

# CPT Global (CGO)

## Initiation of coverage

- Small cap IT exposure, recent upgrade, dividends

9 August 2007

### Opinion Data

Recommendation	Buy
Risk Rating	High
Current share price	\$1.40
12 month target price	\$1.60
Price range - high/low	\$1.40 - \$0.65
Market capitalisation	\$48m

We initiate on CPT Global (CGO) with a Buy recommendation and \$1.60 price target, a 20% premium to the current price.

CGO's core business is in capacity planning, performance tuning and systems testing - in other words, squeezing every last drop out of IT systems.

- CGO listed in 2000 at \$1/share and had mixed success in its first 4 years. The firm, however, has always been profitable (as charted on right).
- The Company is now growing earnings strongly. CGO recently **upgraded FY'07 revenue guidance** from \$37m to \$41m and this will flow through to +30% EPS growth in our view. **The risk is on the upside to FY'08 numbers** with CGO expecting +30% top line growth and we forecast 24% growth.
- CGO is targeting \$120m in annualised revenue by June 2011. Our forecasts are ~15% below this.
- The international business model is risk-reward. This produces margins 2.5x's of that domestically and has grown from 12% of revenue in FY'04 to 21% in FY'07F.
- **Key risks.** Exposures to spend in telco and finance sectors predominantly, key people and stock liquidity.

**Recommendation & valuation.** Buy.

In our view CGO is undervalued small cap. leverage to the financial services & telco sectors (+75% of business). Our price target of \$1.60/share is 9.5x's FY'08F EBIT, a 20% discount to peers. This discount is due to illiquidity and size.

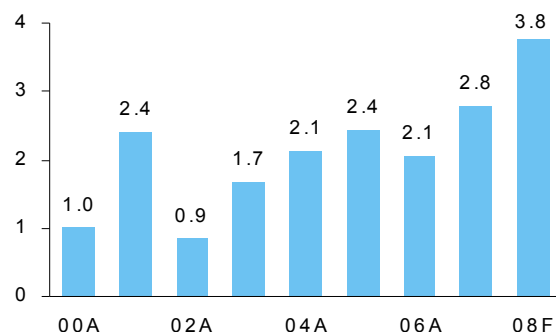
Our DCF valuation of \$1.74/share includes a revenue number below CGO's 5 year target.

The forecast fully franked yield is >6%.

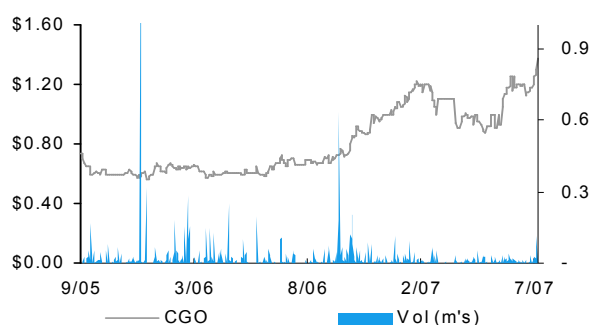
### Earnings Forecasts

Y/end June (A\$m)	2006A	2007F	2008F	2009F
Revenue	31.3	40.7	50.7	61.3
EBITDA	3.3	4.4	5.9	7.6
EBIT	3.2	4.3	5.7	7.4
NPAT	2.1	2.8	3.8	4.9
EPS adj. (cps)	6.0	8.1	11.0	14.2
EPS Growth (%)	-15%	35%	35%	29%
DPS (c)	6.0	6.8	8.9	10.8
Dividend Yield (%)	4.3%	4.8%	6.3%	7.7%
PE (x)	23.4	17.2	12.8	9.9
EV / EBITDA (x)	14.5	10.9	8.0	6.1
EV / EBIT (x)	15.1	11.2	8.3	6.2
Gearing (%)	net cash	cash	cash	cash
EBIT Margin (%)	10%	11%	11%	12%

### NPAT Summary (\$m)



### CGO Share Price / Volume



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## SWOT TABLE

### Strengths

- **Global business** with over 70 clients in 17 countries. Considered a global leader in providing IT services in the areas of capacity planning, performance tuning and testing for the Financial and Telecommunications sectors.
- **Scaleable** business model, particularly the risk-reward strategy which is expected to be a significant growth area.
- **Natural barrier to entry** as a client-side consultant. Most IT service companies would be commercially conflicted if they tried to enter this niche.
- **Experienced operators**, CGO consultants have on average +15 years experience - a barrier to potential entrants into their markets.

### Weaknesses

- **Revenue lag** with international risk/reward model. While margins are higher in this business, returns are based on savings achieved. However, the lag time is generally not long and less than 3-6 months.
- **Reliance on key personnel**, including MD Gerry Tuddenham and Head of IT Management Services Peter Wright.
- **Operates on relatively thin margins**, sub 10% domestically. Consultants are 65% of the cost base. Margins should increase as overseas revenue constitutes a greater percentage of the business.

### Opportunities

- **Expansion into new markets such as Asia**; main operations are in Australia, USA and Europe.
- **Takeover target**. CGO could be a target; being a well-managed business that operates in a growth niche and on low multiples.
- **Leveraging new services** into existing established clients.

### Threats

- **Technology innovation**. Material improvements in IT hardware systems could constrain the growth risk/reward side of the business.
- **Lower IT capex spend** could put pressure on consultant spend, mainly domestically (65% of current business).
- **Risk/reward** not naturally recurring (*however can lead to consulting type work*).

## CGO - Financial Summary

\$m	'05A	1H	2H	'06A	1H	2H	'07F	08F	Comment	2H growth	07A growth
Sales											
- Australia	24	13	13	26	15	17	32	37	15% growth into 08F ..and 60% offshore	37%	21%
- International	4	3	2	5	4	5	9	14		97%	80%
Total	29	16	15	31	19	22	41	51		46%	30%
EBIT	3.3	1.8	1.4	3.2	2.1	2.2	4.3	5.7		56%	34%
NPAT	2.4	1.0	1.1	2.1	1.3	1.5	2.8	3.8		40%	36%
EPS (cps)	7.1	3.0	3.0	6.0	3.8	4.3	8.1	11.0		40%	36%
DPS (cps)	5.5	2.8	3.2	6.0	3.3	3.5	6.8	8.9	Payout just above 80%, could do more	8%	13%
<b>Ratios</b>											
EBIT margin (%)	11.5%	11.0%	9.4%	10.2%	11.2%	10.0%	10.5%	11.2%	Margins rise because more International work		
Tax rate (%)	28%	43%	25%	36%	37%	33%	35%	34%			
Payout (%)	78%	92%	106%	100%	84%	82%	83%	81%			

Source: Company financials & Austock Securities estimates

## BACKGROUND

CPT Global (CGO) is a specialist IT consulting and services company that provides services that enhance the efficiency, reliability and cost effectiveness of an IT organisation, with a focus on mainframe and mid-range IT platforms.

The Company operates predominately within the Australian, European and US markets. Main services are performance tuning, capacity planning, cost reduction services, testing and management of IT.

Founded in 1993 by current Executive MD. CGO listed (via Austock and E-Trade) in 2000 and employs 220 personnel. The head office is Melbourne, and other offices are Canberra, Sydney, Munich, New York and London.

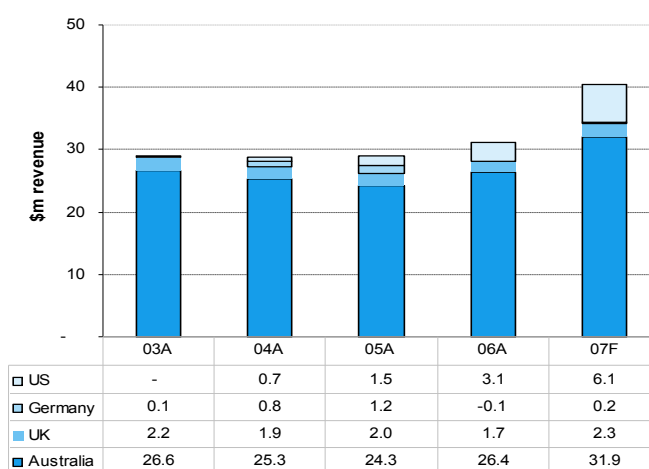
**+70 clients globally, across 17 countries.**

Clients: include Telstra, all Australian major banks as well as federal and state government agencies.

CGO has two anchor clients in the US and two in Europe. The Company works for +10 of the 20 largest financial institutions in the world.

CGO believes it has spent 5 years in a consolidation phase and now is moving into its growth phase. As charted to the right, international revenue is starting to pick up strongly off a low base.

**CGO revenue per region**



Source: CGO Annual Reports and Austock estimates

## BUSINESS MODEL

The business was founded because of demand for specialist IT consultants with expertise in the technical management of mainframe IT systems.

It broadly provides complex IT consulting work and is commercially focused. CPT differentiates itself from its competitors by the extensive experience of its personnel, and proprietary tools. Services include:

- Cutting IT operational costs through improved efficiency and reduced consumption,
- Tuning applications to defer upgrades and meet service levels, and
- Planning capacity needs for performance assurance and cost control.

The two main divisions within the company are:

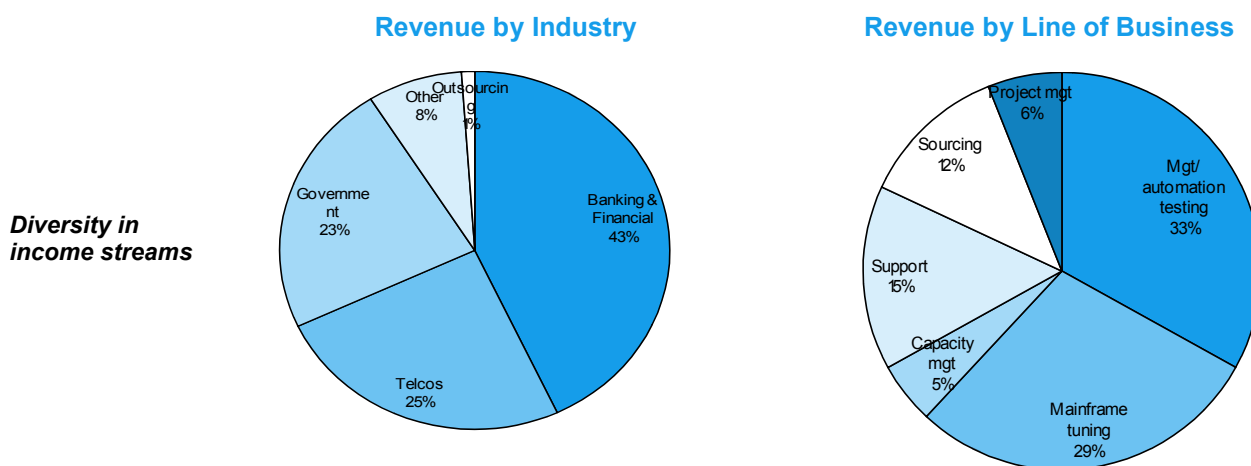
1) **IT Management Consulting.** Provides services to enhance the IT Management capabilities of an organisation, through a transition to new and improved IT delivery models. This division currently accounts for 20% of domestic revenues and CGO aims to increase that to 20% of total revenues medium term.

2) **Technology Services.** Provides independent services and recommendations for technologies including midrange, mainframe, storage and communications. CGO utilises a product called ExpeTune used for performance monitoring (and lowering the MIPS/hour – see page 8 for detail).

**Internationally** the business is predominantly spread across Mainframe Performance Tuning and Cost Reduction. The clients are often serviced remotely, via a Virtual Private Network (VPN).

The **revenue model** is a traditional cost plus and fixed price contract domestically, while international revenues are based on sharing the cost savings achieved for clients.

Charted below are the main industry exposures, and lines of work:



Source: CGO 2006 Annual Report

**220 consultants**

**~70% staff are based on contract arrangements.** CGO is very much a niche IT company as it doesn't perform development, systems integration or graduate training. In recent times however, CGO has increased the percentage of permanent employees to around 30%, though the remainder are contract based with on average +15 years experience. The Company rarely advertises and recruits through word of mouth.

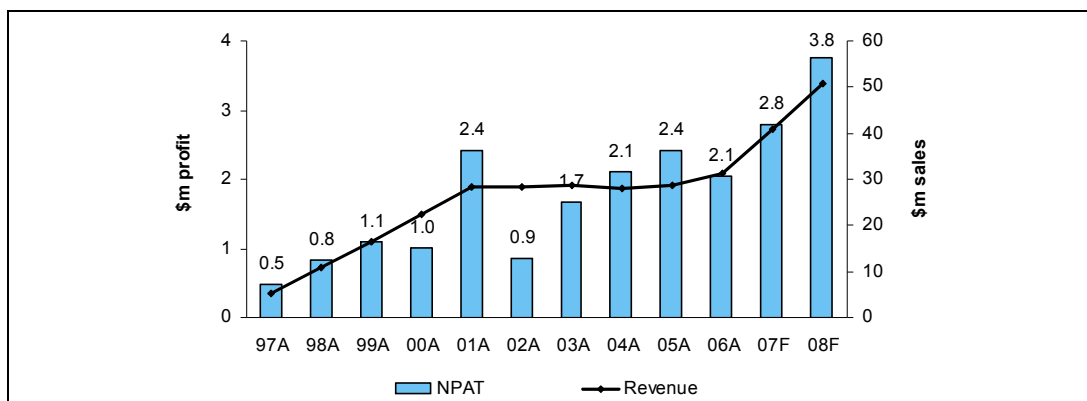
## FINANCIALS

CGO has been steadily reporting profits through good and bad times, illustrated in the graph below.

Margins are thin at ~11% (EBIT), however we expect that this will steadily improve over the next few years as the higher margin international operations become a larger percentage of the business.

**Earnings now picking up strongly**

CGO – Sales and profits



Source: CGO and Austock estimates

Highlighting the consistency of CGO since listing:

- The company listed with 33m shares and 7 years later has only issued another 2.5m shares;
- A total of \$70,000 in asset write-downs, an anomaly for a company that went through the 1999-2002 tech. boom.

**Solid performer since listing**

**Performance post-listing.** As tabled to the right, CGO missed Prospectus forecasts slightly in FY'00, mainly due to a post tech-boom spend contraction across the industry.

CGO vs Prospectus

	\$m	'99A	'00A	'01A
Prospectus Revenue		16.6	21.5	28.1
Prospectus Profit		1.1	1.2	2.3
Actual Revenue			22.3	28.3
Actual Profit			1.0	2.4

Source: Company reports

**Recent earnings history.** CGO has a strong recent history of earnings, driven by steady growth in revenue over the period. While the profitability of the company has been tracking upward over that time, there have been a few blips along the way, namely:

- Tougher business conditions in FY'02, resulted in the firm increasing its marketing spend to maintain market share. While this affected profitability for the year, it also provided a growth platform for the next few years.
- In FY'06, delays with international contracts and an increased focus on the more back ended risk-reward strategy resulted in lower than expected NPAT.

**FY'07 guidance recently upgraded**

**FY'07 Forecast.** Guidance was increased from \$37m revenue to \$41m, which is top line growth of 30% (from 20%) and includes an estimated 80% increase in the higher margin international revenue.

**Most profits paid out as dividends.** The payout ratio has been 86% to over 100% in recent halves, and guidance is for similar payouts. CGO currently have a surplus franking credit balance, and we would expect dividends to continue to be fully franked.

## CASHFLOW

- Profit through to cashflow is very clean. EBITDA in FY'06 was \$3.3m, working capital increases were \$0.7m and operating cashflow \$2.27m.
  - Depreciation and amortisation is close to non existent.
- Virtually no capex spend**
- **No capex.** Capex was \$51,000 in FY'06 (as low as we have seen) and \$169,000 in FY'05.

## BALANCE SHEET

- Net cash position**
- CGO is in a net cash position (\$1.04m at 1H'07) with no debt. The Company is well-placed to take advantage of potential bolt-on acquisitions.
  - Shareholders equity is \$16.8m and the NTA \$0.20/share.
  - Fixed assets are negligible at \$0.4m, with the major item on the balance sheet being intangible assets of \$9.8m. These mainly relate to goodwill on an early acquisition, but also include some intellectual property.
  - We forecast working capital of \$5.9m at June 2007, and will continue to grow modestly each year as the firm's revenue base expands.

## CGO 5 YEAR ASPIRATIONAL TARGETS

CGO have a 5 year 'aspirational' revenue target of \$120m annualised by June 2011. Key points include:

**Revenue target for FY'11 is 3x's current levels**

- Growth is not expected to be linear due to the lumpy nature of their international Risk/Reward (success fee) revenues;
- Margins internationally expected to be ~double the domestic business;
- Profit from international operations is expected to contribute about 50% of total profit by 2011; and
- CGO in increasingly using VPN services whereby it doesn't need to be on-site to do the work, a cheaper option both domestically and offshore.

As such, we table below broad estimates on CGO revenue and EBIT contributions assuming they reached their targets. **These are higher than Austock current forecasts, where in FY'10 for example:**

- The Austock revenue forecast is \$74m vs. the target estimate at \$82m; and
- Austock EBIT forecast is \$9.4m vs. the target estimate of \$10.3m.

### Estimates on CGO 5 year targets – Considerably higher than Austock forecasts

\$m unless stated	07F	08F	09F	10F	11F
Australia revenue	32	37	43	51	60
O/seas revenue	9	14	21	31	47
	41	51	64	82	107
Australia EBIT	2.6	2.9	3.5	4.1	4.8
O/seas EBIT	1.7	2.8	4.1	6.2	9.3
	4.3	5.7	7.6	10.3	14.2
<u>Assumed margins</u>					
Australia EBIT	8%	8%	8%	8%	8%
O/seas EBIT	20%	20%	20%	20%	20%

Source: Austock Securities estimates

## VALUATION

### DCF

Our DCF valuation is \$1.74/share. Our 12-month price target of \$1.60/share is 9.5x FY'08F EBIT.

Key assumptions in the DCF valuation include:

**Assumptions include solid top line growth but still below CGO targets**

- **Revenue of \$88m by FY'11**, compared to the CGO target of >\$100m.
- **A WACC of 13%**, including a beta of 1.3x's and a cost of equity of 12%; and
- Explicit earnings forecasts until FY'11, 8% medium term earnings growth to FY'17 and terminal growth of 3%.

### PEER COMPARISON

There are no direct competitors to CGO, however we list IT service peers below.

CGO trades at 20-25% discount, partially explained by the fact that it has a much smaller market capitalisation and lower liquidity.

#### ASX listed comparisons

	Price (\$)	Mkt Cap (\$m)	FY'07F		FY'08F	
			PE (X)	EV/EBITDA (X)	PE (X)	EV/EBITDA (X)
DTL	\$ 6.59	102	14	8	12	7
TNE	\$ 1.26	196	26	17	21	14
SMX	\$ 5.90	383	23	15	17	11
OKN	\$ 5.68	454	25	17	18	11
DWS	\$ 2.50	336	22	16	16	12
HYO	\$ 0.22	122	n/a	13	15	9
<b>CGO</b>	<b>\$1.40</b>	<b>48</b>	<b>17</b>	<b>13</b>	<b>13</b>	<b>8</b>
Average (ex CGO)		265	22	15	17	11
..CGO relative		-83%	-22%	-25%	-24%	-22%

Source: Austock estimates for CGO and HYO, Reuters Consensus for others

## INDUSTRY

**Australia is 2% of CGO target market ...thus rationale for growing offshore business**

**The US accounts for 50% and UK & Europe 25%, of the world's computing capacity as measured by MIPS (million instructions per second, MIPS is a unit for measuring the execution speed of a computer's CPU- but not the whole system). Australia accounts for less than 2%.**

Market conditions are very strong for several reasons. Globally, government legislation requires higher levels of disclosure and imposing IT standards is driving change.

The expiry of long term vendor/outsourcing contracts has required IT users to refresh their IT requirement and how they are met which can best be assessed by independent "client-side" experts.

World wide economic growth is generating the need for improved capacity and performance. There is strong growth in global MIPS and strong demand for services that reduce IT costs.

### INDUSTRY DRIVERS

**Increased demand for IT consultants**

The macro industry drivers are relatively positive, including:

- Spending post the expiration of a number of long term vendor/outsourcing contracts in both the government and private sector;
- Increased acceptance of the need for independent expert consultants; and
- Increased business confidence generating growth which requires improved IT capacity and performance.

### LESS LEVERAGE TO THE IT SPEND CYCLE

**Less exposure to up and down cycles**

CGO has less leverage to the IT spend cycle than other listed IT peers as evidenced by the earnings history over the last 10 years.

In a good IT spend market, companies replace tried and tested systems with new-generation hardware and software that doesn't work properly.

In a slow IT spend market, companies are not spending on capex and they want to squeeze every drop out of what they've got. Therefore, users opt to finetune and rev up existing systems rather than spend money on hardware and software upgrades.

## COMPETITORS

***CGO is normally investigating systems of its competitors, and independence is a strength***

CGO's independent "client-side" approach to delivering improved IT productivity which has proven to be another key barrier to entry. Natural competitors such as IBM and the large consulting businesses are commercially conflicted, and would hurt their own businesses by competing.

Other barriers to entry are personnel expertise, as well as significant time, capital and other resources exerted to generate the Intellectual Property.

Other advantages relative to peers:

- **Scaleable.** Unlike other IT services firms such as Oakton, SMS or DWS; CGO does not necessarily need to increase its head count to grow earnings (especially overseas work); and
- **IP differentiates.** Technical services that the company provides are significantly different from many of the generic IT solutions that larger players provide.

## RISKS

Approximately 80% of CGO revenue is generated from 10 major clients, with a broad mix of government, finance and telecommunication business.

***Revenue lag...but not that long***

Revenue lag with international **risk/reward model**. While margins are higher in this business, returns are based on savings achieved and therefore not paid until the work is complete. Risk/reward not naturally recurring. The typical lag time however is not long and CGO will generally be paid in the first billing cycle, which could be as short as 1 month and up to 3-6 months.

***Reliance on current senior management***

Reliant on a number of **key people**. The heads of the business, Mr Tuddenham and Mr Peter Wright are 56 and 58 years old respectively.

Consultants represent 65% of the total CGO cost base (\$22m of \$31m in FY'06). IT labour costs are on the rise and there is a risk that CGO will not be able to on-charge these increases in a timely manner.

## GROWTH OPPORTUNITIES

***Growing banking relationships offshore***

**International client base growing.** This includes risk/reward engagements with two new financial institutions in the UK and Netherlands in June 2007.

**Distribution deals.** Six months ago CGO announced alliances with 2 UK firms Macro4 plc and Tori Global. This provides an additional sales channel to supplement CGO's direct sales capability and enables the company to accelerate their penetration into international markets

Further alliances are being developed in the telecommunications sector off the back of a successful engagement currently underway in the US and CGO continues to explore new geographic growth regions eg. Asia.

***Growth offshore, could include small acquisitions***

**The main growth leg to the business is international** and +80% of this work is with financial services companies.

## DIRECTORS

<i>Managing Director</i>	<b>Mr Gerry Tuddenham</b> is the founder.  Mr Tuddenham is a world renowned technical specialist in the area of performance tuning, capacity planning and testing of IBM mainframe based systems, applications, transaction processors and middleware as well as database management systems.	<i>Shareholding: 12m shares</i>
<i>Executive Director</i>	<b>Mr Peter Wright</b> heads up the company's IT Management Services division, joining CGO in 2001.  Mr Wright has undertaken numerous client engagements both locally and internationally in banking, transport and Government. Formerly a Senior Manager at IBM (4 years) and DMR (14 years) in the outsourcing area.	<i>Shareholding: 0.26m shares</i>
<i>Non-Executive Chairman</i>	<b>Mr Fred Grimwade.</b> Mr Grimwade is a principal of Fawkner Capital, a corporate advisory firm. He was MD of the Colonial Agricultural Company, one of Australia's largest beef producers, was previously a lawyer at Mallesons Stephen Jaques and worked at Goldman Sachs. Fred was also company secretary and head of IR at WMC for 6 years, company secretary of Colonial and head of Private Capital at Colonial First State.	<i>Shareholding: 0.71m shares</i>
<i>Non-Executive Director</i>	<b>Mr Ian MacDonald.</b> Mr MacDonald has 34 years experience in the financial services industry, including senior executive roles in operations and technology, both in Australia and internationally.	<i>Shareholding: 0.33m shares</i>

## RECENT BOARD CHANGES

**MD changes.** In October 2004 Mr Tuddenham took over the MD role from Peter Corrigan, who had been with CGO for ten years.

<i>New CFO from July 2007</i>	<b>CFO changes.</b> In July this year, a new CFO started at CGO after Mr Mark Carroll, who had been with the Company 6 years, left.  The new CFO is Mr Stephan Scheffer, who has spent the last 15 years in the IT & T industry. <i>Mr Scheffer was involved in the formation and development of one of the first mobile telephone networks on the African continent, funded in part by Cable and Wireless, London and Southwestern Bell, Houston, Texas. He has expertise and understanding of companies operating in niche IT and Telecoms arenas. He was also CFO for the largest Microsoft Greatplains value added reseller in the southern hemisphere before joining the Board of Australia's leading fleet logistics and satellite tracking network operator, Digicore Australia Group, in 2003. He was last COO of Channel Enablers (joined 2005), responsible for finance, business operations, IT, HR and legal.</i>
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## MAJOR SHAREHOLDERS

**~60% of the Company is controlled by executives and CGO staff**

The share register is tight and controlled essentially by the founders and staff.

Mr Tuddenham owns around 32% of the Company, and we understand staff and executives control around another 28%.

A few institutional holders are present, namely Adam Smith Asset Management (6.2%), Mirrabooka Investments (4.5%) and Pengana Capital (4.3%).

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### Substantial Shareholders

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	M shares	%	Comment or trend
GNP Nominees Pty Ltd	7.7	22%	Is a trust for executives of CGO-was 28% last year
Gerry Tuddenham	2.7	7.8%	
Adam Smith Asset Management	2.2	6.2%	Last increased 'Oct 06
TOP 20 shareholders	<b>24.7</b>	<b>71.7%</b>	

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**CPT Global**
**NFPOS**
**34 m**
**Price \$1.40**  
**Market Cap \$48 m**
**Date: 8-Aug-07**  
**Model Updated: 8-Aug-07**
**PROFIT & LOSS (\$m)**

Y/E June 30	FY'05A	FY'06A	FY'07F	FY'08F	FY'09F
<b>Sales</b>	28.8	31.3	40.7	50.7	61.3
EBITDA	3.4	3.3	4.4	5.9	7.6
Depn & Amort	-0.1	-0.1	-0.1	-0.2	-0.2
<b>EBIT</b>	3.3	3.2	4.3	5.7	7.4
Net Interest	0.1	0.0	0.0	0.0	0.0
Income tax expense	-1.0	-1.1	-1.5	-1.9	-2.5
PAT including OEI	2.4	2.1	2.8	3.8	4.9
Reported NPAT pre abs.	2.4	2.1	2.8	3.8	4.9
<b>Adjusted NPAT</b>	2.4	2.1	2.8	3.8	4.9

**BALANCE SHEET (\$m)**

Y/E June 30	FY'05A	FY'06A	FY'07F	FY'08F	FY'09F
Cash	2.2	2.5	4.0	5.5	7.9
PP&E	0.2	0.2	0.4	0.5	0.7
Debtors & Inventory	7.8	8.4	10.3	12.1	14.4
Intangibles	9.8	9.8	9.8	9.8	9.8
Other assets	0.5	0.4	0.6	0.7	1.0
<b>Total Assets</b>	20.6	21.3	25.0	28.7	33.8
Borrowings	0.0	0.0	0.0	0.0	0.0
Trade Creditors	3.1	3.0	4.0	4.9	6.0
Other Liabilities	1.0	1.7	2.1	2.4	2.6
<b>Total Liabilities</b>	4.1	4.7	6.1	7.3	8.6
<b>NET ASSETS</b>	16.5	16.6	18.9	21.4	25.2
OEI and Pref Shares	0.0	0.0	0.0	0.0	0.0
<b>Shareholder Equity</b>	16.5	16.6	18.9	21.4	25.2

**CASHFLOW STATEMENT (\$m)**

Y/E June 30	FY'05A	FY'06A	FY'07F	FY'08F	FY'09F
<b>Operating EBITDA</b>	3.4	3.3	4.4	5.9	7.6
Interest & Tax Paid	(0.9)	(1.1)	(1.5)	(1.9)	(2.5)
Working Cap.	(0.9)	0.1	1.0	0.8	1.2
<b>Operating CF</b>	1.7	2.3	3.9	4.8	6.3
Maintenance Capex	0.2	0.1	0.2	0.2	0.2
<b>Free Cashflow (FCF)</b>	1.5	2.2	3.8	4.6	6.1
Ord & Pref Dividends	(1.9)	(2.0)	(2.3)	(3.0)	(3.7)
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>	(0.4)	0.2	1.5	1.6	2.4

**INTERIM ANALYSIS (\$m)**

	1H06	2H06	1H07	2H07F	2H -yoy
Australian sales	13.7	12.7	14.5	17.4	20%
Overseas sales	2.6	2.2	4.3	4.3	1%
Total sales	16.3	14.9	18.8	21.8	16%
<b>EBIT</b>	1.8	1.4	2.1	2.2	4%
NPAT	1.0	1.0	1.3	1.5	11%
EPS	3.0	3.1	3.8	4.3	11%
DPS	2.8	3.3	3.3	3.5	8%

**KEY RATIOS**

Y/E June 30	FY'05A	FY'06A	FY'07F	FY'08F	FY'09F
EBIT Margin (%)	11.5%	10.2%	10.5%	11.2%	12.0%
NPAT Margin (%)	8.4%	6.5%	6.8%	7.4%	7.9%
ROE (%) y/e	15%	12%	15%	18%	19%
ROA (%) y/e	19%	17%	21%	25%	30%
ROIC (%) Av.	56%	24%	31%	37%	44%
NTA per share (\$)	0.20	0.20	0.27	0.34	0.45
Eff Tax Rate (%)	28%	36%	35%	34%	34%
Interest Cover (x)	-	44.1	na	na	na
Net Gearing (%)	-13.6%	-15.0%	-20.9%	-25.7%	-31.3%

**VALUATION PARAMETERS**

Y/E June 30	FY'05A	FY'06A	FY'07F	FY'08F	FY'09F
Adjusted EPS (c)	7.1	6.0	8.1	11.0	14.2
Adjusted PE (x)	19.8	23.4	17.2	12.8	9.9
PER Rel - All Ind. Ex-Fin.	9%	4%	-15%	-28%	-40%
PER Rel - Small Indust.	-100%	-100%	-101%	-102%	-102%
Enterprise Value (\$m)	48.6	48.0	48.0	47.4	46.1
EV / EBITDA (x)	14.1	14.5	10.9	8.0	6.1
EV / EBIT (x)	14.7	15.1	11.2	8.3	6.2
Price / NTA	7.2	7.1	5.3	4.1	3.1
DPS (cps)	5.5	6.0	6.8	8.9	10.8
Dividend Yield (%)	3.9%	4.3%	4.8%	6.3%	7.7%
Franking (%)	0.0	0.0	0.0	0.0	0.0
Free Cash / Share (c)	4.4	6.5	11.0	13.4	17.7
Price / FCF PS (x)	32.1	21.6	12.7	10.4	7.9

**DCF VALUATION**

PV Forecast CF (07-11)	9.6	Risk Free Rate	6.0%
PV Growth CF (12-16)	21.1	Equity Risk Premium	5.0%
PV Perpetuity	24.9	Equity Beta	1.3
Surplus Assets	0.0	Medium Term Growth	8.0%
Total	55.6	D / (D + E)	-9%
Net cash less OEI	-4.0	WACC	13.1%
NPV (\$m)	59.5	Terminal WACC	13.0%
NPV per diluted share	\$ 1.74	Terminal Growth	3.0%

Term. Growth Rate	WACC			
	14.1%	13.1%	12.1%	11.1%
1.5%	\$ 1.55	\$ 1.64	\$ 1.74	\$ 1.85
2.0%	\$ 1.58	\$ 1.67	\$ 1.77	\$ 1.88
2.5%	\$ 1.60	\$ 1.70	\$ 1.81	\$ 1.92
3.0%	\$ 1.64	\$ 1.74	\$ 1.84	\$ 1.96
5.0%	\$ 1.80	\$ 1.92	\$ 2.04	\$ 2.18

**GROWTH PROFILE (YoY)**

Y/E June 30	FY'05A	FY'06A	FY'07F	FY'08F	FY'09F
Sales (\$m)	2%	9%	30%	24%	21%
EBITDA (\$m)	-9%	-4%	33%	34%	28%
Adj. NPAT (\$m)	14%	-15%	36%	35%	29%
Adj. EPS (cps)	15%	-15%	36%	35%	29%
DPS (cps)	na	9%	13%	32%	21%

## APPENDIX

### INTERNATIONAL RISK/REWARD “SUCCESS FEE” MODEL

**Aim to do...** **Aim to do:** Reduce MIPS and CPU consumption by up to 25%, which can save a client millions of dollars annually. Focused on mainframe application systems.

**Cost to client:** CGO’s fee is a percentage of total savings achieved.

**Savings...** **Savings for client:** Examples of CGO success model: i) Eliminated the need for an A\$4m upgrade, ii) year-on-year savings of A\$20m pa , iii) Reduced CICS processor usage by 15% and iv) Achieved cost reduction targets of A\$2m pa for three years

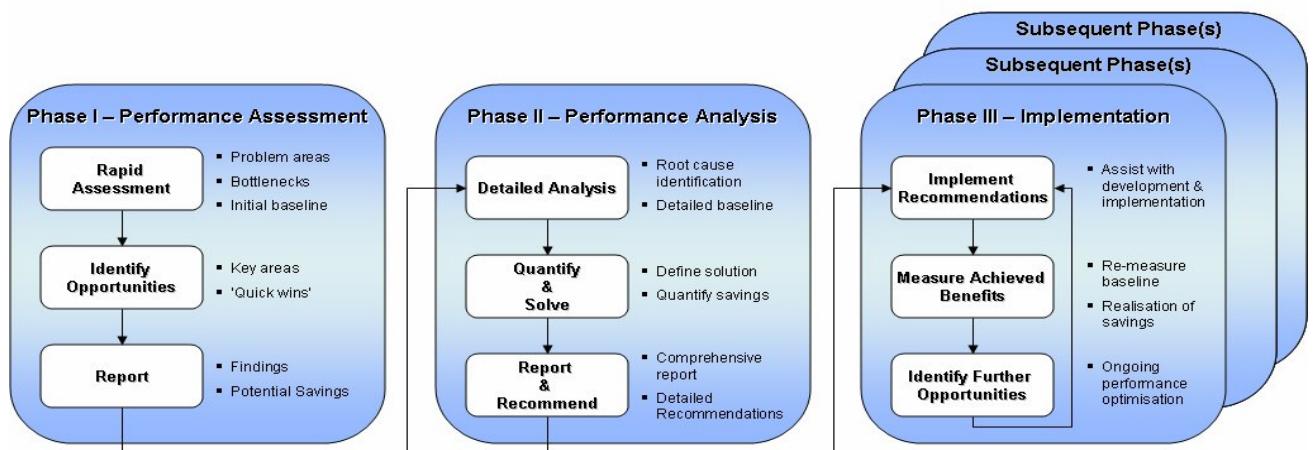
#### Risk/reward earnings are back ended



Source: CGO

#### Work flows for typical risk/ reward client

##### Mainframe Performance Review



Source: CGO

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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.

Strong Buy	Buy	Hold	Lighten	Sell
25% +	25% - 10%	10% - (5%)	(5%) - (15%)	(15%) +

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

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