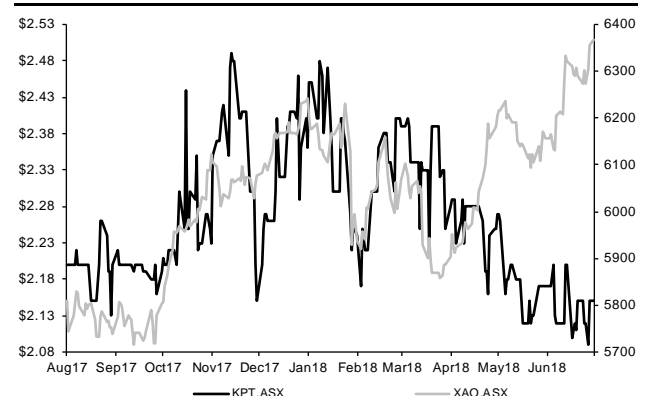
Company Data

| | |
|--------------------------------|-------------------------|
| Shares – ordinary (M) | 50.9 |
| Dilution (M) | 0.0 |
| Total (fully diluted) (M) | 50.9 |
| Market capitalisation (\$M) | 109.4 |
| 12 month low/high (\$) | 1.96 - 2.5 |
| Average monthly turnover (\$M) | 0.7 |
| GICS Industry | Paper & Forest Products |

Financial Summary (fully diluted/normalised)

| Year End June | 2018F | 2019F | 2020F | 2021F | 2022F |
|--------------------|-------|--------|-------|-------|-------|
| Revenue (A\$m) | 0.2 | 0.2 | 20.0 | 54.1 | 57.2 |
| Costs (A\$m) | -19.0 | -0.9 | 13.3 | 37.1 | 38.7 |
| EBITDA (A\$m) | 19.2 | 1.1 | 6.7 | 17.1 | 18.5 |
| NPAT (A\$m) | 12.4 | -0.9 | 1.8 | 8.4 | 9.4 |
| EPS (¢) | 27.1 | -1.8 | 3.6 | 16.4 | 18.4 |
| EPS Growth (%) | NM | -100+ | 100+ | 100+ | 12.2 |
| PER (x) | 7.9 | -119.0 | 59.4 | 13.1 | 11.7 |
| FCF (A\$m) | -19.4 | -29.8 | -2.6 | 15.5 | 17.7 |
| FCFPS (cps) | -42.2 | -58.5 | -5.2 | 30.5 | 34.8 |
| Price to FCFPS (x) | -5.1 | -3.7 | -41.3 | 7.1 | 6.2 |
| EV (A\$m) | 127.7 | 157.5 | 160.3 | 146.7 | 134.2 |
| EV/EBITDA | NM | NM | 23.9 | 8.6 | 7.3 |
| Payout ratio (%) | 0.0 | 0.0 | 27.6 | 60.9 | 59.7 |
| Dividend (¢) | 0.0 | 0.0 | 1.0 | 10.0 | 11.0 |
| Net Yield (%) | 0.0 | 0.0 | 0.5 | 4.7 | 5.1 |

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

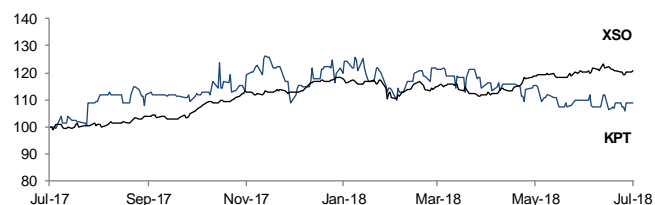
Kangaroo Island Plantation Timbers

Year End June

MARKET DATA

| | | |
|---------------------------|-----|------------|
| Recommendation | | Buy |
| Price | \$ | 2.15 |
| Price target (12-month) | \$ | 2.71 |
| 52 week high / low | \$ | 1.95 - 2.5 |
| Market capitalisation | \$m | 109.4 |
| 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 12.4 | (0.9) | 1.8 | 8.4 | 9.4 |
| Normalised net profit | \$m 12.4 | (0.9) | 1.8 | 8.4 | 9.4 |
| Reported EPS (diluted) | ¢ 27.1 | (1.8) | 3.6 | 16.4 | 18.4 |
| Normalised EPS (diluted) | ¢ 27.1 | (1.8) | 3.6 | 16.4 | 18.4 |
| Growth | % NM | -100+ | 100+ | 353.6 | 12.2 |
| Normalised diluted PER | x 7.9 | NM | 59.4 | 13.1 | 11.7 |
| Operating CFPS | ¢ (20.8) | (17.3) | (0.8) | 34.9 | 39.2 |
| FCFPS | ¢ (42.2) | (58.5) | (5.2) | 30.5 | 34.8 |
| Price to FCFPS | x (5.1) | (3.7) | (41.3) | 7.1 | 6.2 |
| Free cash flow yield | % NM | NM | NM | 14.2 | 16.2 |

| | | | | | |
|--------------------|-------|-----|------|------|------|
| Dividend per share | ¢ 0.0 | 0.0 | 1.0 | 10.0 | 11.0 |
| Payout ratio | % 0.0 | 0.0 | 27.6 | 60.9 | 59.7 |
| Yield | % 0.0 | 0.0 | 0.5 | 4.7 | 5.1 |
| Franking | % 0.0 | 0.0 | 0.0 | 0.0 | 75.0 |

| | | | | | |
|---------------------|-----------|-------|-------|-------|-------|
| Enterprise value | \$m 127.7 | 157.5 | 160.3 | 146.7 | 134.2 |
| EV/EBITDA | x NM | NM | 23.9 | 8.6 | 7.3 |
| EV/EBIT | x NM | NM | 35.1 | 9.8 | 8.2 |
| Price to book (NAV) | x 0.86 | 0.86 | 0.86 | 0.83 | 0.81 |
| Price to NTA | x 0.86 | 0.86 | 0.86 | 0.83 | 0.81 |

KEY RATIOS

| | 2018F | 2019F | 2020F | 2021F | 2022F |
|----------------------|-------|-------|-------|-------|-------|
| EBITDA margin | % NM | NM | 33.5 | 31.5 | 32.3 |
| EBIT margin | % NM | NM | 22.8 | 27.6 | 28.6 |
| Net profit margin | % NM | NM | 9.2 | 15.4 | 16.4 |
| Return on avg equity | % NM | NM | 1.4 | 6.5 | 7.0 |
| Return on avg assets | % NM | NM | 2.1 | 6.7 | 6.9 |

| | | | | | |
|-----------------------------|----------|-------|-------|-------|-------|
| NTA per share | ¢ 250.6 | 248.8 | 251.4 | 257.9 | 265.3 |
| Net debt/(cash) | \$m 18.3 | 48.1 | 50.9 | 37.3 | 24.8 |
| Interest cover (EBIT) | x 13.5 | 0.5 | 1.3 | 4.5 | 5.6 |
| Leverage (net debt/ EBITDA) | x 1.0 | 43.0 | 7.6 | 2.2 | 1.3 |
| Gearing (ND/ND+E) | % 12.6 | 27.5 | 28.5 | 22.1 | 15.5 |

DUPONT ANALYSIS

| | 2018F | 2019F | 2020F | 2021F | 2022F |
|--------------------|-------|-------|-------|-------|-------|
| Net Profit Margin | % NM | NM | 9.2 | 15.4 | 16.4 |
| Asset Turnover | x NM | NM | 0.1 | 0.2 | 0.2 |
| Return on Assets | % NM | NM | 0.8 | 3.6 | 3.9 |
| Financial Leverage | x NM | NM | 1.7 | 1.8 | 1.8 |
| Return on Equity | % NM | NM | 1.4 | 6.4 | 6.9 |

Key assumptions

| | 2018F | 2019F | 2020F | 2021F | 2022F |
|-----------------------------------|-------|-------|--------|--------|--------|
| Harvest | 0.0 | 0.0 | 182.3 | 481.1 | 498.2 |
| - Hardwood (gmt) | 0.0 | 0.0 | 107.3 | 331.1 | 348.2 |
| - Softwood (gmt) | 0.0 | 0.0 | 75.0 | 150.0 | 150.0 |
| Average price | 0.0 | 0.0 | 106.4 | 109.7 | 112.0 |
| - Hardwood (A\$/gmt) | 106.7 | 108.8 | 111.0 | 113.2 | 115.5 |
| - Softwood (A\$/cbm) | 96.0 | 97.9 | 99.9 | 101.9 | 103.9 |
| Key costs (A\$/gmt) | 0.0 | 0.0 | (55.8) | (51.0) | (52.1) |
| - Plantation maintenance and mgmt | 0.0 | 0.0 | (10.0) | (4.1) | (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 | (5.2) | (6.2) | (6.4) |
| - Haulage | 0.0 | 0.0 | (10.2) | (10.4) | (10.7) |
| - Pre-export cost | 0.0 | 0.0 | (6.7) | (6.2) | (6.3) |
| - Marketing commission | 0.0 | 0.0 | (2.7) | (2.7) | (2.8) |

PROFIT AND LOSS

| | 2018F | 2019F | 2020F | 2021F | 2022F |
|-----------------------------|----------|-------|-------|-------|-------|
| Total revenue | \$m 0.2 | 0.2 | 20.0 | 54.1 | 57.2 |
| EBITDA | \$m 19.2 | 1.1 | 6.7 | 17.1 | 18.5 |
| Depreciation & amortisation | \$m 0.0 | 0.0 | 2.1 | 2.1 | 2.1 |
| EBIT | \$m 19.2 | 1.1 | 4.6 | 14.9 | 16.3 |
| Net interest | \$m 1.4 | 2.4 | 3.5 | 3.3 | 2.9 |
| Non-operating income | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax Profit | \$m 17.8 | (1.3) | 1.1 | 11.6 | 13.4 |
| Tax expense | \$m 5.3 | (0.4) | (0.8) | 3.3 | 4.0 |
| Minorities | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating NPAT | \$m 12.4 | (0.9) | 1.8 | 8.4 | 9.4 |
| Significant items | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported NPAT | \$m 12.4 | (0.9) | 1.8 | 8.4 | 9.4 |

GROWTH PROFILE

| | 2018F | 2019F | 2020F | 2021F | 2022F |
|-------------------|-------|--------|-------|-------|-------|
| Operating revenue | % NM | 0.0 | 100+ | 170.6 | 5.6 |
| EBITDA | % NM | (94.2) | 100+ | 154.7 | 8.2 |
| EBIT | % NM | (94.2) | 100+ | 227.1 | 9.4 |
| Operating NPAT | % NM | -100+ | 100+ | 353.6 | 12.2 |
| Normalised EPS | % NM | -100+ | 100+ | 353.6 | 12.2 |
| DPS | % NM | NM | 100+ | 900.0 | 10.0 |

BALANCE SHEET

| | 2018F | 2019F | 2020F | 2021F | 2022F |
|----------------------|-----------|-------|-------|-------|-------|
| Cash | \$m 6.7 | 8.9 | 6.1 | 19.7 | 32.2 |
| Receivables | \$m 0.0 | 0.0 | 1.0 | 2.7 | 2.9 |
| Inventory | \$m 0.0 | 0.0 | 1.0 | 2.7 | 2.9 |
| Other | \$m 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Current | \$m 7.4 | 9.7 | 8.9 | 25.9 | 38.7 |
| Prop, plant & equip | \$m 55.6 | 76.6 | 76.7 | 76.8 | 76.9 |
| Standing timber | \$m 107.8 | 117.5 | 122.3 | 118.8 | 115.1 |
| Other | \$m 8.7 | 9.5 | 9.9 | 9.6 | 9.3 |
| Non current | \$m 172.1 | 203.5 | 208.9 | 205.2 | 201.3 |
| Total assets | \$m 179.6 | 213.2 | 217.8 | 231.1 | 240.0 |
| Accounts Payable | \$m 0.0 | 0.0 | 1.0 | 2.7 | 2.9 |
| Borrowings | \$m 25.0 | 57.0 | 57.0 | 57.0 | 57.0 |
| Other | \$m 27.1 | 29.6 | 31.8 | 40.2 | 45.1 |
| Total liabilities | \$m 52.1 | 86.6 | 89.8 | 99.9 | 105.0 |
| Net assets | \$m 127.5 | 126.6 | 127.9 | 131.2 | 135.0 |
| Equity | \$m 127.5 | 126.6 | 127.9 | 131.2 | 135.0 |
| Minorities | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Shareholder's equity | \$m 127.5 | 126.6 | 127.9 | 131.2 | 135.0 |
| Shares on issue | m 50.9 | 50.9 | 50.9 | 50.9 | 50.9 |

CASH FLOW

| | 2018F | 2019F | 2020F | 2021F | 2022F |
|-------------------------------|------------|--------|-------|-------|-------|
| Operating EBITDA | \$m (7.7) | (6.4) | 4.1 | 22.8 | 24.2 |
| Change in working capital | \$m (0.4) | 0.0 | (1.0) | (1.7) | (0.2) |
| Net interest | \$m (1.4) | (2.4) | (3.5) | (3.3) | (2.9) |
| Tax paid | \$m (0.0) | 0.0 | 0.0 | 0.0 | (1.2) |
| Other | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating cash flow | \$m (9.5) | (8.8) | (0.4) | 17.8 | 19.9 |
| Capital expenditure | \$m (9.8) | (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 (9.8) | (21.0) | (2.2) | (2.2) | (2.2) |
| Free cash flow | \$m (19.4) | (29.8) | (2.6) | 15.5 | 17.7 |
| 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 | (0.2) | (1.9) | (5.2) |
| Financing cash flow | \$m 20.0 | 32.0 | (0.2) | (1.9) | (5.2) |
| Net cash flow | \$m 0.6 | 2.2 | (2.8) | 13.6 | 12.5 |

Source: Petra Capital

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