



## Matrix BUY

Current Price: **\$1.80**  
Target Price: **\$2.45**

Ticker: **MCE.ASX**  
Sector: **Engineering**

Shares on Issue (m): **64.0**  
Market Cap (\$m): **115.1**  
Net Debt (\$m): **-9.9**  
Enterprise Value (\$m): **105.3**

52 wk High/Low: **1.80 1.36**  
12m Av Daily Vol (m): **0.16**

### Key Metrics

	10F	11F
EV/EBITDA (x)	4.72	3.11
P/E (x)	8.09	6.57

### Ratios

	09A	10F	11F
ND / Equity	20.1%	42.2%	33.9%
EBITDA Mgn	9.2%	21.6%	20.0%
RoA	8.7%	23.3%	25.4%
RoE	15.0%	28.8%	29.7%

### Financials:

	09A	10F	11F
Revenue (\$m)	54.6	103.2	169.2
EBITDA (\$m)	5.3	22.3	33.8
NPAT (\$m)	3.1	13.6	18.3
Net Assets (\$m)	20.6	47.2	61.8
Op CF (\$m)	8.9	11.9	21.5

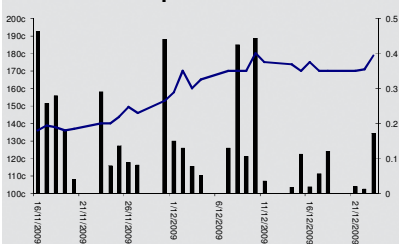
### Per Share Data:

	09A	10F	11F
EPS Diluted (cps)	22.3	27.4	27.4
DPS (cps)	4.0	6.0	6.0
Div Yield	2.2%	3.3%	3.3%
NTAPS (cps)	26.5	64.8	80.9
CFPS (cps)	18.1	19.4	32.1

### Major Shareholders:

Max Begley 45%  
Aaron Begley 5%

### Share Price Graph



Analyst:  
Ian Christie, CFA

23 December 2009

## Margins beat expectations

In an investor update released yesterday, MCE indicated that financial results to date have exceeded their forecasts due to better than expected gross margins in the Advanced Materials division and improved profit results within the Heavy Engineering division.

Prospectus FY10 forecasts were for revenue of \$117.7m and NPAT of \$7.6m. In the five months to November MCE has achieved sales of \$35.7m and unaudited NPAT of \$5.6m.

MCE also indicated that for the Stage 1 development at Henderson:

- × Debt finance of \$28.8m has been arranged, which together with the \$15.0m raised at IPO, will fund the buildings development
- × In response to expressions of interest from clients the building scope has been expanded to include additional lay-down area
- × Building specifications have been improved and storage areas expanded

Looking at the numbers:

- × Sales so far this financial year are below our expectations and, even after allowing for the ongoing capacity expansion at Malaga, we do not expect the prospectus forecast of \$117.7m for FY10 to be achieved.

Consequently we have pared back revenues in line with our expectation of a slower ramp-up in production volumes, and are forecasting \$103m in FY10.

- × However lower revenues are being more than offset by margins that are well above expectation. The NPAT margin of 15.7% in the first 5 months of FY10 compares to a prospectus forecast margin of 6.5% for the full year, and suggests on our calculations an EBITDA margin of ~25% year to date.

We understand this is due to efficiency gains and softer input costs. However, despite such a dramatic increase in margin we consider it too early to lock this in with confidence, and are more cautious with our full year number.

While these changes have resulted in a significant increase in our FY10 NPAT forecast shown in the table below, we note that simply annualising the 5 month's NPAT result of \$5.6m would give a full year net profit figure of \$13.4m.

	FY09A	FY10F			FY11F		
	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	54.3	118	103	-12.4%	200	169	-15.3%
EBITDA margin	9.2%	11.6%	21.6%	86.3%	12.5%	20.0%	59.9%
NPAT (\$m)	3.1	7.6	13.6	79.8%	12.1	18.4	51.9%

There are still risks to rapid expansion, although offsetting these MCE has already arranged debt finance, shown it is on track to comfortably beat prospectus NPAT forecast, and confirmed the potential for significant margin expansion.

The latter has boosted our DCF valuation from \$2.06 to \$2.61 (using 15% as a long term EBITDA margin assumption). Our price target of \$2.45 is undemanding on 11x FY10 and 9x FY11 earnings, especially considering the further growth potential in later years.

With a solid market position and significant order book MCE is in an excellent position to benefit from exposure to the offshore oil & gas industry.

**BUY**

## Matrix Composites & Engineering

**Equities Research**

Ian Christie, CFA

<b>Recommendation</b>	<b>BUY</b>
<b>Current Price (\$)</b>	<b>1.80</b>
<b>All Ords (XAO)</b>	<b>4,724.4</b>

<b>Sector</b>	<b>Engineering</b>
<b>Market Cap (\$m)</b>	<b>115.1</b>
<b>Date</b>	<b>23 December 2009</b>

Profit and Loss (\$m)	2009A	1H10F	2010F	2011F
<b>Revenue</b>	<b>54.6</b>	<b>42.5</b>	<b>103.2</b>	<b>169.2</b>
<b>EBITDA</b>	<b>5.3</b>	<b>10.6</b>	<b>22.3</b>	<b>33.8</b>
Depreciation	-1.7	-1.0	-2.2	-5.3
<b>EBIT</b>	<b>3.6</b>	<b>9.6</b>	<b>20.1</b>	<b>28.5</b>
Net Interest	-0.2	-0.5	-0.7	-2.3
<b>PBT</b>	<b>3.5</b>	<b>9.2</b>	<b>19.5</b>	<b>26.2</b>
<b>NPAT</b>	<b>3.1</b>	<b>6.4</b>	<b>13.6</b>	<b>18.3</b>

Cash Flow (\$m)	2008A	2009A	2010F	2011F
Receipts		64.0	94.5	152.5
Payments		-52.2	-76.1	-120.9
Other		-3.0	-6.5	-10.1
<b>Cash from Operations</b>		<b>8.9</b>	<b>11.9</b>	<b>21.5</b>
Property, Plant & Equip		-10.3	-40.7	-18.7
Payment for Subsidiary		0.0	0.0	0.0
Other		-0.0	0.0	0.0
<b>Cash from Investing</b>		<b>-10.3</b>	<b>-40.7</b>	<b>-18.7</b>
Issue of Shares		0.0	15.0	0.0
Net Borrowing		1.8	25.3	11.5
Dividends		-0.5	-1.7	-3.8
<b>Cash from Financing</b>		<b>1.3</b>	<b>38.5</b>	<b>7.7</b>
<b>Net Cash Flow</b>		<b>-0.1</b>	<b>9.6</b>	<b>10.5</b>
<b>Ending Cash</b>		<b>1.2</b>	<b>10.9</b>	<b>21.4</b>

Balance Sheet (\$m)	2008A	2009A	2010F	2011F
Cash	1.4	1.5	10.9	21.4
Receivables	16.5	9.4	18.1	34.8
Inventory	-9.5	-3.6	-6.0	-10.0
Other	2.0	6.1	6.1	6.1
<b>Current Assets</b>	<b>10.2</b>	<b>13.4</b>	<b>29.1</b>	<b>52.3</b>
Property, Plant & Equip	11.1	19.2	57.8	71.1
Intangibles	7.6	7.6	7.6	7.6
Other Non-current Assets	0.6	2.6	2.6	2.6
<b>Non-Current Assets</b>	<b>19.3</b>	<b>29.4</b>	<b>68.0</b>	<b>81.3</b>
<b>Total Assets</b>	<b>29.6</b>	<b>42.8</b>	<b>97.1</b>	<b>133.6</b>
Payables	8.1	13.1	15.5	26.0
Borrowings	3.6	5.6	30.8	42.3
Provisions	0.7	1.0	1.0	1.0
Other	1.6	2.5	2.5	2.5
<b>Total Liabilities</b>	<b>14.0</b>	<b>22.2</b>	<b>49.8</b>	<b>71.8</b>
<b>Net Assets</b>	<b>15.6</b>	<b>20.6</b>	<b>47.2</b>	<b>61.8</b>
Ordinary Equity	13.1	13.1	28.1	28.1
Reserves	1.9	4.8	4.8	4.8
Retained Earnings	0.6	2.7	14.4	28.9
<b>Total Equity</b>	<b>15.6</b>	<b>20.6</b>	<b>47.3</b>	<b>61.8</b>

Summary	
<b>Target Price (A\$ per share, diluted)</b>	<b>2.45</b>
<b>Forecast 2010 Yield (%)</b>	<b>2.2%</b>
<b>Forecast 2010 P/E (x)</b>	<b>8.1</b>

Valuation Method	Calculations	Results
<b>DCF Valuation</b>	Discount Rate / WACC (%)	13.2%
	PV Free Cash Flow (\$m)	163.2
	Less Net Debt / Plus Cash (\$m)	9.9
	Unpaid Capital (\$m)	1.5
	Equity Value (\$m)	174.6
<b>Equity Value (A\$ps)</b>		<b>2.61</b>

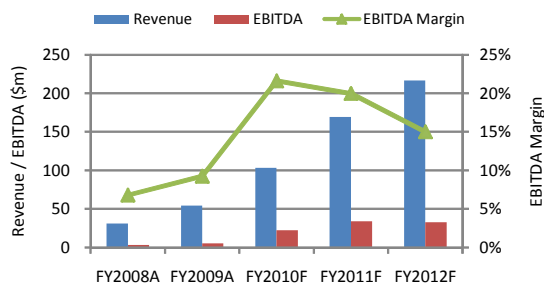
FY11 Earnings	Multiple	EV	Equity Val	per Share
EV/EBITDA				
EV/EBIT				
P/E (x)	9.0		165,141	2.47
<b>Multiple Valuation (A\$ps)</b>				<b>2.47</b>

<b>Target Price (\$ per share)</b>	<b>2.45</b>
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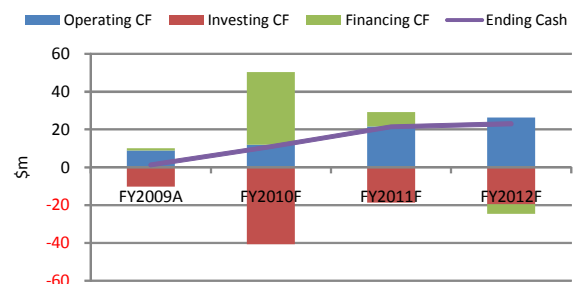
Financial Ratios	2008A	2009A	2010F	2011F
<b>Balance Sheet Ratios</b>				
Net Debt / Equity (%)	14.2%	20.1%	42.2%	33.9%
Current Ratio (x)	1.0	0.9	1.1	1.3
Net Interest Cover (x)	7.0	16.9	30.4	12.6
<b>Profitability Ratios</b>				
EBITDA Margin (%)	6.8%	9.2%	21.6%	20.0%
Net Profit Margin (%)	3.8%	5.7%	13.2%	10.8%
Return on Assets (%)	8.0%	8.7%	23.3%	25.4%
Return on Equity (%)	7.5%	15.0%	28.8%	29.7%
<b>Cash Flow Ratios</b>				
Free Cash Flow Yield			-24.5%	4.8%

Per Share Data	2008A	2009A	2010F	2011F
Basic EPS (cps)			23.4	28.7
Diluted EPS (cps)			22.3	27.4
Diluted P/E (x)			8.1	6.6
Div. per share (cps)			4.0	6.0
Dividend Yield (%)			2.2%	3.3%
NTA per share (cps)		26.5	64.8	80.9
CF per share (cps)		18.1	19.4	32.1

### P&L



### Cash Flow



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**Important Disclosures**

- × Argonaut acted as corporate advisor and broker to the Initial Public Offer in November 2009 and received fees commensurate with these services.
- × Argonaut holds and/or controls 337,000 shares in Matrix.

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