Australia | Construction

Leighton Holdings Ltd. (LEI AU)

January 9, 2014

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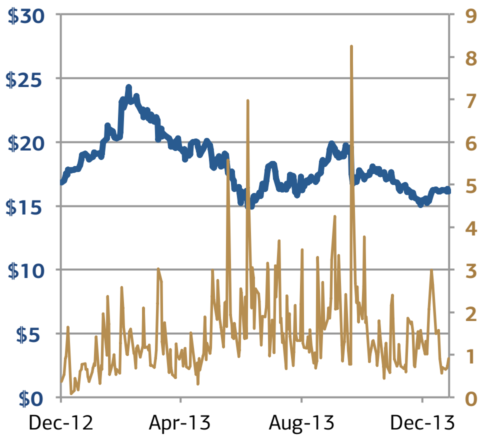
The best days are over

Leighton Holdings Ltd. (LEI AU) one-year share price in AUD (blue) and volume (gold, in mln shares)



Source: Bloomberg, January 9, 2014

Leighton (LEI AU)

Price	AUD 16.15
Rating	**SELL**
Price Target	**AUD 12.83**
Downside	**21%**
Market Cap	AUD 5.44 bln
Simple Moving Avg.	1.31 mln
P/E	7.76x

Source: Bloomberg, January 9, 2014

+ Revenue to fall 21% by 2015

Leighton Holdings Limited (LEI) derives half of its revenue from the resources sector, particularly coal and iron ore, where we see capital expenditure falling by 50% over the next two years. LNG projects are dominating Australia's new capital expenditure, but LEI has failed to secure strategic advantage in this sector and is losing share. In 2014, this will lead to a 40% decline in the revenue the company derives from LNG.

+ Mining services in decline

Leighton operates mines in the coal and iron ore sectors. Margins in these sectors are being squeezed and, as a result, miners are canceling operating contracts and either operating mines themselves or giving the projects to smaller, lower-cost operators. LEI's remaining contracts will have margins squeezed too. Additionally, LEI will not be operating gas facilities.

+ Margin squeeze

Leighton is winning infrastructure projects by lowering prices, which we believe will erode margins by 1%. In addition, high-margin coal mining operations like those in Indonesia are coming to an end. In an effort to save more money, LEI is restructuring from a group of construction companies to a more centralized structure. We believe, however, that savings can only slow the slide in margin.

+ International operations terminal

LEI's alleged corrupt payment of AUD 42 mln for a AUD 750 pipeline contract in Iraq is engulfing its international operations. In the highly corrupt environments in which LEI operates internationally, stricter governance, ironically, could sink the international operations.

+ Price Target AUD 12.83; downside of 21%

We arrive at our price target based on a DCF valuation model with a WACC of 10.3% and a terminal growth rate of 2%. Rating: SELL.

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Leighton has peaked

Leighton Holdings Limited (LEI) will have a record year in 2013 before revenues decline by around 10% per year over the next two years.

LEI's construction capabilities in the gas sector are too limited, preventing it from taking advantage of the coming investment boom in LNG.

In the fast-growing gas industry, LEI does simple construction work, such as access roads and accommodation for workers. But the majority of the capital expenditure on gas projects is on refining, gas pipelines, and drilling rigs, and LEI does not have the ability to supply these projects. The company's higher-end skill set is focused on mining.

LEI builds infrastructure for governments, and constructs and operates mines for industry in roughly equal portions. Its mining skills and customer base are focused on coal and iron ore, where investment is collapsing. Conversely, investment in Australia's gas sector is rising, and over the next five years it will total around AUD 200 bln. Although LEI has improved its share of gas projects in 2013, work in hand (WIH) from the gas industry is indicating a sharp decline of 40% in revenues from this sector in 2014.

Infrastructure investment in Australia is expected to rise to AUD 17 bln during 2014, up from AUD 15 bln in 2013. While LEI's share of this market reached 48% in 2013, WIH is indicating that this will fall to 45% in 2014 and to 43% in 2015. Revenue from this sector will grow at around 6% in 2014 and then decline after 2015.

LEI's international operations are dominated by a successful infrastructure business in Hong Kong, a declining coal mine operating business in Indonesia, and a scandal-wracked construction and property business in the Middle East. International revenues and margins are trending down, and we expect further write-downs to reach AUD 300 mln.

We expect gross margins for the business to fall from the approximate 12% in 2012 to 10% or lower in the coming years for several reasons.

- LEI's contract mining, which constitutes about 25% of its revenue, is dominated by coal, where prices have fallen dramatically in the past 18 months, leading to margin squeeze on contract renewal.

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- Infrastructure projects are typically higher margin at 11-12%, but LEI's success in winning contracts during 2013 was because it undercut competitors on price, thus contributing to drive margins down.

- For their part, governments in Australia are running deficits and have heightened concerns about the cost of infrastructure projects, which will also be a drag on profit margins in the sector.

- LEI gas projects suffer from "underclaims" which could turn into write-downs and further impact margins.

Leighton's background

LEI grew rapidly over the last 30 years driven by Australia's resources boom and through acquisitions. Acquired companies were operated as separate entities, and they often competed for the same projects. As Wal King, the CEO that built the empire, put it with one of those curious biological metaphors for business "We keep the DNA strains separate."

LEI's restructuring of its operating entities will only slow its margin decline.

Now, in the post boom period, with margins under pressure and being engulfed in a corruption scandal, LEI is attempting to structure its operating entities better. Its subsidiaries can no longer compete on bids, and strategies to reduce costs and competition and improve margin, such as merging back offices, have been identified. But we have low expectations these strategies will do anything more than slow the margin decline. Bureaucratic inward focus that corporate restructuring engenders will most likely be a drag on new business and, therefore, revenues.

Table 1. LEI's acquisitions

Acquired	Company
2007	Al Habtoor Engineering
2005	Henry Walker Eltin
2003	Transfield Construction
2000	John Holland
1983	Theiss

Source: Company reports

LEI has been under sustained attack by the Fairfax media in Australia over allegations of corrupt payments made to win

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international contracts and corruption within international operations. We believe they are most likely true, and, although they may not be proven, the most negative outcome is already priced into the stock.

The ongoing concern is two fold. First, corrupt practices were critical to maintain international operations. Hence, tighter governance will cause international operations to wither. Second, organizations that knowingly engage in corruption such as LEI exercise poor financial control over operations. Senior management is almost required to maintain the fiction they did not know, doing less rigorous checking of financial data in order to say that they were not aware of any fraudulent payments. As a result we expect further financial "issues" to impede LEI's performance in the future. Industry sources confirm that suspicion.

LEI's core business

Our calculations show that the mining sector represents 42% of LEI's revenues, and government infrastructure 47%.

LEI reported in 2012 that 62% of its revenue comes from construction, and 28% from mining contract services. This method of revenue statement does not correctly reflect the company's exposure to the resources sector. We built a database of all of LEI's announced projects over the last 5 years to create a model of revenue. We separated construction into construction for mining and infrastructure construction for governments. With that adjustment, the mining sector, including both construction work and operations, is 42% of LEI business, while construction of infrastructure for government is 47%.

Table 2. LEI revenue composition

Segment	LEI	J Capital (adjusted)
Construction	62%	47%
Mining	28%	42%
Property	2%	2%
Other	7%	7%

Source: Company reports and announcements, J Capital

In construction of infrastructure for governments LEI is the market leader with a market share of around 48% in 2013, and competes with McConnell Dowell and Brookfield Multiplex. In mining construction and operation it competes with Worley Parson (WOR AU) and Monadelphous (MND AU), both of which are reporting declining revenue and lower margins on projects.

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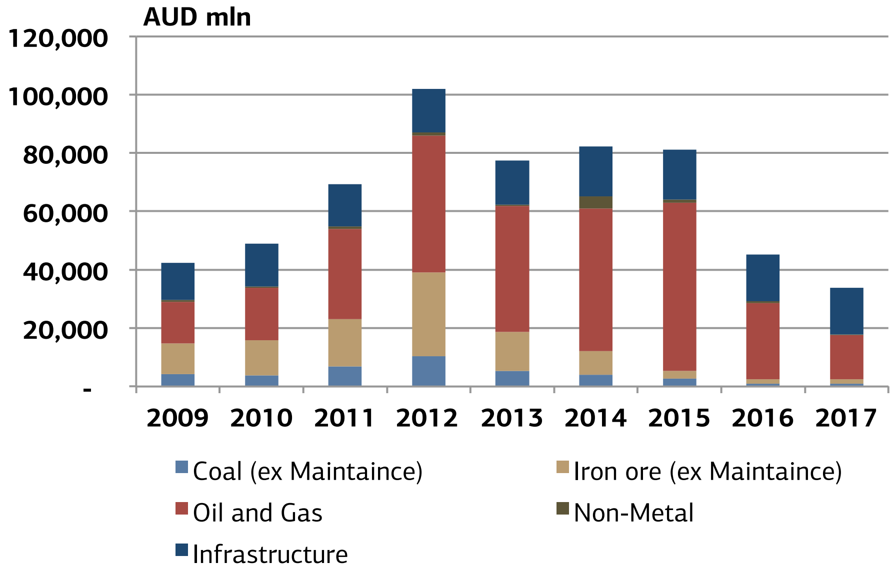
Capital expenditure trends in Australia

The boom in Australian resources saw capital expenditure in construction peak in 2012 at around AUD 100 bln. Expenditure in 2013 will fall by 20% to around AUD 80 bln and stay there for at least the next three years, before declining back to around AUD 40 bln as the gas construction boom tapers off.

Chart 1. Australian capex



Source: ABS, BREE, J Capital

Australia's investment in iron ore and coal already peaked; Oil and Gas expenditure will continue dominating.

The composition of Australian capital expenditure is changing dramatically. Iron ore investment peaked in 2012 at around AUD 28 bln, halved to around AUD 13 bln in 2013, and will fall to around AUD 8 bln during this year before falling to approximately AUD 1.5 bln in subsequent years. Investment in coal has followed a similar pattern, peaking at AUD 10 bln in 2012 and falling to AUD 5 bln in 2013, and, we expect, AUD 2.7 bln in 2014. Conversely, Oil and Gas expenditure has dwarfed all other mining expenditure since 2011 and will continue dominating investment in Australia, taking up 60–70% of all of the country's investment.

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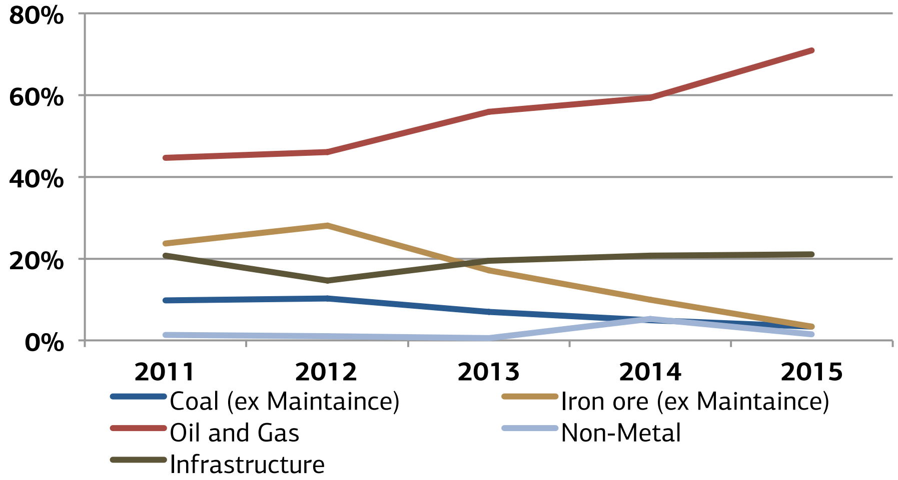
LEI has failed to become a key construction supplier to Australia's rapidly growing gas sector.

Chart 2. Australian capex by category



Source: ABS, BREE, J Capital

Revenue down 21% by 2015

We expect LEI's revenue to fall by 11% during 2014 and by a further 12% in 2015 before stabilizing. LEI has failed strategically to become a key construction supplier to the rapidly growing gas sector, and investment in successful sectors will peak this year. It has outperformed in infrastructure and we don't expect that performance to continue.

Forecast methodology

LEI makes an ASX announcement for all projects over AUD 100 mln. We collected all project announcements of work in hand (WIH) from 2009 up to December 2013 and build a database of projects to forecast revenues by segment. Announcements typically contain data on the client, nature of the project, time it will commence, the period to completion and the total value of the contract. The model built from this data equaled 81% of the actual revenues reported by the company in 2012. As of July 2013 the company had a total of 360 projects. 174 projects were of a value below AUD 50 mln. LEI's IR staff told us the company would not do a project under AUD 30 mln. Assuming the smaller projects are on average AUD 45 mln in value, and completed over 2.5 years, then they account for around 14%. We believe this supports our model of projects greater than AUD 100 mln contributing around 80% of LEI's revenue. Furthermore, almost all of LEI's international projects are above AUD 100 mln. Australia is the only place in which LEI appears to take projects of less than AUD 100 mln.

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We further broke down revenue into segments and compared it historically with data available from the Australian Bureau of Statistics (ABS) and the Australian Government Department of Infrastructure and Regional Development (DIRD). In this way we were able to determine LEI's market share for each segment. For example, ABS collects a data series for all actual capital expenditure in coal mining each year. Since LEI indicates if a project is for operation or construction of a mine, we can use ABS data to determine the market share LEI has in each of these two segments.

Using a combination of ABS, DIRD and Bureau of Resource Economics and Energy forecast data we can then project total available market for LEI. We can then compare revenue projections expected from LEI current market share with LEI project revenue from the collected data. We can also compare the same data series historically to understand the relationship between announced projects, total spending and the company's final results.

Revenue decline in the coal and LNG sectors will be the main driver of the overall decline in mining for LEI.

Table 3. LEI's Australian construction and mining WIH booking analysis

AUD mln	2012 WIH end 2012 (a)	2013 WIH end 2012 (b)	2013 WIH end 2013 (c)	2014 WIH end 2013 (d)	2013 WIH % of 2012 (b/a)	2014 WIH % of 2013 (d/c)	Conv. Fact. (e=c/b)	2014 WIH end 2014 (d*e)	2014 For.
Construction	3335	2935	4321	3273	0.88	0.76	1.47	4818	0.11
Mining	5861	4232	5663	3800	0.72	0.67	1.34	5084	-0.1
Coal									
Operation	2141	1583	1606	1573	0.74	0.98	1.01	1573	-0.02
Construction	578	317	363	246	0.55	0.68	1.14	281	-0.23
Total	2718	1900	1969	1819	0.7	0.92	1.04	1854	-0.06
LNG									
Operation			80	106		1.33		106	0.33
Construction	1960	1668	2753	892	0.85	0.32	1.65	1473	-0.47
Total	1960	1668	2833	998	0.85	0.35	1.7	1696	-0.4

Source: J Cap, Company announcements

By analyzing bookings of WIH we can then forecast that key segments, such as mining, will be down 10% in 2014. We can also see that the decline in revenue from mining construction in the coal and LNG sectors will be the key source of the segment's overall decline, as they are forecasted down 23% and 47%, respectively, in 2014.

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For international projects we only used the data from project announcements of WIH and analysis of the available market information for each market.

Our methodology is less effective at predicting property and other revenue. Our forecasts of these categories are less rigorous and will be the subject of further research.

Table 4. LEI's revenue forecast

Segment Revenue AUD mln	2013	2014	%	2015	%2
Construction Infrastructure	9197	9823	0.07	10651	0.08
Mining Construction and Services	10310	7211	-0.3	4131	-0.43
Property development revenue	781	780	0	780	0
Other services revenue	1571	1627	0.04	1627	0
Total Revenue from External Customers	21859	19441	-0.11	17189	-0.12

Source: Company Announcements, BREE, J Capital

Infrastructure dominance peaking

The Liberal Party of Australia won the 2013 election with the slogan "We will be the infrastructure government." Its policy platform includes specific increases in infrastructure expenditure, of AUD 2 bln in 2014 and 2015, and of AUD 1 bln in 2016. While LEI has been the standout dominant player in infrastructure in Australia with around 48% share of market, and even though the panorama for Australia's infrastructure capital expenditure looks favorable, our analysis of the company's WIH indicates that its market share will fall back to around 45% from next year. We estimate that infrastructure revenue growth will slow to 11%. This will be a trend that will continue in 2015.

Mining revenue down as LEI fails to grow gas work

LEI earns 42% of its revenue from the mining sector. Half of this is from construction and half from operating mines. Coal, which accounts for about half of all of LEI mining sector revenue, will see new expenditure fall by around 30% a year over 2014-2016. Additionally, LEI is losing coal mining operating contracts and being squeezed on the margin of contracts it retains. There is a fundamental switch to insourcing mining operations or to smaller lower cost operators. LEI lost its largest coal operation contract with BMA (BHP Mitsubishi coal joint venture), Xstrata canceled two operating contracts, and LEI will likely lose its major contract with Bumi in Indonesia.

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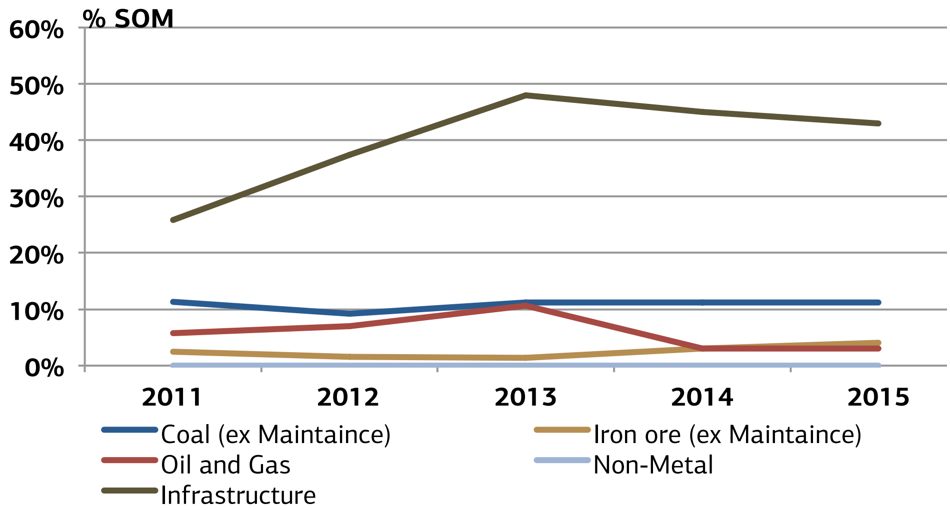
LEI is increasing market share of iron ore capital expenditure but the pie is shrinking faster than coal with declines of 40–50% a year over the next three years.

LEI has been relatively slow and unsuccessful at capturing new business from the large and growing capital expenditure in gas. The company only has the capacity to operate coal and iron ore mines, it does not operate gas extraction or refining facilities and does not plan to develop this capacity. It therefore needs to win construction contracts similar to its 2013 Chevron and Bechtel contracts. LEI's contract from Chevron delivered about AUD 1,240 bln in revenue and its smaller contract from Bechtel was worth AUD 212 mln. Both contracts are coming to an end and together will only generate around AUD 300 mln for LEI during this year, and around AUD 100 mln in 2015. Total work in hand from the gas sector in 2014 is only AUD 1 bln compared with AUD 2.8 bln in 2013, a fall of 65%.

We expect LEI will win new construction contracts in the gas sector, but estimate that revenue will only be around AUD 1.5 bln in 2013, a fall of 46%. Share of market for this important sector will fall from 6% in 2013 to 3% in 2014. This is LEI major strategic failure.

Chart 3. LEI's Australian revenue by category: Share of Market



Source: Company announcements, BREE, ABS, J Cap

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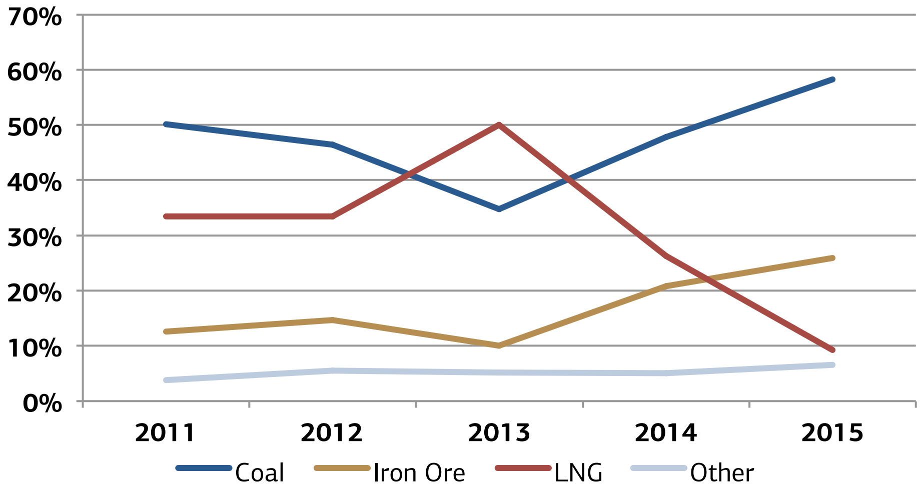
Chart 4. LEI's mining revenue by mineral



Source: Company ASX announcements, J Cap

Table 5. LEI's top six mining customers

Customers	2011	2012	2013	2014	2015	2016
BHP (Coal)						
Operation	357	486	370	220	50	
Construction	173	416	124			
Total BHP	530	902	494	220	50	
Chevron (Gas)						
Operation			80	106	27	
Construction	802	1067	1234	260	115	58
Total Chevron	802	1067	1314	366	142	58
Bechtel (Gas)						
Operation						
Construction	131	298	212	64		
Total Bechtel	131	298	212	64		
Rio (Iron Ore, Coal)						
Operation						
Construction	158	205	94	109	24	
Total Rio	158	205	94	109	24	
Fortescue (Iron Ore)						
Operation	30	224	395	568	568	568
Construction						
Total Fortescue	30	224	395	568	568	568
Jellibah Group (Coal)						
Operation	58	247	96	197	139	110
Construction						
Total Jellibah Group	58	247	96	197	139	110

Source: Company announcements, J Capital

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Whither Leighton's international expansion?

Middle East

We expect revenue to decline by 15% at LEI's JV, HLG; LEI will also have to further write down around AUD 300 mln of this company.

We expect revenue to decline by 15% at Al Habtoor Leighton Group (HLG) in Dubai. Leighton invested AUD 870 mln for 45% of Al Habtoor Group in 2007. It has since written down AUD 500 mln and has a current book value of AUD 322 mln. Leighton has extended loans and guarantees of AUD 800 mln to the joint venture to keep it afloat.

Recently, the Emerald Palace project wrote down AUD 80 mln of the AUD 272 mln owing and another project for the Al Ghuhair family was hit with a liquidated damages claim of AUD 30 mln. Apparently documentation for the projects related to the liabilities is poor, contracts are weighted towards clients and litigating against the Dubai government, the client for most claims, is difficult.

We therefore believe Leighton will have to further write down the carrying value of the company and partially forgive the debt. We expect the total value of write-downs to be around AUD 300 mln

David Savage, the former head of Leighton International, and one of the people being investigated for his involvement in the AUD 42 mln bribery scandal in Iraq, set up a joint-venture construction company called Stonehouse Construction with Riad Al Sadik. Al Sadik sold his share in Al Habtoor to Leighton in 2007 for AUD 332 mln. Stonehouse was established while Savage was still working for Leighton and competed with HLG.

The former chairman of Leighton, Stephen Johns, said HLG was something "we should never have gone into." We could not agree more.

Mongolia: One project that looks shaky

LEI's main client in Mongolia is struggling to survive.

Leighton was expecting to grow its business in Mongolia as the mining boom took off in 2010 when Wal King took the board there for a visit. However, their main client there, Mongolian Mining Corporation (0975 HK), is struggling to survive, which we believe will lead to margin squeeze and a reduction of its contract with LEI. Furthermore, Guilford Coal, which chose LEI to operate its mine, will most likely struggle to establish a viable mine given the low price of coal and the quality and location of the resource.

Leighton's overhead to operate in Mongolia would be high and

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only being amortized over one project we expect it is delivering negative margin to Leighton Asia.

Iraq: source of the corruption scandal

LEI allegedly paid a AUD 42 mln bribe to secure a AUD 750 mln pipeline project in Iraq. This has engulfed the company in a wide-ranging corruption scandal. In addition LEI still has outstanding payments for this project. Payment is now further clouded by the corrupt payment allegations. We believe that LEI will have to write off receivables of around AUD 100 mln and pay a fine of about AUD 100 mln for corruption.

Indonesia: The golden goose no longer

The bad prospects for the coal sector will affect LEI's revenue in Indonesia.

In 2012, Indonesian business was 7% of LEI's revenue and we estimate margin was in the range of 13-15%. However, we expect Leighton's revenue in Indonesia to decline by at least 20% and margin to contract to 9% as a result of the bad prospects for the coal sector. Miners are now putting expiring contracts up for competitive bids rather than negotiating. New contracts have rate reductions linked to coal prices to squeeze costs should coal prices fall further

Additionally, LEI's key relationships and contracts predate the 2009 Indonesian law, which came into effect on October 1, 2010 restricting foreign contractors to removal of overburden, and not allowing them to be engaged in coal production. LEI, which entered Indonesia 25 years ago, will now have a harder time operating in this market. The gravy days are now over.

Bumi, Indonesia's largest coal mining company and Leighton's second largest client, accounting for 30% of its revenue in Indonesia, is in dispute with the company. Leighton has the mining contract for Bumi's Artumin project to operate the Senakin and Satui mines for over 12 years. However, Leighton stopped work at the Artumin mines in April 2013 and is yet to resume. Leighton claims costs greater than Artumin recognizes ("underpayments" in Leightonspeak) and Artumin has started legal proceedings to cancel the operating contract it has with Leighton in Australian courts. The Artumin contract will be substantially reduced if it is continued at all. We forecast that 2014 revenues will be equal to 30% of 2012 revenues, with margin falling to 9%.

Bayan, Leighton largest client in Indonesia, is a high cost producer that will squeeze Leighton's margin. Bayan contributed around AUD 750 mln to Leighton revenues in 2012 and we see no growth

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and a margin contraction of around 2% in 2013 and 2014. Bayan C1 costs are around AUD 57/ton and with thermal coal now trading at around AUD 95/ton (5,000Kcal) this leaves very slim margins.

Puma, the largest mining services company operating in Indonesia and a subsidiary of United Tractors, which with 40% market share doubles Leighton's, is seeing margin squeezed. Rate reductions contracts are in the range of 0-5%.

Hong Kong and Macau going strong

Hong Kong and Macau, markets in which LEI has been active for over 30 years, are still going strong. LEI has infrastructure WIH to the value of AUD 1.3 bln and recently won the AUD 2.5 bln contract to build Wynn Resort casino project in Macau. This is only a small market and we believe LEI opportunities there are at their peak.

The improvement in LEI's governance standards will lead to a diminishment in LEI's sales and receivable collections.

Post-corruption scandal, international sales harder

We now know that bribery was a key marketing tool for Leighton to obtain international business. Transparency international ranks countries from best (#1) to worst (#175) based on the prevalence of corruption. Indonesia, LEI's largest international market, is ranked 114. In 2011 and 2012 Leighton conducted an internal review of projects and governance. Post-corruption stated company governance standards now appear to be actually implemented. Without bribery, however, sales and receivable collections are sliding away.

Table 6. Country corruption perception index

Country	Ranking
UAE	26
Mongolia	83
Indonesia	114
Iraq	171

Source: Transparency International

"Underclaims": Agitprop to cover up bad management

LEI has created its own new accounting term, "underclaims," to describe management incompetence. The term is applied to

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receivables that have not been properly acknowledged by the client. Most of the underclaims are from gas projects accounting for about 50% of receivables.

Chevron's Gorgon gas project built up significant underclaims. LEI now needs to negotiate with Chevron, through Haliburton's subsidiary KBR, what the final cost will be, all while considering this cost as an "underclaim." This demonstrates LEI's lack of experience in constructing for the gas sector, and will complicate relationships with key gas clients such as Chevron.

Several other underclaims have appeared in other of LEI's international businesses. Bumi has some in Indonesia and the Iraq pipeline project has some too. Altogether, we estimate underclaims are in the order of AUD 500 mln, of which at least 25% will eventually have to be written-down.

We estimate that LEI's leverage will increase to 62%, instead of going down to 30% as it intended.

Leverage going up, not down as planned

LEI now has 39% leverage, up from 36%. This increase in leverage is attributed to the poor working capital caused by rising receivables and underclaims. We expect that, as the business deteriorates during this year and 2015, LEI will continue to see leverage increase. With the expected write down of receivables we estimate that leverage will increase to 62%, not down to 30% as the company has announced as its target.

Margin declining to 10%

LEI has targeted improving margin as revenue growth declines. The company is targeting 11–12% margin. Recently LEI IR told us that margins are closer to 10%. LEI's strategy to improve its margin is to better integrate the different operating arms of the company. To better share costs and procurement and to stop different units making competing bids. We have been generous in our forecast on the improving costs. However we see the key negatives for margin as follows:

- Product mix is away from high margin (12%+) contract mining (Australia and Indonesia) and towards property development (9%).

- LEI infrastructure revenue has performed well because it has aggressively discounted. Infrastructure project margins are typically 11-12%, but we expect LEI margins are now 9-10% for infrastructure projects.

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Valuation: AUD 12.83

We have used a WACC of 10.3% and a terminal growth rate of 2%.

Downside of 21%.

Risks to the upside of this valuation are:

- LEI maintains market share in Australian infrastructure market
- LEI is able to turn around underperformance in winning new LNG construction projects. either with existing operations or via acquisition.
- LEI is more successful at collecting overdue receivables and under-claims than we have forecast.

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Pro-forma financials

Table 7. Income statement

AUD thousand	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E
Revenue	15,561	18,952	21,859	19,441	17,189	17,189	17,189	17,189
Other Revenue	77	439			21%			
Total Revenue	15,561	18,952	21,859	19,441	17,189	17,189	17,189	17,189
Operating Expenses	-14,066	-16,720	-19,673	-17,497	-15,470	-15,470	-15,470	-15,470
Gross profit	1,495	2,231	2,186	1,944	1,719	1,719	1,719	1,719
Admin Expense	431	366	328	292	258	258	258	258
EBITDA	1,064	1,866	1,858	1,652	1,461	1,461	1,461	1,461
Depreciation and amortisation	866	1,057	834	983	1,057	1,047	1,040	1,037
EBIT	198	809	1,024	670	404	414	421	424
Net Interest	160	210	235	260	207	172	172	172
NPBT	38	599	789	410	197	242	248	252
Cash Tax payable on EBIT	-85	121	229	119	57	70	72	73
Net Profit	124	478	560	291	140	172	176	179

Source: Company information, J Capital

Table 8. Balance Sheet

AUD thousand	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E
Current assets								
Total cash or cash equivalent	1,415	1,847	2,678	1,740	758	745	730	715
Income tax receivable	103	10	12	10	9	9	9	9
Accounts receivable	2,484	3,441	4,372	3,888	3,438	3,438	3,438	3,438
Inventory	727	550	647	575	508	508	508	508
Other current assets	5	673	776	690	610	610	610	610
Total current assets	4,733	6,520	8,483	6,904	5,323	5,311	5,296	5,280
Non-current asset								
Receivable	373	673	500	500	500	500	500	500
PP&E	2,615	2,064	2,432	2,616	2,590	2,575	2,566	2,560
Deferred tax assets	433	246	246	246	246	246	246	246
Intangible assets	156	255	255	255	255	255	255	255
Long term investments	65	97	97	97	97	97	97	97
Investment In Affiliates	1,004	877	877	877	877	877	877	877
Inventories non-current	422	473	473	473	473	473	473	473
Total non-current assets	5,067	4,686	4,881	5,064	5,039	5,023	5,014	5,009
Total Assets	9,800	11,206	13,364	11,969	10,362	10,334	10,310	10,289

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Current liabilities								
Customer deposit			0	0	0	0	0	0
Payables	4,639	4,507	5,303	4,717	4,170	4,170	4,170	4,170
Short term debt and notes	271	634	911	796	566	566	566	566
Other current liabilities	340	653	653	653	653	653	653	653
Total current liabilities	5,250	5,794	6,866	6,165	5,389	5,389	5,389	5,389
Non current liabilities								
Long term debt	1,555	2,126	3,052	2,667	1,897	1,897	1,897	1,897
Other long term liabilities	675	369	369	369	369	369	369	369
Total non-current liabilities	2,230	2,495	3,421	3,036	2,266	2,266	2,266	2,266
Total Liabilities	7,480	8,289	10,287	9,201	7,655	7,655	7,655	7,655
Equity								
Equity	2,016	2,027	2,027	2,027	2,027	2,027	2,027	2,027
Accumulated P&L	526	1,047	1,207	898	837	809	785	764
Others	-223	-157	-157	-157	-157	-157	-157	-157
Total Equity	2,320	2,917	3,077	2,768	2,707	2,679	2,656	2,634
Total equity and liabilities	9,800	11,206	13,364	11,969	10,362	10,334	10,310	10,289

Source: Company information, J Capital

Table 9. Cash-flow statement

AUD thousand	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E
Net profit	124	478	560	291	140	172	176	179
D&A	866	1,057	834	983	1,057	1,047	1,040	1,037
Changes in:								
Inventory	-351	177	-97	72	67			
Receivable	-85	-957	-931	84	450			
Customer deposit								
Payables	1,281	-132	796	-587	-546			
Others	-513	486	69	87	81	0	0	0
Operating cashflow	1,321	1,109	1,231	929	1,249	1,219	1,217	1,216
Capex	-1,379	-1,217	-1,202	-1,166	-1,031	-1,031	-1,031	-1,031
Other investing cashflow	-222	136						
Investing Cash flows	-1,601	-1,081	-1,202	-1,166	-1,031	-1,031	-1,031	-1,031
Dividends Paid	-437	-270	-400	-200	-200	-200	-200	-200
Debt drawdown			1,202					
Debt repay				-500	-1,000			
Other financing cash flow	910	610						

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Financing Cash flow	473	341	802	-700	-1,200	-200	-200	-200
Exchange rate effect	-92	-26						
Change in cash	101	344	831	-937	-983	-13	-15	-16
Cash Balance	1415	1847	2,678	1,838	929	986	1,037	1,085
Dividend Per Share		-0.80	-1.19	-0.59	-0.59	-0.59	-0.59	-0.59
Payout Ratio		45%	51%	49%	102%	83%	81%	79%

Source: Company information, J Capital

Table 10. Ratio Analysis

	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E
ROE	5%	18%	19%	10%	5%	6%	7%	7%
ROA	1%	5%	5%	2%	1%	2%	2%	2%
Gross margin	10%	12%	10%	10%	10%	10%	10%	10%
EBIT margin	1%	4%	5%	3%	2%	2%	2%	2%
Net margin	1%	3%	3%	1%	1%	1%	1%	1%
Net debt	412	914	1285	1722	1705	1718	1732	1748
Net debt/ Equity	18%	31%	42%	62%	63%	64%	65%	66%

Source: Company information, J Capital

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