

Matrix C & E Ltd (MCE)

Henderson Factory Officially Open

10 June 2011

Heath Andrews
 handrews@austock.com
 +613 8601 2644

Three Key Points

- Henderson is ramping up, and is capable of generating ~\$350m in revenue when operating at full capacity. MCE is ahead of its competitors in terms of production smarts and is the benchmark producer. We believe the market has not yet picked up on the full potential of MCE.
- Several important staff hires have expanded the management and sales team. We believe that MCE is positioned to grow sales in production buoyancy and other markets, particularly from the 2H'12.
- Increased orders for drillships (and for deeper water) has extended certainty on demand for riser buoyancy modules.

Fundamentals and Growth the Key Factors to Focus on

Feedback is that MCE is the industry leader in terms of production efficiency and automated production techniques – i.e. most efficient, highest quality producer. We believe the market has not priced this advantage in.

The market has recently been characterised by uncertainty, and MCE has been aggressively sold off – down ~15% since the \$8.50/share capital raising.

In the last several months, new orders for deep-sea Semi-Submersibles and Drillships have escalated. It would appear that demand for riser buoyancy products has a bias to increase.

MCE has hired a key person to run their Houston distribution and marketing operations (ex. senior Trelleborg manager, their main competitor).

Production buoyancy and other developing markets outside riser buoyancy place MCE in good stead for the longer term.

The ramp up of Henderson during FY'12 still leaves plenty of growth for FY'13 and stage 2 at Henderson is not factored in. The flat FY'13 EPS growth reflected in consensus seems unrealistic to us, particularly as the cost out story and top line growth from the new Henderson factory also flow into FY'13.

There are several short term concerns in the market on MCE and a lot of "hot money" has gone into the stock due to its share price performance. An investment in MCE is about forward earnings and the "quick buck" money is leaving. We believe those investors prepared to look through short term noise will be rewarded.

Investment view

Global peers are trading on 14.7x's FY'12F EPS (MCE 11.8x's). Our DCF of \$10.90/share represents 17.9x's FY'12 EPS. Whilst high, this is due to the 333% forecast NPAT growth in FY'13 over FY'10.

MCE ticks the boxes in what we look for in small cap stocks: competitive advantage, high barriers to entry, leverage to a high growth sector and founding management with plenty of skin in the game. We upgrade our recommendation to Strong Buy (from Buy) due to share price weakness.

Recommendation

Strong Buy

Previous Recommendation	Buy
Risk Rating	High
Current Share Price	\$7.21
12 Month Price Target	\$10.90 (from \$11.00)
Price Target Methodology	DCF
Total Return (Capital + Yield)	52.2%
DCF Valuation	\$10.90 (from \$11.00)
Market capitalization	\$556m
Liquidity – Daily Value	\$2.5m

EPS Changes & Austock vs. Consensus

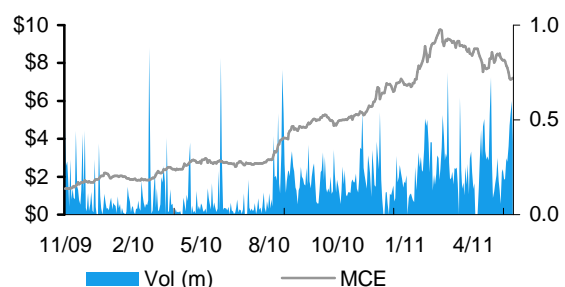
Y/e Jun (\$m)	2011F	2012F	2013F
Previous EPS (cps)	50.2	65.0	76.7
Change in EPS (%)	-1%	-6%	2%
Consensus EPS (cps)	53.3	63.3	63.6
Austock vs. Consensus (%)	-7%	-4%	23%

Financial Forecasts & Valuation Metrics

Y/e Jun (\$m)	2010A	2011F	2012F	2013F
Revenue	103	182	234	290
NPAT	18.4	36.5	47.1	60.4
EPS (cps)	29.4	49.6	61.0	78.1
EPS Growth	365%	69%	23%	28%
DPS (c)	0.0	7.4	20.1	25.8
EV / EBITDA (x)	19.5	9.7	7.3	5.5
PER (x)	24.5	14.5	11.8	9.2
Dividend Yield	0.0%	1.0%	2.8%	3.6%
Gearing	-9%	2%	-8%	-25%
Interest Cover (x)	98.5	57.9	na	na

Source: Austock Securities estimates

MCE Share Price and Volume



Source: Austock Securities estimates

Takeaways from the Henderson Plant Opening Day

MCE, Australia's only World Class Oil & Gas Equipment Manufacturer

Super impressive plant that gives MCE a competitive edge

The MCE Henderson plant is impressive, it is technically very advanced, has adopted the latest manufacturing concepts from the automotive industry, and employs advanced robotic and automation technology. Anyone well versed in manufacturing would be able to glean that MCE has a cost and quality advantage over its competitors.

The opening day was also attended by several customers (for the first time), and we believe that the factory quality would not be lost on them.

Billy Nitsche hired from Trelleborg – a coup for MCE

Mr Billy Nitsche was the “Drilling Global Customer Solutions Manager” for Trelleborg, based in Houston. Trelleborg is MCE's largest competitor. Billy commenced employment at MCE at the beginning of this week, and is likely to manage MCE's proposed Houston operations.

Billy has been working in the industry for +20 years and is well connected to customers and suppliers. He understands the products and markets – in short, a valuable addition.

MCE's production techniques and product quality is world class

Billy pointed out to us that the production smarts employed by MCE is at least 10 years ahead of its peers and that the product quality standards at MCE were world class. This competitive edge is likely to be a key reason why Billy has come across to MCE. Along with other hires from Wellstream and GE Oil & Gas, MCE is starting to build out its sales and management teams.

Henderson ramp up gaining momentum

The Henderson plant incurred some initial start-up issues (as expected). We believe that most of the major issues have been resolved and that production levels are approaching 40% name plate capacity. MCE is targeting >50% nameplate capacity run rate by the end of Jun'11.

Head office at Henderson close to starting construction

Construction on the proposed \$5m Head Office is about to commence shortly, with MCE targeting completing in late CY'11/early CY'12. As MCE grows, it requires additional office space, and this should be located close to the main operations.

Riser and production buoyancy is not the only market for MCE product

When looking at MCE, focusing solely on the riser buoyancy market is short sighted in our view. Over time, we believe that MCE will diversify its product range and the industries that it sells to. As Henderson is in ramp up and demand for riser buoyancy is still strong, we expect will MCE focus on riser buoyancy in the short term. However, once the factory irons out production bugs and the sales force become more versed in the other products, we expect a shift in the sales mix will occur.

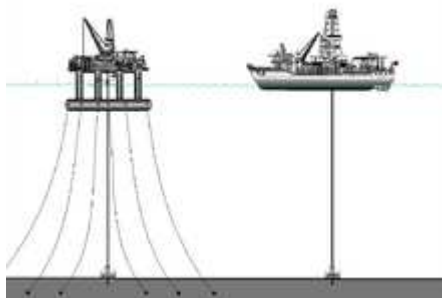
Due to manufacturing constraints at the Malaga plant, MCE was quite constrained in the products it could offer. Some markets are also in their infancy, such as Floating Production Storage and Offloading Vessels (FPSO's). This is the type of technology to be used on the Prelude, Browse and Ichthys LNG projects off the coast of West Australia.

Other target markets for syntactic foam products are in: horizontal drilling (onshore), high performance marine, defence industry, building insulation and fire resistant panels. These products require R&D, but give some guide as the future expansion potential of the MCE product range.

Malaga plant to operate until Aug/Sep

It is likely that the Malaga plant will continue to operate until the end of Aug'10. Replacing Malaga production with Henderson production should see an increase in margins in 1H'12.

Riser Buoyancy Outlook



Riser buoyancy modules are used with floating semi-submersibles and drillships, shown opposite (collectively called floaters).

The purpose of the buoyancy is to make the drill string as close as possible to neutral in weight.

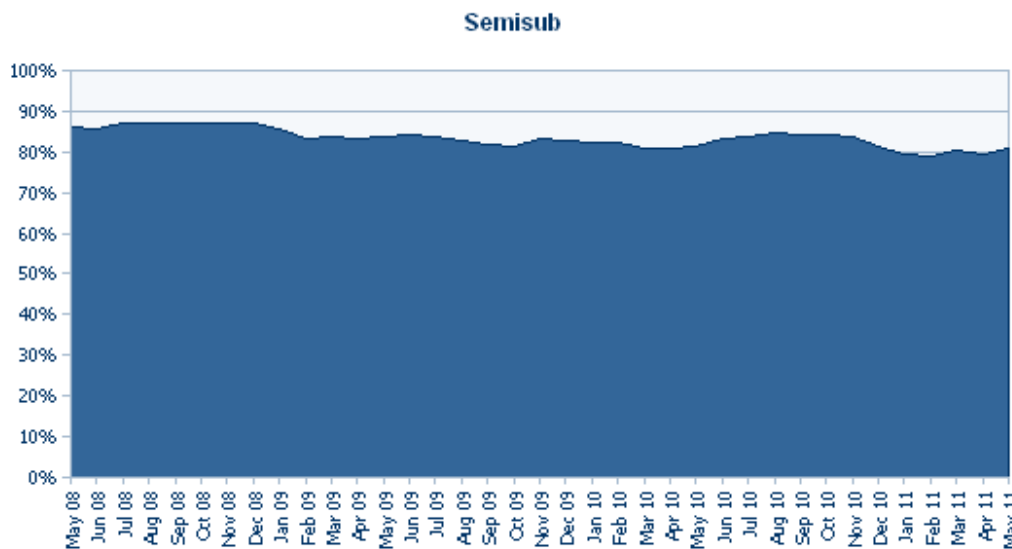
New deep water floaters generally are built to drill in waters up to ~10,000ft deep, requiring ~1100 riser buoyancy modules. The latest drillships are being manufactured with 12,000ft capabilities.

Orders for riser buoyancy drill strings are lumpy, with a 12,000ft drill string costing almost US\$20m.

Semisubmersibles Utilisation Rates

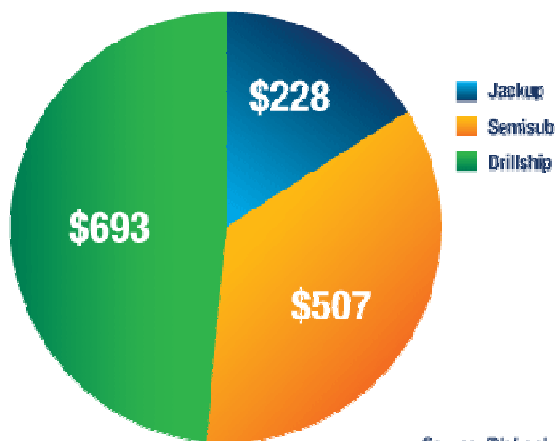
Utilisation rates of semi submersibles is 83.4% or 146/175 rigs. Back to similar levels prior to the GOM incident, though some capacity still exists

Current drillship utilisation is at 69.4% or 43/62



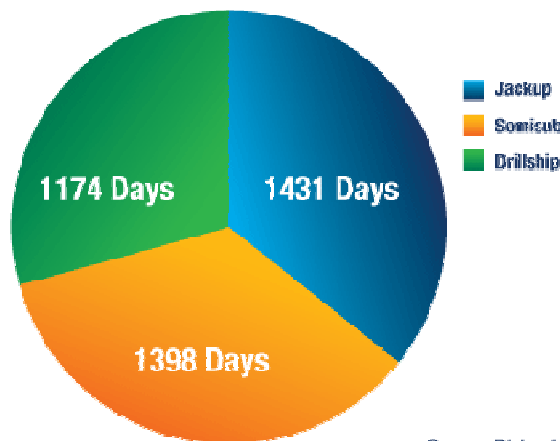
Source: Rigzone

2011 NEWBUILD CONSTRUCTION COSTS



Source: RigLogix

2011 NEWBUILD CONSTRUCTION TIME IN DAYS



Source: RigLogix

According to RigLogix, it takes 3.2 years to build a drill ship and 3.8 years to build a semi-submersible.

Petrobras, the game changer and orders for 21 rigs is not that far away

Orders for 7 rigs already placed

On the 6th Jun'11, Petrobras approved the bidding process for up to 21 drill rigs to be built for exploration off the coast of Brazil. Local content rules apply in relation to sourcing a percentage of products and services from Brazil. These rigs are not expected to be operational until 2015/16.

Earlier this year, Petrobras awarded a US\$4.6bn contract for the construction of seven deepwater drillships. The building contractor consortium includes Samsung Heavy Industries (the largest shipyard), in conjunction with two Brazilian firms.

Petrobras is more of a medium term driver in our opinion, though Petrobras almost guarantees shipyard orders for floaters (and consequently new riser buoyancy modules) should be solid for the next five years.

In recent months, there has been a increase of new orders for ultra deepwater drillships, particularly for the Korean ship builders. The drivers of demand and confidence for new floaters are:

- Construction costs have fallen ~20% since 2008;
- Daily hire rates are above long term trend prices;
- The sustained high oil price; and
- The number of announced deep water oil discoveries in 2010 was 35, up from 9 in 2008.

Huge investment occurring globally in ultra deep water floaters

The following orders have been placed since Apr'11 for drillships (we have not included semi-submersibles), giving us confidence that demand for Riser Buoyancy is likely to remain positive over the medium term:

- In June, Rowan ordered 2 ultra deep water (UDW) drillships (12,000ft) for delivery 3Q'13 and 1Q'14 from Hyundai Heavy Industries (HHI);
- In May, Diamond Offshore exercised an option to build an UDW drillship (12,000ft) for delivery 2Q'14 from HHI;
- In May, Vantage Drilling ordered a UDW drillship (12,000ft) from Daewoo for delivery in 2Q'13;
- In April, Seadrill exercised an option for an additional deepwater drill ship (10000ft) for delivery in 3Q'13 with Samsung heavy industries. This is in addition to two similar rigs ordered Nov'10;
- In April, Fred Olson Energy ordered a UDW drillship (12000ft) for delivery 3Q'13 from HHI, with an option for a second rig to be ordered; and
- In April, Maersk ordered 2 UDW drillships (12,000ft) from Samsung for delivery 3Q'13 and 4Q'13, with the option of a further 2 drillships.

Positive trends in riser buoyancy are occurring that give higher certainty of future demand

The trends emerging are also positive for MCE:

- Longer drill strings equals more riser buoyancy modules;
- The deeper the water, the more pressure that the modules need to withstand. MCE's hydrostatic deepwater chamber is rated to 17,500ft depth (we believe it is has the deepest testing capacity of any chamber in the world);
- Deeper water riser buoyancy modules have a higher sell price than shallow water modules; and
- New orders for drillships are with either multiple Blow Out Preventer's (BOP's), or a more sophisticated and heavier BOP. This requires riser buoyancy modules with better buoyancy properties. We believe that MCE has the most buoyant riser products in the market, a competitive advantage.

The replacement market will be significant in future years, MCE's share is likely to be ~US\$80m

237 floaters are in service today. If you assume the average drill string is 8,000ft, this would equate to ~200,000 buoyancy modules in circulation. With an average life expectancy of 10 years, 20,000 require replacing pa. Overtime, this could equate to a US\$250m market, with MCE's share ~30%. The replacement market is still growing, as the age of existing riser modules is still relatively new.

Production Buoyancy Update

MCE already has an extensive range of production buoyancy products, but is not at scale in terms of volumes sold. We understand that several production buoyancy items have been tendered.

Production buoyancy should start to gain traction in the 2H'12

The move into production buoyancy will not be overnight. MCE will be first getting the Henderson plant operating efficiently. Once staff are trained, the push into production buoyancy will increase. Moulds are also required and sales staff need training to become proficient in the new products. MCE needs to get on the approved vendor list of customers for these products. This process has already commenced.

The outlook for production buoyancy is improving. The high oil price has lead to confidence and the number of LNG projects in Australia is also a driver. In particular, the Floating Production, Storage and Offloading (FPSO) projects (being Prelude, Browse, Ichthys and Sunrise projects in Australia) offer the potential for large orders of syntactic foam.

FPSO's also have a heavy engineering component

Production oil rigs use arches in the flow line back to the floating production vessel. The arches require buoyancy and bend restrictors. These structures could result in an order of up to \$20m each.

Opportunity also exists for the Offshore Services and Heavy Engineering division in production buoyancy. FPSO's require flow lines that have complex joins (similar to riser joins). This division has the expertise to construct and assemble these flow lines joins in Australia for the forthcoming FPSO's (likely FY'13 event).

Onshore drilling, another market

Drill centralisers a potential large market, product development already done

Drill centralisers are used in onshore horizontal drilling and fracing, in order to improve oil flow rates and to unlock shale or coal seam gas. Several hundred drill centralisers could be used on one individual well. MCE has established a distribution agreement with an established player in the US and sales have already been contracted.

The U.S. market is likely to grow exponentially for drill centralisers

According to the U.S. Energy Information Administration, in the past 10 years, U.S. shale gas production has increased 12 fold from 0.4tcf to 4.9tcf in 2010, with continued strong growth predicted. We forecast \$15m of revenue from this product in FY'13, but note this is probably conservative.

Earnings Adjustments

Changed FX assumptions negatively impacting

We have changed FX assumptions since we last updated our MCE forecasts. Our FX assumptions are as below, including our forecast impact FX has on MCE earnings. These assumptions assume that MCE run down its current hedging and use spot FX rates (though acknowledge this is not MCE's policy on FX). We note that FX assumptions are open to interpretation, hence we stay close to consensus.

Forecast FX Rates (US\$:A\$)						
	FY'11F	FY'12F	FY'13F	FY'14F	FY'15F	Long Term
New	1.00	0.99	0.94	0.87	0.85	0.85
Previous	0.98	0.96	0.88	0.81	0.80	0.80
FX EBIT Impact *	(1.7)	(4.7)	(0.6)	11.2	2.7	0.0

Source: Austock Securities estimates

* Forecast FX impact is adjusted to account for the current hedging instruments in place

Henderson plant slower to ramp up than anticipated

We have lowered FY'11 units sold from the Henderson plant to account for the delayed start and slower than anticipated ramp up. We now assume \$7.4m of revenue from Henderson (down from \$12m) in FY'11.

We have left Henderson sales assumptions unchanged for FY'12. We now assume an earlier closure of Malaga (Aug instead of Sep). This has lowered FY'12F revenue. We have also lowered the per unit sale price by 2% in FY'12.

Upsized margins due to the strength of the cost out

We are more comfortable having margins reduce at a slower pace, due to the likely cost out potential at MCE. We have changed group EBITDA margins as follows. The strength of the cost out story is compelling, but the unknown to us is the amount of pressure on the sell price overtime. We believe that risk lies to the upside in terms of our forecast margins.

Forecast Group EBITDA Margins						
	1H'11A	FY'11F	FY'12F	FY'13F	FY'14F	FY'15F
New	32.3%	32.0%	31.9%	31.9%	31.1%	30.2%
Previous	32.3%	32.0%	31.6%	31.4%	31.1%	31.0%

Source: Austock Securities estimates

The Selloff, What's Behind It

Guidance is below consensus

FY'11 guidance is for the 2H'11 to be in line with the 1H'11, excluding FX impacts. The underlying 1H'11 NPAT result was \$18m (excluding the \$1.3m gain on currency option). On this basis, MCE is guiding a FY'11 underlying result of ~\$36m (or \$37.3m after adjusting for hedging instruments revaluation).

Consensus of the three other brokers that cover MCE is \$38.9m. We believe that the market has realised that if MCE delivers to guidance, it is come broker downgrade. We believe this is already mostly factored in.

Lack of visibility on production buoyancy – can MCE break into this market

MCE deals in a market that is not understood well by Australian investors, as it is the only Australian company producing buoyancy products. To our knowledge, there is no clear statistics that point to the size of the "production buoyancy" market, and what its outlook is. Gaining scale in the production buoyancy market is not without risk, but the ingredients of scale, product quality and industry contacts exist; giving us confidence that MCE will be successful in their endeavours.

Concerns surrounding cashflow, we believe this is not a major issue

The 1H'11 operating cashflow was negative to the tune of \$6.2m. Some investors are now waiting for the FY'11 result to see if cashflow has improved. Several factors can impact cashflow such as timing of new orders (up front deposit) and completion of orders (i.e. after the end of the month).

With the quote book at ~\$400m, chances are that some orders will come through before MCE report. Better stock management and better luck on timing of contract completion has us forecasting the FY'11 cashflow result reverting to the positive, but still with large working capital outflows due to growth.

The capex on the Henderson plant has been complete, and in theory the cash flow generation of MCE (post ramp up) should be strong.

No announcements on new contracts

With MCE reporting a record tender pipeline, expectations were raised that MCE would announce some contract wins; which has not been forthcoming. The order pipeline of \$400m remains. We believe that MCE has a win rate of ~38%, indicating that ~\$150m of orders are likely. MCE management has been conservative to date in terms of announcing contract awards.

The FX impact, hard to forecast, but a negative in FY'12 as hedging rolls off

The current US\$:A\$ FX rate is A\$1.07 = US\$1.00. We initiated coverage on MCE 12 months ago, when the exchange rate was A\$0.87 (23% appreciation). MCE sell rarer buoyancy in US\$. Raw materials are also purchased in US\$, providing a natural hedge for ~50% of MCE's US\$ revenue exposure.

At the 1H'11, MCE had FX instruments of \$85m, equivalent hedging for \$170m of revenue, at ~A\$0.88. We estimate that hedging will run out late in the 1H'12. We estimate that the FX impact will be -\$5m in the 2H'12. With forecast declining A\$ FX rates, FY'13F impact is neutral and FY'14F impact positive by \$11m due to the lower forecast FX rate.

MCE's ability to pass on price rises as the A\$:US\$ FX rate changes is limited, as they are the only competitor in the industry that is leveraged to the A\$.

It appears to be mostly retail investors selling

MCE has been a stock that has been pushed as a "hot stock" by several well known retail client advisors and websites like hot copper. The majority of selling appears to be through retail centric stockbrokers such as Commsec. Retail clients with stop losses can rapidly push down a stock. Conversely once the selling stops and the market starts to recover, MCE stands out as a stock that can outperform from these levels.

Managements Humble Beginnings and Strategy

Aaron Begley is central to MCE's success

The person central to the success of MCE is MD Aaron Begley. It takes many people to achieve the success of MCE, but it requires someone to drive and direct the strategy.

The original driver was to find an industry that was stable and with a lot of opportunity

Begley International (now called Offshore Services and Heavy Engineering) is more your traditional workshop that is subject to the cycles of the Resources sector. Aaron sought a business that had a niche and was not so cyclical. He saw an opportunity with syntactic foam and composites.

Back when Aaron first identified the opportunity, the quality of syntactic foam on the market was varied and poor relative to today. An opportunity existed to improve quality and the method of manufacturing of syntactic foam. An area was set aside at the Begley operations and Aaron and his team set about developing and manufacturing syntactic foam (small scale). For ~10 years, the product quality and production techniques were refined.

A process of continual improvement led to further investigation in to how to best automate the manufacturing process. The idea of the Henderson plant has been WIP for many years in terms of design and engineering (i.e. automating the process). Now that the Henderson plant has been built, it is the benchmark plant globally.

Henderson stage 1 is not the end of the growth trajectory

A difference in MCE vs. peers is that it is focused and nimble. It is likely to be the lowest cost producer and more innovative in terms of product development.

Henderson stage 1 should see growth into FY'13. Stage 2 will follow in the next 12 – 24 months. New products for different applications, based on the core capability in syntactic foam, are part of the strategic plan.

MCE has the ingredients that we look for in small cap stock

MCE has the ingredients for a classic long term investment:

- The MD is the founder of the business and the family has plenty of skin in the game;
- High barriers to entry exist in terms of the manufacturing process and ingredients;
- MCE is high growth;
- MCE is best in class, which means it should enjoy superior margins and have the ability to grow market share; and
- The deep-sea oil and gas industry has better growth prospects to most other industries (though we note that oil & gas exploration can be cyclical).

Key Risks

We are ignoring the short term issues that are affecting MCE's share price, as you should own it for the medium term outlook. The one caveat to this is that the Oil & Gas Industry is cyclical. Whilst it is likely that oil prices have permanently rebased, peaks and troughs will occur. The current rig build program is pretty strong; though there is a risk of it slowing at some point in the future, particularly if the oil price falls significantly.

Can MCE diversify before the cycle turns, we assume that it can

The issue for MCE is, how quickly can it expand its product range and enter different industries (it should be noted that capex on oil & gas production cycles differently to capex on oil & gas exploration). We expect that production buoyancy will cycle differently to riser buoyancy.

We believe that the medium term outlook for oil pricing is strong; which, if so, gives MCE time to diversify its earnings sources.

MCE still need to win work for FY'12

MCE has ~half of its FY'12 revenue in its order book. This still requires further contract wins and should orders not be forthcoming, the factory would slow production (higher costs) and competition on pricing would increase.

Investment Case

MCE is cheap relative to global peers

MCE genuinely stands alone in relation to other Australian listed peers. Perhaps the closest Australian listed peer is WOR, a world class Oil & Gas Engineering Services company. The FY'12F PE for global Oil & Gas equipment providers is 14.7x's, 25% above MCE's PE.

We pose a simple question, would you rather own WOR at 18.2x's FY'12F consensus EPS or MCE at 11.8x's. We would argue that the growth profile for MCE is greater than WOR (and the capital on stage 1 for the Henderson plant has already been spent), but also acknowledge market cap size differential.

MCE looks compelling value on both a DCF basis and on FY'12 multiples comparison

Our DCF valuation is \$10.90/share (from \$11.00). This is 52% above the current share price. As a result of the recent share price weakness, we upgrade our recommendation to Conviction Buy (from Buy).

Our DCF valuation ignores the likely operating cost savings from Henderson and assumes ramp up to full factory production capacity does not occur until FY'15. We also ignore stage 2 growth (still to be defined).

Our WACC is 11.25%. We believe we have used conservative assumptions, though we assume MCE continues to grow revenue to factory nameplate capacity (some risk). We find that on a DCF valuation methodology and on a comparison to global peers, MCE offers compelling value.

COMPANY SUMMARY

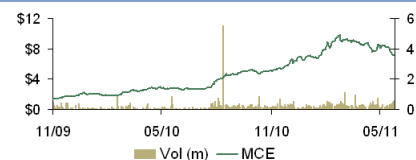
Matrix C & E Ltd

MCE.AX

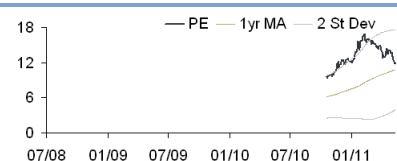
Price Information

Price (\$/share)	7.21
Mkt Cap (\$m)	552
Enterprise Value (\$)	554

Share Price & Volume Chart



12 Month Fwd PER Chart



Business Background

MCE has two divisions, 1. The Composites division supplies buoyancy products to the offshore oil & gas industry. The main market is riser buoyancy, though MCE has a range of products to supply to the production buoyancy market. 2. The Engineering division represents ~5% of revenue. It supplies to the Resources industry and supports Composites above.

Key Drivers

Drivers of the Composites division are: A new facility in Henderson will double existing production capability and reduce costs;

The Malaga plant has seen large production increases over prior years. Oil & gas demand is expected to be robust, particularly in Brazil.

Key Risks

Deep sea oil & gas is high on the cost curve, should the price of oil fall, we expect demand for deep sea products will fall.

Raw material pricing can be cyclical and MCE has little purchasing power. Production expansion is occurring at peers and the current backlog of orders may reduce, applying margin pressure.

VALUATION SUMMARY

DCF Valuation

Risk Free Rate (%)	6.0%
Equity Risk Premium (%)	6.0%
Equity Beta (x)	1.2
Tax Rate (%)	29%
WACC (%)	11.3%
PV of Cash Flows	842
less Net Debt	0
PV of Equity	842
SOI (m)	77
PV of Equity per Share	\$ 10.90

FINANCIAL SUMMARY

Year End - Jun

FY08A FY09A FY10A FY11F FY12F FY13F

KEY METRICS

EPS Growth (%)	-99	122	365	69	23	28
PER (x)	253.2	114.1	24.5	14.5	11.8	9.2
PEG (x)	-2.6	0.9	0.1	0.2	0.5	0.3
P/Free CFPS (x)	562	60	17	-1,261	13	10
Dividend Yield (%)	0.0	0.0	0.0	1.0	2.8	3.6
EV/EBITDA (x)	na	na	19.5	9.7	7.3	5.5
EV/EBIT (x)	409.3	146.8	21.8	10.7	8.1	6.0
ROE (%)	8.2	17.1	45.6	39.0	33.0	33.8
ROA (%)	4.4	6.8	20.0	24.8	26.0	30.7
ROIC (%)	4.2	12.4	33.3	28.0	33.8	40.6

PROFIT & LOSS (AUD \$m)

Revenue	23	54	103	182	234	290
EBITDA	2	6	28	57	73	91
Depreciation & Amortisation	1	2	3	5	7	7
EBIT	1	4	25	52	67	84
Net Interest Expense	0	0	0	-1	0	1
Income Tax Expense	0	0	-6	-15	-19	-25
NPAT Reported	1	3	18	37	47	60
Sign. Items & Other	0	0	0	0	0	0
NPAT Adjusted	1	3	18	36	47	60

PER SHARE DATA (cps)

Shares on Issue (m)	25	49	62	74	77	77
EPS Reported	3	6	29	50	61	78
EPS Adjusted	3	6	29	50	61	78
DPS	0	0	0	7	20	26
Free CFPS	1	12	42	-1	56	69

BALANCE SHEET (AUD \$m)

Cash	1	1	14	14	16	52
Debtors & Inventory	7	27	51	67	80	95
PP&E	11	19	57	93	96	94
Intangibles	8	8	9	8	8	8
Other Assets	2	8	4	5	5	5
Total Assets	30	64	134	187	205	255
Borrowings	4	6	8	16	2	2
Creditors	8	13	23	30	37	43
Other Liabilities	2	25	44	14	8	11
Total Liabilities	14	44	74	60	47	56
Net Assets	16	21	60	127	159	199

BALANCE SHEETS RATIOS

Gearing - Debt/Equity (%)	14	20	-9	2	-8	-25
Interest Cover (x)	7.4	11.7	98.5	57.9	na	na
Leverage (x)	1.0	0.7	-0.2	0.0	-0.2	-0.5
NTA per Share (cps)	29.7	25.1	82.1	161.7	194.8	247.2

CASH FLOW (AUD \$m)

EBITDA	2	6	28	57	73	91
Interest & Tax	0	-1	-1	-16	-19	-24
Working Capital Change	2	6	1	-8	-6	-9
Operating Cash Flow	4	9	26	3	48	59
Maintenance Capex	-4	-3	0	-3	-5	-6
Free Cash Flow	0	6	26	0	43	53
Expansion Capex	0	-7	-41	-37	-5	0
Dividends	-1	0	-2	-5	-16	-20
Equity Issues / (Buy Backs)	2	0	27	35	0	0
Proceeds from Borrowings	0	2	3	0	0	0
Other	0	0	0	0	0	0
Net Cash Flow	1	0	12	-8	22	33

DIVISIONAL EBITDA ANALYSIS

Advanced Materials	36.5	91.8	160.8	210.7	263.6	322.7
Heavy Engineering	21.4	10.3	17.0	19.5	21.9	24.1
Operating Revenue	57.9	102.1	177.8	230.2	285.5	346.8
Advanced Materials	2.2	4.5	25.7	55.6	72.2	89.6
Heavy Engineering	0.0	1.0	2.3	1.2	1.2	1.3
Unallocated Expenses	0.0	0.0	0.0	0.0	0.0	0.0
Total EBITDA	2.2	5.5	28.0	56.8	73.4	90.9

Directory

Equities Research Team

Melbourne

Craig Stranger	613 8601 2010	Head, Emerging Companies
Paul Jenz	613 8601 2068	Agribusiness & Energy
Heath Andrews	613 8601 2644	Engineers & Contractors
Andrew Chambers	613 8601 2605	Infrastructure
Andrew Cleeland	613 8601 2065	Quantitative
Maribel Quiza	613 8601 2085	Emerging Companies
Andrew Shearer	613 8601 2624	Resources

Sydney

Lawrence Grech	612 9233 9635	Resources
Stefan Hansen	612 9233 9612	Energy
Anna Kassianos	612 9233 9603	Resources
David Barilla	612 9233 9652	Resources
Conor O Prey	612 9233 9638	Emerging Industrials

Private Clients

Tony Smith	613 8601 2041	Head of Private Clients
------------	---------------	-------------------------

Melbourne

Merrick Abraham	613 8601 2077	Client Adviser
John Axsentieff	613 8601 2042	Senior Client Adviser
Ryan Batros	613 8601 2614	Client Adviser
Kate Hanrahan	613 8601 2058	Client Adviser
Michael Heffernan	613 8601 2053	Senior Client Adviser
Xiaoming Huang	613 8601 2088	Client Adviser
Mark O'Brien	613 8601 2002	Client Adviser
Daniel McFarlane	613 8601 2639	Client Adviser
Luke Pavone	613 8601 2071	Client Adviser
Nicholas Perezza-Mathews	613 8601 2694	Client Adviser
Enzo Salvatore	613 8601 2081	Senior Client Adviser
Patrick Trindade	613 8601 2669	Client Adviser
Patrick Verhoeven	613 8601 1954	Client Adviser
Gavin Loduwick	613 8601 2649	Client Adviser

Sydney

Owen Beattie	612 9233 9621	Client Adviser
David Dwyer	612 9233 9643	Client Adviser - Options
Josh Graham	612 9233 9645	Client Adviser - Options
Jason Norval	612 9233 9625	Client Adviser
Mark Schwarz	612 9233 9642	Client Adviser - Options
Peter Semaan	612 9233 9649	Client Adviser
Edward Tao	612 9233 9609	Client Adviser
John Aldersley	612 9233 9617	Capital Management
Michael Jeffery	612 9233 9619	Private Portfolio Manager
Samuel James	612 9233 9657	Client advisor
Julian Gregory	612 9233 9634	Client Advisor
Laurie Ellis	612 9233 9654	Client Advisor

Corporate Finance

Melbourne

Dale Moroney	613 8601 2035	Managing Director
Harry Kingsley	613 8601 2089	Director
Stephen Nossal	613 8601 2017	Director
Jonathan Tooth	613 8601 2006	Director
Kush Jayaweera	613 8601 2033	Associate
Yehuda Gottlieb	613 8601 2618	Associate

Sydney

James Green	612 9233 9613	Director
Andrew Champion	612 9233 9647	Director
Ben Gibbons	612 9233 9616	Associate
Paul Levitt	612 9233 9626	Associate
Jae Yoo	612 9233 9656	Analyst

Equity Capital Markets

Robert Thomson	613 8601 2078	Head of ECM
Brooke Picken	613 8601 2025	ECM/ Corporate Access

Institutional Sales

Melbourne

Robert Wood	613 8601 2031	Head of Sales Trading
Matthew White	613 8601 2641	Sales Trading
Chris Walker	613 8601 2038	Research Sales
John Burgess	613 8601 2018	Research Sales

Sydney

Bruce Rolin	612 9233 9651	Head of Institutional Sales
Leo Borovilas	612 9233 9606	Sales Trading
Mark Pashley	612 9233 9641	Sales Trading
Gavin Todd	612 9233 9639	Research Sales
James Wilson	612 9233 9607	Research Sales
Chris Chia	612 9233 9605	Asia Research Sales

Private Clients

Gold Coast

Stuart McClure	617 3 149 8630	Client Adviser
John Miles	617 3 149 86 29	Client Adviser
Nigel Ormiston	617 3 149 86 28	Client Adviser
Dane Parsons	617 5606 6313	Client Adviser

Perth

Simon Winter	618 9380 8384	Client Adviser
Paul Lambrecht	618 9380 8380	Client Adviser
Ben Hughes	618 9380 8381	Capital Management

OFFICE LOCATIONS AND DISCLOSURE**Melbourne**

Level 12, 15 Williams Street
Melbourne VIC 3000
Phone: 613 8601 2000
Fax: 613 9600 1138

Sydney

Level 9, 56 Pitt Street
Sydney NSW 2000
Phone: 612 9233 9600
Fax: 612 9251 9368

Perth

Suite 5, 531 Hay Street
Subiaco WA 6008
Phone: 618 9380 8380

Recommendation Criteria**Investment View**

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

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

Risk Rating

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of Heath Andrews about the subject issuer and its securities.

The following person(s) holds an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence this report:

- the author of this report
- a member of the immediate family of the author of this report

Disclaimer/Disclosure

This publication has been prepared solely for the information of the particular person to whom it was supplied by Austock Securities Limited ("Austock") AFSL 244410. This publication contains general securities advice. In preparing the advice, Austock has not taken into account the investment objectives, financial situation and particular needs of any particular person. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice in this publication is appropriate in light of your particular investment needs, objectives and financial situation. Austock and its associates within the meaning of the Corporations Act may hold securities in the companies referred to in this publication. Austock believes that the advice and information herein is accurate and reliable, but no warranties of accuracy, reliability or completeness are given (except insofar as liability under any statute cannot be excluded). No responsibility for any errors or omissions or any negligence is accepted by Austock or any of its directors, employees or agents. This publication must not be distributed to retail investors outside of Australia.

Disclosure of Corporate Involvement

Austock Securities Limited has in the previous 12 months been involved in a publicly-announced transaction involving the payment of a fee to Austock Securities Limited by the corporate issuer described in this report. Austock Securities does and seeks to do business with companies covered in its research.

Austock Securities reports are available on Bloomberg, Reuters, FactSet and www.austock.com