

26 February 2010

M2 Telecommunications

Ticking all the right boxes

Buy

Important: The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

Target price
A\$2.06 (from A\$1.71)

Price
A\$1.70

Market Cap
A\$187.1m

MTU100226

MTU 1H10 results were up around 150% on the pcp and above our expectations. All indications are that the core business and acquisition integrations appears ahead of schedule. Guidance was reiterated and in our opinion remains conservative. We have upgraded our forecasts by 20-25% and retain our Buy given compelling fundamentals.

Key Forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA (A\$m)	9.1	13.3	31.4	38.3	41.8
Reported Net Profit (A\$m)	5.2	7.5	16.4	22.5	26.2
Normalised Net Profit (A\$m) ¹	5.7	8.3	18.9	22.5	26.2
Cash EPS (¢) ¹	6.7	8.6	16.5	22.0	25.3
Cash EPS Growth (%)	0.7	27.0	92.6	33.2	15.1
Dividend Per Share (¢)	5.0	5.5	10.0	14.0	17.0
Dividend Yield (%)	2.9	3.2	5.9	8.2	10.0
Cash PE (x)	25.2	19.9	10.3	7.7	6.7
EV/EBITDA (x)	5.2	5.2	6.5	4.8	4.0
Price/Net Oper. CF (x)	5.8	7.2	7.9	4.8	4.3
ROIC (%)	29.6	40.2	39.6	42.9	43.0

Source: Company data, RBS Morgans forecasts; priced at COB 25 Feb

A stellar performance with 100-150% increases all round

Revenue, EBITDA, and NPAT were all up an impressive 150%. EPS was up 86%, operating cash flow of A\$5.6m was below EBITDA of A\$15.4m, however we expected some timing issue following recent acquisitions. The Board have also double MTU's dividend from 2.5cps in the 1H09 to 5.0cps in the 1H10. FY10 guidance of A\$14.5-15.5m was reiterated. The 1H result indicates that guidance is on-track and in our opinion, comfortably achievable. Annualising NPAT of A\$8.2m implies MTU should be able to achieve A\$16.4m in FY10.

Divisional summary – retail keeps on keeping on

Retail revenue was up 398.8% to A\$136.2m; EBIT of approx. A\$9.4m was also up 474.4% and margins improved 90bps to 6.9%. Wholesale revenue was up 23.3% to A\$74.1m but suffered margin pressure which saw EBIT decline to A\$1.3m (down 40.9% yoy). Collectively revenue was up 115% to A\$187.7m and EBITDA margins improved 120bps to 8.2%. Other highlights include better than expected cost out and some gross margin expansion as a result of MTU's increased buying power. We will see meaningful contributions from FY11+.

We have upgraded our forecast by ~3% in FY10 and 20%+ thereafter

Following the 1H10 result we have increased confidence in managements ability to achieve cost out targets and increased buying power. We have consequently lowered our operating cost assumptions and increased our gross margin, resulting in 20%+ upgrades from FY11.

Investment view: Buy retained, price target upgraded to A\$2.06

Following an upgrade to our forecasts we now value MTU at A\$2.06 (previously A\$1.71). Our valuation is based on an equally weighted DCF based valuation and PE compco. Our DCF based valuation has increased to A\$2.28 (from A\$1.76) and our PE based valuation has increased to A\$1.85 (from A\$1.66). In setting our PE valuation we retain our 20% discount to peers given MTU is a reseller and therefore does not own its own infrastructure. Key risks relate to margin pressure from suppliers and the implications of the NBN.

Analysts

Nick Harris +61 7 3334 4557
nick.harris@rbsmorgans.com

Scott Power +61 7 3334 4884
scott.power@rbsmorgans.com

RBS Morgans Limited
(A.B.N. 49 010 669 726) AFSL235410
A Participant of ASX Group

www.rbsmorgans.com

Result summary

- Revenue of A\$187.7m was up 115.0% on the pcp and ahead of our forecasts;
- EBITDA of A\$15.4m was up 150.0% on the pcp while margins improved from 7.0% in the 1H09 to 8.2% in the 1H10;
- EBIT of A\$14.0m was up 173% on the pcp;
- NPAT of A\$8.2m was up 156% on the pcp, while underlying NPAT (excluding the amortisation of capitalised customer subscriber costs which is not a cash based cost) was up 199% to A\$9.6m;
- Despite the issue of shares as part of the recent acquisition, MTU's EPS was up 86% to 7.5cps (or up 118% to 8.7cps on a cash basis);
- The Board also declared a 5cps dividend (up 100% on the pcp). This was substantially ahead of our 3cps forecast and, in our opinion signals a highly confident outlook;
- The above results exceeded our expectations by ~20% as we expected MTU to have a second half earnings skew given our view that cost out initiatives made in the 1H10 would be unlikely to flow to earnings until the 2H10;
- Overall MTU's 1H10 result was impressive and provides sound confidence that MTU's guidance to double NPAT in FY10 is comfortably achievable;
- **Outlook** – FY10 guidance was reiterated. The Board expects NPAT of A\$14.5-15.5m and EPS of 14.5-15.5c. RBSM forecasts are ahead of guidance which we consider conservative;
- Annualising this 1H10 result indicates MTU could deliver FY10 NPAT of close to A\$16.4m (vs. RBSM F of A\$16.4m);
- Our revised forecasts are for NPAT to grow 119% in FY10 to A\$16.4m and 37.3% in FY11 to A\$22.4m. Initially this appears a stretch, however MTU's 1H09 underlying NPAT of A\$9.6m implies a FY11 run rate of A\$19.2m, therefore our underlying profit growth forecasts are for 18.9%, which, in our opinion is achievable based on the current cost out and growth trajectory;

Other details

- Operating cash flow of A\$5.6m was below EBITDA of A\$15.4m, however we expected some timing issue following recent acquisitions; and
- Net Debt to equity increased from 33.5% in 1H09 to 43.7% in the 1H10. As at 31 Dec this represented 1.5x EBITDA with EBIT cover in excess of 10x. We remain comfortable with the debt position and expect FCF to be utilised to pay down debt during the 2H10.

Results summary

Table 1 : MTU 1H10 results summary results

	1H09	1H10	2H10 vs 1H09	2H10F	2H10 vs 1H10	FY10F	1H10 annualised
Profit and loss							
Operating Revenue	87.3	187.7	115.0%	196.4	4.6%	384.1	375.4
Operating costs	81.1	172.3	112.4%	180.4	4.7%	352.7	344.7
Operating EBITDA	6.1	15.4	150.0%	16.1	4.6%	31.4	30.7
EBITDA margin	7.0%	8.2%	1.1%	8.2%	0.0%	8.2%	8.2%
Operating EBIT	5.2	12.7	146.2%	13.4	5.5%	26.1	25.4
EBIT margin	5.9%	6.8%	0.9%	6.8%	0.1%	6.8%	6.8%
PBT	4.7	11.6	686.7%	11.9	29.7%	23.5	23.2
Tax	1.5	3.4	187.3%	3.7	29.9%	7.1	6.8
Reported NPAT	3.2	8.2	156.4%	8.2	0.0%	16.4	16.4
Underlying NPAT	3.2	9.6	199.1%	9.4	-2.0%	18.9	19.1
EPS							
EPS	3.9	7.4	87.6%	7.5	1.3%	14.9	14.8
DPS	2.5	5.0	100.0%	5.0	0.0%	10.0	10.0
Operating cash flow							
Operating cash flow	4.7	5.6	20.9%	17.9	217.9%	23.6	11.3
Cashflow conversion	76.0%	36.7%		111.7%		75.1%	36.7%
Tax rate	32.6%	29.4%		31.2%			29.4%

Source: Company data; RBS Morgans estimates

Changes to our forecasts

Following the 1H10 result we have increased confidence in managements ability to achieve cost out targets and increased buying power. We have consequently lowered our operating cost assumptions and increased our gross margin, resulting in 20%+ upgrades from FY11.

Table 2 : Changes to our forecasts

	FY10F			FY11F			FY12F		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Divisional sales	389.7	384.1	-1.4%	434.8	428.5	-1.5%	469.4	462.6	-1.5%
EBITDA	30.5	31.4	3.1%	33.1	38.3	15.7%	33.9	41.8	23.2%
Reported NPAT	15.6	16.4	5.1%	18.1	22.5	24.0%	20.1	26.2	30.8%
Normalised NPAT	15.6	18.9	21.4%	18.1	22.5	24.0%	20.1	26.2	30.8%
EPS	14.2	14.9	5.1%	16.5	20.4	24.0%	18.2	23.7	30.8%
Reported EPS	14.2	14.9	5.1%	16.5	20.4	24.0%	18.2	23.7	30.8%
DPS (c)	7.0	10.0	42.9%						
DCF valuation (A\$)	1.80	2.28	26.4%						
PE compco valuation (A\$)	1.66	1.85	10.9%						
Weighted valuation (A\$)	1.73	2.06	19.0%						

Source: Company data; RBS Morgans estimates

Valuation, risks and catalyst

Table 3 : PE compco

	FY10F
Peer multiple to apply (x)	14.0
(Disc)/prem to peers	-20%
PE to apply to M2 Comms (x)	11.2
M2 Comms Cash EPS (c)	16.5
M2 Comms PE valuation (A\$ps)	1.85

Source: RBS Morgans

We value MTU at A\$2.06 per share (previously A\$1.71) based on an equally weighted DCF and PE compco valuation. Our DCF based valuation has increased to A\$2.28 from A\$1.76. Our PE compco based valuation of A\$1.85 (previously A\$1.66) applied a multiple of 11.2x FY10F PE which is based on a 20% discount to the telecommunications sector (detailed below). We have applied this discount to peers given MTU is a reseller so typically does not own its own infrastructure whereas peers detailed below typically own some significant portions of infrastructure and therefore are less likely to suffer supplier margin pressure.

MTU's key risks relate to supplier margin pressure. Historically resellers have experienced significant problems when suppliers have increased prices; resulting in significant disruptions to the business model and in some case the destruction of profitability. Given MTU's diversity of earnings and suppliers we expect this risk is limited. We also note MTU typically has the ability to pass on pricing pressure to customers within six months.

Table 4 : MTU metrics at current share price

	2010F	2011F
Cash PE	10.3	7.7
EV/EBITDA	6.5	4.8
PE relative to ASX200	-34.0%	-50.5%
Yield	5.9%	8.2%
PEG	0.14	0.24

Source: RBS Morgans estimates

Table 5 : MTU metrics at A\$2.06 price target

	2010F	2011F
PE	12.5	9.4
EV/EBITDA	7.8	5.9
PE relative to ASX200	1.6%	-39.9%
Yield	4.8%	6.8%
PEG	0.17	0.25

Source: ABN AMRO

Table 6 : Peer comparison

	FY010F PE	FY11F PE	FY10F EPS growth	FY11F EPS growth	FY10A ev/EBITDA	FY11F ev/EBITDA
PWK	13.7	13.6	412.0	1.4	7.1	7.0
TPM	20.9	13.5	198.6	54.2	7.9	6.2
IIN	10.5	8.5	22.4	21.5	4.3	3.6
AMM	12.9	9.2	20.9	40.2	9.5	7.0
DTL	12.0	11.0	8.5	9.5	6.4	5.6
Average	14.0	11.2	78.5	25.3	7.0	5.9
MTU	10.3	7.7	92.6	33.2	6.5	3.8
XJO	15.6	12.3	15.6	12.3	8.4	6.9

Source: RBS Morgans estimates; Priced at COB 25 Feb

Historical EBITDA multiples

We believe a fair value EV/EBITDA multiple for MTU is around 6x. In justifying our view of what represents a fair value multiple for resellers such as MTU we have taken into consideration historical takeover multiples paid for previous reseller acquisitions. These include: 1) B Digital (acquired by SP Telemedia in April 2005) for 7.2x EBITDA (Enterprise Value of A\$95.3m); 2) Teleglobe (acquired by Videsh Sanchar in February 2006) for 11.0x EBITDA (EV of US\$242m); and Yak communications (acquired by Globalive Communications in October 2006) for 6.9x EBITDA (EV US\$54.4m). The average is a forward looking EV/EBITDA of 8.3x. Assuming a takeover premium of 20-30% implies a fair value forward looking EV/EBITDA of 5.8x – 6.6x. Coincidentally the mid point (6.2x) is broadly in-line the long term EV/EBITDA average of technology reseller Data #3 which is 6.4x.

Chart 1 : International peer comparison

	Rec	Mcap US\$m	1mth % chg	YTD % chg	P/E				EV/EBITDA				3 yr CAGR (%)				
					Actual	FY + 1	FY + 2	FY + 3	Actual	FY + 1	FY + 2	FY + 3	Rev	EBITDA	OpCF	EPS	DPS
Asian Full Service																	
Bharti Airtel Ltd	Hold	22,647.5	-16.38	-15.95	6.68	11.73	12.37	10.93	9.33	6.82	6.67	5.67	27%	23%	109%	25%	--
China Unicom (Hk) Ltd	Hold	26,247.2	-6.08	-15.86	12.61	17.26	22.39	17.68	3.73	4.25	4.28	3.87	22%	23%	-16%	77%	8%
Telekomunikasi Indonesia Tbk Pt	Buy	17,982.6	-10.27	-12.17	15.44	13.83	12.18	11.15	4.63	5.73	4.99	4.49	6%	1%	-8%	-1%	-1%
Philippine Long Distance Tel	Buy	10,458.5	-3.72	-1.34	13.15	12.05	11.21	10.50	5.06	5.87	5.59	5.32	3%	0%	6%	-1%	12%
Kt Corp (P)	Buy	9,905.2	-6.62	11.89	--	8.08	7.85	6.09	3.50	3.07	2.85	--	3%	-7%	-158%	-29%	-18%
Median					12.88	12.05	12.18	10.93	4.63	5.73	4.99	4.90	5.8%	0.8%	-7.8%	-0.6%	3.5%
Rest of world Full Service																	
Deutsche Telekom Ag	Hold	57,000.3	-1.50	-7.11	12.30	13.27	12.81	12.26	5.22	4.55	4.55	4.54	0%	2%	6%	-23%	3%
Telefonica S.A. (Adr)	Strong Bu	79,229.6	-7.86	-17.13	9.61	9.52	8.93	--	4.90	--	--	--	8%	12%	4%	25%	28%
France Telecom	Hold	60,708.3	-0.44	-3.36	9.21	9.23	8.98	8.91	5.14	4.89	4.72	4.79	1%	8%	5%	63%	5%
Bt Group Plc	Hold	13,905.2	-18.64	-14.00	5.72	7.96	7.28	6.94	5.10	4.27	4.14	4.03	2%	-16%	-18%	-132%	-24%
Telecom Italia Spa	Hold	19,846.1	4.81	0.18	6.61	10.80	10.19	9.51	5.10	4.82	4.67	4.47	-1%	-6%	-4%	-10%	-29%
At&T Inc	Buy	147,018.8	-1.89	-11.13	11.75	11.36	10.50	9.71	--	5.04	4.78	4.44	1%	-1%	--	--	4%
Verizon Communication	Buy	82,246.4	-4.55	-12.59	12.07	12.34	11.49	10.61	5.52	4.69	4.20	3.36	3%	4%	10%	6%	4%
Hutchison Whampoa Ltd (Adr)	Strong Bu	28,729.8	4.88	4.94	13.57	14.92	18.90	--	--	--	--	--	--	--	--	--	--
Median					10.68	11.08	10.34	9.61	5.12	4.75	4.61	4.46	1.1%	1.6%	4.5%	-1.7%	4.0%
American Small Cap																	
3Com Corporation	Hold	3,017.8	0.93	1.60	16.93	24.06	20.78	--	4.24	--	--	--	1%	132%	24%	-172%	--
Cbeyond Inc	Buy	368.1	1.19	-19.30	105.92	--	1191.56	60.81	8.60	8.45	6.28	5.03	18%	11%	-330%	-24%	--
Ciena Corp	Hold	1,327.2	17.81	33.03	--	--	40.70	12.12	-1.57	--	--	--	-6%	-250%	-160%	-294%	--
Consolidated Communication Holdi	Hold	501.8	1.93	-3.15	23.85	20.00	20.25	23.19	7.14	--	--	--	9%	11%	-5%	-27%	0%
Exfo Electro Optical Engineering	Buy	124.0	4.62	41.30	54.40	23.22	17.27	--	-15.29	7.21	5.64	--	6%	-172%	23%	-177%	--
Global Crossing Ltd	Buy	836.1	0.87	-2.46	--	--	--	--	5.26	--	--	--	12%	181%	-141%	-22%	--
Globecomm Systems Inc.	Buy	162.4	7.78	-2.56	47.63	23.37	17.09	--	10.14	--	--	--	4%	-5%	-211%	-32%	--
Internap Network Svcs. Corp.	Hold	257.9	2.01	8.09	42.33	--	--	--	-1.27	--	--	--	12%	-253%	-193%	-377%	--
Jds Uniphase Corp	Hold	2,257.5	27.48	24.85	57.22	29.05	21.21	16.35	-1.27	9.65	7.27	--	-3%	-286%	-254%	117%	--
Juniper Networks Inc	Hold	14,686.0	12.02	4.80	30.38	24.08	19.84	15.68	--	13.47	11.65	--	5%	--	--	--	--
Level 3 Communications Inc	Underpe	2,508.9	2.00	0.00	--	--	--	--	--	9.96	9.41	8.79	-4%	33%	--	--	--
Limelight Networks Inc	Buy	312.0	3.09	-6.38	--	--	--	--	-0.83	--	--	--	26%	-249%	-11%	149%	--
Surewest Communications	Buy	122.4	4.73	-13.25	172.80	--	--	--	5.61	--	--	--	1%	-2%	-254%	-46%	-21%
Switch & Data Facilities Co Inc	Hold	624.8	-3.33	-11.03	1798.00	66.39	30.80	23.81	14.60	--	--	--	14%	23%	--	--	--
Median					51.01	24.06	20.78	19.77	4.75	9.65	7.27	6.91	5.6%	-2.3%	-160.2%	-32.4%	-10.3%

Source: Thomson Reuters consensus estimates; Priced at 25 February 2009

Chart 2 : MTU – financial summary

	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Closing price (A\$)	1.70	Price target (A\$)	2.06	
Income statement	2008A	2009A	2010F	2011F	2012F	DCF valuation inputs				
Divisional sales	109.2	202.7	384.1	428.5	462.6	Rf	5.25%	10-year rate	5.25%	
Total revenue	109.2	202.7	384.1	428.5	462.6	Rm-Rf	6.00%	Margin	2.0%	
Operating costs	100.1	189.4	352.7	390.2	420.8	Beta	1.50	Kd	8.00%	
EBITDA	9.1	13.3	31.4	38.3	41.8	CAPM (Rf+Beta(Rm-Rf))	14.3%	Ke	15.6%	
Associate income	0.0	0.0	0.0	0.0	0.0	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	268.8	
Depreciation	1.2	2.1	2.7	2.8	2.4	Equity (E/EV)	80.0%	Minority interest (A\$m)	0.0	
EBITA	7.9	11.2	28.7	35.5	39.5	Debt (D/EV)	20.0%	Net debt (A\$m)	18.0	
Amortisation/impairment	0.0	0.0	2.6	2.6	2.6	Interest rate	8.00%	Investments (A\$m)	0.0	
EBIT	7.9	11.2	26.1	32.9	36.9	Tax rate (t)	30.0%	Equity market value (A\$m)	250.9	
Net interest expense	0.4	0.7	2.6	0.7	-0.7	WACC	13.5%	Diluted no. of shares (m)	110.1	
Pre-tax profit	7.5	10.5	23.5	32.2	37.6					
Income tax expense	2.3	3.0	7.1	9.8	11.4	PE compco	\$1.85	DCF valuation	\$2.28	
After-tax profit	5.2	7.5	16.4	22.5	26.2	FY10 PE compco multiple applied	11.2x	Weighted valuation	\$2.06	
Reported NPAT	5.2	7.5	16.4	22.5	26.2					
Significant items	0.5	0.8	2.5	0.0	0.0	Multiples	2009A	2010F	2011F	2012F
Normalised NPAT	5.7	8.3	18.9	22.5	26.2	Enterprise value (A\$m)	196.7	205.1	185.3	165.3
Cash NPAT (exc amortisation)	5.7	8.3	18.1	24.2	27.9	EV/Sales (x)	1.0	0.5	0.4	0.4
						EV/EBITDA (x)	14.7	6.5	4.8	4.0
Cash flow statement	2008A	2009A	2010F	2011F	2012F	EV/EBIT (x)	17.5	7.9	5.6	4.5
EBITDA	9.1	13.3	31.4	38.3	41.8	Cash PE (pre-amortisation) (x)	19.9	10.3	7.7	6.7
Change in working capital	0.8	-1.3	1.9	11.5	12.8	PEG (pre-amortisation) (x)	n.m.	0.1	0.2	0.4
Net interest (pd)/rec	-0.1	-0.7	-2.6	-0.7	0.7	Dividend yield	3.2%	5.9%	8.2%	10.0%
Taxes paid	-2.2	-3.0	-7.1	-9.8	-11.4	Operating cashflow yield	5.8%	12.6%	21.0%	23.4%
Other oper cash items	0.0	0.0	0.0	0.0	0.0	Free cashflow yield	-2.3%	4.2%	17.4%	19.4%
Cash flow from ops (1)	7.6	8.3	23.6	39.4	44.0					
Capex (2)	-0.6	-0.9	-2.1	-2.4	-2.8	At target price	2009A	2010F	2011F	2012F
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	EV/EBITDA (x)	17.0	7.2	5.9	5.4
Other investing cash flow	-9.9	-10.4	0.0	0.0	0.0	PE (pre-goodwill) (x)	24.1	13.9	10.1	8.7
Cash flow from invest (3)	-10.2	-10.7	-13.7	-4.4	-4.8					
Incr/(decr) in equity	0.0	0.5	0.0	0.0	0.0	Comparable company data (x)	2009A	2010F	2011F	2012F
Incr/(decr) in debt	10.1	8.0	10.0	6.5	6.5	Data#3				
Ordinary dividend paid	-2.8	-4.3	-8.0	-13.2	-17.1	EV/EBITDA	6.9	6.4	5.6	5.6
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EV/EBIT	7.5	6.9	6.0	6.0
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	PE	13.1	12.0	11.0	11.0
Cash flow from fin (5)	7.1	2.2	2.0	-19.7	-23.6	Melbourne IT				
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EV/EBITDA	5.8	5.0	4.6	4.6
Ino/(decr) cash (1+3+5+6)	4.5	-0.2	11.8	15.2	15.6	EV/EBIT	8.0	6.9	6.2	6.2
Equity FCF (1+2+4)	-3.2	-3.3	7.8	32.5	36.4	PE	7.3	8.9	8.0	8.0
Balance sheet	2008A	2009A	2010F	2011F	2012F	Per share data	2009A	2010F	2011F	2012F
Cash & deposits	6.9	6.7	8.3	21.5	35.1	No. shares	84.2	110.1	110.3	110.5
Trade debtors	21.3	50.1	47.4	47.0	50.7	EPS (cps)	8.6	14.9	20.4	23.7
Inventory	0.3	2.6	0.8	0.7	0.8	Cash EPS (c)	8.6	16.5	22.0	25.3
Investments	0.0	0.0	0.0	0.0	0.0	Operating cash flow per share	9.9	21.4	35.7	39.8
Goodwill	0.0	0.0	0.0	0.0	0.0	Free cashflow per share	-3.9	7.1	29.5	33.0
Other intangible assets	32.7	70.3	79.3	78.7	78.1	Dividend per share (c)	5.5	10.0	14.0	17.0
Fixed assets	0.2	5.2	4.2	3.9	4.3	Dividend payout ratio (%)	64.3%	67.2%	68.7%	71.6%
Other assets	5.5	6.5	6.5	6.5	6.5	Dividend yield (%)	3.2%	5.9%	8.2%	10.0%
Total assets	66.9	141.4	146.5	158.3	175.5	Growth ratios	2009A	2010F	2011F	2012F
Short-term borrowings	1.1	3.1	2.6	2.0	1.3	Sales growth	85.6%	89.5%	11.6%	8.0%
Trade payables	25.7	55.8	53.1	64.1	80.7	Operating cost growth	89.2%	86.2%	10.6%	7.8%
Long-term borrowings	9.1	13.1	23.6	17.8	11.9	EBITDA growth	41.7%	154.9%	24.0%	11.0%
Provisions	1.3	3.0	3.0	3.0	3.0	EBITDA growth	41.7%	154.9%	24.0%	11.0%
Other liabilities	2.0	17.8	7.3	5.3	3.3	EBIT growth	41.7%	131.8%	26.4%	11.9%
Total liabilities	39.3	92.9	89.7	92.2	100.3	Reported NPAT growth	45.0%	119.0%	37.3%	16.6%
Share capital	23.7	41.3	49.7	58.9	68.1	Normalised NPAT growth	45.6%	127.8%	18.9%	16.6%
Other reserves	0.6	0.7	0.7	0.7	0.7	Reported EPS growth	27.0%	73.8%	37.1%	16.4%
Retained earnings	3.3	6.5	6.5	6.5	6.5	Cash EPS growth	n.m.	92.6%	33.2%	15.1%
Other equity	0.0	0.0	0.0	0.0	0.0					
Total equity	27.6	48.5	56.9	66.1	75.2	Operating performance	2009A	2010F	2011F	2012F
Minority interest	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	48.7	66.7	70.3	69.3
Total shareholders' equity	27.6	48.5	56.9	66.1	75.2	EBITDA margin (%)	6.6	8.2	8.9	9.0
Total liabilities & SE	66.9	141.4	146.6	158.3	175.5	EBIT margin (%)	5.5	6.8	7.7	8.0
						Net profit margin (%)	3.7	4.3	5.2	5.7
						Return on net assets (%)	17.1	33.3	34.0	34.9
Internal liquidity	2008A	2009A	2010F	2011F	2012F	Net debt (A\$m)	9.6	18.0	-1.8	-21.8
Current ratio (x)	0.8	0.8	0.7	0.8	0.9	Net debt/equity (%)	19.7	31.6	-2.7	-29.0
Receivables turnover (x)	7.6	5.7	7.9	9.1	9.5	Net interest/EBIT cover (x)	15.4	10.2	46.2	-51.1
Payables turnover (x)	5.3	4.6	6.5	6.7	5.8	ROIC (%)	17.4	31.4	38.4	41.7
						ROE (%)	17.1	33.3	34.0	34.9

Source: Company data; RBS Morgans estimates ; Priced at COB 25 February 2010

RESEARCH TEAM

ROGER LEANING	-	Executive Director - Research	SCOTT MURDOCH	-	Analyst
CHRIS BROWN	-	Senior Analyst	SCOTT POWER	-	Director - Research
NIK BURNS	-	Senior Analyst	TOM SARTOR	-	Associate Director - Research
ALEX CLARKE	-	Analyst	TAMARA STRETCH	-	Associate Director - Research
FIONA BUCHANAN	-	Director - Research	TANYA SOLOMON	-	Associate Director - Research
NICK HARRIS	-	Senior Analyst	PAUL STEVENSON	-	Analyst
MICHAEL KNOX	-	Executive Director - Economic Strategy	REBECCA SULLIVAN	-	Research/Special Projects
JAMES LAWRENCE	-	Fixed Interest Analyst	SAM TURNER	-	Analyst
JOSEPHINE LITTLE	-	Associate Director - Research	MARCEL VON PFYFFER	-	Director - Strategy
BELINDA MOORE	-	Director - Research			

RBS MORGANS LIMITED OFFICES

BRISBANE	(07) 3334 4888	BALMAIN	(02) 8755 3333
BRISBANE – EDWARD STREET	(07) 3121 5677	COFFS HARBOUR	(02) 6651 5700
BUNDABERG	(07) 4153 1050	GOSFORD	(02) 4325 0884
BURLEIGH HEADS	(07) 5520 8788	HURSTVILLE	(02) 9570 5755
CAIRNS	(07) 4052 9222	MERIMBULA	(02) 6495 2869
CALOUNDRA	(07) 5491 5422	NEUTRAL BAY	(02) 8969 7500
CAPALABA	(07) 3245 5466	NEWCASTLE	(02) 4926 4044
CHERMESIDE	(07) 3350 9000	NEWPORT	(02) 9998 4200
EMERALD	(07) 4988 2777	ORANGE	(02) 6361 9166
GLADSTONE	(07) 4972 8000	PARRAMATTA	(02) 9615 4500
GOLD COAST	(07) 5592 5777	PORT MACQUARIE	(02) 6583 1735
IPSWICH	(07) 3202 3995	SCONE	(02) 6544 3144
MACKAY	(07) 4957 3033	WOLLONGONG	(02) 4227 3022
MILTON	(07) 3114 8600	MELBOURNE	(03) 9947 4111
NOOSA	(07) 5449 9511	BERWICK	(03) 9796 2676
REDCLIFFE	(07) 3897 3999	BRIGHTON	(03) 9519 3555
ROCKHAMPTON	(07) 4922 5855	CAMBERWELL	(03) 9813 2945
SPRING HILL	(07) 3833 9333	GEE LONG	(03) 5222 5128
SPRINGWOOD	(07) 3808 7588	MELBOURNE FARRER HOUSE	(03) 8644 5488
STANTHORPE	(07) 4681 6702	TRARALGON	(03) 5176 6055
SUNSHINE COAST	(07) 5479 2757	WARRNAMBOOL	(03) 5559 1500
TOOWOOMBA	(07) 4639 1277	CANBERRA	(02) 6232 4999
TOWNSVILLE	(07) 4771 4577	ADELAIDE	(08) 8464 5000
YEPPON	(07) 4939 3021	PERTH	(08) 9261 0888
SYDNEY	(02) 8215 5000	BUNBURY	(08) 9791 9188
ARMIDALE	(02) 6770 3300	DARWIN	(08) 8981 9555
BALLINA	(02) 6686 4144	HOBART	(03) 6236 9000

DISCLAIMER - RBS MORGANS LIMITED

This report was prepared as a private communication to clients and was not intended for public circulation or publication or for the use of any third party, without the approval of RBS Morgans Limited ("RBS Morgans"). While this report is based on information from sources which RBS Morgans considers reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect RBS Morgans judgment at this date and are subject to change. RBS Morgans has no obligation to provide revised assessments in the event of changed circumstances. RBS Morgans, its directors and employees do not accept any liability for the results of any actions taken or not taken on the basis of information in this report, or for any negligent misstatements, errors or omissions. This report is made without consideration of any specific client's investment objectives, financial situation or needs. Those acting upon such information without first consulting one of RBS Morgans investment advisors do so entirely at their own risk. It is recommended that any persons who wish to act upon this report consult with an RBS Morgans investment advisor before doing so. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

DISCLOSURE OF INTEREST

RBS Morgans and/or its affiliated companies may make markets in the securities discussed. Further, RBS Morgans and/or its affiliated companies and/or their employees from time to time may hold shares, options, rights and/or warrants on any issue included in this report and may, as principal or agent, sell such securities. RBS Morgans affiliates may have acted as manager or co-manager of a public offering of any such securities in the past three years. RBS Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report.

The Directors of RBS Morgans advise that they and persons associated with them may have an interest in the above securities and that they may earn brokerage, commissions, fees and other benefits and advantages, whether pecuniary or not and whether direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities, and which may reasonably be expected to be capable of having an influence in the making of any recommendation, and that some or all of our Authorised Representatives may be remunerated wholly or partly by way of commission.

RECOMMENDATION STRUCTURE

Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

Absolute performance, short-term (trading) recommendation: The Trading Buy/Sell recommendation implies upside/downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Each stock has been assigned a Volatility Rating to assist in assessing the risk of the security. The rating measures the volatility of the security's daily closing price data over the previous year relative to other stocks included in either the S&P/ASX200 Index (large caps) or the Small Ordinaries Index (small caps) of which it is a member. This rating is a quantitative (objective) measure provided as an additional resource and is independent of the qualitative research process undertaken by our research analysts.

A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

REGULATORY DISCLOSURES

Subject companies: MTU.AX.

PRIVACY

Personal information held by RBS Morgans Limited may have been used to enable you to receive this publication. If you do not wish your personal information to be used for this purpose in the future please advise us, including your account details to your local RBS Morgans Limited office or to Reply Paid 202, GPO Box 202 Brisbane Qld 4001.