



## Matrix BUY

Current Price: **\$3.05**  
Target Price: **\$3.70**

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

Shares on Issue (m): **77.1**  
Market Cap (\$m): **235.1**  
Net Debt (\$m): **8.5**  
Enterprise Value (\$m): **243.6**  
  
52 wk High/Low: **9.76 3.05**  
12m Av Daily Vol (m): **0.23**

### Key Metrics

	12F	13F
EV/EBITDA (x)	7.87	4.18
P/E (x)	9.11	6.65

### Ratios

	11A	12F	13F
ND / Equity	6.7%	6.4%	-0.8%
EBITDA Mgn	29.0%	23.5%	24.5%
RoA	27.3%	13.0%	24.4%
RoE	26.5%	11.7%	21.1%

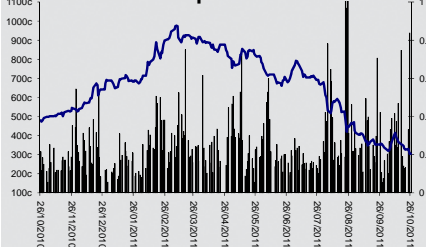
### Financials:

	11A	12F	13F
Revenue (\$m)	189.2	190.4	237.9
EBITDA (\$m)	52.2	310	58.3
NPAT (\$m)	33.6	16.2	35.4
Norm NPAT (\$m)	36.4	25.8	35.4
Net Assets (\$m)	126.8	139.1	167.6
Op CF (\$m)	15	18.2	33.4

### Per Share Data:

	11A	12F	13F
EPS Diluted (cps)	47.2	33.5	45.9
DPS (cps)	8.0	5.0	9.0
Div Yield	2.6%	16%	3.0%
NTAPS (cps)	166.1	172.2	209.1
CFPS (cps)	19	23.6	43.3

### Share Price Graph



Analyst:  
Ian Christie, CFA

26 October 2011

## AGM and trading update

### AGM and trading update:

MCE held their AGM yesterday, providing a trading update that sees:

- × The guidance for 20% revenue growth provided at the time of the FY11 results revised down to 0-10% (skewed toward 2H12)
- × 1H12 profit guidance for revenue of \$85m, with a breakeven NPAT result (post a \$9.6m deduction for one-off items)

Looking beyond FY12, presentations and commentary were upbeat. This was despite delays in the conversion of the \$600m quotation book to firm orders (the order book currently stands at \$60-70m).

### Impact:

Negative

Our revised forecasts reflect guidance, and for FY12 we now expect reported NPAT of \$16.2m and norm. NPAT of \$25.8m (prior \$31.4m). FY13 forecasts are little changed.

\$m	FY11A	1H12F	2H12F	FY12F	FY13F
Revenue	189	84	106	190	238
EBIT	47.6	1.0	23.8	23.8	51.8
Rep NPAT	33.6	0.1	16.1	16.2	35.4
<b>Norm NPAT</b>	<b>36.4</b>	<b>9.7</b>	<b>16.1</b>	<b>25.8</b>	<b>35.4</b>
Norm EPS (c)	47.2	12.6	20.9	33.5	45.9

Our biggest concern is the order book:

- × Without new orders, we estimate the book by the end of December will have fallen to around \$40m (\$110m as at June, less \$70m run-off)
- × The current 2H12 revenue forecast (to achieve the lower end of guidance range) requires 25% revenue growth half on half, and \$50m in new orders

As a result, we believe FY12 earnings could still be at risk.

### Our View:

Mixed

Our view remains mixed:

- × A strong quotation book, a world-class facility at Henderson, and the expectation of steadily increasing demand from the deepwater exploration and production markets gives us reason to be positive about MCE's medium-term prospects
- × However competitive pressure, adverse currency moves, an eroding order book and a softer than expected FY12 gives us good reason to remain cautious

### Our Recommendation:

Buy

Our target price of \$3.70 (prior \$4.20) is a blended value reflecting a 75% weighting to our DCF valuation of \$4.03 (prior \$4.55) and our multiple-based valuation of \$2.71 (prior \$3.80). This target price equates to 8x FY13 forecast earnings.

Our buy recommendation is predicated on a medium term view and a willingness to look beyond a weak order book and soft FY12.



## Matrix Composites & Engineering

Equities Research

Ian Christie, CFA

Recommendation	<b>BUY</b>
Current Price (\$)	<b>3.05</b>
All Ords (XAO)	<b>4,287.7</b>

Sector	<b>Engineering</b>
Market Cap (\$m)	<b>235.1</b>
Date	<b>26 October 2011</b>

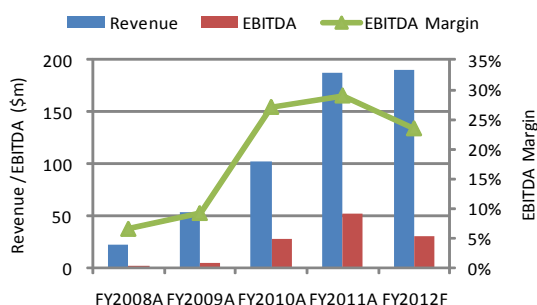
Profit and Loss (\$m)	2011A	1H12F	2H12F	2012F	2013F
Revenue	189.2	84.0	106.4	190.4	237.9
EBITDA	52.2	4.0	26.9	31.0	58.3
Depreciation	-4.7	-3.0	-3.1	-6.2	-6.5
EBIT	47.6	1.0	23.8	24.8	51.8
Net Interest	-0.7	-0.8	-0.8	-1.6	-1.2
PBT	46.9	0.2	23.0	23.2	50.5
Rep. NPAT	33.6	0.1	16.1	16.2	35.4
Norm. NPAT*	36.4	9.7	16.1	25.8	35.4

\*Adjusted for one-off costs

Cash Flow (\$m)	2010A	1H11A	2011A	2012F	2013F
Receipts	79.2	70.6	149.1	190.4	229.4
Payments	-50.0	-74.7	-139.1	-163.7	-179.6
Other	-2.9	-2.1	-8.5	-8.5	-16.4
Cash from Operations	26.4	-6.2	1.5	18.2	33.4
Property, Plant & Equip	-41.3	-26.5	-30.8	-14.7	-16.2
Payment for Subsidiary	0.0	0.0	0.0	0.0	0.0
Other	0.0	-0.0	0.0	0.0	0.0
Cash From Investing	-41.3	-26.5	-30.8	-14.7	-16.2
Issue of Shares	26.8	1.8	35.6	0.0	0.0
Net Borrowing	2.7	22.1	10.6	-8.0	-8.0
Dividends	-2.3	-1.5	-3.8	-3.9	-6.9
Cash From Financing	27.3	22.4	42.4	-11.9	-14.9
Net Cash Flow	12.3	-10.3	13.1	-8.3	2.3
Ending Cash	13.6	3.3	26.7	18.3	20.6

Balance Sheet (\$m)	2010A	1H11A	2011A	2012F	2013F
Cash	13.6	3.3	26.7	18.3	20.6
Receivables	31.9	28.1	33.9	33.9	42.4
Inventory	18.9	20.3	20.3	28.4	32.0
Other	4.2	14.8	12.1	12.1	12.1
Current Assets	68.5	66.5	93.0	92.7	107.1
Property, Plant & Equip	57.2	82.2	99.7	108.2	117.9
Intangibles	7.0	6.4	6.4	6.4	6.4
Other Non-current Assets	1.6	4.3	1.8	1.8	1.8
Non-Current Assets	65.8	92.8	108.0	116.5	126.1
Total Assets	134.3	159.3	200.9	209.2	233.2
Payables	22.7	22.0	24.5	28.4	32.0
Progress Claims / Dep	35.6	5.8	0.0	0.0	0.0
Borrowings	8.1	30.1	35.2	27.2	19.2
Provisions	1.5	1.8	2.1	2.1	2.1
Other	6.6	15.1	12.3	12.3	12.3
Total Liabilities	74.4	74.8	74.2	70.0	65.6
Net Assets	59.9	84.6	126.8	139.1	167.6
Ordinary Equity	40.4	42.2	76.4	76.4	76.4
Reserves	0.8	5.9	1.9	1.9	1.9
Retained Earnings	18.6	36.4	48.5	60.8	89.3
Total Equity	59.9	84.5	126.8	139.1	167.6

P&L



### Summary

Target Price (A\$ per share, diluted)	<b>3.70</b>
Forecast 2012 Yield (%)	<b>1.6%</b>
Forecast 2013 Yield (%)	<b>3.0%</b>
Forecast 2012 P/E (x)	<b>9.1</b>
Forecast 2013 P/E (x)	<b>6.6</b>

### Valuation Method Calculations Results

DCF Valuation	Calculations	Results
	Discount Rate / WACC (%)	12.2%
	PV Free Cash Flow (\$m)	319.2
	Less Net Debt / Plus Cash (\$m)	-8.5
	Unpaid Capital (\$m)	0.0
	Equity Value (\$m)	310.7
	Equity Value (A\$ps)	4.03

FY12 Norm Earnings	Multiple	EV	Equity Val per Share
EV/EBITDA			
EV/EBIT			
P/E (x)	10.0	209,065	2.71
Multiple Valuation (A\$ps)			<b>2.71</b>

### Target Price (\$ per share)

**3.70**

### Financial Ratios

Financial Ratios	2010A	2011A	2012F	2013F
<b>Balance Sheet Ratios</b>				
Net Debt / Equity (%)	-9.2%	6.7%	6.4%	-0.8%
Current Ratio (x)	1.0	2.3	2.1	2.3
Net Interest Cover (x)	75.2	72.8	15.6	41.8
<b>Profitability Ratios*</b>				
EBITDA Margin (%)	27.1%	29.0%	23.5%	24.5%
Net Profit Margin (%)	17.7%	19.4%	13.6%	14.9%
Return on Assets (%)	20.6%	27.3%	13.0%	24.4%
Return on Equity (%)	30.3%	26.5%	11.7%	21.1%
<b>Cash Flow Ratios</b>				
Free Cash Flow Yield	-7.1%	-19.5%	1.5%	7.3%

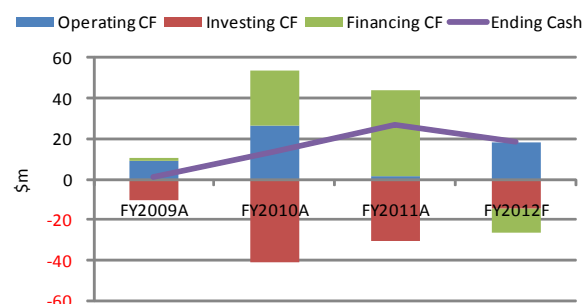
\*pre one-off costs

### Per Share Data\*

Per Share Data*	2010A	2011A	2012F	2013F
Basic EPS (cps)	31.0	51.3	33.5	45.9
Diluted EPS (cps)	29.4	47.2	33.5	45.9
Diluted P/E (x)	10.4	6.5	9.1	6.6
Div. per share (cps)	4.0	8.0	5.0	9.0
Dividend Yield (%)	1.3%	2.6%	1.6%	3.0%
NTA per share (cps)	85.6	156.1	172.2	209.1
CF per share (cps)	42.7	1.9	23.6	43.3

\*Normalised (pre one-off costs)

Cash Flow



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