

# CPT Global (CGO)

## *Secrets men's business*

17 September 2009

### Opinion Data

<b>Recommendation</b>	<b>Restricted</b> (from Hold)
<b>Risk Rating</b>	<b>High</b>
<b>Current share price</b>	<b>\$0.90</b>
<b>12 month target price</b>	<b>NA</b>
<b>DCF Valuation</b>	<b>\$1.09</b> (from \$0.71)
<b>Market capitalisation</b>	<b>\$33m</b>

The core business of CPT Global (CGO) is capacity planning, performance tuning and systems testing.

CGO reported a FY'09 NPAT of \$2.17m - up 31%.

Key points:

- **Revenue in-line with FY'08 at \$44m.** Domestic revenue contributed \$31m with the remainder from the international business where revenue increased 43%.
- **EBIT margins** rose to 7.6% from 6%, though still below 10.6% in FY'07.
- **Cash** \$1.2m (no debt).
- **A final dividend of 3.0cps** (ff), a payout ratio of 97%. The full year dividends were 5.5cps.
- **FY'10 outlook.** We forecast a NPAT of \$2.7m, 25% growth – driven by continued growth in the offshore business, somewhat mitigated by a rising A\$.

**Investment View.** Restricted - as Austock is broker to a buyback (and has been so for a number of years, though never bought stock).

CGO is a business with A-grade financial service and telco clients, though is unable to disclose/quantify the depth of the contracts because of confidentially undertakings. As a micro cap this is not ideal.

We cover CGO because we rate management, and the potential of the offshore risk/reward business.

Our DCF valuation is \$1.09/share, from \$0.71/share.

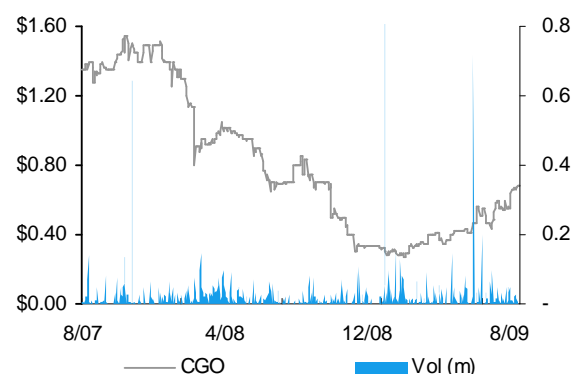
### Earnings Forecasts

Y/end June (A\$m)	2008A	2009A	2010F	2011F
Revenue	44.5	43.9	49.4	54.4
EBITDA	2.9	3.6	4.4	5.3
EBIT	2.7	3.3	4.1	5.1
NPAT	1.6	2.2	2.7	3.4
EPS (cps)	4.5	5.9	7.4	9.1
EPS Growth (%)	-48%	33%	25%	23%
DPS (c)	5.0	5.5	6.7	7.7
Dividend Yield (%)	5.6%	6.1%	7.4%	8.6%
PE (x)	20.2	15.1	12.1	9.9
EV / EBITDA (x)	13.2	10.2	8.7	7.3
EV / EBIT (x)	14.4	10.9	9.2	7.7
Gearing (%)	-1%	-7%	-2%	1%
EBIT Margin (%)	6%	8%	8%	9%
Interest Cover (x)	na	na	na	na

### Earnings Adjustments

Y/end June (A\$m)	2010F	2011F	2012F
Previous NPAT (\$m)	2.2	2.3	2.4
Ch. in NPAT (%)	24%	46%	33%
Previous EPS (cps)	6.0	6.2	6.5
Ch. in EPS (%)	24%	47%	33%

### CGO Share Price / Volume



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## FY'09 RESULT SUMMARY

**FY'09 \$2.17m in line**

CGO reported FY'09 NPAT of \$2.2m, in-line with our forecast. Whilst this was a good increase on FY'08, it still compares to \$3m in FY'07.

**...driven by offshore business**

### Divisional performances:

- Domestic operations fell 13% to \$31m; and
- Overseas operations contributed revenue of \$13m, up strongly on 1H and FY'08 of \$9m.

**FY'09 EBIT margins rose to 7.6%** from 6% on pcp mainly due to a greater contribution from the higher margin offshore operations.

### Earnings Summary

\$m unless stated	FY'08A	1H	2H	FY'09A	FY'10F	08A growth	09A growth	10F growth
Sales								
- Australia	35	16	15	31	32	11%	-13%	5%
- Overseas	9	5	8	13	17	-4%	43%	30%
Total	45	22	22	44	49	8%	-1%	12%
EBIT	2.7	1.8	1.5	3.3	4.1	-39%	25%	24%
NPAT	1.6	1.0	1.2	2.2	2.7			
EPS (cps)	4.5	2.8	3.1	5.9	7.4			
DPS (cps)	5.0	2.5	3.0	5.5	6.7			
<u>Ratios</u>								
EBIT margin	6.0%	8.3%	7.0%	7.6%	8.4%			
Payout	112%	88%	97%	93%	90%			

Source: Company financials & Austock Securities estimates

## FY'10 FORECASTS

We expect tough but manageable conditions in Australia, and a continued improvement from the offshore "risk/reward" business, notwithstanding the strong A\$. Our FY'10 forecasts assume:

- Revenue growth of 12%; and
- EBIT margin of 8.4%.

**5 year 'aspirational' revenue target set in '06**

In 2006 CGO was targeting \$120m in annualised revenue by June 2011. We believe our forecasts are relatively conservative.

## RISKS

- Stock liquidity is very low.
- Reliance on key personnel.
- We estimate 80% of revenue is generated from 10 major clients.

**CPT Global**  
**NFPOS**

37 m

**Price** **\$0.90**  
**Market Cap** **\$33 m**
**Date:** **18-Sep-09**  
**Model Updated:** **18-Sep-09**
**PROFIT & LOSS (\$m)**

Y/E June 30	FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
Sales	44.5	43.9	49.4	54.4	59.1
EBITDA	2.9	3.6	4.4	5.3	5.9
Depn & Amort	-0.2	-0.2	-0.2	-0.2	-0.2
<b>EBIT</b>	<b>2.7</b>	<b>3.3</b>	<b>4.1</b>	<b>5.1</b>	<b>5.6</b>
Net Interest	-0.1	0.0	0.0	0.0	0.0
Income tax expense	-0.9	-1.2	-1.4	-1.7	-1.9
PAT including OEI	1.6	2.2	2.7	3.4	3.7
Reported NPAT pre abs.	1.6	2.2	2.7	3.4	3.7
<b>Adjusted NPAT</b>	<b>1.6</b>	<b>2.2</b>	<b>2.7</b>	<b>3.4</b>	<b>3.7</b>

**BALANCE SHEET (\$m)**

Y/E June 30	FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
Cash	0.1	1.2	0.4	-0.1	-0.6
PP&E	0.5	0.8	1.2	1.6	2.2
Debtors & Inventory	13.7	12.3	13.8	15.2	16.5
Intangibles	9.8	9.8	9.8	9.8	9.8
Other assets	0.8	0.6	0.8	1.0	1.1
<b>Total Assets</b>	<b>24.9</b>	<b>24.8</b>	<b>26.0</b>	<b>27.5</b>	<b>28.9</b>
Borrowings	0.0	0.0	0.0	0.0	0.0
Trade Creditors	5.6	4.7	5.3	5.9	6.4
Other Liabilities	2.5	2.3	2.6	3.0	3.4
<b>Total Liabilities</b>	<b>8.1</b>	<b>7.0</b>	<b>7.9</b>	<b>8.9</b>	<b>9.7</b>
<b>NET ASSETS</b>	<b>16.8</b>	<b>17.7</b>	<b>18.1</b>	<b>18.6</b>	<b>19.2</b>
OEI and Pref Shares	0.0	0.0	0.0	0.0	0.0
<b>Shareholder Equity</b>	<b>16.8</b>	<b>17.7</b>	<b>18.1</b>	<b>18.6</b>	<b>19.2</b>

**CASHFLOW STATEMENT (\$m)**

Y/E June 30	FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
<b>Operating EBITDA</b>	<b>2.9</b>	<b>3.6</b>	<b>4.4</b>	<b>5.3</b>	<b>5.9</b>
Interest & Tax Paid	(1.1)	(1.2)	(1.4)	(1.7)	(1.9)
Working Cap.	(0.5)	0.6	(0.9)	(0.8)	0.0
<b>Operating CF</b>	<b>1.4</b>	<b>3.0</b>	<b>2.1</b>	<b>2.8</b>	<b>4.0</b>
Maintenance Capex	0.3	0.3	0.4	0.4	0.5
<b>Free Cashflow (FCF)</b>	<b>1.1</b>	<b>2.6</b>	<b>1.7</b>	<b>2.3</b>	<b>2.6</b>
Ord & Pref Dividends	(2.8)	(2.0)	(2.5)	(2.9)	(3.2)
Expansion Capex	0.0	0.0	0.0	0.0	0.0
Net Other	0.0	0.0	0.0	0.0	0.0
<b>Net Cashflow</b>	<b>(1.8)</b>	<b>0.6</b>	<b>(0.8)</b>	<b>(0.6)</b>	<b>(0.5)</b>

**COMPOSITION (\$m)**

Y/E June 30	FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
Australian sales	35.4	30.9	32.4	34.1	35.8
Overseas sales	9.1	13.0	16.9	20.3	23.3
<b>Total sales</b>	<b>44.5</b>	<b>43.9</b>	<b>49.4</b>	<b>54.4</b>	<b>59.1</b>

**KEY RATIOS**

Y/E June 30	FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
EBIT Margin (%)	6.0%	7.6%	8.4%	9.4%	9.5%
NPAT Margin (%)	3.6%	5.0%	5.5%	6.2%	6.3%
ROE (%) y/e	10%	12%	15%	18%	19%
ROA (%) y/e	11%	15%	17%	19%	20%
ROIC (%) Av.	16%	20%	24%	27%	28%
NTA per share (\$)	0.18	0.22	0.23	0.24	0.25
Eff Tax Rate (%)	37%	35%	34%	34%	34%
Interest Cover (x)	na	na	na	na	na
Net Gearing (%)	-0.8%	-7.0%	-2.4%	0.6%	3.3%

**VALUATION PARAMETERS**

Y/E June 30	FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
Adjusted EPS (c)	4.5	5.9	7.4	9.1	10.1
<b>Adjusted PE (x)</b>	<b>20.2</b>	<b>15.1</b>	<b>12.1</b>	<b>9.9</b>	<b>8.9</b>
PER Rel - All Ind. Ex-Fin.	108%	144%	113%	90%	0
PER Rel - Small Indust.	108%	144%	113%	90%	0
Enterprise Value (\$m)	38.7	36.7	38.1	39.1	40.2
EV / EBITDA (x)	13.2	10.2	8.7	7.3	6.8
<b>EV / EBIT (x)</b>	<b>14.4</b>	<b>10.9</b>	<b>9.2</b>	<b>7.7</b>	<b>7.1</b>
Price / NTA	4.9	4.2	4.0	3.8	3.5
DPS (cps)	5.0	5.5	6.7	7.7	8.6
Dividend Yield (%)	5.6%	6.1%	7.4%	8.6%	9.5%
Franking (%)	100%	100%	100%	100%	200%
Free Cash / Share (c)	2.9	7.1	4.5	6.2	7.2
Price / FCF PS (x)	31.1	12.6	20.0	14.4	12.6

**DCF VALUATION**

PV Forecast CF (09-11)	4.4	Risk Free Rate	6.0%
PV Growth CF (12-17)	16.4	Equity Risk Premium	6.0%
PV Perpetuity	19.4	Equity Beta	1.3
Surplus Assets	0.0	Medium Term Growth	9.0%
Total	40.2	D / (D + E)	0%
Net cash less OEI	-0.1	WACC	13.5%
NPV (\$m)	40.3	Terminal WACC	13.5%
NPV per diluted share	\$ 1.09	Terminal Growth	3.0%

**WACC**

Term. Growth Rate	14.5%	13.5%	12.5%	11.5%
1.5%	\$ 0.94	\$ 1.03	\$ 1.14	\$ 1.27
2.0%	\$ 0.96	\$ 1.05	\$ 1.16	\$ 1.30
2.5%	\$ 0.97	\$ 1.07	\$ 1.19	\$ 1.34
3.0%	\$ 0.99	\$ 1.09	\$ 1.22	\$ 1.38
5.0%	\$ 1.08	\$ 1.21	\$ 1.38	\$ 1.60

**GROWTH PROFILE (YoY)**

Y/E June 30	FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
Sales (\$m)	8%	-1%	12%	10%	9%
EBITDA (\$m)	-36%	23%	22%	21%	10%
Adj. NPAT (\$m)	-46%	36%	25%	23%	11%
Adj. EPS (cps)	-48%	33%	25%	23%	11%
DPS (cps)	-35%	10%	21%	16%	11%

## Directory

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### Recommendation Criteria

#### Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

#### Risk Rating

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

#### Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of Craig Stranger & Maribel Quiza about the subject issuer and its securities. No part of the analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

In addition, Craig Stranger & Maribel Quiza certifies that none of the following persons holds an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence the report:

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- a member of the immediate family of the author of this report ;
- Austock Securities Limited;
- an associate of Austock Securities Limited within the meaning of the Corporations Act.

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#### Disclosure of Corporate Involvement

On 4 September 2009, Austock was reengaged to act on CGO's behalf to conduct a share buyback of up to 3m ordinary share. Austock Securities does and seeks to do business with companies covered in its research.

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