



**BUY - \$3.28**

## M2 Telecommunications (MTU)

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### Clear value in this acquisition

#### Company Data

ASX Code	MTU
Price	\$3.28
12 month price target	\$3.63
12 month dividend yield	5.5%
Implied return	16.1%
Shares on issue	121.8m
Market cap	\$398.7m
12 Month price range	\$1.36/\$3.35
Monthly turnover	2.35m

#### Forecast Changes

	2011F	2012F	2013F
NPAT	+2%	+13%	+14%
EPS	+2%	+13%	+14%
DPS	+4%	+13%	+14%

#### Earnings Summary

Yr to 30 June	2010	2011F	2012F	2013F
Lodge adj profit	18.5	28.1	35.4	39.3
Rep. Profit <sub>(pre-sig)</sub>	16.1	24.9	31.2	37.2
EPS (¢) adj	16.7	23.1	29.1	32.4
EPS growth	63.5%	41.1%	25.4%	19.3%
P/E ratio	19.7 x	14.2 x	11.3 x	10.1 x
DPS (¢)	10.0	14.5	18.0	21.5
Yield	3.0%	4.4%	5.5%	6.6%
Franking	100%	100%	100%	100%
Payout ratio	69%	71%	70%	70%
EV / EBIT	15.3 x	11.2 x	8.9 x	7.3 x
EV / EBITDA	12.7 x	9.5 x	7.5 x	6.7 x
CFPS (¢)	12.0	29.7	32.4	34.8
Price / CF	27.3 x	11.0 x	10.1 x	9.4 x
NTA per share	\$0.05	-\$0.03	\$0.08	\$0.20
Pr / NTA	59.7 x	128.6x	43.6 x	16.3 x

#### Share Price Chart



- **M2 Telecommunications has acquired 100% of unlisted, private company Clear Telecoms Pty Ltd.** Clear Telecoms is a re-seller of fixed line, mobile and data services, to small and medium sized businesses (SMB). Based on 20,000 SMB customer numbers and forecast revenue, Clear Telecoms is roughly one-fifth the size of M2's existing business. Key Points;

- **Price & Funding-** The purchase price is \$24.5m cash, 80% upfront with 20% due over the remainder of 2011 (cash flow timing FY12). Based on EBITDA forecasts, this represents an attractive EBITDA multiple of 3x. M2 intends to fund the deal through existing bank debt facility and with strong cash flow generation during the second half, forecast net debt is likely to remain at a low \$16.3m by FY11, with net gearing of 19%.

- **Earnings Profile-** Clear Telecoms generates an estimated \$70m in revenue and \$8m EBITDA with high margins of 11.4%, above the existing M2 retail division of 10.3%, which indicates a tight corporate overhead structure. Unlike the Clever Acquisition, Clear is by no means a distressed asset purchase, with potentially sound debtor profiles, low churn and solid business growth, giving us confidence that it represents a favourable bolt-on. Testament to this, ARPU of c\$3.9K is on par with the existing M2 businesses of c\$4K ARPU.

- **Synergy Upside-** With an existing tight cost structure, Clear is more likely to deliver synergies on the revenue side, by allowing M2 to cross-sell mobile and data products into the largely fixed line customer base. Over the medium term, we'd expect organic revenue growth of 9%-10% during FY12-13, driven by cross-selling opportunities. In this scenario, retaining key sales staff is paramount and we understand that M2 has been successful in holding onto key senior sales staff from Clear.

- **Earnings contribution-** With ownership taken on 1 Feb 2011, we'd expect Clear to contribute \$1.5m EBITDA for the remaining 5 months of FY11, after stripping out integration, other one off costs and c\$1m worth of EBITDA to be invested into driving cross sells during CY2011. Driven by forecast EBITDA plus some synergy uplift, our numbers reflect an EBITDA contribution of \$8.3m in FY12. After funding costs, our EPS forecasts for FY11 and FY12 rise by 2% and 13% respectively.

- **ACCC Upside-** The acquisition price *excludes* any additional payment should the ACCC reduce indicative monthly line rental and local call costs. Based on revenue forecasts and the likelihood that Clear is a majority fixed line business, the number of fixed lines is likely to fall in the 30,000-60,000 range. Should the ACCC reduce indicative monthly rental and local call cost prices paid by re-sellers to Telstra, this may add up to \$3.8m annualised EBIT for FY12 to the Clear business, reducing the effective acquisition multiple paid by MTU to 2.1x EBITDA.

- **Valuation-** Excluding any impact from the potential ACCC indicative price changes, **our 12 month valuation increases to \$3.63 per share (from \$2.51).** Should the ACCC reduce indicative monthly rental prices to \$23.00 per month (from \$26.93) and local call costs to 7c (from 17c), we'd expect material EPS uplift in FY12 for the combined M2 + Clear business (see overleaf). Our forecast price target would potentially rise to; low case= \$4.03, base case=\$4.38, high case=\$4.81 per share. **Maintain BUY recommendation.**

**Table 1; Earnings upgrade on the back of the Clear Telecoms Acquisition**

Acquisition Impact*	FY11f old	FY11f new	% change	FY12f old	FY12f new	% change
Revenue \$m	455.4	484.3	6%	493.1	572.9	16%
EBITDA \$m	42.0	43.5	4%	45.6	53.9	18%
Amortisation of cust contracts \$m	-3.2	-3.2	0%	-3.0	-4.2	39%
NPAT \$m	27.6	28.1	2%	31.2	35.4	13%
EPS cents	22.7	23.1	2%	25.7	29.1	13%
DPS Cents	14.0	14.5	4%	16.0	18.0	13%
12 Month Valuation	Old target \$/Share		\$2.52	New target \$/Share		\$3.63

Source; Lodge Partners. \*Estimates do not include potential ACCC indicative price changes

## **M2 (MTU) Scenario analysis based on ACCC indicative prices.**

Assuming a rolling 12x forward P/E multiple, our indicative estimated price target increase as follows;

- **Under scenario 1** assumptions with ACCC indicative prices falling to 7c (from 17c) and monthly rental falling to \$20 (from \$26.93) our valuation for MTU including the recently acquired Clear business would be low case = \$4.24, base case = \$4.74, high case = \$5.33.
- **Under scenario 2** assumptions with ACCC indicative prices falling to 7c (from 17c) and monthly rental falling to \$23 (from \$26.93) our valuation MTU including the recently acquired Clear business would be low case = \$4.03, base case = \$4.38, high case = \$4.81.

**In our view, scenario 2 is far more likely as a middle ground solution.** Given the attractiveness of the Clear Acquisition, strengthening M2 cash flow, high market share in the re-selling space and proven growth model, MTU warrants a forward P/E multiple of 12x rolling 1 year forward.

**Table 2: Scenario Analysis for potential FY11 & FY12 EPS based on indicative ACCC Prices**

<b>Scenario 1.....</b>				<b>Scenario 2.....</b>			
Local call costs 7c (from 17c) and monthly rental \$20 (from \$26.93)				Local call costs 7c (from 17c) and monthly rental \$23 (from \$26.93)			
<b>Adj EPS FY11(e) assume 1 Jan '11 price change, 30% tax, interest D&amp;A equal</b>				<b>Adj EPS FY11(e) assume 1 Jan '11 price change, 30% tax, interest D&amp;A equal</b>			
Scenario \$ per share	60 % Capture	70% Capture	80% Capture	Scenario \$ per share	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	0.263	0.268	0.273	120K lines + 20K lines	0.254	0.258	0.261
160 k lines +40K lines	0.276	0.283	0.291	160 k lines +40K lines	0.263	0.269	0.274
200 k lines + 60K lines	0.289	0.299	0.308	200 k lines + 60K lines	0.273	0.280	0.287
<b>Adj EPS FY12(e) assume 1 Jan '11 price change, 30% tax, interest D&amp;A equal</b>				<b>Adj EPS FY12(e) assume 1 Jan '11 price change, 30% tax, interest D&amp;A equal</b>			
Scenario \$ per share	60 % Capture	70% Capture	80% Capture	Scenario \$ per share	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	0.353	0.363	0.373	120K lines + 20K lines	0.336	0.343	0.350
160 k lines +40K lines	0.379	0.394	0.409	160 k lines +40K lines	0.354	0.365	0.375
200 k lines + 60K lines	0.406	0.425	0.444	200 k lines + 60K lines	0.373	0.387	0.401
<b>% increase EPS FY11(e); 1 Jan '11 price change, 30% tax, interest D&amp;A equal</b>				<b>% increase EPS FY11(e); 1 Jan '11 price change, 30% tax, interest D&amp;A equal</b>			
Scenario \$ per share	60 % Capture	70% Capture	80% Capture	Scenario \$ per share	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	13.7%	15.9%	18.1%	120K lines + 20K lines	9.9%	11.5%	13.1%
160 k lines +40K lines	19.4%	22.6%	25.7%	160 k lines +40K lines	14.0%	16.3%	18.5%
200 k lines + 60K lines	25.1%	29.2%	33.3%	200 k lines + 60K lines	18.1%	21.0%	24.0%
<b>% increase EPS FY12(e); 1 Jan '11 price change, 30% tax, interest D&amp;A equal</b>				<b>% increase EPS FY12(e); 1 Jan '11 price change, 30% tax, interest D&amp;A equal</b>			
Scenario \$ per share	60 % Capture	70% Capture	80% Capture	Scenario \$ per share	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	34.4%	35.6%	36.8%	120K lines + 20K lines	32.1%	33.1%	34.0%
160 k lines +40K lines	37.5%	39.1%	40.6%	160 k lines +40K lines	34.5%	35.8%	37.1%
200 k lines + 60K lines	40.3%	42.3%	44.0%	200 k lines + 60K lines	36.8%	38.4%	39.8%
Source; Lodge Partners, ACCC				Source; Lodge Partners, ACCC			

**FY11 & FY12 earnings drivers**

1) Contribution of Clever Communications, Bell Networks and Clear Telecoms 2) Synergies & Cross-Selling Opportunities between recently acquired businesses, 3) EBITDA margin expansion from cost efficiencies, 4) c8% organic earnings growth in the historical businesses 5) ACCC Indicative Price changes 6) Recurring earnings model gives us confidence in management guidance 7) Potential inclusion in the ASX 300 index on rebalance effective 31 March 2011.

**Risks to MTU**

- **Acquisition integration-** M2 has acquired three sizable Telco businesses since the beginning of 2010, which presents some acquisition risk. Given the positive feedback to date, management track record of integration and increasing quality of the businesses acquired, we remain confident that unforeseen costs, issues and staff churn relating to recent acquisitions will be minimal.
- **M2 share price may run heavily in advance of the ACCC** final proposal on fixed line pricing, only to have the ACCC suspend any price changes for a further 12 months (the same scenario as occurred in Dec '09). This situation is less likely for 2010/11, as more clarity regarding the NBN is available, the Federal Election outcome is known and the Telecommunications Legislation Amendment Act 2010 has come into force since the 1<sup>st</sup> of January 2011.
- **\$10m billing system** implementation over the coming 18 months, progressively across the M2 businesses.
- **Major Telco** Telstra stepping up competitive tension in the small and medium sized business category.

**More on the ACCC indicative price changes**

**The ACCC delayed its announcement on indicative prices from mid December 2010 to early 2011**, when the new law governing the ACCC's enforcement of Telco prices came into effect. The interim determination on prices will now be due from the ACCC in early '11. We understand that prices will be backdated to 1 Jan '11 and will be applicable straight away to commercial arrangements between Telstra and re-sellers.

**The draft report issued in late Sep '10 suggesting indicative prices of \$20.00 per month on fixed business lines (from \$26.93 per month) for a 4 year period from 1 Jan '11 and a drop in local call costs to 7c from 17c per call still hold.** There may be some amendment to the rates before the interim determination is issued to say \$23 instead of \$20 per month or 9c instead of 7c per local call, to find middle ground with Telstra.

**Final determination on prices may take up to another 6 months, as the ACCC consults further with industry participants.** The timing of this process may or may not be linked to Telstra's pending agreement to decommission the copper network to the NBN, as part of negotiations involving the ACCC, NBN CO, Telstra & the Federal Government. Final determination prices will be applicable from the date it is reached. This may mean that commercial prices change for 1 Jan '11 and then again from say 1 June 2011 (although material changes to pricing are unlikely).

Importantly, under the new ACCC rules following the **Telecommunications Legislation Amendment Act 2010**, the ACCC is in a position to enforce access determination (i.e. the ability to specify price and non-price terms for access seekers not currently subject to an existing commercial agreement with Telstra) without bi-lateral arbitration disputes.

The ACCC is continuing with the **Regulated Asset Base (RAB) methodology** of calculating pricing from Telstra to re-sellers.

## Workings behind the ACCC indicative pricing scenario analysis

### Scenario 1 Workings.....

Wholesale Line Rental reduces to \$20.00/month (from \$26.93)*			
Scenario \$m EBIT upside	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	7.0	8.1	9.3
160 k lines +40K lines	10.0	11.6	13.3
200 k lines + 60K lines	13.0	15.1	17.3
Local Call Costs reduce to 7c/call (from 17c). Assume 2 calls/day per phone			
Scenario \$m EBIT upside	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	3.7	4.3	4.9
160 k lines +40K lines	5.3	6.2	7.0
200 k lines + 60K lines	6.9	8.0	9.2
Total annualised EBIT gain during FY12e above current Lodge forecasts			
Scenario \$m EBIT upside	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	10.7	12.5	14.2
160 k lines +40K lines	15.3	17.8	20.3
200 k lines + 60K lines	19.8	23.1	26.4
% Increase to EBIT FY12(e) assume 1 Jan '11 price change			
Scenario %	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	23.4%	27.3%	31.2%
160 k lines +40K lines	33.5%	39.0%	44.6%
200 k lines + 60K lines	43.5%	50.7%	58.0%
Adj EPS FY12(e) assume 1 Jan '11 price change, 30% tax, interest D&A equal			
Scenario \$ per share	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	0.353	0.363	0.373
160 k lines +40K lines	0.379	0.394	0.409
200 k lines + 60K lines	0.406	0.425	0.444

### Scenario 2 Workings.....

Wholesale Line Rental reduces to \$23.00/month (from \$26.93)*			
Scenario \$m EBIT upside	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	4.0	4.6	5.3
160 k lines +40K lines	5.7	6.6	7.5
200 k lines + 60K lines	7.4	8.6	9.8
Local Call Costs reduce to 7c/call (from 17c). Assume 2 calls/day per phone**			
Scenario \$m EBIT upside	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	3.7	4.3	4.9
160 k lines +40K lines	5.3	6.2	7.0
200 k lines + 60K lines	6.9	8.0	9.2
Total annualised EBIT gain during FY12e above current Lodge forecasts			
Scenario \$m EBIT upside	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	7.7	8.9	10.2
160 k lines +40K lines	10.9	12.8	14.6
200 k lines + 60K lines	14.2	16.6	19.0
% Increase to EBIT FY12(e) assume 1 Jan '11 price change			
Scenario %	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	16.8%	19.6%	22.4%
160 k lines +40K lines	24.0%	28.0%	32.0%
200 k lines + 60K lines	31.2%	36.4%	41.6%
Adj EPS FY12(e) assume 1 Jan '11 price change, 30% tax, interest D&A equal			
Scenario \$ per share	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	0.336	0.343	0.350
160 k lines +40K lines	0.354	0.365	0.375
200 k lines + 60K lines	0.373	0.387	0.401

Source: Lodge Partners. \*Assumes ACCC indicative prices are introduced without revision

\*\*Assumes that M2 is currently charged the full 17c per local fixed line call by Telstra

## M2 Telecommunications (MTU: \$3.28)

Mkt Cap: \$398.7m



## Valuation data

Year ending Jun	2009	2010	2011F	2012F	2013F
<b>Lodge adj profit</b>	<b>8.1</b>	<b>18.5</b>	<b>28.1</b>	<b>35.4</b>	<b>39.3</b>
Reported profit	7.5	16.1	24.9	31.2	37.2
<b>EPS<sub>adj</sub> (¢)</b>	<b>9.6</b>	<b>16.7</b>	<b>23.1</b>	<b>29.1</b>	<b>32.4</b>
<b>EPS growth</b>	<b>26.6%</b>	<b>63.5%</b>	<b>41.1%</b>	<b>25.4%</b>	<b>19.3%</b>
<b>P/E ratio</b>	<b>34.0 x</b>	<b>19.7 x</b>	<b>14.2 x</b>	<b>11.3 x</b>	<b>10.1 x</b>
DPS (¢)	5.5	10.0	14.5	18.0	21.5
<b>Yield</b>	<b>1.7%</b>	<b>3.0%</b>	<b>4.4%</b>	<b>5.5%</b>	<b>6.6%</b>
Franking	100.0%	100.0%	100.0%	100.0%	100.0%
Payout ratio	62%	69%	71%	70%	70%
EV / EBIT	37.2 x	15.3 x	11.2 x	8.9 x	7.3 x
EV / EBITDA	31.2 x	12.7 x	9.5 x	7.5 x	6.7 x
CFPS (¢)	9.9	12.0	29.7	32.4	34.8
Price / CF	33.2 x	27.3 x	11.0 x	10.1 x	9.4 x
NTA per share	-\$0.20	\$0.05	-\$0.03	\$0.08	\$0.20
Pr / NTA	-16.3 x	59.7 x	-128.6 x	43.6 x	16.3 x

## Balance sheet (\$M)

Year ending Jun	2009	2010	2011F	2012F	2013F
Cash	6.7	15.1	10.3	3.8	10.1
Receivables	50.1	55.8	66.5	78.6	85.2
Inventories	2.6	0.3	0.4	0.5	0.5
Other	2.5	7.3	7.3	7.3	7.3
<b>Current assets</b>	<b>61.9</b>	<b>78.5</b>	<b>84.5</b>	<b>90.2</b>	<b>103.1</b>
Net PPE	5.1	3.7	8.4	12.3	11.8
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	70.3	70.3	91.2	90.4	88.3
Deferred tax assets	4.1	6.7	6.7	6.7	6.7
Other	0.1	0.1	0.1	0.1	0.1
<b>Non-current assets</b>	<b>79.5</b>	<b>80.8</b>	<b>106.4</b>	<b>109.5</b>	<b>106.8</b>
<b>Total assets</b>	<b>141.4</b>	<b>159.3</b>	<b>190.8</b>	<b>199.7</b>	<b>210.0</b>
Debt	16.3	16.6	26.6	11.6	1.6
Provisions	4.1	3.6	3.6	3.6	3.6
Other	72.6	62.0	72.4	84.3	90.7
<b>Total liabilities</b>	<b>92.9</b>	<b>82.2</b>	<b>102.6</b>	<b>99.4</b>	<b>95.9</b>
Equity / reserves	42.0	63.3	63.3	63.3	63.3
Retained profits	6.5	13.7	24.8	36.2	49.5
<b>Total s/h funds</b>	<b>48.5</b>	<b>77.0</b>	<b>88.1</b>	<b>99.5</b>	<b>112.7</b>
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total funds emp.</b>	<b>58.1</b>	<b>78.5</b>	<b>104.4</b>	<b>107.3</b>	<b>104.2</b>

## Ratio analysis

Year ending Jun	2009	2010	2011F	2012F	2013F
EBITDA / sales	6.5%	7.7%	9.0%	9.4%	9.4%
EBITAg / sales	5.4%	6.5%	7.7%	8.0%	8.7%
<b>EBIT / sales</b>	<b>5.4%</b>	<b>6.4%</b>	<b>7.7%</b>	<b>8.0%</b>	<b>8.6%</b>
Return on assets	8.1%	18.1%	20.6%	23.3%	26.8%
<b>Return on equity</b>	<b>15.4%</b>	<b>20.9%</b>	<b>28.3%</b>	<b>31.4%</b>	<b>33.0%</b>
<b>Return on funds emp.</b>	<b>24.7%</b>	<b>38.2%</b>	<b>40.7%</b>	<b>43.1%</b>	<b>50.6%</b>
Net debt / (cash) (\$M)	9.6	1.5	16.3	7.8	(8.5)
Debt / equity	33.5%	21.5%	30.2%	11.6%	1.4%
<b>Net debt / equity</b>	<b>19.7%</b>	<b>2.0%</b>	<b>18.5%</b>	<b>7.8%</b>	<b>(7.5%)</b>
Interest cover	23.9 x	13.1 x	24.6 x	51.1 x	223.4 x

## Profit and loss (\$M)

Year ending Jun	2009	2010	2011F	2012F	2013F
Sales revenue	202.5	406.1	484.3	572.9	621.0
<i>growth over pcp</i>	<i>85.9%</i>	<i>100.6%</i>	<i>19.2%</i>	<i>18.3%</i>	<i>8.4%</i>
EBITDA	13.1	31.4	43.5	53.9	58.5
Dep'n and amort'n	(2.1)	(5.0)	(6.0)	(8.0)	(4.7)
<b>EBITAg</b>	<b>11.0</b>	<b>26.4</b>	<b>37.5</b>	<b>45.9</b>	<b>53.8</b>
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>11.0</b>	<b>26.1</b>	<b>37.2</b>	<b>45.6</b>	<b>53.5</b>
<i>growth over pcp</i>	<i>44.9%</i>	<i>137.7%</i>	<i>42.5%</i>	<i>22.6%</i>	<i>17.4%</i>
Net interest expense	(0.5)	(2.0)	(1.5)	(0.9)	(0.2)
Pre-tax profit	10.5	24.1	35.7	44.7	53.3
Tax	(3.0)	(8.0)	(10.8)	(13.5)	(16.1)
<i>Effective tax rate</i>	<i>28.9%</i>	<i>33.2%</i>	<i>30.3%</i>	<i>30.2%</i>	<i>30.2%</i>
Preference dividends	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Lodge adjustments	0.7	2.4	3.2	4.2	2.1
<b>Lodge adj profit</b>	<b>8.1</b>	<b>18.5</b>	<b>28.1</b>	<b>35.4</b>	<b>39.3</b>
Reported profit (pre sig)	7.5	16.1	24.9	31.2	37.2
One-off items (post tax)	0.0	0.0	0.0	0.0	0.0
Reported net profit	7.5	16.1	24.9	31.2	37.2

## Cashflow (\$M)

Year ending Jun	2009	2010	2011F	2012F	2013F
EBIT	11.0	26.1	37.2	45.6	53.5
Net interest paid	(0.7)	(2.2)	(1.5)	(0.9)	(0.2)
Dep'n and amort'n	2.1	5.0	6.0	8.0	4.7
Tax paid	(2.8)	(5.9)	(10.8)	(13.5)	(16.1)
<b>Gross cash from op'ns</b>	<b>9.5</b>	<b>23.0</b>	<b>30.9</b>	<b>39.2</b>	<b>41.9</b>
(Inc) / dec in w'k'g cap	(1.0)	(5.0)	(0.4)	(0.4)	(0.2)
(Inc) / dec in provisions	17.5	2.1	4.9	0.0	0.0
Other	(17.7)	(6.9)	0.6	0.6	0.6
<b>Operating cashflow</b>	<b>8.3</b>	<b>13.3</b>	<b>36.1</b>	<b>39.4</b>	<b>42.3</b>
<i>growth over pcp</i>					
<b>Investing cashflows</b>					
Capital expenditure	(0.9)	(0.9)	(6.2)	(6.2)	(2.0)
Asset sales	0.0	0.0	0.0	0.0	0.0
Investments	(9.7)	(16.3)	(30.9)	(4.9)	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
<b>Financing cashflows</b>					
Equity raised	0.5	20.4	0.0	0.0	0.0
Dividends paid	(4.3)	(8.3)	(13.8)	(19.8)	(24.0)
<b>Chg in loans</b>	<b>6.0</b>	<b>0.1</b>	<b>10.0</b>	<b>(15.0)</b>	<b>(10.0)</b>
Other non-op flows	0.0	0.0	0.0	0.0	0.0
<b>Net chg in cash</b>	<b>(0.2)</b>	<b>8.4</b>	<b>(4.8)</b>	<b>(6.5)</b>	<b>6.3</b>

## Interims (\$M)

Half yearly	1HY10	2HY10	1HY11	2HY11
Sales revenue	187.7	218.4	227.7	256.6
EBITDA	15.3	16.1	21.0	22.5
<b>EBIT</b>	<b>12.7</b>	<b>13.4</b>	<b>17.9</b>	<b>19.3</b>
<b>Lodge adj profit</b>	<b>8.2</b>	<b>10.3</b>	<b>13.6</b>	<b>14.5</b>
Reported profit	9.5	6.6	13.8	11.1
EBITDA / sales	8.2%	7.3%	9.2%	8.8%
<b>EPS (¢)</b>	<b>8.7</b>	<b>7.9</b>	<b>11.4</b>	<b>11.8</b>
EPS growth on pcp	45.7%	32.3%	30.2%	48.1%
DPS (¢)	5.0	5.0	7.0	7.5
% of FY EBIT	49%	51%	48%	52%

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**Explanation of Lodge Partners recommendation system:**

Recommendations are assessments of each Lodge Partners Analyst's view of potential total returns over a 1 year period.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into three main Categories:

**Buy:** Expected Total Return in excess of 15% over a 1 year period.

**Hold:** Expected Total Return between 0% and 15% over a 1 year period.

**Sell:** Expected Total Return less than 0% over a 1 year period.

**Analyst Verification**

I verify that I, **Ian Munro**, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

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