

Matrix has capacity for float

IPO watch

Tony Featherstone

A \$15 million initial public offering will help Matrix Composites & Engineering double production capacity and challenge for global leadership in its key markets.

The Perth engineering company is the largest manufacturer of sub-sea buoyancy systems in the southern hemisphere. Offshore oil and gas projects use Matrix's riser buoyancy systems to support underwater structures and pipelines, and make remotely controlled vehicles more manoeuvrable in deep water.

Matrix is benefiting from more deep-water drilling, and oil industry growth. Revenue grew from \$23.2 million in financial-year 2006 to \$54.3 million in 2009, and \$117.7 million is expected in 2010. Earnings before interest, tax, depreciation and amortisation should grow from \$2.4 million in 2006 to \$13.7 million this financial year.

A new facility at the Australian Marine Complex, 23 kilometres south of Perth, will double Matrix's capacity and lower costs by consolidating seven operating facilities into one. The 8.4 hectare Henderson facility is the key to Matrix's fortunes and its largest risk. The first stage costs \$22 million plus several more millions for the fit-out. Stage two costs another \$22 million.

Most IPO proceeds will be used to develop the Henderson property. The vendors are taking no money out. Matrix needs to raise debt or use cash flow to fund the rest of stage one.

Matrix has already sold its expanded production, with 2010 and 2011 order books near full capacity. The 2012 order book is rising.

It has been a long journey for the 27-year-old family company, started by founder and major shareholder Max Begley. Austrig Fabrication



Offshore oil and gas projects use Matrix's riser buoyancy systems to support underwater structures.

became Matrix Asia Pacific in 1999 and then Matrix Composites and Engineering in 2007.

A big development was the 2007 merger of Matrix, 100 per cent owned by the Begley family, with its 60 per cent owned heavy engineering business. Max Begley has about 45 per cent of Matrix shares after the IPO with son Aaron, Matrix's chief executive, holding 7 per cent. Another family member has 3 per cent.

Max Begley, 67, moved from Matrix chairman to a non-executive director this year. He bought 500,000 shares through the IPO and has agreed not to sell any until the 2010 results.

Aaron Begley joined Matrix in the early 1990s and led the composite materials strategy in the oil and gas division. This business, Advanced Materials, accounts for 85 per cent of forecast 2010 revenue, with heavy engineering providing the rest.

The Begley family wanted to float

Matrix last year but the offer never opened due to the bear market. Matrix was valued at 55¢ a share last year compared with a \$1 offer price now. The last capital raising, a \$2 million private placement in 2008, was at 45¢.

Rapid earnings growth and a rising

The 8.4 hectare Henderson facility is the key to Matrix's fortunes.

sharemarket have helped Matrix achieve a market capitalisation of \$64 million at the \$1 offer price. Another 3 million options, issued during the previous IPO attempt, have an exercise price of 60¢.

At \$1 a share, forecast earnings per share of 11.9¢ in 2010 puts Matrix on a prospective price-earnings multiple of 8.4 times — lower than listed companies such as Austin

Engineering which has a forecast P/E of 10.8, consensus forecasts show.

The valuation may explain institutional interest. Acorn Capital, BT Funds Management, Macquarie Funds Management, Pengana, Perennial Investment Partners and other funds are thought to have taken about half of Matrix's IPO shares.

One attraction could be Matrix's global position. Market shares are hard to determine, but higher production capacity from the Henderson facility could give Matrix the No. 1 global market share in riser buoyancy systems and grow overseas sales.

Matrix is positioned in a fast-growing industry with high entry barriers. With the Begley family owning 55 per cent of what will be a reasonably illiquid micro-cap stock, risks are high and Matrix should be considered speculative. It is due to list next week.

