Lodge Partners Research
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HOLD - $3.66

M2 Telecommunications (MTU)

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Price target upgrade pending on the ACCC

Company Data

ASX Code	MTU
Price	$3.66
12 month price target	$3.63
12 month dividend yield	4.9%
Implied return	4.1%
Shares on issue	122.8m
Market cap	$449.8m
12 Month price range	$1.36/$3.75
Monthly turnover	5.3m

Forecast Changes

	2011F	2012F	2013F
NPAT	0%	0%	0%
EPS	0%	0%	0%
DPS	0%	0%	0%

Earnings Summary

Yr to 30 June	2010	2011F	2012F	2013F
Lodge adj profit	18.5	28.2	36.6	40.8
Rep. Profit(pre-sig)	16.1	25.0	32.1	38.0
EPS (¢) adj	16.7	23.0	29.8	33.2
EPS growth	63.5%	40.8%	27.8%	18.3%
P/E ratio	22.0 x	15.9 x	12.3 x	11.0 x
DPS (¢)	10.0	14.5	18.0	21.5
Yield	2.7%	4.0%	4.9%	5.9%
Franking	100%	100%	100%	100%
Payout ratio	69%	71%	69%	70%
EV / EBIT	17.3 x	12.5 x	9.7 x	8.1 x
EV / EBITDA	14.4 x	10.7 x	8.3 x	7.3 x
CFPS (¢)	12.0	29.4	32.8	35.3
Price / CF	30.5 x	12.4 x	11.2 x	10.4 x
NTA per share	$0.05	-$0.04	$0.07	$0.20
Pr / NTA	66.6 x	-89.1 x	54.8 x	18.2 x

Share Price Chart

Source: Iress Market Technology

M2 Telecommunications (MTU) has reported a solid first half result (4% below EPS expectations) and re-iterated FY11 earnings guidance. Our full year forecasts remain unchanged at $28.2m underlying NPAT, above MTU's $25.2m-$26.7m guidance range. Revenue grew by 15% during the half to $215.7m, combined with EBIT growth of 38% to $17.4m. Growth was both organic and acquisitive, driven by cost savings and improved performance of recent acquisitions Bell & Clever. An interim dividend of 7.0 cps has been declared, representing 66% of underlying EPS, in line with expectations.

First half revenue includes contributions from Bell Networks (est. $4m) and Clever (est. $4m), accounting for likely 28% of revenue growth across the group. Organic growth accounted for the lion's share of expansion (72% of revenue), with the bulk of this generated within the wholesale division, recording revenue growth of 32% to $96m. Increased contribution from wholesale division is likely due to a stronger sales performance from several large clients within the mobile and higher margin fixed line categories. Revenues within the retail division were below trend during the half, rising by 4% to $119.6m, likely related to higher short term churn rates from Bell & Clever, combined with generally modest industry conditions for SME clients. The greater share of revenue mix within wholesale has ensured the result is materially in line with expectations and we expect a ramped up contribution from Clever & Bell this calendar year.

EBITDA growth of 28% to $20.1m during the half was mainly driven by the wholesale division. Assuming a 75/25 split of corporate overheads; wholesale EBITDA jumped by 217% to $5.2m, likely as a result of improved supplier terms, scale benefits and more profitable contribution from several key clients. Retail division EBITDA rose by 5.8% to $15m, driven by a likely higher margin contribution from Commander and People, offsetting integration costs from Clever & Bell Networks. Company wide margins have now expanded to 9.3% (from 8.4%). With the incoming contribution of Clear Telecoms during 2H11 and likely shift back to a greater share of new revenue stemming from higher margin retail contracts, we expect group EBITDA margins to trend above 10% by FY12.

Operating Cash flow generation was strong during the half, permitting a higher dividend payout ratio, $2.5m in debt repayment and funding for recent and upcoming acquisitions. In light of the later, the group wide IT & billing system will roll out progressively from 2H11 across the business divisions, with the estimated cost rising to $13m (from $10m). We anticipate net debt to remain at a conservative $16m for FY11.

We are still awaiting confirmation from the ACCC on wholesale line rental prices and local call costs. The verdict may tie in with negotiations regarding the decommissioning price of the Telstra copper network to NBN. In line with this reasoning, a decision may be imminent. Excluding any impact from the potential ACCC indicative price changes, **our 12 month valuation remains at $3.63 per share.** Should the ACCC reduce indicative monthly rental prices to $20.00-$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 businesses. Our forecast price target would potentially rise to; low case= $4.13, base case=$4.48, high case=$4.91 per share. With the share price tracking at our valuation ex ACCC impact, we reduce our headline **recommendation to a HOLD**. Investors should be mindful of the possible earnings upside from ACCC indicative price changes, resulting in significantly improved cash flow generation and dividend/acquisition capacity for M2.

Half Year to 31 Dec 2010	1HY10	1HY11	% chg pcp	M2 Telecommunications (MTU) First Half Results
Divisional Split				
Retail revenue	114.9	119.6	4.1%	Addition of bell & clever; short term churn and transition rates lead to lower sales; Jan & Feb '11 stronger
Retail EBITDA $m	14.1	14.9	5.8%	margin expansion, full year of improved contribution and profitability from commander and people
Retail EBITDA margin %	12.27%	12.48%	0.20%	margin expansion from organic growth; offsetting short term cost effect of recent acquisitions
Wholesale revenue	72.8	96.1	32.1%	organic growth driven by a strong revenue contribution from several core, large clients
Wholesale EBITDA	1.6	5.2	217.7%	EBITDA uplift, improved scale and earnings contribution from several large clients in fixed line & mobile
Wholesale EBITDA margin %	2.23%	5.37%	3.14%	margin expansion; more profitable client shift
Profit and loss statement				
Sales revenue	187.7	215.7	14.9%	5%<expectations; contribution from bell networks & clever; wholesale share of total revenue rose to 44%
EBITDA	15.3	20.1	31.4%	greater than revenue growth; margin expansion despite costs into acquisitions
Depreciation	(0.9)	(0.8)	-18.1%	in line with expectations; low P,P&E balance
Amortisation	(1.7)	(1.9)	9.5%	in line with expectations; includes $1.6m of customer contract amortisation
EBIT	12.6	17.4	38.0%	EBIT 3% below expectations
Net interest expense	(1.1)	(0.8)	29.2%	reduced interest liability from a lower debt balance
Pre-tax profit	11.6	16.7	44.3%	
Tax expense	(3.4)	(5.2)	52.4%	full tax paying corporate
Reported profit	9.5	13.1	37.0%	
Significant items	1.4	1.6	14.3%	amortisation of customer contracts
NPAT (pre sig)	8.1	11.5	40.9%	reported NPAT 4% below expectations
Adjustments	1.4	1.6	14.3%	amortisation of customer contracts
Lodge adj profit	9.5	13.1	37.0%	adjusted NPAT 4% below expectations
Tax rate (%)	29.6%	31.2%	1.6%	>30% tax rate due to share based payments
EBITDA margin (%)	8.2%	9.3%	1.2%	margin expansion; supplier cost gains; scale benefits; improved recent acquisitions
EBIT margin (%)	6.7%	8.1%	1.4%	
EPS (adj)	7.4	10.7	43.6%	Adjusted EPS growth > revenue growth, despite capital raising & higher units since 1H10
DPS	5.0	7.0	40.0%	In line with expected 7.0 cps; efficient utilisation of cash back to shareholders
Payout ratio	67.3%	65.6%	-1.7%	solid payout ratio, in addition to acquisitions and debt repayment
Cashflow statement				
EBITDA	15.3	20.1	31.4%	Improved cash generation
Net interest paid	(1.1)	(0.8)		
Tax paid	(2.3)	(2.1)		
Gross cash from op'tions	11.9	17.2	44.2%	gross cash flow > EBITDA growth = strong cash conversion
(Inc) / dec in working cap.	(4.5)	9.9	-317.6%	Working capital decrease
Other non-cash items	(1.7)	(3.0)	-69.0%	
Operating cashflow	5.6	24.1	328.1%	operating cash flow yields capacity for more acquisitions & higher debt repayment or dividends
Balance sheet				
Working capital ($M)	1.5	(8.0)	651.2%	
Net debt (cash) ($M)	18.0	(5.5)	-130.8%	Net debt of $15m-$20m by the end of FY11
Net debt / equity	n.a.	n.a.		Net cash position
Net interest cover	11.7	22.8	94.9%	Interest coverage is high
Return on equity (%)	15.0%	13.6%	-1.3%	Annualised ROE of 28% well above estimated WACC of 12.5%
ROA (%)	9.21%	11.44%	2.2%	Annualised ROA 23% demonstrates the attractive, asset light model

Source; Lodge Partners, Company Reports

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 = $4.34, base case = $4.83, high case = $5.43.

- **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 = $4.13, base case = $4.48, high case = $4.91.

In our view, scenario 2 is far more likely as a middle ground solution. Given the attractiveness of the Clear & Austar Mobile Acquisitions, strengthening M2 cash flow, high market share in the re-selling space and proven growth model, MTU warrants at least 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

Scenario 1.....

Local call costs 7c (from 17c) and monthly rental $20 (from $26.93)			
Adj EPS FY11(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	**0.263**	**0.268**	**0.273**
160 k lines +40K lines	**0.276**	**0.283**	**0.291**
200 k lines + 60K lines	**0.289**	**0.299**	**0.308**
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	**0.361**	**0.372**	**0.382**
160 k lines +40K lines	**0.388**	**0.402**	**0.417**
200 k lines + 60K lines	**0.414**	**0.433**	**0.452**
% increase EPS FY11(e); 1 Jan '11 price change, 30% tax, interest D&A equal			
Scenario $ per share	*60 % Capture*	*70% Capture*	*80% Capture*
120K lines + 20K lines	14.6%	16.8%	19.1%
160 k lines +40K lines	20.3%	23.5%	26.7%
200 k lines + 60K lines	26.1%	30.3%	34.4%
% increase EPS FY12(e); 1 Jan '11 price change, 30% tax, interest D&A equal			
Scenario $ per share	*60 % Capture*	*70% Capture*	*80% Capture*
120K lines + 20K lines	**37.6%**	**38.8%**	**39.9%**
160 k lines +40K lines	**40.6%**	**42.1%**	**43.6%**
200 k lines + 60K lines	**43.3%**	**45.1%**	**46.8%**
Source; Lodge Partners, ACCC			

Scenario 2........

Local call costs 7c (from 17c) and monthly rental $23 (from $26.93)			
Adj EPS FY11(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	**0.254**	**0.258**	**0.261**
160 k lines +40K lines	**0.263**	**0.269**	**0.274**
200 k lines + 60K lines	**0.273**	**0.280**	**0.287**
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	**0.344**	**0.351**	**0.359**
160 k lines +40K lines	**0.363**	**0.373**	**0.384**
200 k lines + 60K lines	**0.382**	**0.396**	**0.409**
% increase EPS FY11(e); 1 Jan '11 price change, 30% tax, interest D&A equal			
Scenario $ per share	*60 % Capture*	*70% Capture*	*80% Capture*
120K lines + 20K lines	10.8%	12.4%	14.0%
160 k lines +40K lines	14.9%	17.2%	19.5%
200 k lines + 60K lines	19.0%	22.0%	25.0%
% increase EPS FY12(e); 1 Jan '11 price change, 30% tax, interest D&A equal			
Scenario $ per share	*60 % Capture*	*70% Capture*	*80% Capture*
120K lines + 20K lines	**35.5%**	**36.4%**	**37.3%**
160 k lines +40K lines	**37.8%**	**39.0%**	**40.2%**
200 k lines + 60K lines	**39.9%**	**41.4%**	**42.8%**
Source; Lodge Partners, ACCC			

FY11 & FY12 earnings drivers

1) Contribution of Clever Communications, Bell Networks, Clear Telecoms and Austar Mobile 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 1st of January 2011.
- **$12m-$13m 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 pho			
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	22.8%	26.6%	30.4%
160 k lines +40K lines	32.6%	38.0%	43.4%
200 k lines + 60K lines	42.3%	49.4%	56.4%
Adj EPS FY12(e) assume 1 Jan '11 price change, 30% tax, interest D&A e			
Scenario $ per share	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	0.361	0.372	0.382
160 k lines +40K lines	0.388	0.402	0.417
200 k lines + 60K lines	0.414	0.433	0.452
Indicative Lodge price target from $2.52 base, all else equal, 30% tax rat			
Scenario %	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	$ 4.34	$ 4.46	$ 4.58
160 k lines +40K lines	$ 4.65	$ 4.83	$ 5.01
200 k lines + 60K lines	$ 4.97	$ 5.20	$ 5.43

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

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

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	16.3%	19.1%	21.8%
160 k lines +40K lines	23.3%	27.2%	31.1%
200 k lines + 60K lines	30.3%	35.4%	40.5%
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	0.344	0.351	0.359
160 k lines +40K lines	0.363	0.373	0.384
200 k lines + 60K lines	0.382	0.396	0.409
Indicative Lodge price target from $2.52 base, all else equal, 30% tax rate			
Scenario %	60 % Capture	70% Capture	80% Capture
120K lines + 20K lines	$ 4.13	$ 4.22	$ 4.30
160 k lines +40K lines	$ 4.36	$ 4.48	$ 4.61
200 k lines + 60K lines	$ 4.58	$ 4.75	$ 4.91

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: $3.66)

Mkt Cap: $449.8m

Valuation data

Year ending Jun	2009	2010	2011F	2012F	2013F
Lodge adj profit	**8.1**	**18.5**	**28.2**	**36.6**	**40.8**
Reported profit	7.5	16.1	25.0	32.1	38.0
EPS $_{adj}$ (¢)	**9.6**	**16.7**	**23.0**	**29.8**	**33.2**
EPS growth	**26.6%**	**63.5%**	**40.8%**	**27.8%**	**18.3%**
P/E ratio	**37.9 x**	**22.0 x**	**15.9 x**	**12.3 x**	**11.0 x**
DPS (¢)	5.5	10.0	14.5	18.0	21.5
Yield	**1.5%**	**2.7%**	**4.0%**	**4.9%**	**5.9%**
Franking	100.0%	100.0%	100.0%	100.0%	100.0%
Payout ratio	62%	69%	71%	69%	70%
EV / EBIT	41.8 x	17.3 x	12.5 x	9.7 x	8.1 x
EV / EBITDA	35.1 x	14.4 x	10.7 x	8.3 x	7.3 x
CFPS (¢)	9.9	12.0	29.4	32.8	35.3
Price / CF	37.1 x	30.5 x	12.4 x	11.2 x	10.4 x
NTA per share	-$0.20	$0.05	-$0.04	$0.07	$0.20
Pr / NTA	-18.2 x	66.6 x	-89.1 x	54.8 x	18.2 x

Profit and loss ($M)

Year ending Jun	2009	2010	2011F	2012F	2013F
Sales revenue	202.5	406.1	462.4	548.8	594.1
growth over pcp	*85.9%*	*100.6%*	*13.9%*	*18.7%*	*8.2%*
EBITDA	13.1	31.4	43.5	55.2	60.0
Dep'n and amort'n	(2.1)	(5.0)	(5.8)	(8.0)	(5.1)
EBITAg	**11.0**	**26.4**	**37.7**	**47.2**	**54.9**
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	**11.0**	**26.1**	**37.4**	**46.9**	**54.6**
growth over pcp	*44.9%*	*137.7%*	*43.4%*	*25.3%*	*16.5%*
Net interest expense	(0.5)	(2.0)	(1.5)	(0.9)	(0.2)
Pre-tax profit	10.5	24.1	35.9	46.0	54.4
Tax	(3.0)	(8.0)	(10.9)	(13.9)	(16.4)
Effective tax rate	*28.9%*	*33.2%*	*30.3%*	*30.2%*	*30.2%*
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	4.5	2.8
Lodge adj profit	**8.1**	**18.5**	**28.2**	**36.6**	**40.8**
Reported profit (pre sig)	7.5	16.1	25.0	32.1	38.0
One-off items (post tax)	0.0	0.0	0.0	0.0	0.0
Reported net profit	7.5	16.1	25.0	32.1	38.0

Balance sheet ($M)

Year ending Jun	2009	2010	2011F	2012F	2013F
Cash	6.7	15.1	10.2	4.5	11.6
Receivables	50.1	55.8	63.5	75.3	81.6
Inventories	2.6	0.3	0.4	0.5	0.5
Other	2.5	7.3	7.3	7.3	7.3
Current assets	**61.9**	**78.5**	**81.4**	**87.6**	**101.0**
Net PPE	5.1	3.7	6.6	10.8	10.5
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	70.3	70.3	93.2	92.1	89.3
Deferred tax assets	4.1	6.7	6.7	6.7	6.7
Other	0.1	0.1	0.1	0.1	0.1
Non-current assets	**79.5**	**80.8**	**106.6**	**109.7**	**106.6**
Total assets	**141.4**	**159.3**	**188.0**	**197.3**	**207.6**
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	69.5	81.1	87.1
Total liabilities	**92.9**	**82.2**	**99.7**	**96.2**	**92.3**
Equity / reserves	42.0	63.3	63.3	63.3	63.3
Retained profits	6.5	13.7	24.8	37.0	50.7
Total s/h funds	**48.5**	**77.0**	**88.1**	**100.3**	**113.9**
Minorities	0.0	0.0	0.0	0.0	0.0
Total funds emp.	**58.1**	**78.5**	**104.5**	**107.4**	**103.9**

Cashflow ($M)

Year ending Jun	2009	2010	2011F	2012F	2013F
EBIT	11.0	26.1	37.4	46.9	54.6
Net interest paid	(0.7)	(2.2)	(1.5)	(0.9)	(0.2)
Dep'n and amort'n	2.1	5.0	5.8	8.0	5.1
Tax paid	(2.8)	(5.9)	(10.9)	(13.9)	(16.4)
Gross cash from op'ns	**9.5**	**23.0**	**30.8**	**40.1**	**43.0**
(Inc) / dec in wk'g cap	(1.0)	(5.0)	(0.3)	(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
Operating cashflow	**8.3**	**13.3**	**36.1**	**40.3**	**43.4**
growth over pcp					
Investing cashflows					
Capital expenditure	(0.9)	(0.9)	(4.2)	(6.2)	(2.0)
Asset sales	0.0	0.0	0.0	0.0	0.0
Investments	(9.7)	(16.3)	(32.9)	(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
Financing cashflows					
Equity raised	0.5	20.4	0.0	0.0	0.0
Dividends paid	(4.3)	(8.3)	(13.9)	(19.9)	(24.3)
Chg in loans	**6.0**	**0.1**	**10.0**	**(15.0)**	**(10.0)**
Other non-op flows	0.0	0.0	0.0	0.0	0.0
Net chg in cash	**(0.2)**	**8.4**	**(4.9)**	**(5.7)**	**7.2**

Ratio analysis

Year ending Jun	2009	2010	2011F	2012F	2013F
EBITDA / sales	6.5%	7.7%	9.4%	10.1%	10.1%
EBITAg / sales	5.4%	6.5%	8.2%	8.6%	9.2%
EBIT / sales	**5.4%**	**6.4%**	**8.1%**	**8.5%**	**9.2%**
Return on assets	8.1%	18.1%	21.0%	24.3%	27.9%
Return on equity	**15.4%**	**20.9%**	**28.4%**	**32.0%**	**33.3%**
Return on funds emp.	**24.7%**	**38.2%**	**40.9%**	**44.2%**	**51.7%**
Net debt / (cash) ($M)	9.6	1.5	16.4	7.1	(10.1)
Debt / equity	33.5%	21.5%	30.2%	11.5%	1.4%
Net debt / equity	**19.7%**	**2.0%**	**18.6%**	**7.1%**	**(8.8%)**
Interest cover	23.9 x	13.1 x	24.8 x	52.4 x	242.4 x

Interims ($M) Source; Lodge Partners

MTU Half Year Split	1HY10	2HY10	1HY11	2HY11
Sales revenue	187.7	218.4	215.7	246.7
EBITDA	15.3	16.1	20.1	23.4
EBIT	**12.6**	**13.5**	**17.4**	**20.0**
Lodge adj profit	**9.5**	**8.9**	**13.1**	**15.2**
Reported profit	9.5	6.6	11.5	13.6
EBITDA / sales	8.2%	7.4%	9.3%	9.5%
EPS (¢) Adj	**8.7**	**7.9**	**10.7**	**12.4**
EPS growth on pcp	45.7%	32.3%	22.5%	55.7%
DPS (¢)	5.0	5.0	7.0	7.5
% of FY EBIT	48%	52%	47%	53%

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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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