

**M2 Telecommunications Group**

**MTU**

**27 August 2009**

**Another record year & two big acquisitions lift revenues to over \$1m a day, everyday**

**Recommendation: Strong Buy - all set for the next growth phase**

**Investment Rationale**

MTU's FY08 Annual Report was titled 'Growth + Prosperity'. The growth was achieved in spades and shareholders have good reason to be pleased. The global financial crisis appears to have passed MTU by, save that it no doubt widened the door to its opportunities to acquire both People Telecom Limited (PEO) and the small and medium business (SMB) assets and related IP of Commander Communications Limited (CDR) late in the period. Meanwhile MTU has also achieved its seventh record year in revenues, profits and dividends—an important trifecta of attractions for serious investors.

MTU has started the FY10 year with 420 staff, its management and offices bedded down and ready to coordinate and hone its systems and processes. A key focus is to adapt to running the much larger business, build revenues and efficiencies in its nationwide complementary SME, retail and wholesale services. MTU now rates seventh largest Australian Telco by revenue. Telstra, Optus, Vodafone Hutchison and AAPT, the top four, are followed by SP Telemedia (SOT) and iiNet (IIN) with their own infrastructure, next MTU, Primus and Macquarie Telecom, then many smaller resellers. National Broadband Network (NBN), when built, will add infrastructure looking for resellers such as MTU.

**Events – Record Results for FY09 and two company-making acquisitions**

The key numbers are shown in the table. FY09 revenue rose 86% to \$202.7m; EBITDA was up 46%, EBIT grew 43% and NPAT 45%. EPS was 8.9¢ (reported) or 9.9¢ (normalised). The final franked dividend of 3¢ raises full year payout from 5¢ to 5.5¢, paid on 36% more shares on issue than in 2008.

Shares on issue were raised from 80m to 108.5m with the issue of 28.6m shares for the PEO acquisition, effected on 14 April. PEO's net contribution from 24 April has been negligible after all redundancy, establishment and transitional costs. However it has significantly built revenues, capabilities and manpower.

The Commander SMB assets, IP and people brought considerable strengths by the end of the year. Effective 15 June, with the Commander "OneStream" Data Network Business also acquired, the cost is \$24.5m, \$7m paid up front, \$10.5m in August and \$7m deferred over four years. Some \$5.5m of stock was included which is being sold down in the normal course of business. For PEO, a cash payment of \$2m accompanied the shares issued, but MTU gained PEO's \$4.7m net cash holdings at acquisition. Both deals win-win for willing vendors, certainly for MTU, and it seems for staff who mostly continue with MTU, we understand re-energised as part of a focused expanding group with complementary services.

The combined group is amongst the largest customers of both Telstra and Optus. It has excellent relationships with both. Commander's long-term landline-focused Telstra connections beef up those of MTU and balance the latter's mobile wholesaler role with Optus. The nationwide exclusive dealership network of Commander is a great asset alongside the national channels which deliver the service-oriented People Telecom offering, M2 Telecom, Southern Cross and Simply Mobiles (via online). MTU has a full product range and well-established nationwide coverage. It now plans to work it!

**Impact and Prospects**

MTU has given guidance for FY10: Revenues are expected to be \$370-400m and EBITDA around \$29-31m. Subject to finalising accounting treatment of the acquisitions and intangible amortisation, NPAT should be around \$15m with EPS of 13.3-14.3¢. Debt of some \$20m gross, \$14m net, should fall (absent other acquisitions as MTU is now internally focused), so interest is very well covered.

**Recommendation Impact**

MTU's track record is further endorsed by its strong FY09 growth. Its much enlarged base is a platform for yet more strong growth. Recommend Strong Buy.

**Snapshot**

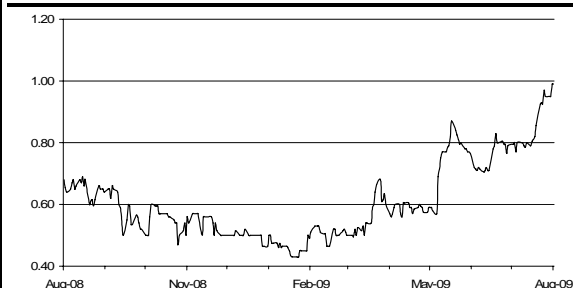
Last Price	\$0.99
Market Cap.	\$108 million
52 Week High	\$0.99
52 Week Low	\$0.43
Sector	Telecommunication Services

**Investment Fundamentals**

Year-end Jun	FY08A	FY09A	FY10E	FY11E
Revenue (\$m)	109	203	385	481
EBITDA (\$m)	9.1	13.3	30.0	40.5
EBIT (\$m)	7.8	11.6	23.9	34.9
NPAT (\$m)	5.4	7.9	15.5	23.4
EPS (¢)	6.7	9.4	14.0	21.0
EPS Growth (%)	67.5	40.3	48.9	50.0
PE Ratio (x)	14.8	10.5	7.1	4.7
Dividend (¢)	5.0	5.5	9.5	14.5
Franking (%)	100	100	100	100
Dividend Yield (%)	5.1	5.6	9.6	14.6

Source: Intersuisse estimates

**Price Chart**



**Business Description**

M2 Telecommunications Group Limited (MTU) is Australia's largest network independent provider of fixed-line, mobile & data telecommunications services. MTU also provides fixed-line & 3G mobile services in New Zealand.

M2's retail business offers a suite of unique bundled value-add telco services mainly for SME through a multi-brand strategy including Commander, People Telecom, Southern Cross Telco and M2 Telecom, each offering unique propositions through dedicated third party dealer channels. "M2 Wholesale" supplies wholesale telco services to small and medium sized telco service providers & Internet Service Providers (ISP's); Australia's largest independent data wholesaler, Wholesale Communications Group, and CDR's network services group, Unitel, were added in 2007 & 2008. See [www.m2.com.au](http://www.m2.com.au) and related company sites:

- [www.commander.com.au](http://www.commander.com.au)
- [www.peopletelecom.com.au](http://www.peopletelecom.com.au)
- [www.sctelco.com.au](http://www.sctelco.com.au)
- [www.simplymobiles.com.au](http://www.simplymobiles.com.au)
- [www.wcg.net.au](http://www.wcg.net.au)
- [www.greenmobiles.com.au](http://www.greenmobiles.com.au)

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