Morningstar™ Equities Research Daily Roundup

06 June 2013

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Today's Research

ASX Code	Company Name	Previous Recommendation	New Recommendation	Reason
SYD	Sydney Airport	Reduce	▲ Hold	$
AIA	Auckland Airport	Reduce	▲ Hold	
AIA-NZ	Auckland Airport	Reduce	▲ Hold	
EBO-NZ	Ebos Group	Reduce	▲ Hold	
GBG	Gindalbie Metal	Avoid	Avoid	
SEK	SEEK	Reduce	Reduce	
SKI	Spark Infrastructure	Reduce	▲ Hold	

Research Highlights

Sydney Airport SYD | 3.51

Upgrade due to price change.

Recommendation: Hold

Auckland Airport AIA | 2.48

Commerce Commission's ruling lessens regulatory risk, valuation raised

Recommendation: Hold

Event

We are lifting our valuation for Auckland Airport from NZD 2.60 per share to NZD 3.00 per share mainly reflecting a reduction in our weighted average cost of capital (WACC) from 8.5% to 7.5%.

In our view the regulatory risk for the business has lessened following the Commerce Commission's favourable assessment of Auckland Airport's aeronautical charges.

International passenger movements (excluding transits) were up 1.3% relative to the prior comparable period in the first ten months of fiscal 2013 with New Zealand (resident arrivals) and China being notably strong.

Impact

Overall 2013 was affected by strong based period comps because of the Rugby World Cup in the previous year but we expect a pick up in passenger volumes in 2014. As a result we are projecting international passenger movements (excluding transits) to rise by 5% in fiscal 2014 assuming stable global economic conditions.

Overall our NPAT forecast for 2013 and 2014 remains unchanged at NZD 150 million and NZD 161 million respectively.

Auckland Airport AIA-NZ | 2.95

Commerce Commision's ruling lessens regulatory risk, valuation raised

Recommendation: Hold

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Ebos Group EBO-NZ | 10.20

Symbion's acquisition propels EBOS into the big league

Recommendation: Hold

Event

EBOS Group (EBOS) is acquiring Australia's leading pharmaceutical wholesaler and distributor for NZD 1.1 billion which includes Symbion's debt of NZD 230 million.

The acquisition is subject to certain conditions including EBOS shareholder approval which is slated for 14 June 2013.

Overall we believe EBOS is paying a fair price to acquire Symbion. The acquisition implies a pro forma fiscal 2013 multiple of 7.9 times EBITDA based on Symbion's standalone EBITDA of NZD 141 million.

Impact

At this stage we are not making any changes to our forecasts as we are not incorporating Symbion's financials pending the shareholder approval.

The transaction will dramatically increase the company's outstanding shares from 55 million to 147 million reflecting the placement of shares, entitlement offer and issue of shares to Symbion shareholders. However the net income is expected to rise from NZD 29 million on a standalone basis to NZD 92 million on a consolidated basis which equates to an EPS increase of nearly 30% to NZ62.6 cents per share. Consequently the transaction is likely to be highly accretive from an earnings perspective

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Research Highlights

Gindalbie Metal GBG | 0.110

Funding squeeze causes extreme uncertainty (corrected)

Recommendation: Avoid

Event

Gindalbie Metals' share price slumped to its lowest level since 2005 this month, some 95% below the 2007 peak and implying a market capitalisation of just AUD 164 million. The market capitalisation is well below the book value of its 50% stake in the Karara iron ore mine, worth AUD 650 million as at 30 June 2012. More has been spent on the project since but capital expenditure simply isn't being reflected in Gindalbie's share price. Key concerns are that both Gindalbie and Karara are dangerously low on cash, raising the prospect of a dilutive equity issue.

The recommendation on the previously published version of this report was incorrect and should have been Avoid.

Impact

Our base case scenario assumes short term funding issues are resolved without equity being issued however the risk of dilution causes us to increase the fair value uncertainty from very high to extreme. In addition, problems with the mine ramp-up mean we reduce our fiscal 2013 net profit forecast from AUD 48 million profit to a AUD 25 million loss. Single commodity exposure, extreme operating leverage and extreme financial leverage mean small changes to financial model assumptions have large impacts on our fair value estimate. Our fair value estimate falls 25% to 0.20 per share but we stress that fair value uncertainty is extreme.

SEEK SEK | 9.22

Fairfax to Make Online Job Listings Free

Recommendation: Reduce

Event

Fairfax's online employment website, MyCareer, is switching to a free online listing model. Display advertisements within Fairfax publications will remain on the paid model. We don't expect this strategic change by Fairfax will have a material impact on Seek because advertisers will continue to target their expenditure at the largest online audience.

Impact

Google took on realestate.com.au by offering free listing for agents, with listing linked through Google Maps. Audiences failed to engage with Google when looking for property and after a change of company priorities the decision was made to close down the service.

News Corporation is now offering free vehicle advertisements on its carsguide.com.au platform aimed to disrupt the local dominance of carsales.com.au. We continue to debate if carsales.com.au has a moat or not and view the action by News Corporation as a critical test to see if it can breach any potential moat.

These examples offer some insight to the sustained competitive advantage so far obtained by these relatively young Australian internet brands: realestate.com.au, carsales.com.au and seek.com.au. Market dominance was earned through a combination of the first mover advantage and sustained through the network effect. These businesses continue to generate strong returns on capital and generate the largest audience reach within the online classified market.

Spark Infrastructure SKI | 1.680

Regulatory risk our main concern

Recommendation: Hold

Event

We take a deeper look at Spark's businesses, regulatory risk and moat characteristics.

Impact

Our fair value estimate increases marginally from AUD 1.50 to AUD 1.60 mainly on a lower long term average cost of capital assumption.

Spark is a solid company with investments in Australian electricity distribution networks generating highly secure cash flows under a transparent regulatory regime. But regulatory returns are under threat from the lower risk-free rate and political pressure to limit fast growing utility bills.

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News Digest

08:45 LEI Leighton Holdings Announces Moody's Affirms Baa2 Rating, Outlook Stable

Leighton Holdings advised that Moody's Investors Service has affirmed the Baa2 issuer rating of the group and the senior unsecured bond rating of Leighton Finance (USA). The outlook is stable.

14:16 CMW Cromwell Property Group Acquires Brisbane CBD Property

Cromwell Property Group announced that it has entered into an agreement to purchase two Brisbane office buildings for a combined purchase price of $65m. The buildings, known as Health House and Forestry House are adjoining properties situated at 147-163 Charlotte Street and 146-160 Mary Street in the Brisbane CBD. Both buildings are currently leased to the Qld State Government for an average of 3.2 years, with the lease over 100% of Health House expiring in July 2015 and Forestry House in November 2017. The current passing income of the property across both buildings is approximately $13.5m which represents an initial passing yield of approximately 20% on the purchase price. The acquisition will be funded by existing cash reserves and, as a result, the company now expects an increase in forecast earnings in FY14 from previous guidance of 8.0 cents per security to at least 8.3 cents per security.

17:19 DLS Drillsearch Energy Provides May 2013 Monthly Drilling and Operations Report

Drillsearch Energy provided its May 2013 monthly drilling and operations report, reporting the PEL 91 JV experienced added success since the last report last drilling and operations report in April 2013, with one new oil discovery and the successful completion of the Bauer-10 developmental well. Sceale-1 discovered a six metre gross oil column in the Namur Sandstone and McKinlay Member and tested oil at a rate of 830bopd from the McKinlay zone. The Company also reported Moruya-1 spudded on 5 May 2013. The primary objective of this well is the Patchawarra Formation sandstones with secondary shale/sand objectives in the Tirrawarra, Roseneath, Epsilon and Murteree Formations.

17:24 TOX Tox Free Solutions Provides Morgan Stanley Emerging Companies Conference Presentation

Tox Free Solutions provided its Morgan Stanley 2013 Emerging Companies Conference presentation, reporting on the company profile; capital structure; corporate strategy; Australian waste market; the acquisition of Wanless; an expanded and more diverse Toxfree; and an operational update. The Company reported organic growth opportunities are being developed as Wanless and Toxfree services align in Queensland and Tasmania; in Queensland, the Surat basin is performing strongly; and in the Gladstone, the Company commenced services at QAL, outlook very positive.

12:47 KRM Kingsrose Mining Announces Board Changes, Provides Project Update

Kingsrose Mining advised that Christopher Start will be stepping down as MD of the company effectively immediately for personal reasons. Finance Director, Tim Spencer will act as interim MD whilst the board considers a permanent arrangement in relation to Mr Start's replacement. The company also reported that activity at the Way Linggo project continues on various development work at Talang Santo. The water pumping station has been completed and development in ore along the 3 Level is underway. The management team based in Jakarta and at Way Linggo are focussed on pushing forward on both operational and regulatory fronts. The various regulatory approvals continue to be processed in parallel, but at this stage the company is not in a position to advise when these processes will be finalised due to the difficulty associated with forecasting timelines in both these circumstances and jurisdiction.

11:32 FDC Federation Centres Announces $602m Co-Ownership Transaction with Challenger

Federation Centres announced that it has entered into conditional agreements with various funds managed by Challenger, for

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the sale of 50% interests in a portfolio of six assets, for an aggregate transaction price of $602m (before selling costs). These assets are owned by the company and certain Retail Direct Property syndicates, with a gross value of $1.2bn. The portfolio of assets consists of the regional shopping centres at Bankstown and Roselands in NSW, and the convenience centres at Toormina and Lennox, in NSW, Sunshine in Vic and Karratha in WA. Consistent with previous strategic alliance transactions, the company will remain as the manager of these centres and will be responsible for managing their redevelopment program.

10:54 SXY Senex Energy Provides May 2013 Monthly Drilling Report

Senex Energy provided its monthly drilling report for May 2013, reporting that the Paning-2 unconventional gas exploration well flows from Toolachee Coal with a contingent resource estimate pending. In addition, gas appraisal drilling is to commence at Hornet-2 following the arrival of Ensign Rig 969; the company's 15% non-operated interest in the Cuisinier oil field has been sold for $20m; and the Material Cooper Basin oil drilling program is to resume following the return of Ensign Rig 48.

09:51 MSB Mesoblast Secures Key Mesenchymal Precursor Cell Patent in Japan

Mesoblast announced that it has been granted a key patent by the Japanese Patent Office. Japanese patent number 5265190 provides the company with exclusive commercial rights in Japan through to September 2025 to all compositions-of-matter and uses of its Mesenchymal Precursor Cell (MPC) technology platform, irrespective of the MPC tissue source, including bone marrow, adipose, placenta, umbilical cord and dental pulp. The granting of the Japanese patent follows the recent extension of compositions-of-matter patents by the US Patent and Trade Mark Office to March 2029, and two key patents from the State Intellectual Property Office of the People's Republic of China that provide commercial rights and protection through to 2025.

09:40 BDR Beadell Resources Announces Successful Commissioning of Iron Ore Concentrate Plant

Beadell Resources announced that the first iron ore concentrate has been produced from its newly commissioned Magnetic Separation plant in Brazil. This concentrate is extracted from the Tucano gold plant tailings as a by-product and will be a significant financial credit to the gold operation. The plant has been constructed on time and within the budget of US$11.7m. Construction was completed on 20 May 2013 with commissioning and generation of first product on 27 May. The commissioning went smoothly and the plant will now be optimised to maximise the yield of +65% Fe concentrate. The plant consists of 3 drum magnets as the primary part of the circuit and an additional 3 cleaning drum magnets followed by a ceramic filter to reduce the moisture of the magnetite product. All magnets are working well and the filter circuit is being optimised to increase output. The commissioning team is in the process of training and handing over the plant to the operational team.

09:25 SYR Syrah Resources Trading Halted, Pending Company Announcement

The securities of Syrah Resources will be placed in trading halt session state, at the request of the company, until the earlier of the commencement of normal trading on Friday, 7 June 2013 or when the announcement is released to the market.

09:05 SAI SAI Global Provides Update on Compliance Next-Gen Platform

SAI Global reported that at the 2013 mid-year results announcement in February, the company undertook to provide an update on progress in developing its next-generation learning platform in the Compliance Services division. In determining the appropriate path to deliver the next-generation platform, the company has assessed its current solutions and technology assets relative to client and market requirements. As a result of this assessment, the company has decided to develop the next-generation compliance learning solution on its existing Compliance 360 platform. The Compliance 360 platform is a leader in governance, risk and compliance (GRC) workflow solutions. This software-as-a-service platform has proven to be robust and scalable, and has achieved excellent client satisfaction.

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08:58 MAH Macmahon Holdings Ceases Operations at CSA Mine

Macmahon Holdings advised that its shaft sinking project at the CSA Mine in NSW was terminated by the client, Cobar Management, on 4 June 2013. The company is currently seeking clarification on the reasons for and consequences of the termination and will advise of the impact on market guidance once details are known. The CSA project was expected to contribute approximately a further $6m of revenue to the company in June 2013, and $80m of revenue in FY14.

09:12 RMS Ramelius Resources Provides Mt Magnet Gold Mine and Projects Update

Ramelius Resources advised that gold production for April and May 2013 at the Mt Magnet gold mine totalled 11,747oz, with milled production reaching a record 6,230oz in May. Head grade for these two months also increased 20% to 1.35g/t Au in April and 1.40g/t Au in May, up from 1.16g/t Au in the March 2013 quarter. Grades are now reconciling well against the Resource model. The company is also progressing a number of initiatives to optimise the project and deliver a reduction of operating costs in response to the current gold price environment. These initiatives will be detailed in the June 2013 quarterly report. The company also reported that the Western Queen project is on schedule, with first ore due in August 2013; and the Coogee project operations are to commence in July 2013.

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Dividends Declared and Payable

ASX Code	Company Name	Ex Dividend Date	Dividend Pay Date	Amount	Franking%
ALQ	ALS	07 Jun, 13	02 Jul, 13	27.00	50.00
GSIQ25	GSI3.0%INDEX 20SEP25	07 Jun, 13	20 Jun, 13	82.69	
GSIQ30	GSI2.5%INDEX 20SEP30	07 Jun, 13	20 Jun, 13	67.24	
ORGHA	FRN 22-DEC-71	07 Jun, 13	24 Jun, 13	182.00	
PTB	PTB Group	07 Jun, 13	28 Jun, 13	5.10	100.00
TAHHB	UNSEC.FRN 22-MAR-37	07 Jun, 13	24 Jun, 13	182.00	
TWR	Tower	07 Jun, 13	01 Jul, 13	4.01	0.00
XQLQK	6.25% LN 14-JUN-19	07 Jun, 13	14 Jun, 13	312.50	
HLNG	11.25% CN 17-JUN-16	11 Jun, 13	25 Jun, 13	283.56	
HLNGA	10.25% CN 25-MAR-18	11 Jun, 13	25 Jun, 13	252.74	
TGA	Thorn Group	11 Jun, 13	18 Jul, 13	6.00	100.00
XCLWN	6.25% LN 15-JUN-14	11 Jun, 13	15 Jun, 13	312.50	
XCLWS	5.50% LN 15-DEC-13	11 Jun, 13	15 Jun, 13	275.00	
XCLWT	4.75% LN 15-JUN-16	11 Jun, 13	15 Jun, 13	237.50	
XCLWP	3.00% LN 20-SEP-25	13 Jun, 13	20 Jun, 13	75.00	
XCLWV	2.50% LN 20-SEP-30	13 Jun, 13	20 Jun, 13	62.50	
XVGHD	4.25 LN 20-DEC-32	13 Jun, 13	20 Jun, 13	2,125.00	
AQHHA	UNSEC.FRN 30-SEP-72	14 Jun, 13	28 Jun, 13	188.23	
CNGHA	FRN 31-MAR-37	14 Jun, 13	28 Jun, 13	158.79	
IBC	Ironbark Capital	14 Jun, 13	28 Jun, 13	2.00	100.00
PRYHA	BOND 28-SEP-15	14 Jun, 13	28 Jun, 13	179.00	
FPH	Fisher & Paykel Hlth	17 Jun, 13	05 Jul, 13	5.62	0.00
KBLGA	10% CN 05AUG16	17 Jun, 13	30 Jun, 13	1.90	
MSTG	10% CN 01-MAR-15	18 Jun, 13	02 Jul, 13	0.00	
LSBHB	7.00% BD SER.SEP2014	19 Jun, 13	03 Jul, 13	740.54	
LSBHF	4.25% BD SER.SEP2014	19 Jun, 13	03 Jul, 13	458.33	
TTSHA	BOND 05-JUL-19	21 Jun, 13	05 Jul, 13	153.91	
FDC	Federation Centres	24 Jun, 13	28 Aug, 13	7.50	0.00
GHC	Generation Healthcare	24 Jun, 13	30 Aug, 13	3.67	0.00
HNG	HGL	24 Jun, 13	12 Jul, 13	2.00	100.00
IMFG	10.25%CN 31DEC14	24 Jun, 13	08 Jul, 13	4.23	
JHX	James Hardie	24 Jun, 13	26 Jul, 13	38.49	0.00
MBLHB	STAPLED PERP. FRN.	24 Jun, 13	15 Jul, 13	118.42	
TCL	Transurban Group	24 Jun, 13	14 Aug, 13	15.50	22.58
AVDG	9.5% CN 04-JAN-15	26 Jun, 13	10 Jul, 13	2.38	
AYUHA	FRN 14-APR-16	01 Jul, 13	15 Jul, 13	163.00	
CBAHA	BOND 24-DEC-15	01 Jul, 13	15 Jul, 13	102.00	
GNC	Graincorp	01 Jul, 13	19 Jul, 13	25.00	100.00
PRG	Programmed Maint.	01 Jul, 13	26 Jul, 13	10.00	100.00
GSBM22	GSB 5.75% 15-JUL-22	03 Jul, 13	15 Jul, 13	287.50	

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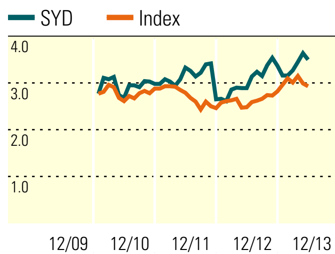
Sydney Airport SYD

Snapshot

Business Risk	Medium
Price Risk	Medium
Moat Rating	Narrow
Fair Value $	3.20
Market Cap $Mil	6,533
Morningstar Style Box	—
Last Price $	3.51
52 Week High/Low $	3.84/2.80
Yield Fcst Yr 1 %	6.4
Shares Issued Mil	1,861
Sector	GICS - Transportation

Price vs. Market



	12/11	12/12	12/13e	12/14e
NPAT ($Mil)	76.6	142.8	168.7	204.2
EPS ¢	4.1	7.7	9.1	11.0
EPS Chg %	-2.8	86.6	18.1	21.1
DPS ¢	21.0	21.0	22.5	23.9
Franked %	0.0	0.0	0.0	0.0
Div Yld %	6.7	7.0	6.4	6.8
P/E x	76.5	39.2	38.7	32.0

Source: Morningstar analyst estimates.

Business Description

Sydney Airport Limited (SYD, formerly MAp Group) owns and operates Sydney Airport, which is the core component of Australia's transport network. Sydney Airport connects Sydney to 99 destinations including 52 international, 21 domestic interstate and 26 regional destinations with 45 serviced airlines.

Analyst Recommendation: **Hold** — 05 Jun 2013

▼**3.51** Last Price

Buy	Accumulate	**Hold**	Reduce	Sell
$	2.24	2.88	3.52	4.32

Investment Rating by Adrian Atkins 16 May 2013

ASX-listed Sydney Airport (SYD) is the majority owner and operator of Sydney Airport under lease until 2097. The airport is Australia´s busiest and currently the only regular passenger transport airport in Sydney. It has strong competitive advantages stemming from limited competition, a good location and economies of scale. Performance is highly dependent on passenger numbers and tied to economic cycles. It is not recommended for highly conservative investors seeking stable distributions due to the aggressive capital structure.

Research Archive

Date	Price $	Recommendation	Event
05 Jun 2013	3.51	Hold	$
Price move through trigger level			
16 May 2013	3.69	Reduce	Research Report
SYD tracking well in 2013			
26 Apr 2013	3.47	Reduce	$
Price move through trigger level			
27 Feb 2013	3.20	Hold	Research Report
SYD posts good 2012, looking more attractive			

$ = Price Move   = Research Report

Financials

	12/10	12/11	12/12	12/13e	12/14e
Sales Revenue ($Mil)	737.8	760.5	816.2	855.0	906.9
EBITDA Margin %	84.8	84.1	85.8	86.5	86.8
EBIT ($Mil)	426.6	443.3	507.3	541.8	584.7
EBIT Margin %	57.8	58.3	62.2	63.4	64.5
Adjusted NPAT ($Mil)	78.7	76.6	142.8	168.7	204.2
Reported NPAT ($Mil)	78.7	76.6	142.8	168.7	204.2
Earnings Per Share ¢	4.2	4.1	7.7	9.1	11.0
Avg no. of Shares ($Mil)	1,861.2	1,861.2	1,861.2	1,861.2	1,861.2
Book Value Per Share ¢	47.6	32.2	19.0	5.5	-7.4
Net Operating Cashflow ($Mil)	371.0	352.8	352.8	369.8	409.0
Capex ($Mil)	-115.8	-145.6	-178.4	-190.8	-190.8
Free Cash Flow ($Mil)	597.2	559.7	588.2	552.1	598.6

Consensus out of 2 analysts

	12A	13E	14E
EPS ¢	10.0	9.0	11.0
DPS ¢	21.0	23.0	24.0
Dividend Yield %	6.0	6.4	6.8

Key Dates

Fiscal Year End	31 Dec	AGM	16 May 2013
Listing Date	02 Apr 2002	DRIP	Suspended

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Auckland International Airport Limited AIA

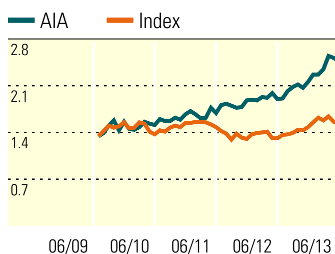
Commerce Commission’s ruling lessens regulatory risk, valuation raised

Analyst Recommendation: **Hold** 05 June 2013

Snapshot

Business Risk	Medium
Price Risk	Medium
Moat Rating	Wide
Fair Value $	2.48
Market Cap $Mil	3,280
Morningstar Style Box	
Last Price $	2.48
52 Week High/Low $	2.65/1.86
Shares Issued Mil	1,323
Sector	GICS - Transportation

Price vs. Market

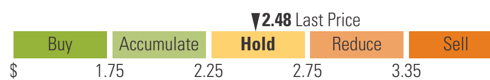


	06/11	06/12	06/13e	06/14e
NPAT ($Mil)	96.4	111.2	119.7	129.0
EPS ¢	7.3	8.4	9.1	9.8
EPS Chg %	7.8	15.4	7.6	7.7
DPS ¢	6.7	7.3	8.8	9.6
Franked %	–	–	–	–
Div Yld %	4.1	3.9	3.5	3.9
P/E x	22.4	22.1	24.3	22.6

Source: Morningstar analyst estimates.

Business Description

Auckland International Airport Limited (AIA) is a New Zealand-based company providing airport facilities and supporting infrastructure in Auckland, New Zealand. AIA’s core operations are aeronautical activities, on airport retail concessions and car parking facilities, standalone investment properties and other charges and rents associated with operating an airport. AIA also holds investments in companies operating in airport and related businesses located in New Zealand and Australia.



Investment Rating

AIA owns and operates the Auckland International Airport, NZ's largest and busiest airport for aircraft and passenger activity. Around 70% of international visitors travel through Auckland Airport, a testament to the airport's dominant position as the gateway to New Zealand. AIA's fortunes are inextricably linked to tourist arrivals in NZ, the longer term outlook for which remains sanguine. The airport also owns 1500hectares of land presenting it with a huge opportunity for commercial and retail property development. Over the longer term, the attitude of regulators, which so far has been favorable, will have a bearing on valuation.

Event

► We are lifting our valuation for Auckland Airport from NZD 2.60 per share to NZD 3.00 per share mainly reflecting a reduction in our weighted average cost of capital (WACC) from 8.5% to 7.5%.

► In our view the regulatory risk for the business has lessened following the Commerce Commission’s favourable assessment of Auckland Airport’s aeronautical charges.

► International passenger movements (excluding transits) were up 1.3% relative to the prior comparable period in the first ten months of fiscal 2013 with New Zealand (resident arrivals) and China being notably strong.

Impact

► Overall 2013 was affected by strong based period comps because of the Rugby World Cup in the previous year but we expect a pick up in passenger volumes in 2014. As a result we are projecting international passenger movements (excluding transits) to rise by 5% in fiscal 2014 assuming stable global economic conditions.

► Overall our NPAT forecast for 2013 and 2014 remains unchanged at NZD 150 million and NZD 161 million respectively.

Recommendation Impact

The stock now appears fairly priced compared to our revised intrinsic value. We amend our triggers to reflect our new fair value.

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Auckland International Airport Limited AIA

Nachi Moghe
Morningstar Analyst

Analyst Note

Auckland Airport: Commerce Commission's ruling lessens regulatory risk, valuation raised

We are lifting our valuation for Auckland Airport from NZD 2.60 per share to NZD 3.00 per share mainly reflecting a reduction in our weighted average cost of capital (WACC) from 8.5% to 7.5%. We think a lower cost of capital is justified given Auckland Airport's defensive earnings characteristics. Our revised fair value implies fiscal 2014 price/adjusted earnings of 24.5 times, enterprise value/adjusted EBITDA of 13.5 times and free cash flow yield of 3%. The stock now appears fairly priced compared to our revised intrinsic value. We continue to believe the firm is well-placed to capitalise on expected strong growth in tourist arrivals from Asia in the long term. We think the firm deserves a wide moat because it is a monopoly operating in a favourable regulatory environment with reasonably strong returns on capital.

In our view the regulatory risk for the business has lessened following the Commerce Commission's favourable assessment of Auckland Airport's aeronautical charges. The commission concluded that the airport's targeted return for the period 2013-2017 of 8% on average is appropriate and consistent with the commission's WACC. The commissions' returns however include leased activities which, while part of the aeronautical asset base, are not included for price setting purposes. Excluding revenues from leased activities raises airport aeronautical returns to approximately 8.5% based on 2.8% compound annual growth rate (CAGR) in international passengers. However we believe this is conservative considering our expectation of a continued strong growth in arrivals from Asia, Latin America and Australia. Our forecast assumes a 4.2% CAGR in international passenger movements from 2013 to 2017. Consequently we anticipate aeronautical returns to be above 8.5% over the next five years.

International passenger movements (excluding transits) were up 1.3% relative to the prior comparable period in the first ten months of fiscal 2013 with New Zealand (resident arrivals) and China being notably strong. Overall 2013 was affected by strong based period comps because of the Rugby World Cup in the previous year but we expect a pick up in passenger volumes in 2014. As a result we are projecting international passenger movements (excluding transits) to rise by 5% in fiscal 2014 assuming stable global economic conditions. We believe that new services/increased frequency will continue to underpin traffic growth with airlines committing nearly 200,000 additional seats to and from Auckland since December 2012. The domestic business continued to perform strongly and is up 8.2% year-to-date as competitive fares on mainline routes seems to have stimulated demand for domestic travel. We forecast 8% growth in domestic passengers in fiscal 2013 but only a modest increase in 2014 due to stronger base period comps. Overall our NPAT forecast for 2013 and 2014 remains unchanged at NZD 150 million and NZD 161 million respectively.

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Auckland International Airport Limited AIA

Strategic initiatives paying dividends

Bulls Points

- Seat capacity from Auckland has increased by approximately 1.3m driven by a plethora of new services announced by different carriers, equating to 16% of international passenger movements. This should propel international passenger growth.
- The outlook for the property business seems promising with a good pipeline of projects on the horizon.
- The company should be able to maintain dividend growth in line with profit growth despite elevated capital expenditure levels..

Bears Points

- Global economic conditions continue to remain challenging which could affect tourist inflows into NZ.
- The NZ market could face a prolonged period of tepid passenger growth given high consumer debt levels.
- The firm´s bottom line is somewhat sensitive to interest rates which could increase considering that they are at an all time low.

Key Valuation Assumptions

Cost of Equity %	10.0
Weighted Avg Cost of Capital %	8.6
Long Run Tax Rate %	28.0
Stage II EBI Growth Rate %	6.5
Stage II Investment Rate %	43.3
Perpetuity Year	30.0

Thesis Last Updated: 26 Sep 2012

Auckland Airport is the largest airport in New Zealand, meaning most visitors must pass through its assets. It handles 7.8m international passengers and around 6m domestic passengers on a yearly basis and has been voted as the 8th best airport in the world and the best in the Australia/Pacific region in a survey conducted by Skytrax. We think the firm deserves a wide moat because it is a monopoly operating in a favorable regulatory environment with reasonably strong returns on capital. Risks to returns are minimal but include a slowdown in tourism, as was evident during the SAARS epidemic several years ago and lately by the global financial crisis. On balance though, Auckland Airport benefits from substantial competitive advantages.

The firm derives its revenues from aeronautical and non aeronautical/commercial operations. The non aeronautical business consisting of retail, car park, property development and utilities constitutes 55% of revenues. Retail is the biggest part of the non-aeronautical business with revenues of NZD 121 million in fiscal 2012. The business is highly leveraged to growth in international passenger traffic which can exhibit volatility in the short to medium term. The property business is half the size of the retail business but has been a steady performer historically. Auckland Airport generally scouts for blue chip tenants with agreements typically spanning ten years and develops the land once a tenant is secured. Revenue growth is driven by new developments and rent reviews. On the aeronautical side of the business landing fees and development charges account for the vast majority of revenues. Landing fees are charged on the weight of each aircraft and reviewed every five years in consultation with the airlines. Historically they have increased at or above inflation.

The firm enjoys one of the highest EBITDA margins compared to airports globally reflecting a light handed regulatory environment and a greater mix of international passengers versus domestic passengers. The aeronautical business is not regulated and can set prices to cover its cost of capital. In comparison the vast majority of airports around the world have a regulated structure. This means that in most instances the commercial arm of the airport, namely retail, tends to subsidize the aeronautical business. Furthermore international passengers make up 57% of the overall passengers at the Auckland Airport compared to around 32% in Sydney and approximately 21% in Melbourne. On a per passenger basis the amount spent by international passengers far outstrips domestic passengers resulting in significantly higher margins for the airport. The company´s EBITDA margins have historically hovered around the 75-77% mark and we expect this to continue.

We see good opportunities for Auckland Airport to grow its commercial property portfolio by taking advantage of its massive land bank. Pent up demand from multinational firms involved in freight, logistics and transportation businesses should spur developmental activity and in turn drive rental growth. On the retail front, a significant increase in the number of high spending Asian tourists and their desire to visit duty free retail stores is likely to provide a significant lift to retail revenues overtime. The route development strategy embarked upon by management last year has already boosted seat capacity into and out of Auckland by more than 1m passengers. This bodes well for both aeronautical and retail income going forward. Management sees immense opportunities from Asia, particularly China and India, and is wooing airlines to commence new services to Auckland.

We think the medium-term growth outlook for the company is sanguine. We are anticipating earnings to grow by 8% in fiscal 2013 underpinned by reasonably strong growth in the non-aeronautical businesses and continued growth in associates. We think passenger growth will likely be muted following the Rugby World Cup last year. A lot will

Valuation Last Updated: 04 Jun 2013

We are lifting our fair value estimate for Auckland Airport to NZD 3.00 per share from NZD 2.60 per share. This implies forward price/earnings of 24.5x, enterprise value/EBITDA of 13.5x and free cash flow yield of 3%. Our intrinsic value is also consistent with the firm's historical enterprise value/EBITDA multiple of between 13x and 14x. Our DCF valuation assumes a weighted average cost of capital (WACC) of 7.5%.

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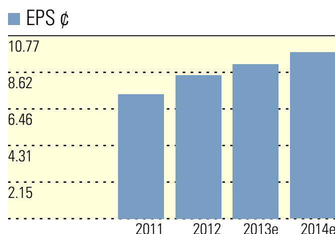
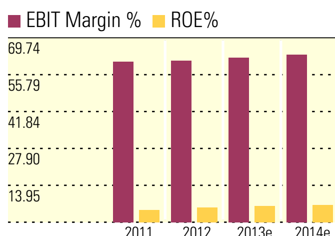
Auckland International Airport Limited AIA

EPS



EBIT Margin vs. ROE



Risk Last Updated: 29 Feb 2012

AIA is vulnerable to a slowdown in international passenger traffic emanating from factors that could destabilize tourist travel such as SAARS, terrorism (9/11) etc. In addition a strong NZD would drive tourists away from NZ to cheaper destinations. An economic recession or a slowdown in NZ would affect outbound travel. Higher fuel prices might be passed on to passengers in the form of a fuel surcharge which might dampen air travel as well. Domestic retail and car park income will be affected if people cut back on domestic travel. Property revenue is linked to rental demand which in turn could be affected by an economic recession. Persistent complaints from airlines like Air New Zealand (the company´s biggest customer) regarding excessive landing charges could prompt the government to regulate the aeronautical business. This would reduce the appeal of that business from a returns perspective. However the possibility of this scenario playing out is remote in our view.

Financial Overview

Growth

Our revenue projections have increased to 7.2% on average over the next 10 years from 6.5%. We foresee higher growth for the non-aeronautical businesses than originally envisaged, underpinned by retail and property revenues. We think international passenger growth through this period will increase by approximately 5% to 5.5% driven by growth in Asian tourists, especially from China, which would positively impact the retail business.

Profitability

Underlying EBITDA and operating margins have historically been around 75% to 77% and 62% to 65% respectively. We assume operating margins of around 62.3% on average over the 10 years. We think the firm will be able to push through aeronautical price increases in line with CPI and expect retail and property margins to remain steady for the foreseeable future.

Financial Health

Auckland Airport is in reasonable financial health. Total debt/capital is 31%and underlying EBITDA covers interest 4.8 times. The company will be embarking on a massive capital expenditure program aimed at constructing another domestic terminal adjacent to the existing terminal. This project will cost NZD 250 million and will take approximately five years to build. Another NZD 15 million to NZD 20 million will be spent in freeing up capacity at the current terminal.

Strategy Analysis Last Updated: 28 Oct 2011

The strategic growth priority for airport is to grow its aeronautical and retail income through meaningful passenger growth over the longer term. Management is actively engaging with aircrafts and is looking at ways and means to increase passenger capacity out of Auckland in a significant manner. It has been quite successful of late in enticing major Trans-Tasman and some long haul carriers to Auckland. We estimate capacity out of Auckland will rise by approximately 1.3m as a result. This is likely to spur international passenger growth over the next 2-3 years. Queenstown and NQA have delivered good results and are ahead of managements target in terms of passenger numbers. The goal is to extract meaningful returns out of those acquisitions through route development and other strategic initiatives. We don´t see the company making any further acquisitions for the foreseeable future.

In the medium term management is intent on giving a thrust to its property business and has planned major property related capital expenditure over the next few years to capitalize on its massive land bank. Management sees immense opportunities to lift revenues in this business and has set itself a target of doubling revenues by FY14.

On the aeronautical front, the company is thinking about investing in the domestic terminal to increase capacity and alleviate traffic congestion. It proposes to invest $100-150m in phase 1 to build a new integrated domestic terminal and taxiway alongside the international terminal. This will take 3 years to build. In the interim the firm is considering making minor investments of $15-20m to tide over near term capacity issues. AIA intends to recover this cost by passing it on to passengers. Phase 2 of the plan will be implemented after 3 years and involves the second part of a new integrated terminal alongside the international terminal, a northern runway and taxiway system. The firm then proposes to close the existing domestic terminal. While the cost for the second phase wasn´t revealed we think it could be in

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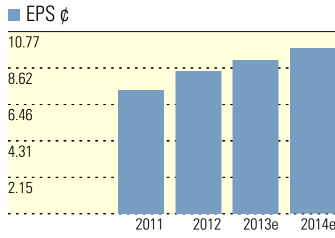
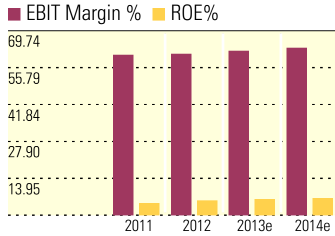
EPS



EBIT Margin vs. ROE



the order of $100-150m as well.

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General Financials

Financials

	Historical			Forecast		
Per Share	06/10	06/11	06/12	06/13	06/14	06/15
Sales ¢	23.5	24.2	25.9	26.8	28.5	30.6
Adjusted Earnings ¢	6.8	7.3	8.4	9.1	9.8	10.7
Free Cash Flow ¢	-2.3	7.6	10.6	9.9	9.6	12.4
Net Tangible Assets ¢	123.7	148.2	150.2	150.5	150.7	151.0
Book Value ¢	123.7	149.9	150.2	150.5	150.7	151.0
Dividends ¢	6.7	6.7	7.3	8.8	9.6	10.4
Franking %	–	–	–	–	–	–
Growth %	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	-1.7	9.5	7.3	3.5	6.4	7.3
EBITDA	33.0	-7.2	22.6	3.7	8.0	7.1
Pre-Tax Profit	87.2	-12.6	38.9	8.2	7.8	8.9
EPS	-1.0	7.8	15.4	7.6	7.7	8.9
DPS	34.4	1.3	8.4	20.4	9.1	8.3
Free Cash Flow per share	-131.3	–	39.9	-6.3	-2.9	29.2
Profit & Loss ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	290.5	318.2	341.5	353.5	376.0	403.6
EBITDA	228.8	212.4	260.4	270.1	291.8	312.4
Depreciation	44.8	45.5	51.6	50.2	53.4	57.3
Amortisation	–	–	–	0.0	0.0	0.0
EBIT	184.0	166.9	208.8	219.9	238.4	255.0
Interest Expense	57.6	56.3	55.2	53.6	59.2	60.0
Interest Income	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	126.5	110.6	153.6	166.3	179.2	195.0
Tax	102.8	30.3	42.4	46.6	50.2	54.6
Reported NPAT	23.7	80.3	111.2	119.7	129.0	140.4
Non-Recurring Items After Tax	-60.3	-16.1	0.0	0.0	0.0	0.0
Adjusted NPAT	**84.0**	**96.4**	**111.2**	**119.7**	**129.0**	**140.4**
Free Cash Flow	-28.0	99.5	139.3	130.5	126.7	163.7
Effective Tax Rate %	81.3	27.4	27.6	28.0	28.0	28.0
Cash Flow ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Receipts from Customers	–	–	–	353.0	375.0	402.4
Payments to Suppliers	–	–	–	-81.0	-83.2	-87.3
Other Operating Cashflow	–	–	–	-100.2	-109.4	-114.6
Net Operating Cashflow	**0.0**	**0.0**	**0.0**	**171.9**	**182.5**	**200.5**
Capex	-42.4	-54.7	-67.7	-80.0	-98.4	-80.0
Acquisitions & Investments	-136.8	-25.2	0.0	0.0	0.0	0.0
Sales of Investments & Subsidiaries	0.0	7.2	-0.8	0.0	0.0	0.0
Other Investing Cashflow	0.0	6.9	12.3	0.0	0.0	0.0
Net Investing Cashflow	**-179.2**	**-65.8**	**-56.3**	**-80.0**	**-98.4**	**-80.0**
Proceeds from Issues	111.2	20.1	0.1	0.0	0.0	0.0
Proceeds from Borrowings	11.2	2.6	-7.6	32.0	40.0	36.0
Dividends Paid	-82.4	-88.8	-96.3	-115.9	-126.4	-137.0
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0	0.0
Net Financing Cashflow	**40.0**	**-66.1**	**-103.8**	**-83.9**	**-86.4**	**-101.0**
Net Increase Cash	-139.2	-131.9	-160.0	8.0	-2.4	19.5
Cash at Beginning	168.0	168.8	194.3	34.3	42.2	39.9
Exchange Rate Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Cash at End	28.8	36.9	34.3	42.2	39.9	59.4

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General Financials

Financials

Balance Sheet ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
	Historical			Forecast		
Cash & Equivalents	28.8	36.9	34.3	42.2	39.9	59.4
Accounts Receivable	12.8	16.4	14.1	14.6	15.6	16.7
Inventory	–	–	–	0.0	0.0	0.0
Other Short-Term Operating Assets	13.6	9.2	7.0	7.0	7.0	7.0
Total Current Assets	55.2	62.5	55.4	63.9	62.5	83.1
Property Plant & Equipment, Net	2,026.3	2,428.3	2,417.5	2,447.3	2,492.3	2,515.0
Goodwill, Net	–	–	–	0.0	0.0	0.0
Other Intangibles	–	–	–	0.0	0.0	0.0
Other Long-Term Operating Assets	528.0	600.6	627.5	627.5	627.5	627.5
Deferred Tax Assets	–	–	–	0.0	0.0	0.0
Long-Term Non-Operating Assets	–	–	–	0.0	0.0	0.0
Total Assets	**2,609.5**	**3,091.5**	**3,100.4**	**3,138.7**	**3,182.3**	**3,225.6**
Accounts Payable	36.8	42.2	43.6	46.0	47.0	50.9
Short-Term Debt	165.4	345.6	145.4	145.4	145.4	145.4
Other Short-Term Operating Liabilities	9.6	11.4	6.4	6.4	6.4	6.4
Total Current Liabilities	211.8	399.3	195.4	197.9	198.9	202.7
Total Long-Term Debt	707.8	522.1	741.5	773.5	813.5	849.5
Long-Term Operating Liabilities	21.4	54.3	25.9	25.9	25.9	25.9
Deferred Tax Liabilities	137.6	164.1	159.4	159.4	159.4	159.4
Long-Term Non-Operating Liabilities	–	–	–	0.0	0.0	0.0
Total Liabilities	**1,078.6**	**1,139.8**	**1,122.2**	**1,156.7**	**1,197.7**	**1,237.5**
Preferred Stock	–	–	–	0.0	0.0	0.0
Minority Interest	–	–	–	0.0	0.0	0.0
Total Equity	**1,530.6**	**1,974.0**	**1,978.2**	**1,982.0**	**1,984.6**	**1,988.1**

Profitability %	06/10	06/11	06/12	06/13	06/14	06/15
EBITDA Margin	78.8	66.8	76.2	76.4	77.6	77.4
EBIT Margin	60.8	60.7	61.1	62.2	63.4	63.2
Net Profit Margin	8.2	25.2	32.6	33.9	34.3	34.8
Free Cash Flow Margin	-9.6	31.3	40.8	36.9	33.7	40.6
Return on Equity	1.6	4.6	5.6	6.0	6.5	7.1
Return on Assets	0.9	2.8	3.6	3.8	4.1	4.4
Return on Invested Capital(w/Goodwill)	4.0	4.0	5.0	5.5	5.8	6.2
ROIC (w/Goodwill) Less WACC	-4.6	-4.6	-3.6	-3.2	-2.8	-2.4

Leverage & Liquidity	06/10	06/11	06/12	06/13	06/14	06/15
Net Debt to Capital %	35.6	29.6	30.1	30.7	31.6	32.0
Net Debt/(Net Debt + Equity) %	35.6	29.6	30.1	30.7	31.7	32.0
Net Debt/Equity %	55.2	42.1	43.1	44.2	46.3	47.1
Net Debt/EBITDA x	3.7	3.9	3.3	3.2	3.2	3.0
EBIT/Net Interest Expense x	3.2	3.0	3.8	4.1	4.0	4.3
Current Ratio (Current Assets/Current Liabilities) x	0.3	0.2	0.3	0.3	0.3	0.4
Dividend Payout Ratio %	98.0	92.1	86.6	96.8	98.0	97.5
Net Cash Per Share ¢	-68.2	-63.1	-64.7	-66.6	-69.8	-71.0

Valuation	06/10	06/11	06/12	06/13	06/14	06/15
Price/Earnings x	21.8	22.4	22.1	24.3	22.6	20.7
PEG Ratio x	-20.8	2.9	1.4	3.6	3.3	2.6
EV/EBITDA x	11.7	14.1	12.7	15.3	14.1	13.2
EV/EBIT x	15.2	15.5	15.9	18.7	17.3	16.1
Free Cash Flow Yield %	-1.5	4.6	5.7	4.0	3.9	5.0
Dividend Yield %	4.5	4.1	3.9	3.5	3.9	4.2
Price/(OCF per share) x	–	–	–	19.0	17.9	16.3
Price/(FCF per share) x	-65.6	21.7	17.7	25.0	25.8	20.0
Price/Sales x	6.3	6.8	7.2	9.2	8.7	8.1
Price/NTA x	1.2	1.1	1.2	1.6	1.6	1.6
Price/Book x	1.2	1.1	1.2	1.6	1.6	1.6

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Auckland International Airport Limited AIA-NZ

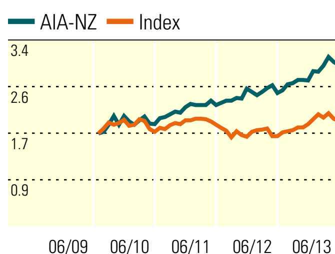
Commerce Commision's ruling lessens regulatory risk, valuation raised

Analyst Recommendation: **Hold** 05 June 2013

Snapshot

Business Risk	Medium
Price Risk	Medium
Moat Rating	Wide
Fair Value $	3.00
Market Cap $Mil	3,902
Morningstar Style Box	–
Last Price $	2.95
52 Week High/Low $	3.18/2.38
Shares Issued Mil	1,323
Sector	GICS - Transportation

Price vs. Market

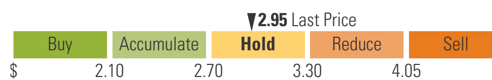


	06/11	06/12	06/13e	06/14e
NPAT ($Mil)	120.5	139.0	149.6	161.2
EPS ¢	9.2	10.6	11.4	12.2
EPS Chg %	7.8	15.4	7.6	7.7
DPS ¢	8.4	9.1	11.0	12.0
Franked %	–	–	–	–
Div Yld %	3.9	3.8	3.7	4.1
P/E x	23.4	22.7	26.0	24.1

Source: Morningstar analyst estimates.

Business Description

Auckland International Airport Limited (AIA-NZ) is a New Zealand-based company providing airport facilities and supporting infrastructure in Auckland, New Zealand. AIA's core operations are aeronautical activities, on airport retail concessions and car parking facilities, standalone investment properties and other charges and rents associated with operating an airport. AIA also holds investments in companies operating in airport and related businesses located in New Zealand and Australia.



Investment Rating

AIA owns and operates the Auckland International Airport, NZ's largest and busiest airport for aircraft and passenger activity. Around 70% of international visitors travel through Auckland Airport, a testament to the airport's dominant position as the gateway to New Zealand. AIA's fortunes are inextricably linked to tourist arrivals in NZ, the longer term outlook for which remains sanguine. The airport also owns 1500 hectares of land presenting it with a huge opportunity for commercial and retail property development. Over the longer term, the attitude of regulators, which so far has been favorable, will have a bearing on valuation.

Event

► We are lifting our valuation for Auckland Airport from NZD 2.60 per share to NZD 3.00 per share mainly reflecting a reduction in our weighted average cost of capital (WACC) from 8.5% to 7.5%.

► In our view the regulatory risk for the business has lessened following the Commerce Commission's favourable assessment of Auckland Airport's aeronautical charges.

► International passenger movements (excluding transits) were up 1.3% relative to the prior comparable period in the first ten months of fiscal 2013 with New Zealand (resident arrivals) and China being notably strong.

Impact

► Overall 2013 was affected by strong based period comps because of the Rugby World Cup in the previous year but we expect a pick up in passenger volumes in 2014. As a result we are projecting international passenger movements (excluding transits) to rise by 5% in fiscal 2014 assuming stable global economic conditions.

► Overall our NPAT forecast for 2013 and 2014 remains unchanged at NZD 150 million and NZD 161 million respectively.

Recommendation Impact

The stock now appears fairly priced compared to our revised intrinsic value. We amend our triggers to reflect our new fair value.

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Auckland International Airport Limited AIA-NZ

Nachi Moghe
Morningstar Analyst

Analyst Note

Auckland Airport: Commerce Commission's ruling lessens regulatory risk, valuation raised

We are lifting our valuation for Auckland Airport from NZD 2.60 per share to NZD 3.00 per share mainly reflecting a reduction in our weighted average cost of capital (WACC) from 8.5% to 7.5%. We think a lower cost of capital is justified given Auckland Airport's defensive earnings characteristics. Our revised fair value implies fiscal 2014 price/adjusted earnings of 24.5 times, enterprise value/adjusted EBITDA of 13.5 times and free cash flow yield of 3%. The stock now appears fairly priced compared to our revised intrinsic value. We continue to believe the firm is well-placed to capitalise on expected strong growth in tourist arrivals from Asia in the long term. We think the firm deserves a wide moat because it is a monopoly operating in a favourable regulatory environment with reasonably strong returns on capital.

In our view the regulatory risk for the business has lessened following the Commerce Commission's favourable assessment of Auckland Airport's aeronautical charges. The commission concluded that the airport's targeted return for the period 2013-2017 of 8% on average is appropriate and consistent with the commission's WACC. The commissions' returns however include leased activities which, while part of the aeronautical asset base, are not included for price setting purposes. Excluding revenues from leased activities raises airport aeronautical returns to approximately 8.5% based on 2.8% compound annual growth rate (CAGR) in international passengers. However we believe this is conservative considering our expectation of a continued strong growth in arrivals from Asia, Latin America and Australia. Our forecast assumes a 4.2% CAGR in international passenger movements from 2013 to 2017. Consequently we anticipate aeronautical returns to be above 8.5% over the next five years.

International passenger movements (excluding transits) were up 1.3% relative to the prior comparable period in the first ten months of fiscal 2013 with New Zealand (resident arrivals) and China being notably strong. Overall 2013 was affected by strong based period comps because of the Rugby World Cup in the previous year but we expect a pick up in passenger volumes in 2014. As a result we are projecting international passenger movements (excluding transits) to rise by 5% in fiscal 2014 assuming stable global economic conditions. We believe that new services/increased frequency will continue to underpin traffic growth with airlines committing nearly 200,000 additional seats to and from Auckland since December 2012. The domestic business continued to perform strongly and is up 8.2% year-to-date as competitive fares on mainline routes seems to have stimulated demand for domestic travel. We forecast 8% growth in domestic passengers in fiscal 2013 but only a modest increase in 2014 due to stronger base period comps. Overall our NPAT forecast for 2013 and 2014 remains unchanged at NZD 150 million and NZD 161 million respectively.

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Auckland International Airport Limited AIA-NZ

Bulls Points

- Seat capacity from Auckland has increased by approximately 1.3m driven by a plethora of new services announced by different carriers, equating to 16% of international passenger movements. This should propel international passenger growth.
- The outlook for the property business seems promising with a good pipeline of projects on the horizon.
- The company should be able to maintain dividend growth in line with profit growth despite elevated capital expenditure levels.

Bears Points

- Global economic conditions continue to remain challenging which could affect tourist inflows into NZ.
- The NZ market could face a prolonged period of tepid passenger growth given high consumer debt levels.
- The firm´s bottom line is somewhat sensitive to interest rates which could increase considering that they are at an all time low.

Key Valuation Assumptions

Cost of Equity %	10.0
Weighted Avg Cost of Capital %	8.6
Long Run Tax Rate %	28.0
Stage II EBI Growth Rate %	6.5
Stage II Investment Rate %	43.3
Perpetuity Year	30.0

Strategic initiatives paying dividends

Thesis Last Updated: 26 Sep 2012

Auckland Airport is the largest airport in New Zealand, meaning most visitors must pass through its assets. It handles 7.8m international passengers and around 6m domestic passengers on a yearly basis and has been voted as the 8th best airport in the world and the best in the Australia/Pacific region in a survey conducted by Skytrax. We think the firm deserves a wide moat because it is a monopoly operating in a favorable regulatory environment with reasonably strong returns on capital. Risks to returns are minimal but include a slowdown in tourism, as was evident during the SAARS epidemic several years ago and lately by the global financial crisis. On balance though, Auckland Airport benefits from substantial competitive advantages.

The firm derives its revenues from aeronautical and non aeronautical/commercial operations. The non aeronautical business consisting of retail, car park, property development and utilities constitutes 55% of revenues. Retail is the biggest part of the non-aeronautical business with revenues of NZD 121 million in fiscal 2012. The business is highly leveraged to growth in international passenger traffic which can exhibit volatility in the short to medium term. The property business is half the size of the retail business but has been a steady performer historically. Auckland Airport generally scouts for blue chip tenants with agreements typically spanning ten years and develops the land once a tenant is secured. Revenue growth is driven by new developments and rent reviews. On the aeronautical side of the business landing fees and development charges account for the vast majority of revenues. Landing fees are charged on the weight of each aircraft and reviewed every five years in consultation with the airlines. Historically they have increased at or above inflation.

The firm enjoys one of the highest EBITDA margins compared to airports globally reflecting a light handed regulatory environment and a greater mix of international passengers versus domestic passengers. The aeronautical business is not regulated and can set prices to cover its cost of capital. In comparison the vast majority of airports around the world have a regulated structure. This means that in most instances the commercial arm of the airport, namely retail, tends to subsidize the aeronautical business. Furthermore international passengers make up 57% of the overall passengers at the Auckland Airport compared to around 32% in Sydney and approximately 21% in Melbourne. On a per passenger basis the amount spent by international passengers far outstrips domestic passengers resulting in significantly higher margins for the airport. The company´s EBITDA margins have historically hovered around the 75-77% mark and we expect this to continue.

We see good opportunities for Auckland Airport to grow its commercial property portfolio by taking advantage of its massive land bank. Pent up demand from multinational firms involved in freight, logistics and transportation businesses should spur developmental activity and in turn drive rental growth. On the retail front, a significant increase in the number of high spending Asian tourists and their desire to visit duty free retail stores is likely to provide a significant lift to retail revenues overtime. The route development strategy embarked upon by management last year has already boosted seat capacity into and out of Auckland by more than 1m passengers. This bodes well for both aeronautical and retail income going forward. Management sees immense opportunities from Asia, particularly China and India, and is wooing airlines to commence new services to Auckland.

We think the medium-term growth outlook for the company is sanguine. We are anticipating earnings to grow by 8% in fiscal 2013 underpinned by reasonably strong growth in the non-aeronautical businesses and continued growth in associates. We think passenger growth will likely be muted following the Rugby World Cup last year. A lot will

Valuation Last Updated: 04 Jun 2013

We are lifting our fair value estimate for Auckland Airport to NZD 3.00 per share from NZD 2.60 per share. This implies forward price/earnings of 24.5x, enterprise value/EBITDA of 13.5x and free cash flow yield of 3%. Our intrinsic value is also consistent with the firm's historical enterprise value/EBITDA multiple of between 13x and 14x. Our DCF valuation assumes a weighted average cost of capital (WACC) of 7.5%.

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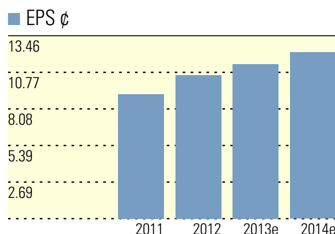
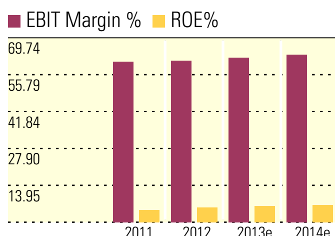
EPS



EBIT Margin vs. ROE



Risk Last Updated: 29 Feb 2012

AIA is vulnerable to a slowdown in international passenger traffic emanating from factors that could destabilize tourist travel such as SAARS, terrorism (9/11) etc. In addition a strong NZD would drive tourists away from NZ to cheaper destinations. An economic recession or a slowdown in NZ would affect outbound travel. Higher fuel prices might be passed on to passengers in the form of a fuel surcharge which might dampen air travel as well. Domestic retail and car park income will be affected if people cut back on domestic travel. Property revenue is linked to rental demand which in turn could be affected by an economic recession. Persistent complaints from airlines like Air New Zealand (the company´s biggest customer) regarding excessive landing charges could prompt the government to regulate the aeronautical business. This would reduce the appeal of that business from a returns perspective. However the possibility of this scenario playing out is remote in our view.

Financial Overview

Growth

Our revenue projections have increased to 7.2% on average over the next 10 years from 6.5%. We foresee higher growth for the non-aeronautical businesses than originally envisaged, underpinned by retail and property revenues. We think international passenger growth through this period will increase by approximately 5% to 5.5% driven by growth in Asian tourists, especially from China, which would positively impact the retail business.

Profitability

Underlying EBITDA and operating margins have historically been around 75% to 77% and 62% to 65% respectively. We assume operating margins of around 62.3% on average over the 10 years. We think the firm will be able to push through aeronautical price increases in line with CPI and expect retail and property margins to remain steady for the foreseeable future.

Financial Health

Auckland Airport is in reasonable financial health. Total debt/capital is 31%and underlying EBITDA covers interest 4.8 times. The company will be embarking on a massive capital expenditure program aimed at constructing another domestic terminal adjacent to the existing terminal. This project will cost NZD 250 million and will take approximately five years to build. Another NZD 15 million to NZD 20 million will be spent in freeing up capacity at the current terminal.

Strategy Analysis Last Updated: 28 Oct 2011

The strategic growth priority for airport is to grow its aeronautical and retail income through meaningful passenger growth over the longer term. Management is actively engaging with aircrafts and is looking at ways and means to increase passenger capacity out of Auckland in a significant manner. It has been quite successful of late in enticing major Trans-Tasman and some long haul carriers to Auckland. We estimate capacity out of Auckland will rise by approximately 1.3m as a result. This is likely to spur international passenger growth over the next 2-3 years. Queenstown and NQA have delivered good results and are ahead of managements target in terms of passenger numbers. The goal is to extract meaningful returns out of those acquisitions through route development and other strategic initiatives. We don´t see the company making any further acquisitions for the foreseeable future.

In the medium term management is intent on giving a thrust to its property business and has planned major property related capital expenditure over the next few years to capitalize on its massive land bank. Management sees immense opportunities to lift revenues in this business and has set itself a target of doubling revenues by FY14.

On the aeronautical front, the company is thinking about investing in the domestic terminal to increase capacity and alleviate traffic congestion. It proposes to invest $100-150m in phase 1 to build a new integrated domestic terminal and taxiway alongside the international terminal. This will take 3 years to build. In the interim the firm is considering making minor investments of $15-20m to tide over near term capacity issues. AIA intends to recover this cost by passing it on to passengers. Phase 2 of the plan will be implemented after 3 years and involves the second part of a new integrated terminal alongside the international terminal, a northern runway and taxiway system. The firm then proposes to close the existing domestic terminal. While the cost for the second phase wasn´t revealed we think it could be in

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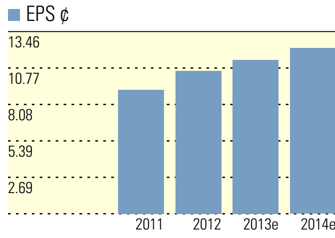
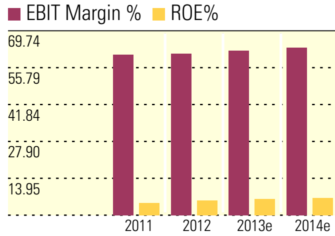
EPS



EBIT Margin vs. ROE



the order of $100-150m as well.

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General Financials

Financials

Per Share	06/10	06/11	06/12	06/13	06/14	06/15
	Historical			Forecast		
Sales ¢	29.3	30.2	32.4	33.6	35.7	38.3
Adjusted Earnings ¢	8.5	9.2	10.6	11.4	12.2	13.3
Free Cash Flow ¢	-2.8	9.4	13.2	12.4	12.0	15.5
Net Tangible Assets ¢	154.7	185.2	187.8	188.1	188.4	188.7
Book Value ¢	154.6	187.3	187.8	188.1	188.4	188.7
Dividends ¢	8.3	8.4	9.1	11.0	12.0	13.0
Franking %	–	–	–	–	–	–

Growth %	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	-1.7	9.5	7.3	3.5	6.4	7.3
EBITDA	33.0	-7.2	22.6	3.7	8.0	7.1
Pre-Tax Profit	87.2	-12.6	38.9	8.2	7.8	8.9
EPS	-1.0	7.8	15.4	7.6	7.7	8.9
DPS	34.4	1.3	8.4	20.4	9.1	8.3
Free Cash Flow per share	-131.3	–	39.9	-6.3	-2.9	29.2

Profit & Loss ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	363.1	397.7	426.8	441.9	470.0	504.4
EBITDA	286.0	265.5	325.5	337.6	364.7	390.4
Depreciation	56.0	56.8	64.5	62.7	66.7	71.6
Amortisation	–	–	–	0.0	0.0	0.0
EBIT	230.0	208.6	261.0	274.8	298.0	318.8
Interest Expense	71.9	70.4	69.0	67.0	74.0	75.0
Interest Income	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	158.1	138.2	192.0	207.8	224.0	243.8
Tax	128.5	37.9	53.0	58.2	62.7	68.3
Reported NPAT	29.6	100.3	139.0	149.6	161.2	175.5
Non-Recurring Items After Tax	-75.4	-20.1	0.0	0.0	0.0	0.0
Adjusted NPAT	**105.0**	**120.5**	**139.0**	**149.6**	**161.2**	**175.5**
Free Cash Flow	-34.9	124.4	174.1	163.1	158.4	204.6
Effective Tax Rate %	81.3	27.4	27.6	28.0	28.0	28.0

Cash Flow ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Receipts from Customers	–	–	–	441.2	468.8	503.0
Payments to Suppliers	–	–	–	-101.2	-104.0	-109.2
Other Operating Cashflow	–	–	–	-125.2	-136.7	-143.3
Net Operating Cashflow	**0.0**	**0.0**	**0.0**	**214.8**	**228.1**	**250.6**
Capex	-53.0	-68.4	-84.6	-100.0	-123.0	-100.0
Acquisitions & Investments	-171.0	-31.5	0.0	0.0	0.0	0.0
Sales of Investments & Subsidiaries	0.0	9.0	-1.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	8.7	15.3	0.0	0.0	0.0
Net Investing Cashflow	**-224.0**	**-82.3**	**-70.3**	**-100.0**	**-123.0**	**-100.0**
Proceeds from Issues	139.0	25.1	0.2	0.0	0.0	0.0
Proceeds from Borrowings	14.0	3.3	-9.5	40.0	50.0	45.0
Dividends Paid	-103.0	-111.0	-120.3	-144.9	-158.0	-171.2
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0	0.0
Net Financing Cashflow	**50.0**	**-82.6**	**-129.7**	**-104.9**	**-108.0**	**-126.2**
Net Increase Cash	-174.0	-164.8	-200.0	10.0	-2.9	24.4
Cash at Beginning	210.0	211.0	242.9	42.8	52.8	49.9
Exchange Rate Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Cash at End	36.0	46.1	42.8	52.8	49.9	74.2

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General Financials

Financials

Balance Sheet ($Mil)	Historical 06/10	06/11	06/12	Forecast 06/13	06/14	06/15
Cash & Equivalents	36.0	46.1	42.8	52.8	49.9	74.2
Accounts Receivable	16.0	20.5	17.7	18.3	19.4	20.9
Inventory	–	–	–	0.0	0.0	0.0
Other Short-Term Operating Assets	17.0	11.5	8.8	8.8	8.8	8.8
Total Current Assets	69.0	78.2	69.3	79.8	78.1	103.8
Property Plant & Equipment, Net	2,532.8	3,035.4	3,021.9	3,059.1	3,115.4	3,143.8
Goodwill, Net	–	–	–	0.0	0.0	0.0
Other Intangibles	–	–	–	0.0	0.0	0.0
Other Long-Term Operating Assets	660.0	750.7	784.4	784.4	784.4	784.4
Deferred Tax Assets	–	–	–	0.0	0.0	0.0
Long-Term Non-Operating Assets	–	–	–	0.0	0.0	0.0
Total Assets	**3,261.8**	**3,864.3**	**3,875.5**	**3,923.4**	**3,977.9**	**4,032.0**
Accounts Payable	46.0	52.8	54.4	57.5	58.8	63.6
Short-Term Debt	206.7	432.0	181.8	181.8	181.8	181.8
Other Short-Term Operating Liabilities	12.0	14.3	8.0	8.0	8.0	8.0
Total Current Liabilities	264.7	499.1	244.3	247.3	248.6	253.4
Total Long-Term Debt	884.8	652.6	926.9	966.9	1,016.9	1,061.9
Long-Term Operating Liabilities	26.8	67.9	32.3	32.3	32.3	32.3
Deferred Tax Liabilities	172.0	205.1	199.2	199.2	199.2	199.2
Long-Term Non-Operating Liabilities	–	–	–	0.0	0.0	0.0
Total Liabilities	**1,348.3**	**1,424.7**	**1,402.8**	**1,445.8**	**1,497.1**	**1,546.9**
Preferred Stock	–	–	–	0.0	0.0	0.0
Minority Interest	–	–	–	0.0	0.0	0.0
Total Equity	**1,913.3**	**2,467.5**	**2,472.8**	**2,477.5**	**2,480.8**	**2,485.1**

Profitability %	06/10	06/11	06/12	06/13	06/14	06/15
EBITDA Margin	78.8	66.8	76.2	76.4	77.6	77.4
EBIT Margin	60.8	60.7	61.1	62.2	63.4	63.2
Net Profit Margin	8.2	25.2	32.6	33.9	34.3	34.8
Free Cash Flow Margin	-9.6	31.3	40.8	36.9	33.7	40.6
Return on Equity	1.6	4.6	5.6	6.0	6.5	7.1
Return on Assets	0.9	2.8	3.6	3.8	4.1	4.4
Return on Invested Capital(w/Goodwill)	4.0	4.0	5.0	5.5	5.8	6.2
ROIC (w/Goodwill) Less WACC	-4.6	-4.6	-3.6	-3.2	-2.8	-2.4

Leverage & Liquidity	06/10	06/11	06/12	06/13	06/14	06/15
Net Debt to Capital %	35.6	29.6	30.1	30.7	31.6	32.0
Net Debt/(Net Debt + Equity) %	35.6	29.6	30.1	30.7	31.7	32.0
Net Debt/Equity %	55.2	42.1	43.1	44.2	46.3	47.1
Net Debt/EBITDA x	3.7	3.9	3.3	3.2	3.2	3.0
EBIT/Net Interest Expense x	3.2	3.0	3.8	4.1	4.0	4.3
Current Ratio (Current Assets/Current Liabilities) x	0.3	0.2	0.3	0.3	0.3	0.4
Dividend Payout Ratio %	98.0	92.1	86.6	96.8	98.0	97.5
Net Cash Per Share ¢	-85.3	-78.8	-80.9	-83.2	-87.2	-88.8

Valuation	06/10	06/11	06/12	06/13	06/14	06/15
Price/Earnings x	22.0	23.4	22.7	26.0	24.1	22.1
PEG Ratio x	-0.2	1.8	3.5	2.0	1.9	2.0
EV/EBITDA x	11.8	14.5	13.0	14.7	13.6	12.7
EV/EBIT x	15.3	16.0	16.2	18.0	16.6	15.5
Free Cash Flow Yield %	-1.5	4.4	5.5	4.2	4.1	5.3
Dividend Yield %	4.4	3.9	3.8	3.7	4.1	4.4
Price/(OCF per share) x	–	–	–	18.1	17.0	15.5
Price/(FCF per share) x	-66.3	22.6	18.1	23.8	24.5	19.0
Price/Sales x	6.4	7.1	7.4	8.8	8.3	7.7
Price/NTA x	1.2	1.2	1.3	1.6	1.6	1.6
Price/Book x	1.2	1.1	1.3	1.6	1.6	1.6

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Ebos Group Limited EBO-NZ

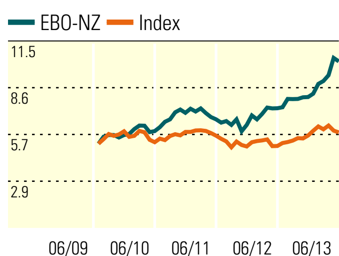
Symbion's acquisition propels EBOS into the big league

Analyst Recommendation: **Hold** 05 June 2013

Snapshot

Business Risk	High
Price Risk	Medium
Moat Rating	None
Fair Value $	9.00
Market Cap $Mil	540
Morningstar Style Box	
Last Price $	10.20
52 Week High/Low $	10.60/7.08
Shares Issued Mil	53
Sector	GICS - Healthcare

Price vs. Market

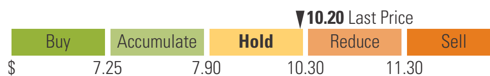


	06/11	06/12	06/13e	06/14e
NPAT ($Mil)	23.4	28.0	32.4	34.3
EPS ¢	45.4	53.6	62.2	65.8
EPS Chg %	14.8	18.2	16.0	5.8
DPS ¢	21.0	21.0	35.0	36.0
Franked %	100.0	100.0	100.0	100.0
Div Yld %	3.1	3.2	3.4	3.5
P/E x	15.2	12.4	16.4	15.5

Source: Morningstar analyst estimates.

Business Description

Ebos Group (EBO-NZ) is engaged in human and animal health care sectors in New Zealand. Healthcare incorporates the sale of healthcare products in a range of sectors, own brands, retail healthcare and wholesale activities, and logistics. Animal care incorporates the sale of animal care products in a range of sectors, own brands, retail and wholesale activities. The Company business comprises four division being Wholesaling & Supply Chain Logistics, Sale and Marketing, 3rd Party/4th Party Logistics, and Manufacturing and Retail.



Investment Rating

EBOS is a leading provider of medical and pharmaceutical products to a broad spectrum of healthcare markets in NZ and Australia. The industry is highly fragmented and subjected to the whims and fancies of district health boards and funding agencies. EBOS has to constantly reinvent itself to stay ahead of competition and to be responsive to the fast changing needs of customers. The acquisition of Symbion will transform EBOS from being predominantly a domestic orientated company into the largest and most diversified Australasian marketer, wholesaler and distributor of medical and pharmaceutical products. Following the Symbion's purchase, EBOS will be the second largest pharmacy wholesaler (with a market share of 32%) and the largest hospital distributor in Australia. We believe EBOS does not possess any significant competitive advantages but the company has a strong management team which has executed well and delivered outstanding returns for shareholders.

Event

► EBOS Group (EBOS) is acquiring Australia's leading pharmaceutical wholesaler and distributor for NZD 1.1 billion which includes Symbion's debt of NZD 230 million.

► The acquisition is subject to certain conditions including EBOS shareholder approval which is slated for 14 June 2013.

► Overall we believe EBOS is paying a fair price to acquire Symbion. The acquisition implies a pro forma fiscal 2013 multiple of 7.9 times EBITDA based on Symbion's standalone EBITDA of NZD 141 million.

Impact

► At this stage we are not making any changes to our forecasts as we are not incorporating Symbion's financials pending the shareholder approval.

► The transaction will dramatically increase the company's outstanding shares from 55 million to 147 million reflecting the placement of shares, entitlement offer and issue of shares to Symbion shareholders. However the net income is expected to rise from NZD 29 million on a standalone basis to NZD 92 million on a consolidated basis which equates to an EPS increase of nearly 30% to NZ62.6 cents per share. Consequently the transaction is likely to be highly accretive from an earnings perspective

Recommendation Impact

We lift our valuation to NZD 9.00 per share to reflect the additional cash generated since our last update.

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Ebos Group Limited EBO-NZ

Nachi Moghe
Morningstar Analyst

Analyst Note

Symbion's acquisition propels EBOS into the big league

EBOS Group (EBOS) is acquiring Australia's leading pharmaceutical wholesaler and distributor for NZD 1.1 billion which includes Symbion's debt of NZD 230 million. The acquisition is subject to certain conditions including EBOS shareholder approval which is slated for 14 June 2013. At this stage we are not making any changes to our forecasts as we are not incorporating Symbion's financials pending the shareholder approval. However we lift our valuation to NZD 9.00 per share to reflect the additional cash generated since our last update. Our valuation implies a 2013 fiscal P/E of 14.4 times and EV/EBITDA of 8.8 times using the pro forma numbers for the combined entity. We are unlikely to make any further material changes to our valuation after incorporation of the Symbion business into our model. We believe EBOS' shares are fully priced at current levels and provide little scope for price appreciation. We also raise our uncertainty rating for the stock from medium to high pending a detailed review of the transaction. Our no moat rating on the stock remains unchanged.

The acquisition of Symbion will transform EBOS from being predominantly a domestic orientated company into the largest and most diversified Australasian marketer, wholesaler and distributor of medical and pharmaceutical products. Following the Symbion's purchase, EBOS will be the second largest pharmacy wholesaler (with a market share of 32%) and the largest hospital distributor in Australia. Its revenues will catapult from NZD 1.5 billion to NZD 6 billion with Australia accounting for 81% of group earnings. The healthcare business which accounts for 66% of group earnings currently will rise to 83% whilst the contribution of animalcare will decline from 34% to 17%.

The transaction will dramatically increase the company's outstanding shares from 55 million to 147 million reflecting the placement of shares, entitlement offer and issue of shares to Symbion shareholders. However the net income is expected to rise from NZD 29 million on a standalone basis to NZD 92 million on a consolidated basis which equates to an EPS increase of nearly 30% to NZ62.6 cents per share. Consequently the transaction is likely to be highly accretive from an earnings perspective. Also, given that a large proportion of the acquisition will be financed by equity, EBOS will be comfortably placed with a gearing of around 31%. Despite being a large acquisition we are reasonably confident that EBOS will be able to successfully integrate Symbion's operations given management's outstanding track record of delivering on its acquisitions.

Exibit1: EBOS standalone and Pro forma numbers

NZD million	EBOS	Symbion	Combined
	standalone	standalone	Group
Revenue	1484	4791	6275
EBITDA	53	141	199
EBIT	49	125	169
NPAT	29	71	92
EPS (cps)	48.2		62.6

Source: EBOS

Overall we believe EBOS is paying a fair price to acquire Symbion. The acquisition implies a pro forma fiscal 2013 multiple of 7.9 times EBITDA based on Symbion's standalone EBITDA of NZD 141 million. This is in line with the multiple EBOS paid for acquiring medical & pharmaceutical supplies distributor PRNZ in 2007 and below Sigma Pharmaceuticals' (ASX: SIP) existing market forward EV/EBITDA of close to 10 times. Our fair value estimate of Sigma puts it on an EV/EBITDA multiple of eight times, close to the transaction multiple.

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Ebos Group Limited EBO-NZ

Nachi Moghe
Morningstar Analyst

Aside from PRNZ, EBOS has acquired smaller pharmaceutical wholesalers in New Zealand and Australia for about 5-7 times EBITDA but these entities don't have the scale or the distribution reach of either PRNZ or Symbion.

We remain comfortable with our no moat rating on EBOS as we believe that the acquisition of Symbion is unlikely to offer any significant competitive advantages. Symbion is one of three Australian wholesalers, the other two being Australian Pharmaceutical Industries (API) and Sigma Pharmaceuticals. The non-discretionary nature of pharmaceuticals and other health-related products imply defensive earnings, and over the medium to long-term, a growing and ageing should generate steady demand. But government legislated price cuts and intensifying competition continue to erode profitability. Also, wholesalers are at increasing risk of losing lucrative contracts with multinational pharmaceutical companies as the latter seek to supply directly to pharmacies. The industry also faces low switching costs as pharmacies and hospitals could easily change suppliers if they so desired. Overall the industry operates at wafer thin margins and with relatively low returns on capital.

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Ebos Group Limited EBO-NZ

Bulls Points

- Very strong competitive position in NZ. Most multinational firms distribute their products through EBO.
- Good scope to grow revenues in Australia through acquisitions. Australia offers good long term prospects.
- Healthcare spending is generally immune to an economic downturn.
- Masterpet would be a significant profit driver going forward

Bears Points

- EBO might make more acquisitions going forward which increases its risk profile.
- Competition in Australia remains reasonably strong and margins wafer thin.
- Government spending changes could potentially harm the earnings potential of the business.

Key Valuation Assumptions	
Cost of Equity %	11.0
Weighted Avg Cost of Capital %	9.1
Long Run Tax Rate %	28.0
Stage II EBI Growth Rate %	2.5
Stage II Investment Rate %	13.9
Perpetuity Year	10.0

A strong operator

Thesis Last Updated: 05 Jun 2013

EBO is involved in the distribution and supply of medical and pharmaceutical products to a broad spectrum of healthcare markets in NZ, Australia and the Pacific. It operates two distinct businesses: sales/marketing and wholesale. The business is generally immune to economic cycles and could potentially grow at between 3-4% going forward. The acquisition of Symbion will transform EBOS from being predominantly a domestic orientated company into the largest and most diversified Australasian marketer, wholesaler and distributor of medical and pharmaceutical products. Following the Symbion's purchase, EBOS will be the second largest pharmacy wholesaler (with a market share of 32%) and the largest hospital distributor in Australia

The competitive environment is pretty benign in NZ but is more severe in Australia. EBO is the largest supplier and distributor of medical products in NZ. However, it does not have as much pricing power as one would think. This is because it caters mainly to multinational pharmaceutical companies who can easily switch providers or do it themselves if they find the service is not delivering value for money. In Australia, Symbion is one of three Australian wholesalers, the other two being Australian Pharmaceutical Industries (API) and Sigma Pharmaceuticals. But government legislated price cuts and intensifying competition continue to erode profitability. Also, wholesalers are at increasing risk of losing lucrative contracts with multinational pharmaceutical companies as the latter seek to supply directly to pharmacies-as was the case with Pfizer.

There are various risks. The industry is greatly exposed to the whims and fancies of district health boards. Their funding policy tends to be ad hoc, which creates an element of uncertainty. The sales and marketing aspect of the business faces risk from a number of multinational companies the firm represents. Consequently, EBO has to continually reinvent itself and make value-accretive acquisitions to counter the risk of high customer attrition. However, acquisitions involve execution risk.

Australia offers good long-term prospects due to the sheer size of its healthcare market. For example, there are 26,000 general practitioners in Australia compared to 2,500 in NZ. The non-discretionary nature of pharmaceuticals and other health-related products imply defensive earnings, and over the medium to long-term, a growing and ageing should generate steady demand.

Valuation Last Updated: 05 Jun 2013

Based on our discounted cash flow model, we assign EBO with a fair value of NZD9.00 and recommend investors Hold. Our model incorporates a weighted average cost of capital (WACC) of 9% and a terminal growth assumption of 2.5%. At NZ$9.00, the company will trade at an expected FY13 NPAT multiple of 14.4x. The return on invested capital (ROIC) is assumed to be 11-11.5%, meaning the company will continue to create shareholder wealth as ROIC is greater than WACC. The company´s financial health is very good. Gearing is expected to rise to 31% post acquisition of Symbion.

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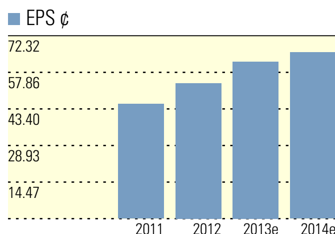
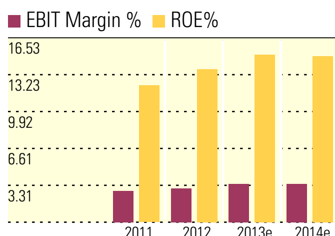
EPS



EBIT Margin vs. ROE



Risk Last Updated: 05 Apr 2012

EBO has to continually reinvent itself and make value-accretive acquisitions to counter the risk of high customer attrition. However, acquisitions involve execution risk because there is no guarantee that the acquired company might be successful. Managements acquisition track record has been quite good so far giving investors confidence that acquisitions could over a period of time generate shareholder value.

EBO also faces risk from ad hoc funding policies adopted by the district health boards. That means any funding cuts to hospitals could potentially mean lower revenues for EBO as public hospitals are by far the biggest driver of the firms income and earnings.

Multinational companies are one of the biggest suppliers of pharmaceutical products in NZ. The consolidation of several such global firms has made them more powerful such that they can dictate terms. There are two risks stemming from such a structure a) multinational companies might ask for better terms and conditions thereby squeezing margins and b) multinational companies might decided to distribute the product themselves Should this occur EBO could potentially loose valuable income.

EBO normally enters into long term supply contracts with the district health boards. Risk that one or more DHB´s could sever ties with EBO once the contract ends is quite possible.

Financial Overview

Growth

We anticipate an average revenue growth rate of 5% over the next 5 years. Meaningful growth will be fuelled by the recent Masterpet acquisition.

Profitability

We anticipate margins to improve slightly going forward although there are potential risks that margins could be squeezed if multinational companies and/or district health boards demand better terms. EBIT margins were around 2.8% in FY11 and likely to be around 3-3.5% over the next two years.

Financial Health

The company´s financial health is very good. Gearing is virtually zero due to the size of EBO´s cash balance. The working capital ratio is okay at 1.4:1.

Strategy Analysis Last Updated: 06 Mar 2012

The firm wants to constantly reinvent itself given that the dynamics of the industry keep changing. For example the number of suppliers has shrunk dramatically over the years because of heightened merger and acquisitions activity in the pharmaceutical sector. Furthermore quite a few products that EBO distributes to hospitals, pharmacies and other primary care organizations have become commoditized. EBO aims to extend its product range from a base built on commodity products where price is a key factor, through transitioning products where the firm thinks it can add some value through providing service and then to specialty products where brand strongly drives choice. The ultimate aim is to seek ownership of the product pipeline or channels to reach its targeted markets. Management is paying particular emphasis on acquiring small-to-medium sized firms in Australia and NZ that are similar in terms of what EBO does currently. The acquisition of Vital, Tasmed and Crown Scientific augments the firm´s presence in Australia where growth opportunities are quite good. Management is hungry for more acquisitions and with the recent sale of the scientific business, gives EBO an ideal position to leverage from. A significant acquisition was made at the end of 2011 when the company acquired Masterpet for NZ$105m. Masterpet provides EBO with a complementary business which provides increased diversification in an industry which has higher margins and better growth potential.

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General Financials

Financials

Per Share	Historical 06/10	06/11	06/12	Forecast 06/13	06/14	06/15
Sales ¢	2,643.4	2,604.9	2,739.9	2,994.7	3,144.4	3,301.6
Adjusted Earnings ¢	39.5	45.4	53.6	62.2	65.8	69.7
Free Cash Flow ¢	81.8	162.8	-177.8	-133.9	72.1	78.1
Net Tangible Assets ¢	50.4	118.0	-5.4	-129.6	-99.8	-66.1
Book Value ¢	366.7	385.4	400.0	426.9	456.7	490.4
Dividends ¢	21.0	21.0	21.0	35.0	36.0	36.0
Franking %	100.0	100.0	100.0	100.0	100.0	100.0

Growth %	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	-2.0	2.0	6.3	9.3	5.0	5.0
EBITDA	5.6	0.8	13.7	24.1	5.0	5.0
Pre-Tax Profit	15.8	5.0	10.8	24.7	5.8	5.9
EPS	-8.5	14.8	18.2	16.0	5.8	5.9
DPS	-16.0	0.0	0.0	66.7	2.9	0.0
Free Cash Flow per share	-4.9	99.1	-209.2	–	–	8.4

Profit & Loss ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	1,317.5	1,343.8	1,428.7	1,561.5	1,639.6	1,721.6
EBITDA	40.9	41.2	46.9	58.1	61.0	64.1
Depreciation	3.2	3.2	3.7	4.2	4.4	4.6
Amortisation	0.5	0.2	0.1	0.0	0.0	0.0
EBIT	36.7	37.7	43.1	53.9	56.6	59.5
Interest Expense	5.7	5.1	7.0	8.9	9.0	9.0
Interest Income	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	31.0	32.6	36.1	45.0	47.6	50.5
Tax	11.3	9.2	8.2	12.6	13.3	14.1
Reported NPAT	23.4	31.6	28.0	32.4	34.3	36.3
Non-Recurring Items After Tax	3.7	8.2	-0.0	0.0	0.0	0.0
Adjusted NPAT	**19.7**	**23.4**	**28.0**	**32.4**	**34.3**	**36.3**
Free Cash Flow	40.7	84.0	-92.7	-69.8	37.6	40.7
Effective Tax Rate %	36.5	28.2	22.6	28.0	28.0	28.0

Cash Flow ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Receipts from Customers	1,373.8	1,342.6	1,342.6	1,545.2	1,630.0	1,711.5
Payments to Suppliers	-1,319.3	-1,306.4	-1,306.4	-1,476.2	-1,564.8	-1,641.7
Other Operating Cashflow	-12.8	-14.5	-14.5	-36.4	-30.1	-31.3
Net Operating Cashflow	**41.8**	**21.7**	**21.7**	**32.6**	**35.2**	**38.5**
Capex	-2.9	-3.9	-3.9	-3.9	-4.1	-4.3
Acquisitions & Investments	0.0	0.0	-108.1	-105.0	0.0	0.0
Sales of Investments & Subsidiaries	0.3	45.2	0.1	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	-1.1	0.0	0.0	0.0
Net Investing Cashflow	**-2.6**	**41.4**	**-112.9**	**-108.9**	**-4.1**	**-4.3**
Proceeds from Issues	0.1	2.0	0.0	0.0	0.0	0.0
Proceeds from Borrowings	-13.0	-3.0	53.7	94.6	-12.4	-15.5
Dividends Paid	-3.3	-19.5	-16.4	-18.4	-18.8	-18.8
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0	0.0
Net Financing Cashflow	**-16.1**	**-20.5**	**37.3**	**76.2**	**-31.1**	**-34.3**
Net Increase Cash	23.1	42.5	-53.9	0.0	0.0	0.0
Cash at Beginning	33.6	56.5	99.7	52.6	52.6	52.6
Exchange Rate Adjustment	-0.2	0.7	6.9	0.0	0.0	0.0
Cash at End	56.5	99.7	52.6	52.6	52.6	52.6

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General Financials

Financials

Balance Sheet ($Mil)	Historical 06/10	06/11	06/12	Forecast 06/13	06/14	06/15
Cash & Equivalents	56.5	99.7	52.6	52.6	52.6	52.6
Accounts Receivable	148.2	152.8	175.7	192.1	201.7	211.7
Inventory	128.5	121.8	163.0	177.3	186.1	195.4
Other Short-Term Operating Assets	3.2	3.7	5.4	5.4	5.4	5.4
Total Current Assets	336.4	378.0	396.7	427.3	445.8	465.2
Property Plant & Equipment, Net	17.6	17.0	23.5	49.4	49.0	48.6
Goodwill, Net	133.7	114.1	180.6	206.8	206.8	206.8
Other Intangibles	23.9	23.8	30.9	83.4	83.4	83.4
Other Long-Term Operating Assets	1.4	0.9	18.9	18.9	18.9	18.9
Deferred Tax Assets	5.3	4.5	7.4	7.4	7.4	7.4
Long-Term Non-Operating Assets	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	**518.3**	**538.3**	**658.0**	**793.3**	**811.3**	**830.3**
Accounts Payable	248.9	259.1	275.5	302.8	316.6	332.4
Short-Term Debt	0.0	0.0	10.5	0.0	0.0	0.0
Other Short-Term Operating Liabilities	12.8	9.2	16.5	16.5	16.5	16.5
Total Current Liabilities	261.7	268.4	302.5	319.2	333.0	348.9
Total Long-Term Debt	59.0	57.2	129.7	234.8	222.4	206.9
Long-Term Operating Liabilities	5.7	5.3	6.4	6.4	6.4	6.4
Deferred Tax Liabilities	9.1	8.7	10.9	10.3	11.4	12.5
Long-Term Non-Operating Liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**335.6**	**339.5**	**449.4**	**570.6**	**573.2**	**574.6**
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	**182.8**	**198.8**	**208.6**	**222.6**	**238.1**	**255.7**

Profitability %	06/10	06/11	06/12	06/13	06/14	06/15
EBITDA Margin	3.1	3.1	3.3	3.7	3.7	3.7
EBIT Margin	2.8	2.8	3.0	3.4	3.4	3.4
Net Profit Margin	1.5	1.7	2.0	2.1	2.1	2.1
Free Cash Flow Margin	3.1	6.2	-6.5	-4.5	2.3	2.4
Return on Equity	11.4	12.3	13.7	15.0	14.9	14.7
Return on Assets	3.9	4.4	4.7	4.5	4.3	4.4
Return on Invested Capital(w/Goodwill)	11.5	12.1	24.8	9.4	9.1	9.4
ROIC (w/Goodwill) Less WACC	2.4	3.0	15.7	0.3	-0.0	0.3

Leverage & Liquidity	06/10	06/11	06/12	06/13	06/14	06/15
Net Debt to Capital %	1.0	-16.6	25.1	39.8	36.9	33.4
Net Debt/(Net Debt + Equity) %	1.4	-27.2	29.6	45.0	41.6	37.6
Net Debt/Equity %	1.4	-21.4	42.0	81.8	71.3	60.3
Net Debt/EBITDA x	0.1	-1.0	1.9	3.1	2.8	2.4
EBIT/Net Interest Expense x	6.5	7.3	6.2	6.1	6.3	6.6
Current Ratio (Current Assets/Current Liabilities) x	1.3	1.4	1.3	1.3	1.3	1.3
Dividend Payout Ratio %	53.2	46.3	39.2	56.3	54.8	51.7
Net Cash Per Share ¢	-5.1	82.4	-167.8	-349.3	-325.6	-295.8

Valuation	06/10	06/11	06/12	06/13	06/14	06/15
Price/Earnings x	14.5	15.2	12.4	16.4	15.5	14.6
PEG Ratio x	-1.7	1.0	0.7	1.0	2.7	2.5
EV/EBITDA x	7.0	7.6	9.3	10.7	10.1	9.7
EV/EBIT x	7.9	8.3	10.1	11.5	10.9	10.4
Free Cash Flow Yield %	14.3	23.7	-26.7	-13.1	7.1	7.7
Dividend Yield %	3.7	3.1	3.2	3.4	3.5	3.5
Price/(OCF per share) x	6.8	16.3	12.4	16.3	15.1	13.8
Price/(FCF per share) x	7.0	4.2	-3.7	-7.6	14.2	13.1
Price/Sales x	0.2	0.3	0.2	0.3	0.3	0.3
Price/NTA x	11.4	5.8	-122.7	-7.9	-10.2	-15.4
Price/Book x	1.6	1.8	1.7	2.4	2.2	2.1

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Gindalbie Metals Ltd GBG

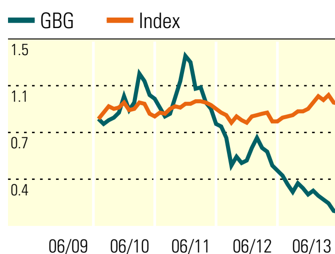
Funding squeeze causes extreme uncertainty (corrected)

Analyst Recommendation: **Avoid** 05 June 2013

Snapshot

Business Risk	Speculative
Price Risk	High
Moat Rating	None
Fair Value $	0.20
Market Cap $Mil	164
Morningstar Style Box	
Last Price $	0.11
52 Week High/Low $	0.47/0.10
Shares Issued Mil	1,492
Sector	GICS - Materials

Price vs. Market



	06/11	06/12	06/13e	06/14e
NPAT ($Mil)	-12.2	-24.7	-24.7	43.4
EPS ¢	-1.3	-2.1	-1.8	2.9
EPS Chg %	–	–	–	–
DPS ¢	-36.2	0.0	0.0	0.0
Franked %	0.0	0.0	0.0	0.0
Div Yld %	-34.6	0.0	0.0	0.0
P/E x	-78.0	-28.0	-6.1	3.8

Source: Morningstar analyst estimates.

Business Description

Gindalbie Metals Limited (GBG) is an independent Australian iron ore company based in Perth, Western Australia which is developing a portfolio of projects in the State's Mid West region. Gindalbie's core asset is the Karara Iron Ore Project which is a Joint Venture with AnSteel, Chinese steel producer.

No recommendation trigger guide available. Analyst Note:

Investment Rating

Gindalbie´s principal asset is a 50% stake in the Karara iron ore project, a joint venture with AnSteel, China´s second largest steel producer. Production of magnetite concentrate started towards the end of 2012 with attributable iron ore production of five million tonnes a year expected in fiscal 2014. The Karara project is well developed placing Gindalbie ahead of Midwest peers. The Western Australian state governments desire to increase Midwest iron ore production provides good support. Single commodity focus and exposure to Chinese steel demand makes this a speculative play only suitable for risk tolerant investors.

Event

► Gindalbie Metals' share price slumped to its lowest level since 2005 this month, some 95% below the 2007 peak and implying a market capitalisation of just AUD 164 million. The market capitalisation is well below the book value of its 50% stake in the Karara iron ore mine, worth AUD 650 million as at 30 June 2012. More has been spent on the project since but capital expenditure simply isn't being reflected in Gindalbie's share price. Key concerns are that both Gindalbie and Karara are dangerously low on cash, raising the prospect of a dilutive equity issue.

► The recommendation on the previously published version of this report was incorrect and should have been Avoid.

Impact

► Our base case scenario assumes short term funding issues are resolved without equity being issued however the risk of dilution causes us to increase the fair value uncertainty from very high to extreme. In addition, problems with the mine ramp-up mean we reduce our fiscal 2013 net profit forecast from AUD 48 million profit to a AUD 25 million loss. Single commodity exposure, extreme operating leverage and extreme financial leverage mean small changes to financial model assumptions have large impacts on our fair value estimate. Our fair value estimate falls 25% to 0.20 per share but we stress that fair value uncertainty is extreme.

Recommendation Impact

Our recommendation is Avoid.

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Gindalbie Metals Ltd GBG

Gareth James
Morningstar Analyst

Analyst Note

Gindalbie Metals' share price slumped to its lowest level since 2005 this month, some 95% below the 2007 peak and implying a market capitalisation of just AUD 164 million. The market capitalisation is well below the book value of its 50% stake in the Karara iron ore mine, worth AUD 650 million as at 30 June 2012. More has been spent on the project since but capital expenditure simply isn't being reflected in Gindalbie's share price. Key concerns are that both Gindalbie and Karara are dangerously low on cash, raising the prospect of a dilutive equity issue. Our base case scenario assumes short term funding issues are resolved without equity being issued however the risk of dilution causes us to increase the fair value uncertainty from very high to extreme. In addition, problems with the mine ramp-up mean we reduce our fiscal 2013 net profit forecast from AUD 48 million profit to a AUD 25 million loss. Single commodity exposure, extreme operating leverage and extreme financial leverage mean small changes to financial model assumptions have large impacts on our fair value estimate. Our fair value estimate falls 25% to 0.20 per share but we stress that fair value uncertainty is extreme. As a high cost producer, Gindalbie has no sustainable competitive advantage, or economic moat. Returns on invested capital (ROIC) are likely to be very poor due to the high up front capital cost to build a magnetite iron ore mine.

At the root of funding problems is the delay to Karara's cash flows following the start of iron ore production last October. Gindalbie expects the mine to be cash flow positive in the September quarter but debt repayments start in November and look unachievable. Negotiations with lenders to restructure the debt repayments are underway. We expect lenders to allow Karara to repay interest only until it has sufficient funds to repay principal also. With USD 2 billion of debt outstanding at the project level, lenders need Karara to succeed. Excessive penalties will only be counterproductive. Repossession of the USD 3 billion, Australian based, project by Chinese banks could have geopolitical ramifications and is highly unlikely. And besides, an uneconomic iron ore mine in the middle of the desert is unlikely to have many alternative uses or much of a resale value. The lines between major shareholder, Ansteel, the Chinese government and Chinese lenders are somewhat blurred. Their collective priority appears to be diversification of iron ore supply away from the majors, BHP, Rio Tinto and Vale, and towards Chinese controlled projects such as Karara. Interest rates, of below 3% per annum, don't adequately compensate for risks and we caution that iron ore production appears to take precedence over profitability and debt repayment.

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Gareth James
Morningstar Analyst

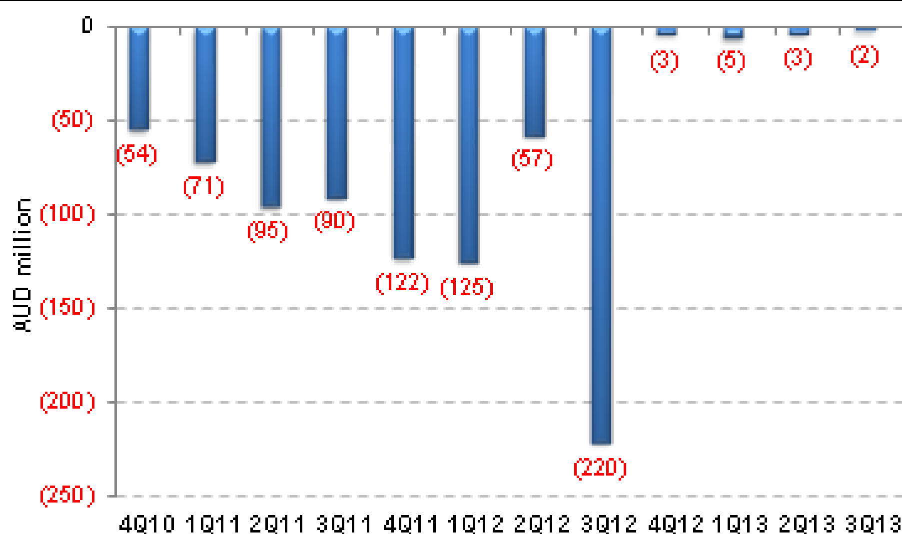
Table 1: Karara's debt

Details	
- **Tranch 1**/A - Senior syndicated debt facility	US$1,200
- **Tranch 2**/B - Term loan facility (working capital)	US$264
- **Tranch 2**/C - Revolving loan facility (working capital)	US$72
	US$1,536
Tranch 3 - Project debt facility	US$250
Gindalbie and Ansteel loan (3Q13)	US$105
Interest capitalised during construction	US$32
April 2013 loan	US$60
Magnetite pre-payment agreement with Ansteel	US$44
	US$2,027

Notes: 1. Interest payable every six months
2. Tranch A - Principal repayments start in November 2013
3. Tranch B - Principal repayments start in May 2013
4. Tranch C - Repayment due on 13 February 2015

We estimate Gindalbie has around AUD 10 million in cash, insufficient to fund much beyond head office costs of around AUD 1 million per quarter. Liquidity will improve when the AUD 30 million loan, made to Karara last month, is temporarily repaid. Repayment depends upon Foreign Investment Review Board (FIRB) approval and could ultimately dilute Gindalbie's shareholding in Karara to below 50%. We expect approval to be granted but to avoid dilution Gindalbie may need to issue equity to fund a new loan to Karara. Our base case scenario assumes Karara's profits prevent dilution from occurring.

Figure 1: Gindalbie Metals - quarterly cashflow (operating plus investing)



Source: Morningstar Equity Research

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Gareth James
Morningstar Analyst

Karara looks set to reach production capacity of 8 million tonnes in July. Initial concentrate grades were below our expectations but are likely to reach 68% iron from July with full plant commissioning. However, ramp up difficulties mean fiscal 2013 concentrate production and grades will be less than expected. Hematite production will exceed our forecast but grades are lower. The net result is a reduction to our fiscal 2013 net profit forecast from a AUD 48 million profit to a AUD 25 million loss. We also take a more conservative approach to fiscal 2014 forecasts but leave long term assumptions unchanged. Until Karara establishes its cash cost profile our forecasts have a very high degree of subjectivity. Cash costs could easily vary from company guidance, 'all in' costs, to the net profit level could be much higher than we expect and free cash flow (operating less investing) could also contain negative surprises.

Ultimately, the key driver of Gindalbie's share price will be the iron ore price, cash costs and the AUD/USD exchange rate. For those bullish on iron ore and China, Gindalbie offers highly leveraged exposure. The share price could easily double from current levels, around AUD 0.11 per share, and may be underpinned by the prospect of a takeover by Ansteel, but risks are extreme. Our primary concern is that Karara's cost will be higher than expected and production difficulties will cause weak cash flows, funding difficulties and dilution of Gindalbie's shareholding.

In our bear case scenario, Karara fails to reach consistently profitable iron ore production resulting in regular cash calls and dilution of Gindalbie's stake to zero. Under this negative scenario, Gindalbie also fails to sell its Loadstone iron ore deposit or develop the Shine deposit and we attribute the shares no value. In our bull case scenario, Karara successfully ramps up to nameplate production capacity and magnetite concentrate grades reach 68%. In this optimistic scenario, we assume a long term iron ore price of USD 110 per tonne (delivered China, 2013 prices) and a gross profit margin of around AUD 50 per tonne. Under this scenario, our fair value rises to 0.80 per share and indicates the extreme sensitivity of our fair value estimate to small changes in our assumptions.

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Bulls Points

- Gindalbie´s magnetite concentrate product will have a high iron ore content and low impurities allowing it to demand a premium price.
- Gindalbie is leveraged to long term demand for steel making materials from China and India.
- Infrastructure is largely built putting Gindalbie ahead of its Midwest peers.
- Attributable production should reach five million tonnes a year by March 2013.

Bears Points

- Gindalbie is dependent on just one commodity and on Chinese steel production. A downturn in either would impact profits.
- The Karara project carries a high level of debt which could prove problematic should iron ore prices weaken.
- Operating costs are relatively high for the industry and as yet unproven. They may ultimately be higher than the company has previously estimated.
- Iron ore prices are well above historical averages and the marginal cost of production which may prove unsustainable.
- Iron ore is abundant and demand abnormally strong. Long term margins will fall as demand and supply come. back into balance. Expect low cost producers to expand at the expense of those higher up the cost curve.

Key Valuation Assumptions	
Cost of Equity %	15.0
Weighted Avg Cost of Capital %	10.6
Long Run Tax Rate %	30.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	15.0
Perpetuity Year	6.0

Thesis Last Updated: 22 Jan 2013

Gindalbie Metals is an iron ore miner based in the Midwest region of Western Australia. Its principal asset is a 50% stake in the Karara iron ore project, a joint venture with AnSteel, China´s second largest steel producer. Production of Hematite ore started in March 2011 and has been supplemented by magnetite concentrate production since October 2012. Total attributable iron ore production is expected to reach 5 million tonnes a year by fiscal 2014. The concentrate product should receive a 20% premium to the Hammersely fines benchmark price due to its high iron content and low impurities. Total production of 30 million tones a year could be reached within the decade but will require additional investment.

The Karara project is well developed putting Gindalbie ahead of its Midwest peers. The Western Australian governments desire to increase Midwest iron ore production provides good support. Single commodity focus and exposure to Chinese steel demand makes this a high risk play only suitable for risk tolerant investors.

Karara has a large magnetite deposit with a resource of 2.5 billion tonnes at 34.1% iron capable of producing 1,027 million tonnes of concentrate at 68.6% iron. The deposit remains open at depth and along strike with a low strip ratio of 0.38:1. A relatively small haematite deposit comprises a resource of 24m tonnes at 61.1% iron. Production will comprise direct shipping ore (DSO) hematite (lump and fines) and magnetite concentrate. Both iron ore products will be sold to AnSteel under long term offtake agreements signed in March 2010. Karara has annual port capacity of 16 million tonnes at Geralton.

Valuation Last Updated: 04 Jun 2013

Our base case valuation is AUD 0.20 per share or an equity value of AUD 300 million. We assume no value for the Shine and Lodestone projects or for Karara´s Stage II expansion. Key operating assumptions include: cash costs of AUD 80 per tonne, a long term iron ore price of USD 90 per tonne (delivered China) and an AUD/USD exchange rate of 1.00. Arguments can easily be made for a much higher or lower valuations. If Karara experiences further difficulties, Gindalbie´s share price may be supported by the potential for Ansteel to acquire its 50% stake in Karara. In 2011, Murchison Metals sold its 50% stake in the Crosslands iron ore project to joint venture partner Mitsubishi for AUD 350 million under similar circumstances but in a better iron ore price environment.

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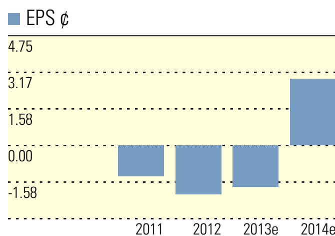
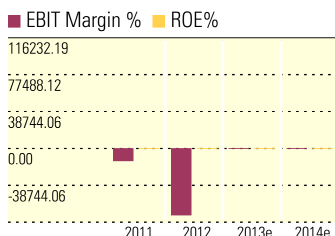
Gindalbie Metals Ltd GBG

EPS



EBIT Margin vs. ROE



Risk Last Updated: 10 Jul 2012

Gindalbie has just one iron ore mine in Australia which sells its production to the Chinese market. Profitability is dependent upon Chinese economic strength and iron ore prices remaining above Gindalbies´s cost of production. Gindalbie´s main project, Karara, has a high level of debt which could prove problematic should iron ore prices fall significantly.

Financial Overview

Growth

Karara began shipments of hematite ore in March 2011. We expect attributable production of five million tones by fiscal 2014. Total production from Karara could reach 30 million tones a year within a decade but will require significant additional capital.

Profitability

Gindalbie has generated only small or negative profits relative to its market capitalisation in recent years. The lack of profitability has been reflective of its pre-production status. We expect profits to grow as Karara ramps but the volatile iron ore price means earnings uncertainty is high.

Financial Health

Gindalbie is in reasonable financial health but high operating leverage, a large debt burden and exposure to the volatile iron ore price could create financial problems. Higher than expected operating costs or lower than expected iron ore prices could create difficulties servicing debt.

Strategy Analysis Last Updated: 21 Jan 2013

Gindalbie's most advanced asset is the Karara Iron Ore Project. The Project is a 50:50 joint venture with China's Ansteel, China's second largest steel maker. Ansteel also has a 36% shareholding in the company. Through the partnership with Ansteel, Gindalbie has been able to access project funding, equity funding and a product offtake agreement for all Karara iron concentrate. Gindalbie started production of hematite ore in early 2011 and magnetite concentrate production in late 2012. New resource development opportunities will also be jointly explored.

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General Financials

Financials

	Historical			Forecast		
Per Share	06/10	06/11	06/12	06/13	06/14	06/15
Sales ¢	0.0	0.0	0.0	16.7	42.1	34.4
Adjusted Earnings ¢	-0.5	-1.3	-2.1	-1.8	2.9	0.2
Free Cash Flow ¢	-28.3	-43.3	-28.4	-2.0	3.1	0.8
Net Tangible Assets ¢	63.4	58.5	59.4	53.2	51.7	51.9
Book Value ¢	65.0	61.0	61.5	55.1	53.4	53.6
Dividends ¢	-0.4	-36.2	0.0	0.0	0.0	0.0
Franking %	0.0	0.0	0.0	0.0	0.0	0.0
Growth %	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	–	162,900.0	-70.6	481,034.8	174.4	-18.2
EBITDA	-137.9	–	–	–	–	-66.5
Pre-Tax Profit	-110.6	–	-1,921.5	–	–	-93.0
EPS	–	–	–	–	–	-93.1
DPS	-123.2	9,950.0	-100.0	–	–	–
Free Cash Flow per share	–	–	–	–	–	-73.4
Profit & Loss ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	0.0	0.2	0.0	230.9	633.7	518.5
EBITDA	-8.2	-5.9	-36.0	-21.0	89.2	29.9
Depreciation	0.8	1.0	0.4	0.0	0.0	0.0
Amortisation	0.1	0.9	0.0	0.0	0.0	0.0
EBIT	-9.1	-7.8	-36.4	-21.0	89.2	29.9
Interest Expense	0.7	0.1	0.1	14.3	27.2	25.6
Interest Income	7.0	9.4	9.2	0.0	0.0	0.0
Profit Before Tax	-2.8	1.5	-27.3	-35.3	62.0	4.3
Tax	-0.3	0.0	0.0	-10.6	18.6	1.3
Reported NPAT	-2.5	1.5	-27.3	-24.7	43.4	3.0
Non-Recurring Items After Tax	1.0	13.7	-2.6	0.0	0.0	0.0
Adjusted NPAT	**-3.6**	**-12.2**	**-24.7**	**-24.7**	**43.4**	**3.0**
Free Cash Flow	-201.2	-392.4	-333.3	-28.2	46.9	12.5
Effective Tax Rate %	10.3	0.0	0.0	30.0	30.0	30.0
Cash Flow ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Receipts from Customers	1.4	5.7	0.0	229.2	628.2	520.1
Payments to Suppliers	-10.1	-19.7	-8.1	-250.6	-540.5	-489.4
Other Operating Cashflow	6.7	11.8	9.8	-6.9	-49.9	-26.1
Net Operating Cashflow	**-2.0**	**-2.2**	**1.7**	**-28.2**	**37.9**	**4.6**
Capex	-84.8	-381.5	-15.2	-10.0	-10.0	-10.0
Acquisitions & Investments	-40.7	0.0	0.0	0.0	0.0	0.0
Sales of Investments & Subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	-71.8	0.0	-300.2	0.0	0.0	0.0
Net Investing Cashflow	**-197.4**	**-381.5**	**-315.4**	**-10.0**	**-10.0**	**-10.0**
Proceeds from Issues	295.0	76.9	209.0	64.1	0.0	0.0
Proceeds from Borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Dividends Paid	2.6	327.8	0.0	0.0	0.0	0.0
Other Financing Cashflow	-2.2	-56.8	-4.1	0.0	0.0	0.0
Net Financing Cashflow	**295.4**	**347.9**	**204.9**	**64.1**	**0.0**	**0.0**
Net Increase Cash	96.0	-35.8	-108.8	25.9	27.9	-5.4
Cash at Beginning	124.0	272.4	149.3	40.5	66.4	94.2
Exchange Rate Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Cash at End	219.9	236.6	40.5	66.4	94.2	88.8

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General Financials

Financials

Balance Sheet ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
	Historical			Forecast		
Cash & Equivalents	219.9	236.6	40.5	66.4	94.2	88.8
Accounts Receivable	5.8	11.4	1.4	3.2	8.7	7.1
Inventory	0.1	6.4	0.0	3.2	7.3	6.5
Other Short-Term Operating Assets	3.4	4.1	0.0	0.0	0.0	0.0
Total Current Assets	229.3	258.6	42.0	72.7	110.2	102.4
Property Plant & Equipment, Net	271.3	697.9	2.2	12.2	22.2	32.2
Goodwill, Net	0.0	0.0	0.0	0.0	0.0	0.0
Other Intangibles	11.5	22.6	25.6	25.6	25.6	25.6
Other Long-Term Operating Assets	0.0	66.9	0.3	0.3	0.3	0.3
Deferred Tax Assets	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Non-Operating Assets	4.9	0.0	654.1	654.1	654.1	654.1
Total Assets	**517.0**	**1,046.1**	**724.1**	**764.9**	**812.3**	**814.6**
Accounts Payable	46.2	108.1	1.8	3.2	7.3	6.5
Short-Term Debt	0.0	0.0	0.0	0.0	0.0	0.0
Other Short-Term Operating Liabilities	1.3	2.8	1.1	1.1	1.1	1.1
Total Current Liabilities	47.5	110.9	2.9	4.3	8.4	7.6
Total Long-Term Debt	0.0	361.7	0.0	0.0	0.0	0.0
Long-Term Operating Liabilities	0.6	9.6	0.0	0.0	0.0	0.0
Deferred Tax Liabilities	5.9	11.2	0.0	0.0	0.0	0.0
Long-Term Non-Operating Liabilities	0.0	0.1	0.0	0.0	0.0	0.0
Total Liabilities	**54.0**	**493.6**	**3.0**	**4.4**	**8.4**	**7.7**
Preferred Stock	–	–	–	0.0	0.0	0.0
Minority Interest	–	–	–	0.0	0.0	0.0
Total Equity	**463.0**	**552.5**	**721.2**	**760.5**	**803.9**	**806.9**

Profitability %	06/10	06/11	06/12	06/13	06/14	06/15
EBITDA Margin	-8,211,900.0	-3,622.7	-74,933.3	-9.1	14.1	5.8
EBIT Margin	-10,275,900.0	-13,168.7	-70,443.8	-9.1	14.1	5.8
Net Profit Margin	-2,533,900.0	919.6	-56,883.3	-10.7	6.8	0.6
Free Cash Flow Margin	-201,233,479.1	-240,737.4	-694,343.8	-12.2	7.4	2.4
Return on Equity	-0.8	0.3	-4.3	-3.3	5.6	0.4
Return on Assets	-0.6	0.2	-3.1	-3.3	5.5	0.4
Return on Invested Capital(w/Goodwill)	-1.4	-2.1	-11.0	-13.8	41.7	13.7
ROIC (w/Goodwill) Less WACC	-12.0	-12.7	-21.6	-24.4	31.1	3.1

Leverage & Liquidity	06/10	06/11	06/12	06/13	06/14	06/15
Net Debt to Capital %	-90.5	18.5	-6.0	-9.6	-13.3	-12.4
Net Debt/(Net Debt + Equity) %	-90.5	18.5	-6.0	-9.6	-13.3	-12.4
Net Debt/Equity %	-47.5	22.6	-5.6	-8.7	-11.7	-11.0
Net Debt/EBITDA x	26.8	-21.2	1.1	3.2	-1.1	-3.0
EBIT/Net Interest Expense x	1.4	0.8	4.0	-1.5	3.3	1.2
Current Ratio (Current Assets/Current Liabilities) x	4.8	2.3	14.4	16.8	13.1	13.4
Dividend Payout Ratio %	72.0	2,700.0	0.0	0.0	0.0	0.0
Net Cash Per Share ¢	30.9	-13.8	3.5	4.8	6.3	5.9

Valuation	06/10	06/11	06/12	06/13	06/14	06/15
Price/Earnings x	-193.7	-78.0	-28.0	-6.1	3.8	55.0
PEG Ratio x	118.1	-132.2	-16.0	0.9	-10.0	-51.2
EV/EBITDA x	-57.2	-181.5	-18.1	-4.2	1.0	3.0
EV/EBIT x	-45.7	-49.9	-19.3	-4.2	1.0	3.0
Free Cash Flow Yield %	-29.2	-41.4	-48.1	-18.6	28.3	7.5
Dividend Yield %	-0.4	-34.6	0.0	0.0	0.0	0.0
Price/(OCF per share) x	-340.0	-438.4	404.3	-5.4	4.4	36.0
Price/(FCF per share) x	-3.4	-2.4	-2.1	-5.4	3.5	13.3
Price/Sales x	–	5,839.0	14,785.5	0.7	0.3	0.3
Price/NTA x	1.5	1.8	1.0	0.2	0.2	0.2
Price/Book x	1.5	1.7	1.0	0.2	0.2	0.2

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SEEK Limited SEK

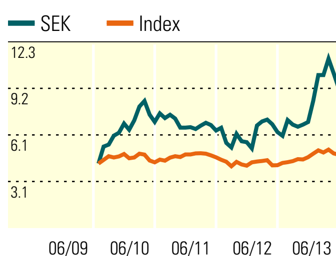
Fairfax to Make Online Job Listings Free

Analyst Recommendation: **Reduce** 05 June 2013

Snapshot

Business Risk	High
Price Risk	High
Moat Rating	Narrow
Fair Value $	7.00
Market Cap $Mil	3,115
Morningstar Style Box	
Last Price $	9.22
52 Week High/Low $	11.54/5.87
Shares Issued Mil	338
Sector	GICS - Commercial Serv/Supp

Price vs. Market

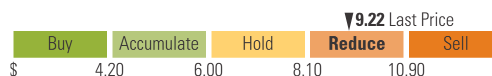


	06/11	06/12	06/13e	06/14e
NPAT ($Mil)	98.9	131.2	154.2	162.1
EPS ¢	29.3	38.8	45.6	47.9
EPS Chg %	10.5	32.4	17.5	5.1
DPS ¢	14.3	17.3	22.8	24.0
Franked %	100.0	100.0	100.0	100.0
Div Yld %	2.1	2.8	2.5	2.6
P/E x	23.7	15.7	20.2	19.2

Source: Morningstar analyst estimates.

Business Description

Seek Limited (SEK) has operations in three industries: online employment classified advertising (Employment); the provision and execution of training courses (Education); and overseas investments in online employment websites (International).



Investment Rating

SEK operates three main divisions: employment, education and international investments. The seek.com.au website captures 90% of total time spent online looking for jobs. The jobseeker database markets educational courses to enhance a job applicant's prospects. SEK is working on a JV with Swinburne University to offer vocational education courses online. Offshore expansion through associate holdings enables SEK to hold the number one online market position in Brazil, Mexico, Indonesia, Hong Kong, Singapore, Thailand, Malaysia and the Philippines. It holds the number two position in China. Strong domestic operating cash flow is funnelled offshore to further develop associates. Investment is expanding domestic education businesses. Market success to date demonstrates the brand strength, which we view as a powerful barrier to entry.

Event

► Fairfax's online employment website, MyCareer, is switching to a free online listing model. Display advertisements within Fairfax publications will remain on the paid model. We don't expect this strategic change by Fairfax will have a material impact on Seek because advertisers will continue to target their expenditure at the largest online audience.

Impact

► Google took on realestate.com.au by offering free listing for agents, with listing linked through Google Maps. Audiences failed to engage with Google when looking for property and after a change of company priorities the decision was made to close down the service.

► News Corporation is now offering free vehicle advertisements on its carsguide.com.au platform aimed to disrupt the local dominance of carsales.com.au. We continue to debate if carsales.com.au has a moat or not and view the action by News Corporation as a critical test to see if it can breach any potential moat.

► These examples offer some insight to the sustained competitive advantage so far obtained by these relatively young Australian internet brands: realestate.com.au, carsales.com.au and seek.com.au. Market dominance was earned through a combination of the first mover advantage and sustained through the network effect. These businesses continue to generate strong returns on capital and generate the largest audience reach within the online classified market.

Recommendation Impact

Our earnings are unchanged and fair value estimate remains at AUD 7.00. We continue to view the company as overpriced, trading at 1.3 times relative to our fair value estimate.

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SEEK Limited SEK

Tim Montague-Jones
Morningstar Analyst

Analyst Note

Fairfax to Make Online Job Listings Free

Fairfax's online employment website, MyCareer, is switching to a free online listing model. Display advertisements within Fairfax publications will remain on the paid model. Both MyCareer and the News Corporation website, CareerOne, have been losing online relevance as Seek grows its dominance as the largest aggregator of job seekers and advertisers. We don't expect this strategic change by Fairfax will have a material impact on Seek because advertisers will continue to target their expenditure at the largest online audience. Our earnings are unchanged and fair value estimate remains at AUD 7.00. We continue to view the company as overpriced, trading at 1.3 times relative to our fair value estimate.

We continue to believe Seek has a narrow economic moat by virtue of the network effect in its core domestic online job advertising business. Seek operates in three market segments, domestic jobs, education and offshore jobsites. The core earnings driver of the business remains the domestic website seek.com.au which captures 83% of time spent online searching for jobs. This contributes 80% of earnings and 60% of revenues generating EBITDA margins of 62%. Built through the first mover advantage the website has become the dominant portal within the Australian market. The second place competitor CareerOne captures 9% of total time spent online with third placed MyCareer at 8%. SEK has over 14 million site visits per month, a lead of five times its nearest competitor with CareerOne at 2.9 million and MyCareer at 2.4 million. Market share dominance is retained by the network effect, with advertisers and job seekers attracted by accessing the largest audience of job seekers and job advertisers.

Google took on realestate.com.au by offering free listing for agents, with listing linked through Google Maps. Audiences failed to engage with Google when looking for property and after a change of company priorities the decision was made to close down the service. News Corporation is now offering free vehicle advertisements on its carsguide.com.au platform aimed to disrupt the local dominance of carsales.com.au. We continue to debate if carsales.com.au has a moat or not and view the action by News Corporation as a critical test to see if it can breach any potential moat. These examples offer some insight to the sustained competitive advantage so far obtained by these relatively young Australian internet brands: realestate.com.au, carsales.com.au and seek.com.au. Market dominance was earned through a combination of the first mover advantage and sustained through the network effect. These businesses continue to generate strong returns on capital and generate the largest audience reach within the online classified market.

The emergence of social networking sites, which are directly aiming to take market share away from recruitment sites, is a threat to Seek's domestic online brand. LinkedIn continues to make inroads by leveraging the informal network to present advertising opportunities for companies to source appropriate skills. We view this threat as taking some market share away from the specialist recruitment market while the larger breadth of general resources will continue to gravitate to the largest national aggregator, Seek.

Market fragmentation through industry specific websites and the role out of regional news sites offering local classified advertising has had little impact on Seek's national dominance, so far. In the last decade a substantial amount of capital was employed to counter the dominance of Seek through a combination of TV and print national advertising campaigns. Despite all these efforts Seek continues to attract 14 million visits a month and reflects the competitive advantage of the network effect. The future remains uncertain but we are confident that no matter what competitors spend or offer, the public has become conditioned to utilising the Seek website when looking for employment.

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SEEK Limited SEK

Bulls Points

- SEK will continue to dominate the employment classifieds sector because of a first move advantage to build scale.
- Moves into education will be fruitful as it leverages its job seeker database.
- Improvement in pricing and premium products is likely to improve yields.

Bears Points

- SEK´s market dominance could become challenged and eroded by a new or offshore entrant.
- A downturn in employment conditions will erode advertising revenues and reduce inventory turnover.

Key Valuation Assumptions

Cost of Equity %	11.0
Weighted Avg Cost of Capital %	9.8
Long Run Tax Rate %	30.0
Stage II EBI Growth Rate %	8.3
Stage II Investment Rate %	61.9
Perpetuity Year	15.0

Thesis Last Updated: 05 Jun 2013

Seek (SEK) captures 83% of total time spent online searching for jobs, dominating the Australian market. This dominance within a small niche global geographic market, built through a first mover advantage, represents a strong competitive advantage due to its network effect. Australians view seek.com.au as their first port of call for looking for employment and is why we ascribe a Narrow Moat to the company.

Another emerging threat is the growth in social media and in particular that of LinkedIn. LinkedIn recently reported strong 2Q12 revenue growth of 89%. Revenues from its hiring solutions divisions grew 107% on last year and represent 53% of group revenue. The informal network has always been fertile ground for job seekers. LinkedIn is effectively formalising this once informal process to enable employers to utilise the appropriate networks to seek interest from particular employees, many of whom may not even be actively looking for a role. The way we find employment is rapidly evolving as witnessed through the shift from print to online.

Despite uncertainty in how the employment market may evolve and the speed of that change we expect LinkedIn and emerging competitors will fragment the market and take revenue away from the edges of what is a sizable market which continues to grow from the migration of print revenues to online. The largest share of the employment market comprises of generalised low skill job advertising which is funnelling through the largest aggregator of online inventory, SEK. We expect revenues which have grown at well over 20% per annum in the past will moderate to high single digit rates over the next five years as market growth slows. EBITDA margins from employment are 62% and we expect this high rate to level out.

Valuation Last Updated: 05 Jun 2013

Our fair value estimate it AUD 7.00. We assign a high uncertainty rating to Seek because of the inherent operating leverage within the business to the cyclicality of employment advertising. It also remains impossible to predict how the internet will evolve over the next five to ten years. Seek has developed market dominance through first-mover advantage and we expect this will ensure it remains the most used website to visit for job seekers within Australia. In calculating our valuation we use a cost of equity of 11% and with a cost of debt of 7%, our blended weighted average cost of capital is 9.8%.

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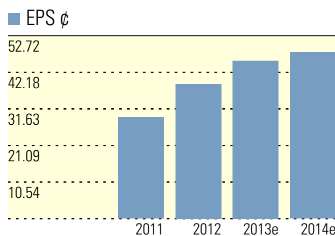
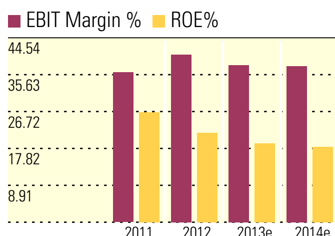
SEEK Limited SEK

EPS



EBIT Margin vs. ROE



Risk Last Updated: 05 Jun 2013

How the internet landscape will look like in five to ten years remains uncertain and represents a material risk for any online business, with companies like Google conceived less than fifteen years ago. While the internet industry is still relatively young, it has quickly evolved to a point of brand maturity. In our view the dominant brand leaders, formed through first mover advantage, will retain dominance as they coral the largest audiences obtained through the network effect.

Financial Overview

Growth

Growth will come from the continual migration of classifieds from print to online. Print continues to attract a larger share of revenue and represents an opportunity to capture this by rolling out improved products and pricing.

Profitability

SEK enjoys phenomenal 62% plus EBITDA margins from the domestic job site. Extra revenue incurs very little extra cost enabling the business to generate exceptional returns on capital.

Financial Health

Low working capital requirements ensure strong cashflow and zero or low levels of relative gearing.

Strategy Analysis Last Updated: 05 Jun 2013

Seek has established a clear leading online audience and is considered the first port of call when Australians look for employment opportunities. This dominance is demonstrated by the monthly site visits of 14 million and compares to the closets rival at only 2.9million. This established network represents a powerful attraction. In a time of economic constraint advertisers may reduce expenditure by focusing advertising budgets to media that have the largest audiences. Competitive threats continue to emerge but we expect the dominance of SEK's audience reach will continue to attract a disproportionate share of advertising dollars as it continues to migrate from print to online.

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General Financials

Financials

Per Share	Historical 06/10	06/11	06/12	Forecast 06/13	06/14	06/15
Sales ¢	83.4	102.1	131.7	173.5	196.2	217.6
Adjusted Earnings ¢	26.5	29.3	38.8	45.6	47.9	56.1
Free Cash Flow ¢	15.4	-34.6	0.2	38.7	44.2	52.5
Net Tangible Assets ¢	66.3	-8.8	-63.1	-49.2	-33.6	-13.7
Book Value ¢	104.5	128.6	228.0	250.8	274.8	302.8
Dividends ¢	11.9	14.3	17.3	22.8	24.0	28.0
Franking %	100.0	100.0	100.0	100.0	100.0	100.0

Growth %	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	34.3	22.3	29.2	31.7	13.1	10.9
EBITDA	28.8	16.3	40.0	21.6	11.9	14.8
Pre-Tax Profit	31.9	6.9	32.0	30.2	14.1	16.8
EPS	41.5	10.5	32.4	17.5	5.1	17.0
DPS	29.3	20.2	21.0	31.8	5.1	17.0
Free Cash Flow per share	–	-324.2	–	16,517.3	14.2	18.8

Profit & Loss ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	281.8	344.7	445.2	586.5	663.5	735.7
EBITDA	124.9	145.2	203.4	247.4	276.7	317.6
Depreciation	9.6	12.6	20.4	20.0	19.9	22.1
Amortisation	1.3	1.0	4.1	5.0	6.6	7.4
EBIT	114.0	131.6	178.8	222.4	250.2	288.2
Interest Expense	6.2	16.4	26.7	24.4	24.4	24.4
Interest Income	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	107.8	115.2	152.1	198.0	225.8	263.8
Tax	29.7	36.3	47.0	61.4	67.7	79.1
Reported NPAT	89.5	104.6	130.2	154.2	162.1	189.7
Non-Recurring Items After Tax	0.0	5.7	-1.0	0.0	0.0	0.0
Adjusted NPAT	**89.5**	**98.9**	**131.2**	**154.2**	**162.1**	**189.7**
Free Cash Flow	52.1	-116.8	0.8	131.0	149.5	177.6
Effective Tax Rate %	27.5	31.5	30.9	31.0	30.0	30.0

Cash Flow ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Receipts from Customers	274.6	343.2	442.4	565.7	652.2	725.1
Payments to Suppliers	-150.8	-196.9	-238.0	-329.0	-375.9	-410.0
Other Operating Cashflow	-42.4	-38.1	-63.2	-80.8	-87.1	-98.5
Net Operating Cashflow	**81.3**	**108.2**	**141.3**	**155.9**	**189.1**	**216.6**
Capex	-4.6	-8.4	-8.7	-9.4	-10.6	-11.0
Acquisitions & Investments	-29.6	-241.8	-147.6	-50.0	-50.0	-50.0
Sales of Investments & Subsidiaries	0.0	0.0	0.1	0.0	0.0	0.0
Other Investing Cashflow	0.5	6.1	4.6	0.0	0.0	0.0
Net Investing Cashflow	**-33.7**	**-244.1**	**-151.6**	**-59.4**	**-60.6**	**-61.0**
Proceeds from Issues	-3.0	-0.2	-0.6	0.0	0.0	0.0
Proceeds from Borrowings	-12.0	178.7	41.8	0.0	0.0	0.0
Dividends Paid	-33.3	-45.4	-53.3	-77.1	-81.0	-94.8
Other Financing Cashflow	-0.1	61.1	16.1	17.6	4.0	5.0
Net Financing Cashflow	**-48.4**	**194.2**	**4.1**	**-59.5**	**-77.0**	**-89.8**
Net Increase Cash	-3.8	58.6	-5.6	37.0	51.4	65.7
Cash at Beginning	46.6	39.5	97.6	92.7	129.7	181.2
Exchange Rate Adjustment	-3.0	0.3	0.7	0.0	0.0	0.0
Cash at End	39.7	98.3	92.7	129.7	181.2	246.9

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General Financials

Financials

Balance Sheet ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
			Historical			Forecast
Cash & Equivalents	39.7	98.3	92.7	129.7	181.2	246.9
Accounts Receivable	35.7	44.9	65.6	86.4	97.7	108.3
Inventory	0.0	0.0	0.0	0.0	0.0	0.0
Other Short-Term Operating Assets	1.1	17.4	3.6	3.6	3.6	3.6
Total Current Assets	76.5	160.6	161.8	219.7	282.5	358.8
Property Plant & Equipment, Net	14.3	19.2	24.7	24.1	24.8	23.8
Goodwill, Net	93.1	368.3	794.6	799.6	804.6	809.6
Other Intangibles	35.9	95.2	189.9	214.9	238.3	260.9
Other Long-Term Operating Assets	283.5	315.6	196.1	196.1	196.1	196.1
Deferred Tax Assets	10.4	11.4	24.6	24.6	24.6	24.6
Long-Term Non-Operating Assets	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	**513.6**	**970.4**	**1,391.7**	**1,479.0**	**1,570.8**	**1,673.8**
Accounts Payable	26.4	43.6	57.0	67.2	78.0	86.1
Short-Term Debt	0.0	0.0	0.0	0.0	0.0	0.0
Other Short-Term Operating Liabilities	24.0	193.6	166.4	166.4	166.4	166.4
Total Current Liabilities	50.4	237.2	223.4	233.6	244.4	252.5
Total Long-Term Debt	99.6	275.3	318.4	318.4	318.4	318.4
Long-Term Operating Liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liabilities	6.7	19.1	47.4	47.4	47.4	47.4
Long-Term Non-Operating Liabilities	3.9	4.8	31.3	31.3	31.3	31.3
Total Liabilities	**160.7**	**536.3**	**620.6**	**630.7**	**641.6**	**649.7**
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	**353.0**	**434.1**	**771.1**	**848.2**	**929.3**	**1,024.1**

Profitability %	06/10	06/11	06/12	06/13	06/14	06/15
EBITDA Margin	44.3	42.1	45.7	42.2	41.7	43.2
EBIT Margin	40.4	36.2	40.5	37.9	37.7	39.2
Net Profit Margin	31.8	30.3	29.2	26.3	24.4	25.8
Free Cash Flow Margin	18.5	-33.9	0.2	22.3	22.5	24.1
Return on Equity	27.9	26.6	21.6	19.0	18.2	19.4
Return on Assets	18.4	14.1	11.0	10.7	10.6	11.7
Return on Invested Capital(w/Goodwill)	16.8	14.9	10.2	14.7	14.5	15.6
ROIC (w/Goodwill) Less WACC	7.0	5.1	0.4	4.9	4.8	5.8

Leverage & Liquidity	06/10	06/11	06/12	06/13	06/14	06/15
Net Debt to Capital %	14.5	29.0	22.6	18.2	12.9	6.5
Net Debt/(Net Debt + Equity) %	14.5	29.0	22.6	18.2	12.9	6.5
Net Debt/Equity %	17.0	40.8	29.3	22.2	14.8	7.0
Net Debt/EBITDA x	0.5	1.2	1.1	0.8	0.5	0.2
EBIT/Net Interest Expense x	18.3	8.0	6.7	9.1	10.3	11.8
Current Ratio (Current Assets/Current Liabilities) x	1.5	0.7	0.7	0.9	1.2	1.4
Dividend Payout Ratio %	44.9	48.8	44.6	50.0	50.0	50.0
Net Cash Per Share ¢	-17.7	-52.4	-66.8	-55.8	-40.6	-21.1

Valuation	06/10	06/11	06/12	06/13	06/14	06/15
Price/Earnings x	24.2	23.7	15.7	20.2	19.2	16.4
PEG Ratio x	10.1	2.5	5.1	3.5	1.0	2.8
EV/EBITDA x	17.8	17.4	11.3	13.5	12.1	10.5
EV/EBIT x	19.5	20.2	12.7	15.0	13.4	11.6
Free Cash Flow Yield %	2.4	-5.0	0.0	4.2	4.8	5.7
Dividend Yield %	1.9	2.1	2.8	2.5	2.6	3.0
Price/(OCF per share) x	26.7	21.7	14.6	20.0	16.5	14.4
Price/(FCF per share) x	41.6	-20.1	2,621.7	23.8	20.8	17.6
Price/Sales x	7.7	6.8	4.6	5.3	4.7	4.2
Price/NTA x	9.7	-79.5	-9.7	-18.8	-27.4	-67.2
Price/Book x	6.1	5.4	2.7	3.7	3.4	3.0

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Spark Infrastructure Group SKI

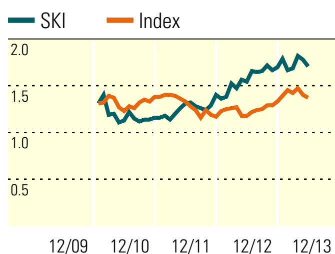
Regulatory risk our main concern

Analyst Recommendation: **Hold** 05 June 2013

Snapshot

Business Risk	Medium
Price Risk	Medium
Moat Rating	None
Fair Value $	1.60
Market Cap $Mil	2,229
Morningstar Style Box	
Last Price $	1.68
52 Week High/Low $	1.87/1.44
Shares Issued Mil	1,327
Sector	GICS - Utilities

Price vs. Market



	12/11	12/12	12/13e	12/14e
NPAT ($Mil)	180.0	186.1	197.1	225.9
EPS ¢	13.6	14.0	14.8	17.0
EPS Chg %	3.2	3.4	5.8	14.7
DPS ¢	13.6	10.5	11.0	11.5
Franked %	–	–	–	–
Div Yld %	11.1	6.9	6.5	6.8
P/E x	9.0	10.9	11.3	9.9

Business Description

Spark Infrastructure (SKI) is an infrastructure fund with an objective to invest in regulated utility infrastructure, both within Australia and overseas. This includes electricity and gas distribution and transmission, regulated water and sewerage assets.

Our recommendation upgrades to Hold on share price weakness and our fair value upgrade.

Investment Rating

Spark Infrastructure owns 49% of three electricity distribution networks: CitiPower and Powercor in Victoria and SA Power Networks in South Australia. All three have secure, predictable regulated revenue streams with pricing typically reset every five years. We are cautious on Australian regulated utilities, believing current strong earnings growth belies the unfavourable regulatory environment, which for Spark will impact following resets in 2015/2016. Unregulated and semi-regulated revenues contribute more than 10% of group revenue, typically providing higher, though more volatile, returns. Management is internal but has limited control over underlying assets given the minority shareholdings. Strategy is to diversify by acquisitions, likely requiring an equity raising if successful. Spark is suitable for income investors at the right price.

Event

► We take a deeper look at Spark's businesses, regulatory risk and moat characteristics.

Impact

► Our fair value estimate increases marginally from AUD 1.50 to AUD 1.60 mainly on a lower long term average cost of capital assumption.

► Spark is a solid company with investments in Australian electricity distribution networks generating highly secure cash flows under a transparent regulatory regime. But regulatory returns are under threat from the lower risk-free rate and political pressure to limit fast growing utility bills.

Recommendation Impact

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Spark Infrastructure Group SKI

Adrian Atkins
Morningstar Analyst

Morningstar Take

Spark Infrastructure owns 49% of three major Australian regulated electricity distribution networks. We like its secure earnings, material unregulated operations and internal management. But we are concerned by the acquisition strategy and the unfavourable medium-term earnings outlook as the regulator cuts returns at future resets. Additionally, control over underlying assets is limited by minority interests.

CitiPower and Powercor are two of five electricity distributors in Victoria while SA Power Networks is the sole electricity distributor in South Australia. The Victorian networks contribute just under half of revenues and EBITDA, with the rest coming from South Australia. Regulated distribution tariffs account for 80% to 90% of group revenue, with unregulated and semi-regulated services accounting for the balance. Unregulated includes services on other owner's networks, asset rentals and facilities access. These operations are generally higher margin and more volatile. Semi-regulated includes public lighting and meter reading.

Regulated revenues are highly secure and predictable between regulatory resets. Volume risk only exists insofar as volumes differ from the regulator's forecasts. While not a major risk in the past, rising utility bills could cause volumes to serially miss expectations. Volume risk is more material for large industrial customers whose electricity usage is dependent on economic conditions. Unregulated and semi-regulated revenues can be lumpy, particularly due to externally-initiated projects. Overall, group revenues are considered to be highly secure.

Diversification is minimal as all regulated operations fall under the jurisdiction of the Australian Energy Regulator (AER). Regulatory resets generally occur every five years in Australia and are staggered for different assets, smoothing the impact of major changes like the current attack on returns. Regulation attempts to provide sufficient returns to encourage investment while protecting consumers from monopolistic pricing. Allowed returns vary over time and we believe the current environment of quickly rising energy bills will see the regulator favour households at upcoming resets, a key risk for all regulated utilities. Household gas and electricity bills are rising due to higher fuel prices, expensive network upgrades and government policies to promote green energy. Australian gas and electricity tariffs have doubled over the past ten years.

The regulator slashed the nominal cost of equity allowance from over 10% in prior periods to around 8% in recent resets due to the sharply lower government 10-year bond yield, used as a proxy for the risk-free rate. The lower cost of equity assumption will hurt profitability and the dividend outlook. Other negative regulatory changes are possible given heightened public and political focus on utility bills and infrastructure returns. Several aspects of the regulatory process are being reviewed. We expect changes to favour households, including restricting the utilities grounds for appealing regulatory decisions. Fortunately for Spark, it locked in robust returns for all assets in 2010 and 2011, so won't be impacted by lower regulatory returns until 2015/2016.

Financial health is relatively good. Financial leverage is reasonable and improving over coming years as elevated capital expenditure is funded from a conservative mix of retained cash flows and new debt. Spark's underlying assets have strong credit ratings. We believe the credit ratings are higher than they would be based on standalone credit metrics due to a halo effect from the strong parent, Cheung Kong Infrastructure. This provides the assets with a cost of debt advantage over independent peers.

Spark is a solid company with investments in Australian electricity distribution networks generating highly secure cash flows under a transparent regulatory regime. But regulatory returns are under threat from the lower risk-free rate and political pressure to limit fast growing utility bills. We believe investors should be cautious towards Spark and other Australian regulated utilities as returns start trending down following a prolonged period of relatively favourable regulatory settings.

Moat

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Spark Infrastructure Group SKI

Adrian Atkins
Morningstar Analyst

Despite having some competitive advantages, we consider Spark to have no moat as regulatory returns are reset to costs of capital every five years. Periods of outperformance and underperformance are possible but on average over the long term we expect returns to roughly match the firm's weighted average cost of capital. Lacking sustainable excess returns, this system suggests no economic moat. In addition to reducing the cost of equity allowance for the foreseeable future, the tough regulatory environment has triggered an overall review of the regulatory process which appears to be aimed at increasing the regulator's power and limiting the utilities' ability to appeal decisions, further reducing the potential for excess returns.

Underlying companies own monopoly assets but have no pricing power due to full regulation. The regulatory system is broadly fair and transparent. Tariffs are set by the regulator to provide an acceptable return for investors while keeping utility bills as low as possible. Revenues are highly secure and predictable between resets every five years, with no exposure to energy prices and substantial protection from volumes, interest rates and cost inflation, which are essentially passed on to end users through tariffs. Inevitable forecasting errors leave some exposure to these variables in the short term but regulatory resets can correct.

Gas and electricity tariffs have doubled in the past decade due to higher fuel costs, expensive upgrades to networks and government policies promoting renewable energy. Higher utility bills combined with the softening economy are causing distress in some households and businesses, putting pressure on the government and regulator to ease the burden by cutting infrastructure profitability. Utility returns are likely to fall materially as the nominal cost of equity allowance is cut from over 10% to around 8% following regulatory resets, below our 9% cost of equity assumption. Expensive upgrades are ongoing and most other costs are unlikely to ease in the foreseeable future, suggesting the regulator will suppress infrastructure returns for a prolonged period.

Generally, the regulatory regime supporting earnings should remain broadly fair, with the regulator upholding the implicit contract with capital providers allowing them to earn acceptable returns on balance, in the long run. While regulatory returns are falling, downside is limited by a transparent process and the right to appeal to an independent tribunal. Capital strikes are possible to an extent if utilities believe returns are too low, but strikes are limited by strict reliability and safety standards which could see the utilities fined or, potentially, losing their operating licences.

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Spark Infrastructure Group SKI

Bulls Points

- Revenues are highly secure over the medium term, underpinned by regulated tariffs and defensive volumes.
- Earnings should grow strongly in coming years due to favourable regulatory settings locked in in 2010/2011.
- Financial health is improving on retained cash flows. Underlying assets have a debt funding cost advantage due to a halo effect from the majority owner, Cheung Kong Infrastructure.

Bears Points

- Returns will likely fall at upcoming regulatory resets as the lower risk free rate reduces the return on equity allowed by the regulator. Political pressure to reduce the burden of quickly rising energy costs on households could lead to further imposts. Fortunately, SKI´s resets are in 2015 and 2016.
- Acquisition of overpriced assets without significant synergies could hinder distribution growth.
- SKI operates in a complex structure and is a minority owner of its assets. CKI is the majority owner at 51%.

Key Valuation Assumptions

Cost of Equity %	9.0
Weighted Avg Cost of Capital %	7.0
Long Run Tax Rate %	30.0
Stage II EBI Growth Rate %	6.0
Stage II Investment Rate %	50.0
Perpetuity Year	20.0

Thesis Last Updated: 05 Jun 2013

Spark Infrastructure owns 49% of three major Australian regulated electricity distribution networks. We like its secure earnings, material unregulated operations and internal management. But we are concerned by the acquisition strategy and the unfavourable medium-term earnings outlook as the regulator cuts returns at future resets. Additionally, control over underlying assets is limited by minority interests.

CitiPower and Powercor are two of five electricity distributors in Victoria while SA Power Networks is the sole electricity distributor in South Australia. The Victorian networks contribute just under half of revenues and EBITDA, with the rest coming from South Australia. Regulated distribution tariffs account for 80% to 90% of group revenue, with unregulated and semi-regulated services accounting for the balance. Unregulated includes services on other owner's networks, asset rentals and facilities access. These operations are generally higher margin and more volatile. Semi-regulated includes public lighting and meter reading.

Regulated revenues are highly secure and predictable between regulatory resets. Volume risk only exists insofar as volumes differ from the regulator's forecasts. While not a major risk in the past, rising utility bills could cause volumes to serially miss expectations. Volume risk is more material for large industrial customers whose electricity usage is dependent on economic conditions. Unregulated and semi-regulated revenues can be lumpy, particularly due to externally-initiated projects. Overall, group revenues are considered to be highly secure.

Diversification is minimal as all regulated operations fall under the jurisdiction of the Australian Energy Regulator (AER). Regulatory resets generally occur every five years in Australia and are staggered for different assets, smoothing the impact of major changes like the current attack on returns. Regulation attempts to provide sufficient returns to encourage investment while protecting consumers from monopolistic pricing. Allowed returns vary over time and we believe the current environment of quickly rising energy bills will see the regulator favour households at upcoming resets, a key risk for all regulated utilities. Household gas and electricity bills are rising due to higher fuel prices, expensive network upgrades and government policies to promote green energy. Australian gas and electricity tariffs have doubled over the past ten years.

Spark is a solid company with investments in Australian electricity distribution networks generating highly secure cash flows under a transparent regulatory regime. But regulatory returns are under threat from the lower risk-free rate and political pressure to limit fast growing utility bills. We believe investors should be cautious towards Spark and other Australian regulated utilities as returns start trending down following a prolonged period of relatively favourable regulatory settings.

Valuation Last Updated: 30 May 2013

Our fair value estimate increases marginally from AUD 1.50 to AUD 1.60 on a slightly lower long term average cost of capital assumption. Our valuation is based on a discounted cash flow using a 9% cost of equity. Our fair value estimate implies a 7% distribution yield. With no regulatory reset until 2015, there is a high level of certainty in earnings over the short term. We believe growth capital expenditure is now fully funded but we remain conservative with our distribution forecast given the ongoing capital expenditure requirements as the smart meter rollout and other capex continues.

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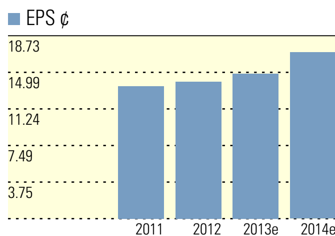
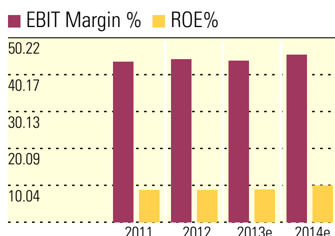
Spark Infrastructure Group SKI

EPS



EBIT Margin vs. ROE



Risk Last Updated: 30 May 2013

The key risks are fragile credit markets and the potential for adverse regulatory rulings. A severe deterioration of global credit markets could hurt as infrastructure assets are highly capital intensive and carry substantial debt. In the worst case scenario, access to debt could become very difficult and require de-leveraging. Regulation protects against rising interest rates but not perfectly as credit market ructions can cause a material widening between interest rates assumed by the regulator (based on BBB+ bonds) and actual interest rates for the company. Fortunately, Spark's underlying assets are well placed with credit ratings one notch higher. Spark and its peers are more highly leveraged than assumed by the regulator, leaving them partly exposed to changing debt costs. Regulatory risk is a key risk at present. Regulatory returns face stiff headwinds at upcoming resets due to the falling risk free rate assumption and political pressure on the regulator to ease the impact of quickly rising energy bills on households. Other risks include the potential for poor operating performance to result in fines and accounting standards that poorly fit infrastructure companies.

Financial Overview

Growth

Revenue growth to 2015 is supported by tariff increases in the current regulatory periods. RAB growth is supportive of longer term growth but we expect less favourable resets in mid- and end-2015 will see EPS fall in 2016.

Profitability

In SKI´s last resets, the regulator allowed favourable asset returns, benefiting the firm until 2015/2016. EBITDA margins are solid - 66% in 2012 - and likely to improve.

Financial Health

Gearing is acceptable with net debt to RAB of 80% at end-2012, broadly in line with peers and improving on retained cash flows. The small amount of corporate level debt is manageable.

Strategy & Process Last Updated: 25 Feb 2013

SKI holds high quality monopoly assets with secure and predictable revenue. CitiPower and Powercor are two of five electricity distributors in Victoria while ETSA is the sole distributor in South Australia. Management holds a disciplined approach to acquisition and is focused on organic growth strategies. Organic growth opportunities in Victoria include the installation of 'smart meters´. Unregulated business includes external projects and maintenance for electricity transmissions and public lighting.

Over time, SKI will seek to develop a diversified portfolio which includes Australian as well as international regulated infrastructure assets. The company intends to target assets that provide diversification by asset class, geography and regulatory regime.

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General Financials

Financials

Per Share	Historical 12/10	12/11	12/12	Forecast 12/13	12/14	12/15
Sales ¢	72.2	65.3	71.6	75.2	79.9	83.1
Adjusted Earnings ¢	13.2	13.6	14.0	14.8	17.0	16.7
Free Cash Flow ¢	12.0	-0.2	12.6	10.5	17.8	23.6
Net Tangible Assets ¢	109.6	87.6	96.4	100.6	106.2	111.0
Book Value ¢	190.8	154.0	163.3	167.1	172.7	177.5
Dividends ¢	0.0	13.6	10.5	11.0	11.5	11.8
Franking %	–	–	–	–	–	–

Growth %	12/10	12/11	12/12	12/13	12/14	12/15
Sales Revenue	7.3	9.8	9.6	5.1	6.3	3.9
EBITDA	7.9	10.2	10.5	4.8	8.8	4.2
Pre-Tax Profit	24.1	25.2	3.4	5.9	14.6	-1.8
EPS	15.0	3.2	3.4	5.8	14.7	-1.8
DPS	–	–	-22.8	4.8	4.5	3.0
Free Cash Flow per share	-20.7	-101.8	–	-16.8	69.6	32.3

Profit & Loss ($Mil)	12/10	12/11	12/12	12/13	12/14	12/15
Sales Revenue	789.2	866.5	949.6	997.9	1,060.5	1,102.2
EBITDA	513.9	566.5	625.9	656.0	713.6	743.4
Depreciation	175.4	187.2	203.9	216.8	229.4	247.2
Amortisation	–	–	–	0.0	0.0	0.0
EBIT	338.6	379.3	422.0	439.2	484.1	496.2
Interest Expense	201.2	204.1	235.8	242.1	258.2	274.2
Interest Income	6.5	4.9	0.0	–	–	–
Profit Before Tax	143.8	180.0	186.1	197.1	225.9	221.9
Tax	–	–	–	–	–	–
Reported NPAT	143.8	180.0	186.1	197.1	225.9	221.9
Non-Recurring Items After Tax	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted NPAT	**143.8**	**180.0**	**186.1**	**197.1**	**225.9**	**221.9**
Free Cash Flow	131.2	-2.4	167.6	139.5	236.6	313.1
Effective Tax Rate %	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow ($Mil)	12/10	12/11	12/12	12/13	12/14	12/15
Receipts from Customers	1,131.4	1,208.6	1,208.6	992.6	1,053.6	1,097.6
Payments to Suppliers	-556.0	-634.2	-634.2	-330.1	-343.8	-351.2
Other Operating Cashflow	-272.3	-317.8	-317.8	-266.2	-258.5	-275.1
Net Operating Cashflow	**303.1**	**256.5**	**256.5**	**396.2**	**451.3**	**471.3**
Capex	-373.9	-459.4	-459.4	-498.8	-472.8	-432.4
Acquisitions & Investments	0.0	0.0	0.0	0.0	0.0	0.0
Sales of Investments & Subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	7.3	1.1	1.1	0.0	0.0	0.0
Net Investing Cashflow	**-366.6**	**-458.2**	**-458.2**	**-498.8**	**-472.8**	**-432.4**
Proceeds from Issues	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from Borrowings	-157.1	269.2	0.0	220.0	220.0	220.0
Dividends Paid	0.0	-132.7	-139.3	-145.9	-152.6	-157.2
Other Financing Cashflow	-4.5	-2.4	0.0	0.0	0.0	0.0
Net Financing Cashflow	**-161.7**	**134.1**	**-139.3**	**74.1**	**67.4**	**62.8**
Net Increase Cash	-225.2	-67.6	-341.0	-28.6	45.9	101.7
Cash at Beginning	277.2	108.5	381.9	45.3	16.8	62.7
Exchange Rate Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Cash at End	52.0	40.9	40.9	16.8	62.7	164.4

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General Financials

Financials

Balance Sheet ($Mil)	Historical 12/10	12/11	12/12	Forecast 12/13	12/14	12/15
Cash & Equivalents	52.0	40.9	40.9	16.8	62.7	164.4
Accounts Receivable	75.3	104.3	104.3	109.6	116.5	121.1
Inventory	25.4	23.4	23.4	24.7	25.1	26.0
Other Short-Term Operating Assets	83.6	99.7	99.7	99.7	99.7	99.7
Total Current Assets	236.4	268.3	268.3	250.9	304.0	411.2
Property Plant & Equipment, Net	3,939.0	4,270.2	4,525.7	4,807.7	5,051.1	5,236.3
Goodwill, Net	–	–	–	0.0	0.0	0.0
Other Intangibles	887.4	882.1	882.1	882.1	882.1	882.1
Other Long-Term Operating Assets	253.2	233.9	233.9	233.9	233.9	233.9
Deferred Tax Assets	–	–	–	0.0	0.0	0.0
Long-Term Non-Operating Assets	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	**5,316.0**	**5,654.6**	**5,910.1**	**6,174.6**	**6,471.1**	**6,763.5**
Accounts Payable	222.1	206.0	206.0	217.7	220.8	228.5
Short-Term Debt	234.9	21.5	21.5	21.5	21.5	21.5
Other Short-Term Operating Liabilities	98.6	98.7	98.7	98.7	98.7	98.7
Total Current Liabilities	555.5	326.1	326.1	337.8	340.9	348.6
Total Long-Term Debt	2,431.1	2,908.1	3,208.7	3,428.7	3,648.7	3,868.7
Long-Term Operating Liabilities	118.9	190.9	190.9	190.9	190.9	190.9
Deferred Tax Liabilities	4.1	22.8	22.8	0.0	0.0	0.0
Long-Term Non-Operating Liabilities	120.1	162.6	0.0	0.0	0.0	0.0
Total Liabilities	**3,229.8**	**3,610.5**	**3,748.4**	**3,957.4**	**4,180.5**	**4,408.1**
Preferred Stock	–	–	–	0.0	0.0	0.0
Minority Interest	–	–	–	0.0	0.0	0.0
Total Equity	**2,086.2**	**2,044.1**	**2,166.1**	**2,217.2**	**2,290.6**	**2,355.4**

Profitability %	12/10	12/11	12/12	12/13	12/14	12/15
EBITDA Margin	65.1	65.4	65.9	65.7	67.3	67.4
EBIT Margin	42.9	43.8	44.4	44.0	45.6	45.0
Net Profit Margin	18.2	20.8	19.6	19.8	21.3	20.1
Free Cash Flow Margin	16.6	-0.3	17.6	14.0	22.3	28.4
Return on Equity	7.7	8.7	8.8	9.0	10.0	9.6
Return on Assets	2.7	3.3	3.2	3.3	3.6	3.4
Return on Invested Capital(w/Goodwill)	6.1	6.1	7.8	7.4	8.1	7.9
ROIC (w/Goodwill) Less WACC	-0.9	-0.9	0.8	0.3	1.1	0.9

Leverage & Liquidity	12/10	12/11	12/12	12/13	12/14	12/15
Net Debt to Capital %	55.6	58.6	59.6	60.8	61.2	61.3
Net Debt/(Net Debt + Equity) %	55.6	58.6	59.6	60.8	61.2	61.3
Net Debt/Equity %	125.3	141.3	147.2	154.8	157.5	158.2
Net Debt/EBITDA x	5.1	5.1	5.1	5.2	5.1	5.0
EBIT/Net Interest Expense x	1.7	1.9	1.8	1.8	1.9	1.8
Current Ratio (Current Assets/Current Liabilities) x	0.4	0.8	0.8	0.7	0.9	1.2
Dividend Payout Ratio %	0.0	100.2	74.8	74.1	67.5	70.8
Net Cash Per Share ¢	-239.1	-217.7	-240.4	-258.8	-271.9	-280.8

Valuation	12/10	12/11	12/12	12/13	12/14	12/15
Price/Earnings x	8.9	9.0	10.9	11.3	9.9	10.0
PEG Ratio x	1.3	0.3	0.4	0.7	1.4	-0.2
EV/EBITDA x	7.6	8.0	8.3	8.3	7.6	7.3
EV/EBIT x	11.5	11.9	12.4	12.3	11.2	10.9
Free Cash Flow Yield %	10.3	-0.1	8.3	6.3	10.6	14.0
Dividend Yield %	0.0	11.1	6.9	6.5	6.8	7.1
Price/(OCF per share) x	4.2	6.3	7.9	5.6	4.9	4.7
Price/(FCF per share) x	9.8	-671.9	12.1	16.0	9.4	7.1
Price/Sales x	1.6	1.9	2.1	2.2	2.1	2.0
Price/NTA x	1.1	1.4	1.6	1.7	1.6	1.5
Price/Book x	0.6	0.8	0.9	1.0	1.0	0.9

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