



Matrix BUY

Current Price: **\$1.88**

Target Price: **\$2.50**

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

Shares on Issue (m): **64.0**

Market Cap (\$m): **120.3**

Net Debt (\$m): **-7.4**

Enterprise Value (\$m): **112.9**

52 wk High/Low: **2.20 1.36**

12m Av Daily Vol (m): **0.16**

Key Metrics

	10F	11F
EV/EBITDA (x)	4.57	3.33
P/E (x)	7.81	6.80

Ratios

	09A	10F	11F
ND / Equity	20.1%	41.5%	33.1%
EBITDA Mgn	9.2%	25.0%	20.0%
RoA	8.7%	25.5%	25.5%
RoE	15.0%	30.9%	29.7%

Financials:

	09A	10F	11F
Revenue (\$m)	54.6	95.9	169.2
EBITDA (\$m)	5.3	24.7	33.9
NPAT (\$m)	3.1	14.7	18.5
Norm NPAT (\$m)	3.1	14.2	18.5
Net Assets (\$m)	20.6	47.6	62.3
Op CF (\$m)	8.9	12.8	22.6

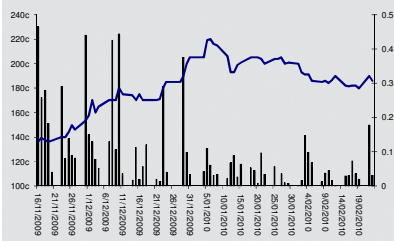
Per Share Data:

	09A	10F	11F
EPS Diluted (cps)		24.1	27.6
DPS (cps)		4.0	6.0
Div Yield		2.1%	3.2%
NTAPS (cps)	26.5	65.4	81.7
CFPS (cps)	18.1	20.9	33.8

Major Shareholders:

Max Begley	45%
Aaron Begley	5%

Share Price Graph



Analyst:
Ian Christie, CFA

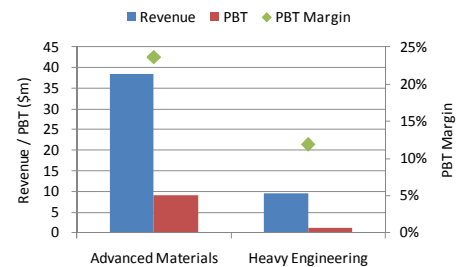
23 February 2010

Good start to listed life

Matrix (MCE) is on its way to significantly beat prospectus forecasts after delivering excellent 1H10 results. Revenue of \$43.5m was up 114% on pcp, and impressive margins resulted in EBITDA of \$12.1m and NPAT of \$7.4m (1H09 loss of \$1.8m).

On a segmental basis the Advanced Materials division had a great half year:

- × With revenue climbing 263% on pcp to \$38.5m
- × Delivering 80% of the group's revenue
- × Producing a PBT margin of 23.7%



After normalising for a \$0.7m forex gain on currency derivatives, 1H10 NPAT of \$6.9m is already more than 90% of the prospectus FY10 NPAT forecast of \$7.6m. This outperformance:

- × Was flagged in late December, after a strong 5 months to November
- × Has been driven by improved margins as a result of lower input costs

With good cash flow and a strong balance sheet, MCE is well positioned to complete the Henderson facility stage 1 construction in the latter half of this year, which will improve production efficiency and allow MCE to work through its substantial \$200m order book.

Providing further impetus for the Henderson development, MCE also reports another \$200m worth of potential work opportunities. If this work were to be secured, MCE would have earnings visibility well into FY12. The Company also notes further growth opportunities through new product development (increasing exposure to LNG).

For FY10 we now expect revenue of less than \$100m, but based on a maintenance of 1H10 margins, we now expect slightly higher full year NPAT.

	FY09A	FY10F			FY11F		
	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	54.3	103	95	-8.0%	169	169	0.0%
EBITDA margin	9.2%	21.6%	25.0%	15.7%	20.0%	20.0%	0.2%
NPAT (\$m)	3.1	13.6	14.7	8.1%	18.4	18.5	0.8%

Our only query is why the revenue and NPAT lines are so different to prospectus forecasts. While the actuals should be viewed positively, it does not help our forecasting confidence for FY11 and beyond (which is why we assume a fall in margins next year).

Still, MCE's outlook comments are very positive and it is easy to see why. The Company is exposed to a growth sector (offshore oil & gas), has a solid market position, boasts a significant order book and has delivered earnings that so far are well ahead of expectations.

BUY

Matrix Composites & Engineering

Equities Research
 Ian Christie, CFA

Recommendation	BUY
Current Price (\$)	1.88
All Ords (XAO)	4,713.6

Sector	Engineering
Market Cap (\$m)	120.3
Date	23 February 2010

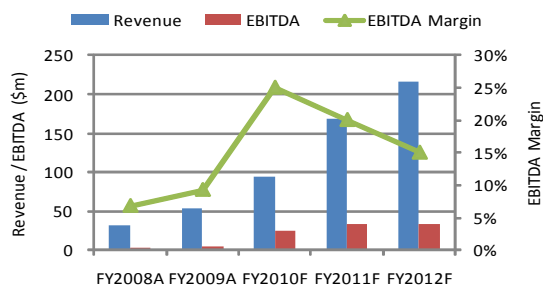
Profit and Loss (\$m)	2009A	1H10F*	2010F*	2011F
Revenue	54.6	44.3	95.9	169.2
EBITDA	5.3	12.0	24.7	33.9
Depreciation	-1.7	-1.6	-3.1	-5.2
EBIT	3.6	10.3	21.6	28.7
Net Interest	-0.2	-0.1	-0.5	-2.2
PBT	3.5	10.2	21.0	26.4
Rep. NPAT	3.1	7.4	14.7	18.5
Norm. NPAT	3.1	6.9	14.2	18.5

*Normalised NPAT adjusted for forex gain on derivatives

Cash Flow (\$m)	2009A	1H10F	2010F	2011F
Receipts	64.0	41.7	88.6	151.1
Payments	-52.2	-33.7	-69.0	-118.3
Other	-3.0	-0.6	-6.8	-10.2
Cash from Operations	8.9	7.4	12.8	22.6
Property, Plant & Equip	-10.3	-8.8	-40.7	-19.6
Payment for Subsidiary	0.0	0.0	0.0	0.0
Other	-0.0	-0.0	0.0	0.0
Cash From Investing	-10.3	-8.8	-40.7	-19.6
Issue of Shares	0.0	13.9	14.3	0.0
Net Borrowing	1.8	0.8	25.3	11.5
Dividends	-0.5	-1.0	-1.7	-3.8
Cash From Financing	1.3	13.8	37.8	7.7
Net Cash Flow	-0.1	12.3	9.8	10.7
Ending Cash	1.2	13.6	11.1	21.7

Balance Sheet (\$m)	2009A	1H10F	2010F	2011F
Cash	1.5	13.6	11.1	21.7
Receivables	9.4	24.2	16.6	34.8
Inventory	-3.6	-14.9	-5.3	-10.0
Other	6.1	5.9	6.1	6.1
Current Assets	13.4	28.9	28.6	52.6
Property, Plant & Equip	19.2	26.4	56.9	71.3
Intangibles	7.6	7.6	7.6	7.6
Other Non-current Assets	2.6	3.8	2.6	2.6
Non-Current Assets	29.4	37.8	67.0	81.4
Total Assets	42.8	66.6	95.6	134.1
Payables	13.1	13.2	13.7	25.9
Borrowings	5.6	6.2	30.8	42.3
Provisions	1.0	1.1	1.0	1.0
Other	2.5	5.0	2.5	2.5
Total Liabilities	22.2	25.5	48.0	71.8
Net Assets	20.6	41.1	47.6	62.3
Ordinary Equity	13.1	27.4	27.4	27.4
Reserves	4.8	4.6	4.8	4.8
Retained Earnings	2.7	9.2	15.5	30.2
Total Equity	20.6	41.2	47.6	62.3

P&L



Summary	
Target Price (A\$ per share, diluted)	2.50
Forecast 2011 Yield (%)	3.2%
Forecast 2011 P/E (x)	6.8

Valuation Method	Calculations	Results
DCF Valuation	Discount Rate / WACC (%)	13.2%
	PV Free Cash Flow (\$m)	168.8
	Less Net Debt / Plus Cash (\$m)	7.4
	Unpaid Capital (\$m)	1.5
	Equity Value (\$m)	177.7
	Equity Value (A\$ps)	2.65

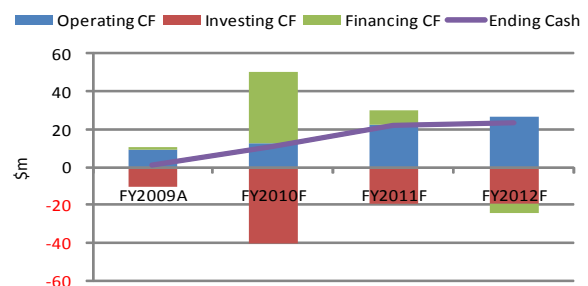
FY11 Earnings	Multiple	EV	Equity Val per Share
EV/EBITDA			
EV/EBIT			
P/E (x)	9.0	166,520	2.49
Multiple Valuation (A\$ps)			2.49

Target Price (\$ per share)	2.50
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Financial Ratios	2008A	2009A	2010F	2011F
Balance Sheet Ratios				
Net Debt / Equity (%)	14.2%	20.1%	41.5%	33.1%
Current Ratio (x)	1.0	0.9	1.2	1.3
Net Interest Cover (x)	7.0	16.9	42.1	12.8
Profitability Ratios				
EBITDA Margin (%)	6.8%	9.2%	25.0%	20.0%
Net Profit Margin (%)	3.8%	5.7%	15.5%	10.9%
Return on Assets (%)	8.0%	8.7%	25.5%	25.5%
Return on Equity (%)	7.5%	15.0%	30.9%	29.7%
Cash Flow Ratios				
Free Cash Flow Yield			-22.6%	4.7%

Per Share Data	2008A	2009A	2010F	2011F
Basic EPS (cps)			25.3	28.9
Diluted EPS (cps)			24.1	27.6
Diluted P/E (x)			7.8	6.8
Div. per share (cps)			4.0	6.0
Dividend Yield (%)			2.1%	3.2%
NTA per share (cps)		26.5	65.4	81.7
CF per share (cps)		18.1	20.9	33.8

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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