

**M2 Telecommunications Group**

**MTU**

**26 August 2008**

***FY08 was another record and strategic acquisitions have built a major growth platform***

**Recommendation: BUY**

**Investment Rationale**

MTU has achieved its seventh record year in revenues, profits and dividends. This unique telco reseller has a clear focus on profitability and a history of careful and strategic acquisitions. In FY08 it reached the position of offering the full range of telco services to small and medium businesses, nationwide buying groups, associations and mid-tier corporates, and also to small and mid-sized telecommunications service providers. With several acquisitions in FY08 including Orion Telecommunications and Unitel Australia, the full range suite of MTU services includes

- 3G mobiles – MTU is the 'gateway' for Optus 3G mobile services to wholesalers
- ADSL 2+ data transmissions – the current generation of broadband services
- Local Access Resale – the 'last mile' delivery of Telstra landline access
- Together with MTU's web sales sites, 'Simply Mobiles' online mobile phone retailing and Green Mobiles – mobile phone services using the Optus 3G network.

M2 is now the largest non-infrastructure-owning telco, wholesaling to 300 mobile and other resellers and ISPs, as well as directly servicing SMEs nationally. It has proven performance and has built the platform for substantial growth – severely discounted!

**Event – Record Growth in Results for FY08**

Reported NPAT rose from \$2.4m to \$5.2m; pre one-off costs relating to a new employee share plan NPAT was \$5.7m. We use \$5.4m in our table, with EPS rising 67.5% to 6.7¢ (reported EPS 6.5¢). Revenues rose 149% from \$43.8m to \$109.2m with both acquisition (Orion 9-months, Unitel 4-months) and organic growth. EBITDA rose 137% to \$9.1m. EBIT was up 145% from \$3.2m to \$7.9m.

With shares issued for Orion and a \$10m 5-year debt facility for Unitel, MTU now has \$27.6m net assets and \$3.3m net debt. Operating cash flow doubled to \$6.9m.

Reported EPS rose by 63% despite 30% more shares on issue. Franked dividends were raised from 3¢ to 5¢, with a 3¢ final - ex-date 8 October, payable 31 October. MTU's cash position and generation allows exceptional yields from a growth stock.

**Impact and Prospects**

Tasmanian-based Orion traded as Southern Cross Telco with over 25,000 customers and \$30m revenues. Now fully integrated, its team and IP systems have added back-of-house strength for the next growth phase of M2's small enterprise targeted business unit, as well as valuable support in MTU's wholesale activity. Unitel Australia has from 1999 been a leading supplier of wholesale telecommunications services to small and medium telecommunications service providers Australia-wide and has put in place MTU's fixed line and local loop access strategy. With strong recurring revenues it will be substantially earnings accretive.

A recent instance of MTU's pre-eminence in the wholesale field was seen in its May agreement to supply People Telecom (PEO) with Optus third generation ("3G") mobile services, valued at a minimum of \$9m over two years. MTU's CEO and MD Vaughan Bowen observed that this "further illustrates M2 Wholesale's capability to meet the commercial and operational objectives of sizeable players such as People, as well as the several hundred niche telco operators and Internet Service Providers which presently receive fixed line, mobile and data services from M2 Wholesale."

With 175 employees, MTU's annualised revenues now exceed \$150m – still negligible in terms of the Australian telecommunications market yet well ahead of any Tier 3 competitors. A steady stream of new customers is enhanced by cross-sell of mobile, data and fixed line services, increasing ARPU and reducing churn. We expect revenues to exceed \$150m in FY09 and EBIT and NPAT to rise in the order of 40%+. Improved buying power, efficiency and cross sell should underpin FY10 growth. MTU's services enhance the offerings of its customers – which act as a sales team building more revenues – and we would be surprised not to see more acquisitions!

**Recommendation Impact**

MTU has forecast 40+% growth at both the top and bottom line for FY09. Its track record and current positioning confirms this is highly realistic. Its much enlarged base and platform for growth recommend it strongly as a Buy, particularly at current prices.

**Snapshot**

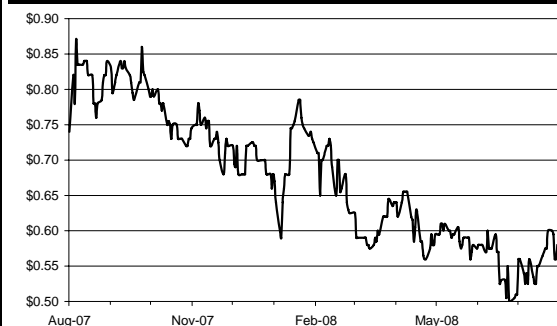
Last Price	\$0.62
Market Cap.	\$49 million
52 Week High	\$0.895
52 Week Low	\$0.50
Sector	Telecommunication Services

**Investment Fundamentals**

Year-end Jun	FY07A	FY08A	FY09E	FY10E
NPAT (\$m)	2.4	5.4	7.6	10.2
EPS (c)	4.0	6.7	9.6	12.7
EPS Growth (%)	8.1	67.5	43.3	35.4
PE Ratio (x)	14.5	8.7	6.0	4.6
DPS (c)	3.0	5.0	6.7	8.8
Franking (%)	100	100	100	100
Dividend Yield (%)	5.2	8.1	11.5	15.2

Source: Intersuisse estimates

**Price Chart**



**Business Description**

Profitable telco provider MTU now provides a full suite of network independent fixed line, mobile and data telecommunications services Australia wide and in NZ. It has a unique bundled offering targeted mainly at the Small and Medium Enterprise (SME) market and distributed through a network of dealerships and agencies. More significant growth will come from the leadership position of its wholesale services division, established on its appointment in May 2006 as the exclusively endorsed aggregator / enabler (wholesaler) of Optus mobile services to other telco service providers and ISP's. Strategic acquisitions have now rounded out complete suites of services for both wholesale telco customers (with Unitel) and SMEs (with Orion).

Analyst: Peter Russell

**Important Information**
**Confidential**

*This document is for the confidential use of the recipients only and is not to be reproduced without the authority of Intersuisse Limited.*

**Disclaimer**

*The persons involved in or responsible for the preparation and publication of this report believe that the information herein has been obtained from reliable sources and that any estimates, opinions, conclusions or recommendations are reasonably held at the time of compilation. No warranty is made as to the accuracy of the information in this document and, to the maximum extent permitted by law, Intersuisse Limited and its related entities, their respective directors and officers ("Intersuisse") disclaim all liability for any loss or damage which may be suffered by any recipient through relying on anything contained or omitted from this document.*

**General Advice**

*The content is of a general nature and is based on a consideration of the securities alone, and as such is conditional and must not be relied upon without advice from a securities adviser as to the appropriateness to you given your individual investment objectives, financial situation and particular needs. Whilst this document is based on information and assessments that are current at the date of publication, Intersuisse has no obligation to provide revised assessments in the event of changed circumstances.*

**Disclosure**

*Intersuisse, its directors and associates disclose a relevant interest in securities mentioned in this document. Intersuisse receives commission from dealing in securities.*

**Analyst Certification**

*The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities or the issuer; and that no part of his remuneration was, is, or will be, related to the recommendations or views expressed by him in the report. The author has an interest in securities mentioned in this document.*

*Prepared by Peter Russell*

---

**INTERSUISSE LIMITED ABN 14 002 918 247, AFSL 246827**
**Market Participant: Australian Security Exchange Ltd**
**Melbourne Office:**  
 Level 37, 530 Collins Street,  
 Melbourne, Vic, Australia 3000

**Telephone:** (+613) 9629 8288

**Facsimile:** (+613) 9629 8882

**Email:** [suisse@intersuisse.com.au](mailto:suisse@intersuisse.com.au)
**Sydney Office:**  
 Level 7, 5 Elizabeth Street,  
 Sydney, NSW, Australia 2000

**Telephone:**

(+612) 9233 2100

**Facsimile:**

(+612) 9233 2117

**Email:**
[sydney@intersuisse.com.au](mailto:sydney@intersuisse.com.au)
**Internet :** <http://www.intersuisse.com.au>