

Matrix remains buoyant, one year after float

Analysts are bullish on this maker of deep-water drilling equipment, one of few stellar recent IPOs, writes **Jonathan Barrett**.

In an 18-month period during which few public floats captured the imagination – or wallets – of investors, one has paid off handsomely.

The share price of Western Australia-based Matrix Composites & Engineering has more than sextupled in little over a year, which is good news for those who took part in the \$1 initial public offering in November 2009.

It's even better news for the Begley family, which controls more than 40 per cent of company stock.

"I think initially we were probably a little underpriced, largely because we tend to be a very conservative company," Matrix chief executive Aaron Begley says.

"We did have better than expected profitability last year and we've had a strong start to the first quarter of this year, so that is really reflected in our share price."

Classified as a resource services company, it could easily be assumed – wrongly – that the success of the company is linked to its proximity to the mineral riches of West Australia.

But with more than 80 per cent of its profits derived offshore, the business could theoretically be located anywhere that gives it access to South-East Asian buyers.

Matrix is a highly specialised manufacturer and supplier of equipment for the energy sector, with a focus on buoyancy modules used for deep-sea drilling rigs.

It thrives in an economic environment of high oil prices and drilling activity, and would suffer in the event of an oil price trough.



CEO Aaron Begley has Matrix Composites & Engineering well positioned in the Asia-Pacific region. Photo: BOHDAN WARCHOMIU

"Deep-sea oil exploration is dependent on a \$US70-plus a barrel oil price," broker Austock said when it initiated coverage on the stock. "A sustained fall in the oil price could see demand for product plummet."

There's also a danger in assuming current demand for buoyancy modules can be extrapolated out for the foreseeable future.

Begley says the changed dynamics of oil exploration favour the company.

"We are in a sector that is really attractive to people," Begley says. "All the easy oil has been found, so there has been a structural shift to deep-water developments."

He says the BP spill in the Gulf of Mexico was a plus for

companies like Matrix, as drilling platform operators were forced to renew equipment.

"There was a lot of old junk in the market and it's forcing drilling contractors to re-think the way they do things and to upgrade equipment," Begley says.

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The Begley name has been associated with the offshore oil and gas industry for at least 30 years. Begley's father, Max Begley, operated a heavy engineering equipment business called Begley

International that was folded into the buoyancy modules business before the listing.

The marketing and economics trained Begley, who quips that he also has a "deferred degree" in mechanical engineering, put his money on the line to develop the buoyancy modules that would later become the company's prime source of revenue.

"I had my house on the line and so did the old man," Begley says.

"We saw the idea in the US and we pursued a model that tried to improve the material technology and the engineering manufacturing. That's what we've done and we've been successful."

Brokers like the stock because margins are thick and competitors are thin on the ground.

Investment house Euroz estimates that Matrix has a 20 to 25 per cent share of the "riser buoyancy modules" market, with Trelleborg AB of Sweden the only competitor with a more dominant market position.

The other two big players, Cumin Corp and Balmoral Offshore, are located in the United States and Britain, respectively, leaving plenty of opportunities for Matrix to tap into the Asia-Pacific region.

For a newly listed company, Matrix has attracted rare support from institutional investors, counting Queensland Investment Corporation and one of Macquarie Group's small-cap managed funds among its top 20 shareholders.

After receiving its first riser buoyancy orders in 1999, Matrix experienced the normal ups and downs of an emerging company, and access to capital was the key constraint.

Begley nominates the construction of an underwater pressure testing chamber in 2005 as the moment when he was assured that the company had a positive future.

"In our business, you need to have the capacity to test your product and that requires some very expensive equipment to simulate deep-water environment," Begley says.

"Until we had that capability, I don't think we were taken seriously by the international community. Once we did have it, the business really started to take off."

Matrix is considered a natural takeover target for a petroleum company, except for the blocking family stake.

Begley says he is comfortable with the current shareholder register, even if equity arrangements are always changing.

"Right now, we still intend to retain a significant share," Begley says.