Morningstar® Equities Research Daily Roundup

16 September 2013

Today's Research

ASX Code	Company Name	Previous Recommendation	New Recommendation	Reason
WHS-NZ	The Warehouse Group	Hold	Hold	
AGO	Atlas Iron	Hold	▲ Accumulate	$
MAH	Macmahon Holdings	Reduce	▲ Hold	$
TSE	Transfield Services	Reduce	▲ Hold	$

Research Highlights

The Warehouse Group WHS-NZ | 3.71

Results Slightly Disappointing from Warehouse Group; Higher 2014 Costs May Pinch Profit Growth

Recommendation: Hold

Analyst Note

The Warehouse Group reported underlying net profit after tax, or NPAT, of NZD 73.7 million, around 3% below our forecast and 13.8% above the same period last year. The strong double-digit growth mainly reflects acquisitions. Excluding acquisitions, we believe like-for-like profit growth was around 7% in fiscal 2013. Same-store sales of 2% for the firm's core Red Sheds division was underwhelming. In addition, operating earnings and margins were slightly lower than our expectations, as the firm invested in its multi-channel initiative, to position that business for growth.

We are lowering our fiscal 2014 forecast to NZD 80 million from NZD 83 million as we see the company continuing to invest in its multi-channel business over the next 2-3 years, which will result in higher operating costs. We expect modest same-store sales growth in fiscal 2014 and slightly higher gross margins from better product sourcing. Overall we retain our view that The Warehouse possesses competitive advantages and a narrow economic moat due to the firm's iconic brand, low cost position and unparalleled scale. Our fair value estimate of NZD 3.60 per share remains unchanged. The stock appears fairly valued at current levels.

Atlas Iron AGO | 0.865

Upgrade due to price change.

Recommendation: Accumulate

Macmahon Holdings MAH | 0.145

Upgrade due to price change.

Recommendation: Hold

Transfield Services TSE | 1.240

Upgrade due to price change.

Recommendation: Hold

News Digest

17:26 IAU Intrepid Mines Provides Legal Update

Intrepid Mines advised that the State Administrative Tribunal in Surabaya, East Java, has handed down judgment in the lawsuit brought by the company, to set aside the transfer of the Tujuh Bukit mining leases (IUP Eksplorasi and IUP Operasi Produksi) from PT IMN to PT Bumi Suksesindo. On 12 September 2013, judgment was handed down in the matter and whilst the Tribunal was split in its decision, two judges ruled against the company on a procedural point of lack of legal standing. They opined that the company had no standing to challenge the actions of the Bupati of Banyuwangi in circumstances where it was not yet a shareholder in PT IMN. The third judge, in his dissenting verdict, accepted the company's standing to institute proceedings. The company believes findings of the dissenting judge provide a solid foundation for an appeal to the State Administrative Appeals Court of Surabaya.

15:34 MPO Molopo Energy Provides Operation and Financial Update

Molopo Energy announced that it has reached an agreement with a South African-based party to divest its interests in its South African biogenic gas assets, which include a Production Right granted in 2012. The transaction, with a potential value of up to 53 million Rand, will be effected via a sale of the shares of the company's South African subsidiary. Completion of the transaction is subject to approval by South African authorities, which is expected to be received by the end of 2013.

14:47 HGO Hillgrove Resources Reports NPAT of $4.02m for the Half Year to 31 July 2013

Hillgrove Resources reported NPAT of $4.02m for the half-year ended 31 July 2013. Revenues from ordinary activities were $58.6m, up 16.8% from the same period last year. Diluted EPS was 0.006 cents compared to (0.017) cents last year. Net operating cash flow was $7.64m compared to $2.87m last year. No dividend was declared.

14:24 DML Discovery Metals Announces Annual Financial Results

Discovery Metals reported its full year directors' report and financial statements for the year ended 30 June 2013, reporting a consolidated group loss of US$224.3m for the year. The consolidated group loss includes an impairment charge of US$205.7m relating to the write-down of the carrying value of the Boseto project. Total assets decreased by US$238m from US$492m to US$254m and net assets decreased by US$170m from US$238m to US$68m at 30 June 2013 as a result of the Boseto impairment. Cash at 30 June 2013 was US$21.3m and total interest bearing debt of US$153.9m.

11:50 ERA Energy Resources of Australia Appoints New Chief Executive and MD

Energy Resources of Australia announced that it has appointed Andrea Sutton as Chief Executive and MD of the company, effective from 23 September 2013. Ms Sutton will replace Rob Atkinson who has resigned as Chief Executive and MD in order to take up the role of COO with the Rio Tinto Copper Product Group. Mr Atkinson will work with Ms Sutton and the board to ensure a timely and smooth transition with his resignation to take effect from 23 September 2013. Ms Sutton brings extensive operational, technical and corporate experience to the company from her 19 years with Rio Tinto. Ms Sutton is currently MD with the Rio Tinto Support Strategy Review team.

11:43 WEB Webjet Announces MD Contract Extension

Webjet announced that the company has renewed its contract with its MD, Mr John Guscic, for a further term concluding on 30 June 2017. The company provided a summary of the contract terms.

09:59 BLY Boart Longyear Announces S&P Downgrades Corporate Debt Ratings

Boart Longyear announced that Standard & Poor's (S&P) has downgraded the company's credit ratings from "B+" to "B" and revised its rating outlook from "stable" to "negative".

News Digest

09:20 PAN Panoramic Resources Announces Resources and Reserves as at 30 June 2013

Panoramic Resources disclosed updated group resources and reserves as at 30 June 2013. A significant portion of the FY2013 exploration budget was directed towards the gold projects, which has resulted in the gold division's resources increasing to 2.5Moz Au. Importantly, there has also been a marked increase in the level of geological confidence, with a significant proportion of resources now classified as indicated resources. The nickel division resources have been maintained at close to 30 June 2012 levels with the upgrading of the Lanfranchi resource and the inclusion of the recently Jury-Metcalfe resource offsetting depletion from production in FY2013. Nickel division resources are 186,800t Ni, while nickel division reserves are 64,100t Ni.

08:57 IMD Imdex Announces Partial Sale of SEH Holding

Imdex advised that it has sold 130m shares in Sino Gas & Energy Holdings via a bookbuild to institutional and sophisticated investors at a price of $0.185 per share to realise gross cash proceeds of $24.05m. The company is a founding shareholder in Sino and recognises Sino is developing a world scale gas project in China. The company supports the strategy of Sino's board and management and has no current intention to sell the remainder of its shareholding (being 121.91m shares, representing an approximate 9.7% interest in Sino). The sale proceeds will put the company in a strong cash position and provide greater financial flexibility in pursuing a number of growth initiatives, particularly in the oil and gas sector and technology development.

Dividends Declared and Payable

ASX Code	Company Name	Ex Dividend Date	Dividend Pay Date	Amount	Franking%
LGD	Legend Corporation	17 Sep, 13	25 Oct, 13	1.10	100.00
LSBHB	7.00% BD SER.SEP2014	17 Sep, 13	01 Oct, 13	606.88	
LSBHF	4.25% BD SER.SEP2014	17 Sep, 13	01 Oct, 13	374.35	
MQA	Macquarie Atlas Roads	17 Sep, 13	04 Oct, 13	3.30	0.00
SIP	Sigma Pharma.	17 Sep, 13	23 Oct, 13	2.00	100.00
SXE	Southern Cross Electrical Engineering	17 Sep, 13	17 Oct, 13	2.70	100.00
IFL	IOOF	18 Sep, 13	16 Oct, 13	22.50	100.00
MSTG	10% CN 01-MAR-15	18 Sep, 13	02 Oct, 13	0.00	
RWH	Royal Wolf	18 Sep, 13	03 Oct, 13	5.00	0.00
SGH	Slater & Gordon	19 Sep, 13	25 Oct, 13	3.85	100.00
SFW	SFG Australia	20 Sep, 13	24 Oct, 13	1.40	100.00
SKE	Skilled	20 Sep, 13	16 Oct, 13	9.00	100.00
CAB	Cabcharge	23 Sep, 13	30 Oct, 13	12.00	100.00
CAJ	Capitol Health	23 Sep, 13	25 Oct, 13	0.30	100.00
CCP	Credit Corp Group	23 Sep, 13	04 Oct, 13	17.00	100.00
CNU	Chorus	23 Sep, 13	11 Oct, 13	13.06	0.00
CTE	Cryosite	23 Sep, 13	23 Oct, 13	1.00	0.00
CWN	Crown	23 Sep, 13	11 Oct, 13	19.00	50.00
FBU	Fletcher Building	23 Sep, 13	16 Oct, 13	17.00	0.00
GFF	Goodman Fielder	23 Sep, 13	01 Nov, 13	3.00	0.00
IMFG	10.25%CN 31DEC14	23 Sep, 13	05 Oct, 13	4.23	
MBLHB	STAPLED PERP. FRN.	23 Sep, 13	15 Oct, 13	110.94	
MXI	Maxitrans	23 Sep, 13	11 Oct, 13	4.25	100.00
MYE	Mastermyne Group	23 Sep, 13	16 Oct, 13	3.60	100.00
NPX	Nuplex Industries	23 Sep, 13	11 Oct, 13	9.27	0.00
SCC	Scott Corporation	23 Sep, 13	11 Oct, 13	1.50	100.00
SVW	Seven Group	23 Sep, 13	11 Oct, 13	20.00	100.00
SWL	Seymour Whyte	23 Sep, 13	18 Oct, 13	6.25	100.00
SXL	Southern Cross Media	23 Sep, 13	21 Oct, 13	4.50	100.00
TRS	Reject Shop	23 Sep, 13	14 Oct, 13	13.00	100.00
TTSHA	BOND 05-JUL-19	23 Sep, 13	07 Oct, 13	152.74	
WAA	WAM Active	23 Sep, 13	04 Oct, 13	4.75	100.00
BKL	Blackmores	24 Sep, 13	18 Oct, 13	83.00	100.00
CVW	Clearview Wealth	24 Sep, 13	08 Oct, 13	1.80	100.00
EPX	Ethane Pipeline	24 Sep, 13	15 Oct, 13	3.29	77.51
MGX	Mount Gibson Iron	24 Sep, 13	15 Oct, 13	2.00	100.00
MYR	Myer Holdings	24 Sep, 13	14 Nov, 13	8.00	100.00
FAN	Fantastic	25 Sep, 13	15 Oct, 13	3.00	100.00
FNP	Freedom Foods Group	25 Sep, 13	01 Nov, 13	1.00	100.00
PFG	Prime Financial Group	25 Sep, 13	29 Oct, 13	0.50	100.00
AVDG	9.5% CN 04-JAN-15	26 Sep, 13	10 Oct, 13	2.38	
AYIG	12.0% CN 30-SEP-14	26 Sep, 13	10 Oct, 13	6.00	
LYL	Lycopodium	26 Sep, 13	15 Oct, 13	21.00	100.00
WEB	Webjet	26 Sep, 13	17 Oct, 13	7.00	100.00
AIA	Auckland Airport	27 Sep, 13	17 Oct, 13	5.26	0.00
AUB	Austbrokers Holdings	27 Sep, 13	24 Oct, 13	24.50	100.00
SDI	SDI	27 Sep, 13	24 Oct, 13	0.50	100.00
ALU	Altium	30 Sep, 13	28 Oct, 13	8.00	0.00
ARP	ARB Corp	30 Sep, 13	18 Oct, 13	15.50	100.00
ASL	Ausdrill	30 Sep, 13	18 Oct, 13	5.50	100.00
AYUHA	FRN 14-APR-16	30 Sep, 13	14 Oct, 13	159.00	
CBAHA	BOND 24-DEC-15	30 Sep, 13	15 Oct, 13	96.00	
CGR	Careers Multilist	30 Sep, 13	25 Oct, 13	0.50	100.00
CRH	Crowe Horwath Australasia	30 Sep, 13	04 Nov, 13	2.00	100.00
CWP	Cedar Woods Properties	30 Sep, 13	30 Oct, 13	15.00	100.00
MTU	M2 Telecommunications Group	30 Sep, 13	25 Oct, 13	10.00	100.00
ONT	1300 Smiles	30 Sep, 13	09 Oct, 13	8.50	100.00
SMX	SMS Management and Tech	30 Sep, 13	25 Oct, 13	12.00	100.00
UXC	UXC	30 Sep, 13	21 Oct, 13	4.00	100.00

Dividends Declared and Payable

REH	Reece	01 Oct, 13	24 Oct, 13	41.00	100.00
WBA	Webster	01 Oct, 13	31 Oct, 13	1.50	100.00
CLH	Collection House	02 Oct, 13	30 Oct, 13	3.60	100.00
GBT	GBST Holdings	02 Oct, 13	23 Oct, 13	3.50	100.00
GSBG15	GSB 6.25% 15-APR-15	02 Oct, 13	15 Oct, 13	312.50	
GSBG20	GSB 4.50% 15-APR-20	02 Oct, 13	15 Oct, 13	225.00	
MCP	McPherson's	02 Oct, 13	12 Nov, 13	7.00	100.00
NCK	Nick Scali	02 Oct, 13	31 Oct, 13	6.00	100.00
IMD	Imdex	04 Oct, 13	25 Oct, 13	0.40	100.00
KRS	Kresta Holdings	04 Oct, 13	25 Oct, 13	0.25	100.00
LBL	Laserbond	04 Oct, 13	25 Oct, 13	0.20	100.00
MNY	Money3 Corporation	04 Oct, 13	28 Oct, 13	2.25	100.00
NWH	NRW Holdings	04 Oct, 13	29 Oct, 13	5.00	100.00
PGC	Paragon Care	04 Oct, 13	31 Oct, 13	1.00	100.00
PPK	PPK Group	04 Oct, 13	18 Oct, 13	2.00	100.00
WAM	WAM Capital	04 Oct, 13	18 Oct, 13	6.00	100.00
BER	Berklee	08 Oct, 13	31 Oct, 13	5.00	0.00
TFC	TFS Corporation	08 Oct, 13	08 Nov, 13	3.00	100.00
XCLWI	6.25% LN 15-APR-15	08 Oct, 13	15 Oct, 13	312.50	
XCLWO	4.50% LN 15-APR-20	08 Oct, 13	15 Oct, 13	225.00	
XQLQE	6.0% LN 14-OCT-15	08 Oct, 13	14 Oct, 13	300.00	
XVGZH	4.75% LN 15-OCT-14	08 Oct, 13	15 Oct, 13	2,375.00	
GSBG23	GSB 5.50% 21-APR-23	09 Oct, 13	21 Oct, 13	275.00	
GSBG24	GSB 2.75% 21-APR-24	09 Oct, 13	21 Oct, 13	137.50	
GSBG25	GSB 3.25% 21-APR-25	09 Oct, 13	21 Oct, 13	162.50	
GSBG27	GSB 4.75% 21-APR-27	09 Oct, 13	21 Oct, 13	237.50	
GSBG29	GSB 3.25% 21-APR-29	09 Oct, 13	21 Oct, 13	162.50	
GSBS14	GSB 4.50% 21-OCT-14	09 Oct, 13	21 Oct, 13	225.00	
GSBS15	GSB 4.75% 21-OCT-15	09 Oct, 13	21 Oct, 13	237.50	
AIX	Australian Infrastructure Fund	10 Oct, 13	22 Oct, 13	0.30	100.00
NCC	Naos Emerging Opportunities Company	10 Oct, 13	23 Oct, 13	2.50	100.00
XVGZZ	6.0% LN 17-OCT-22	10 Oct, 13	17 Oct, 13	300.00	
FFI	FFI Holdings	11 Oct, 13	24 Oct, 13	13.50	100.00
KSC	K&S Corporation	11 Oct, 13	31 Oct, 13	4.50	100.00
UOS	United Overseas Australia	11 Oct, 13	04 Nov, 13	0.50	0.00
BWF	Blackwall Property Funds	14 Oct, 13	31 Oct, 13	0.60	100.00
IMF	IMF (Australia)	14 Oct, 13	31 Oct, 13	5.00	100.00
MFF	Magellan Flagship Fund	14 Oct, 13	15 Nov, 13	1.00	0.00
XCLWAC	2.75% LN 21-APR-24	14 Oct, 13	21 Oct, 13	137.50	
XCLWAD	3.25%LN 21-APR-29	14 Oct, 13	21 Oct, 13	162.50	
XCLWU	4.5% LN 21-OCT-14	14 Oct, 13	21 Oct, 13	225.00	
XCLWX	5.50% LN 21-APR-23	14 Oct, 13	21 Oct, 13	275.00	
XCLWY	4.75% LN 21-OCT-15	14 Oct, 13	21 Oct, 13	237.50	
XQLQN	6.00% LN 21-APR-16	14 Oct, 13	21 Oct, 13	300.00	
XQLQQ	6.00% LN 21-OCT-15	14 Oct, 13	21 Oct, 13	300.00	
XVGZK	LN 20-OCT-14	14 Oct, 13	20 Oct, 13	0.00	
ALF	Australian Leaders Fund	15 Oct, 13	28 Oct, 13	6.00	100.00
HBSHA	10% UNSEC.25-OCT-19	15 Oct, 13	29 Oct, 13	250.00	

Warehouse Group Limited (The) WHS-NZ

Results Slightly Disappointing from Warehouse Group; Higher 2014 Costs May Pinch Profit Growth

Morningstar Recommendation

Hold (6:25AM 14-Sep-2013)

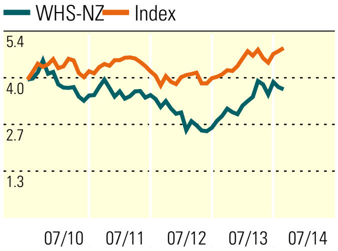
▼3.71 Price

$	Buy	Accumulate	Hold	Reduce	Sell
		2.52	3.24	3.96	4.86

Snapshot

Fair Value Uncertainty	Medium
Moat Rating	Narrow
Fair Value $	3.60
Market Cap $Mil	1,155
Morningstar Style Box	–
Price $ (4:00PM 13-Sep-2013)	3.71
52 Week High/Low $	4.40/2.85
Shares Issued Mil	311
Morningstar Sector	Consumer Cyclical
Morningstar Industry	Department Stores
GICS Sector	Consumer Discretionary

Price vs. Market



	07/11	07/12	07/13e	07/14e
NPAT ($Mil)	77.2	89.8	76.4	83.2
EPS ¢	24.8	28.9	24.6	26.8
EPS Chg %	-7.6	16.4	-15.0	9.0
DPS ¢	29.5	20.2	20.9	22.7
Franked %	100.0	100.0	100.0	100.0
Div Yld %	–	–	–	–
P/E x	–	–	–	–

Source: Morningstar estimates 09-Jul-2013.

Profile

The Warehouse Group Limited (WHS) is primarily a discount department store with operations in New Zealand. The stores provide a broad range of products including manchester, appliances & electronics, homewares, photo processing, toys, outdoor living, hardware, clothing, footwear, health and beauty products, confectionery and jewellery. The Group also operates Warehouse Stationery and The Warehouse Financial Services.

Investment Perspective By Nachiket Moghe, CFA (08-Oct-2012)

The Warehouse dominates the discount department store market in New Zealand. The company's scale covers the breadth of the country and its strategically important property portfolio makes it the envy of retailers nationwide. Nevertheless, the company is seeking to reinvigorate its identity after years of self-confessed underperformance. With a new CEO and NZD 430 million of capital expenditure planned during the next five years The Warehouse is seeking to drive an operational turnaround. While there is a feeling among investors that the best years of growth are behind the company given its mature profile, potential operational improvements mixed with a compelling dividend yield (6% to 7%) underlie the attractiveness of this retailer.

Analyst Note (6:25AM 14-Sep-2013)

The Warehouse Group reported underlying net profit after tax, or NPAT, of NZD 73.7 million, around 3% below our forecast and 13.8% above the same period last year. The strong double-digit growth mainly reflects acquisitions. Excluding acquisitions, we believe like-for-like profit growth was around 7% in fiscal 2013. Same-store sales of 2% for the firm's core Red Sheds division was underwhelming. In addition, operating earnings and margins were slightly lower than our expectations, as the firm invested in its multi-channel initiative, to position that business for growth.

We are lowering our fiscal 2014 forecast to NZD 80 million from NZD 83 million as we see the company continuing to invest in its multi-channel business over the next 2-3 years, which will result in higher operating costs. We expect modest same-store sales growth in fiscal 2014 and slightly higher gross margins from better product sourcing. Overall we retain our view that The Warehouse possesses competitive advantages and a narrow economic moat due to the firm's iconic brand, low cost position and unparalleled scale. Our fair value estimate of NZD 3.60 per share remains unchanged. The stock appears fairly valued at current levels.

The Warehouse intends to become a multi-channel retailer offering goods through its network of stores and online. The online business is growing strongly (albeit off a low base) and The Warehouse plans to increase its offering during the next 12 months. We think there is significant scope for growth given New Zealand's relatively low online penetration compared with the United Kingdom and the United States. However, The Warehouse could increasingly face competition from reputed international websites like Amazon, Ebay and in the home market from Trade Me, as it gears up to sell branded products through its website.

The Red Sheds division (75% of EBIT) achieved total sales growth of 4.4% and same-store sales growth of 2%. This is below our forecast of 2.6% and 5% for same-store sales and total sales respectively. We believe the unusually warmer winter in 2013 affected apparel sales which accounts for approximately 30% of Red Shed's overall sales. In addition to the systemic decline in CD and DVD categories, the unavailability of appliances for a brief period also impacted sales. Categories which did well were consumer electronics, baby, beauty and confectionary with sales up between 7% and 20%. We believe the retail environment is likely to pick up on the back of a buoyant housing market and consequently expect retailers to do reasonably well in fiscal 2014. In addition, The Warehouse is likely to benefit from the full impact of the stores that were refurbished last year, which are growing faster than the non-refurbished stores. On the flip side, competition from existing as well as online retailers, is likely to remain fierce. Given this backdrop, we expect the Red Sheds division to achieve 2.5% same-store sales growth in fiscal 2014.

The stationery business, comprising 9% of operating earnings, achieved 2.8% same-store sales growth and 12.2% total revenue growth underpinned by five new store openings. Nine more stores will be rolled out in the next 12 to 15 months. Operating earnings grew by 4.9% in fiscal 2013 and margins fell 30 basis points to 4.5%. Management attributed this to an adverse mix shift towards more technology-related products which have lower margins than some of the other categories. Also The Warehouse incurred a one-off NZD 1 million rebranding cost. We believe margins will revert to 2012 levels in 2013 and total sales will continue to grow strongly aided by the addition of new stores. We project same-store sales growth of 2.5% for the stationery business.

The company purchased Noel Leeming Group in December 2012 and also acquired a 50% interest in online retailer Torpedo 7 in April 2013. NLG contributed NZD 11 million to the firm's operating profit and was largely responsible for The Warehouse's double-digit profit growth in fiscal 2013. We expect the fiscal 2014 results to benefit from the full impact of these acquisitions.

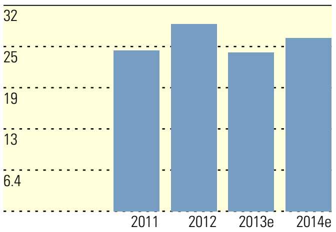
Warehouse Group Limited (The) WHS-NZ

Whilst still dominant, strategic execution will be critical to The Warehouse's future.

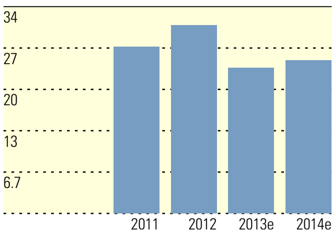
Key Valuation Assumptions

Cost of Equity %	10.0
Weighted Avg Cost of Capital %	8.9
Long Run Tax Rate %	28.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	35.7
Perpetuity Year	15.0

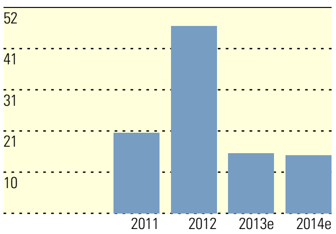
EPS ¢



Return on Equity (ROE) %



Return on Invested Capital (ROIC) %



Thesis (11-Dec-2012)

The Warehouse is New Zealand's leading discount retailer, selling both general merchandise and stationary supplies. The recent acquisition of Noel Leeming Group (NLG) has increased the number of stores to 237 from 140. The acquisition will increase the company's non-food retail market share, which is currently around 8%. However we are concerned that it will increase the company's exposure to categories like consumer electronics and home appliances, which are facing price deflation due to technological changes and intense competition. Still, we maintain our narrow moat recommendation reflecting the firm's iconic brand, low-cost provider position and unparalleled scale. Additionally, the company, by virtue of its first-mover advantage, has secured some very important and strategic sites which are the envy of other large big-box retailers.

Management is under no illusions about the performance of the business and the fact that the company has underperformed the non-food retail sector in general due to poor execution. Rival Briscoe (BGR) has stolen a march from The Warehouse evidenced by the stupendous growth in earnings achieved during the last two years. The company's new CEO, Mark Powell, is determined to turn around the franchise by positioning The Warehouse as the "House of Bargains" and the "Home of Essentials" for shoppers. We think management's strategy is gaining traction substantiated by the improvements in same-store sales, gross margins and market share gains achieved in the second half of the previous fiscal. However it remains to be seen if the momentum can be sustained.

There are tremendous opportunities for The Warehouse to grow its share of wallet across all categories by focusing on consumers with high disposable incomes. This is being achieved through a program that focuses on stocking more international brands, speeding up own-label product development and improving customer satisfaction through better product presentation. There is a notion among shoppers that The Warehouse, although cheap, does not offer quality products. Management would do well to dispel that notion. We believe the integration of NLG will likely result in some reputable premium brands moving across to The Warehouse's Red Shed stores over time. This might entice more people into the Red Shed stores and lift its brand perception.

Retail spending is understandably subdued given that unemployment levels remain high and consumers continue to cut back on shopping to save more. It is difficult to predict how long this might last, but we anticipate spending to remain anaemic for at least the next 12 to 18 months. The longer-term outlook for retail spending in New Zealand remains challenging as well given the high level of consumer debt. The sector will remain highly competitive in all categories.

The Warehouse is a cyclical stock with a solid balance sheet which would suit income oriented investors with a medium appetite for risk. Although organic growth opportunities look uninspiring given the company's mature profile, properly executed strategies could see the company gain back market share losses. The stationery business has been quite successful under the leadership of Mark Powell and he now needs to draw on that experience to turn around the fortunes of Red Sheds.

Valuation, Growth and Profitability (16-May-2013)

We are increasing our fair value estimate to NZD 3.60 per share from NZD 3.00 per share, reflecting a reduction in our capital expenditure and inventory projections. We continue to anticipate The Warehouse's margins to decline from 7% to 5.2% due to Noel Leeming Group's (NLG) significantly lower operating margins. Sales growth in the next five years is likely to be around 11% due to the acquisition of NLG. Our intrinsic value implies forward fiscal-year price/earnings of 13.5 times, enterprise value/EBITDA of 7.1 times, and a free cash flow yield of 2%.

In our discounted cash flow model, we assume a weighted average cost of capital of 9%, while our five-year average return on invested capital equals 16.9%, supporting our opinion that this firm has an economic moat.

A NZD 430 million capital expenditure program during the next five years will result in 40,000 sqm of additional footprint. Store modernisation will also play a critical role in improving the internal and external look of existing stores. More than 50 stores will have external improvements, while 60-plus stores will have internal refits during this time. Online will also play an increasingly important part in the company's future, it is expected to drive further growth in this area. The future online offering will have extended ranges and categories. The company aims to triple online sales during the next five years.

Risk

Poor economic fundamentals, margin erosion due to aggressive pricing adopted by category killers, exchange rate and market share losses are some of the headline risks confronting The Warehouse. Technological change poses a serious risk too. The online space, particularly for retail, is a significant risk. The company's exposure to the CD and DVD market is worrying. The physical CD and DVD market is, in our opinion, a dying business. The increasing prevalence of online downloads will continue to take market share. Structural changes such as ultra-fast broadband will also accelerate the consumer shift away from the physical market. Online will also continue to pose a risk to the industry as a whole not just to the CD and DVD market. A stronger exchange rate, diverse offshore offerings, low cost products, and convenience, will see greater online sales across all categories. The Warehouse must target the online market in order to stay relevant, otherwise it will lose market share.

Financial Health

The Warehouse is in a sound financial position and all financial ratios are well within debt covenants and internal benchmarks. Total debt/EBITDA is expected to be 1.4 for fiscal 2012--higher than the past given greater capital expenditure during the next three to five years. EBIT/interest expense is strong at 12.1 times and is expected to be around 10.4 times in fiscal 2012, the minimum banking covenant is 2.0 times. Gearing (net debt/(net debt + equity)) currently stands at 31.7% and is expected to rise to 39.6% in fiscal 2012, current banking covenants allow a maximum gearing of 50%.

Bulls Say

► Entrenched leadership position in general merchandise and apparel.

► Reinvigorated strategy is expected to improve customer satisfaction and drive better sales momentum.

► Solid balance sheet and very good free cash flow generation assures a level of safety.

Bears Say

► Retail environment remains challenging as consumers cut back on discretionary spending and competition becomes increasingly cutthroat.

► Product lines such as DVDs and CDs will continue to falter with technological change. The growth of online retailing also poses future competitive risks.

► We foresee only mild organic growth prospects for the company given its mature business profile.

General Financials

Per Share	07/10	07/11	07/12 (Historical)	07/13	07/14	07/15 (Forecast)
Sales ¢	539.8	536.3	557.0	731.3	803.7	835.8
Adjusted Earnings ¢	26.9	24.8	28.9	24.6	26.8	27.2
Free Cash Flow ¢	23.1	14.5	64.8	69.9	8.5	16.1
Net Tangible Assets ¢	97.9	91.0	150.3	105.7	109.8	113.8
Book Value ¢	97.9	87.1	102.0	105.7	109.7	113.7
Dividends ¢	32.8	29.5	20.2	20.9	22.7	23.1
Franking %	100.0	100.0	100.0	100.0	100.0	100.0

Growth %	07/10	07/11	07/12	07/13	07/14	07/15
Sales Revenue	-2.8	-0.3	3.9	31.3	9.9	4.0
EBITDA	-1.0	-3.6	4.9	-3.5	8.5	7.9
Pre-Tax Profit	9.0	-8.1	4.9	-7.7	9.1	1.6
Adjusted EPS	8.2	-7.6	16.4	-15.0	9.0	1.6
DPS	54.5	-10.1	-31.4	3.3	9.0	1.6
Free Cash Flow per share	-51.2	-37.2	347.9	7.8	-87.9	90.2

Profit & Loss ($Mil)	07/10	07/11	07/12	07/13	07/14	07/15
Sales Revenue	1,672.7	1,667.8	1,732.2	2,274.3	2,499.5	2,599.5
EBITDA	165.0	159.1	166.9	161.0	174.7	188.5
Depreciation	33.1	31.7	33.6	45.0	49.0	51.0
Amortisation	7.9	8.1	8.1	0.0	0.0	0.0
EBIT	124.0	119.4	125.2	116.0	125.7	137.5
Interest Expense	7.4	11.7	10.3	10.0	10.0	20.0
Interest Income	2.5	1.9	0.0	0.0	0.0	0.0
Profit Before Tax	119.2	109.5	114.9	106.0	115.7	117.5
Tax	35.6	32.0	24.8	29.7	32.5	33.0
Reported NPAT	60.2	77.8	89.8	76.4	83.2	84.6
Non-Recurring Items After Tax	-23.0	0.6	0.0	0.0	0.0	0.0
Adjusted NPAT	**83.2**	**77.2**	**89.8**	**76.4**	**83.2**	**84.6**
Free Cash Flow	71.6	45.0	201.5	217.3	26.3	50.0
Effective Tax Rate %	29.9	29.2	21.6	28.0	28.1	28.1

Cash Flow ($Mil)	07/10	07/11	07/12	07/13	07/14	07/15
Receipts from Customers	1,687,894.0	1,668,968.0	1,668,968.0	2,270.7	2,496.4	2,598.1
Payments to Suppliers	-1,529,539.0	-1,525,886.0	-1,525,886.0	-2,071.5	-2,307.5	-2,403.5
Other Operating Cashflow	-29,204.0	-46,172.0	-46,172.0	-94.2	-79.8	-69.0
Net Operating Cashflow	**129,151.0**	**96,910.0**	**96,910.0**	**105.1**	**109.1**	**125.6**
Capex	-57.3	-65.9	-101.4	105.0	-90.0	-90.0
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	0.0	0.0	0.0	0.0	0.0	0.0
Net Investing Cashflow	**-57.3**	**-65.9**	**-101.4**	**105.0**	**-90.0**	**-90.0**
Proceeds from Issues	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from Borrowings	73.4	-25.0	78.2	-2.0	52.0	30.5
Dividends Paid	-101.5	-91.6	-62.8	-64.9	-70.7	-71.9
Other Financing Cashflow	0.0	-0.6	-0.4	0.0	0.0	0.0
Net Financing Cashflow	**-28.1**	**-117.2**	**15.0**	**-66.9**	**-18.7**	**-41.4**
Net Increase Cash	129,065.6	96,726.9	96,823.6	143.2	0.4	-5.8
Cash at Beginning	-128,964.4	-96,703.9	-96,807.3	-133.7	9.4	9.8
Exchange Rate Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Cash at End	101.2	23.0	16.3	9.4	9.8	4.0

MORNINGSTAR®

General Financials

Balance Sheet ($Mil)	Historical 07/10	07/11	07/12	Forecast 07/13	07/14	07/15
Cash & Equivalents	101.2	23.0	16.3	9.4	9.8	4.0
Accounts Receivable	16.9	24.4	27.6	31.2	34.2	35.6
Inventory	254.6	262.7	309.4	364.0	401.3	417.3
Other Short-Term Operating Assets	0.2	5.7	0.0	0.0	0.0	0.0
Total Current Assets	372.9	315.8	353.3	404.6	445.3	456.9
Property Plant & Equipment, Net	272.3	303.4	355.2	205.2	246.2	285.2
Goodwill, Net	0.0	0.0	0.0	0.0	0.0	0.0
Other Intangibles	0.0	0.0	0.0	0.0	0.0	0.0
Other Long-Term Operating Assets	29.8	28.6	378.0	378.0	378.0	378.0
Deferred Tax Assets	0.0	3.8	2.4	2.4	2.4	2.4
Long-Term Non-Operating Assets	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	**675.0**	**651.6**	**1,088.9**	**990.2**	**1,072.0**	**1,122.6**
Accounts Payable	120.1	128.9	126.9	168.7	186.0	193.4
Short-Term Debt	75.0	0.0	78.2	0.0	0.0	0.0
Other Short-Term Operating Liabilities	52.6	71.9	248.8	248.8	248.8	248.8
Total Current Liabilities	247.6	200.8	453.8	417.4	434.7	442.1
Total Long-Term Debt	98.6	149.1	150.8	227.0	279.0	309.5
Long-Term Operating Liabilities	19.9	18.7	16.9	16.9	16.9	16.9
Deferred Tax Liabilities	5.6	0.0	0.0	0.0	0.0	0.0
Long-Term Non-Operating Liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**371.8**	**368.6**	**621.5**	**661.4**	**730.7**	**768.6**
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.2	0.2	0.2	0.2
Total Equity	**303.2**	**270.9**	**317.4**	**328.8**	**341.3**	**354.0**

Profitability %	07/10	07/11	07/12	07/13	07/14	07/15
EBITDA Margin	9.9	9.5	9.6	7.1	7.0	7.2
EBIT Margin	7.4	7.2	7.2	5.1	5.0	5.3
Net Profit Margin	3.6	4.7	5.2	3.4	3.3	3.2
Free Cash Flow Margin	4.3	2.7	11.6	9.6	1.0	1.9
Return on Equity	18.3	27.1	30.6	23.6	24.8	24.3
Return on Assets	9.1	11.7	10.3	7.4	8.1	7.7
Return on Invested Capital(w/Goodwill)	21.0	20.2	46.8	15.0	14.6	14.9
ROIC (w/Goodwill) Less WACC	12.2	11.3	38.0	6.2	5.7	6.1

Leverage & Liquidity	07/10	07/11	07/12	07/13	07/14	07/15
Net Debt to Capital %	19.3	31.8	40.1	39.8	44.1	46.3
Net Debt/(Net Debt + Equity) %	19.3	31.8	40.1	39.8	44.1	46.3
Net Debt/Equity %	23.9	46.6	67.1	66.2	78.9	86.3
Net Debt/EBITDA x	0.4	0.8	1.3	1.4	1.5	1.6
EBIT/Net Interest Expense x	25.4	12.1	12.2	11.6	12.6	6.9
Current Ratio (Current Assets/Current Liabilities) x	1.5	1.6	0.8	1.0	1.0	1.0
Dividend Payout Ratio %	122.0	118.7	70.0	85.0	85.0	85.0
Net Cash Per Share ¢	-23.4	-40.6	-68.4	-70.0	-86.6	-98.2

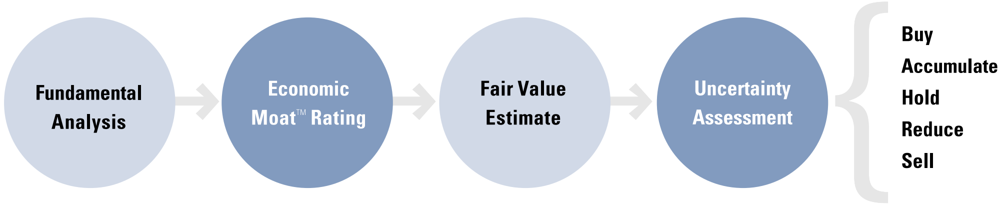
Valuation	07/10	07/11	07/12	07/13	07/14	07/15
Price/Earnings x	–	–	–	–	–	–
PEG Ratio x	–	–	–	–	–	–
EV/EBITDA x	–	–	–	–	–	–
EV/EBIT x	–	–	–	–	–	–
Free Cash Flow Yield %	–	–	–	–	–	–
Dividend Yield %	–	–	–	–	–	–
Price/(OCF per share) x	–	–	–	–	–	–
Price/(FCF per share) x	–	–	–	–	–	–
Price/Sales x	–	–	–	–	–	–
Price/NTA x	–	–	–	–	–	–
Price/Book x	–	–	–	–	–	–

Equities Research Methodology

Fundamental Analysis

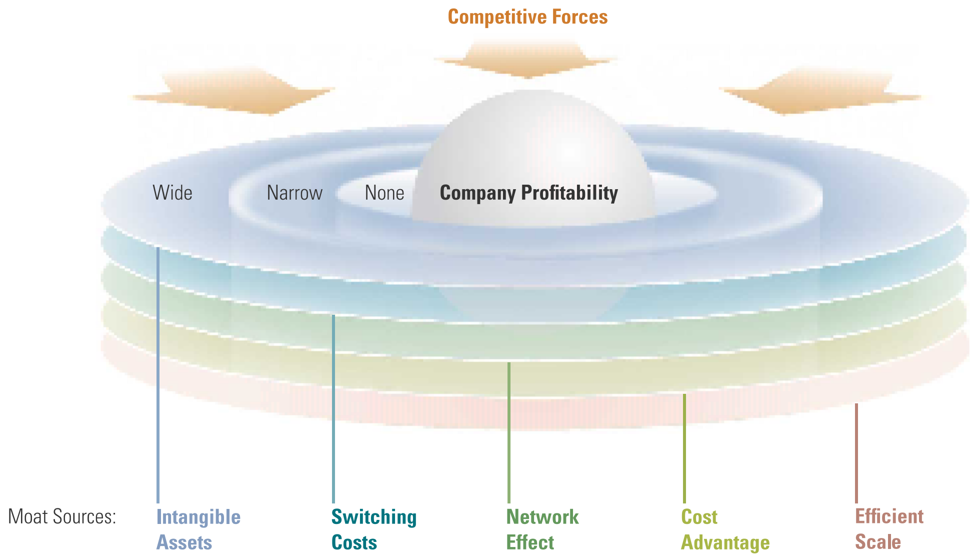
At Morningstar, we believe buying shares of superior businesses and allowing them to compound over time is the surest way to create wealth in the stock market. The long term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus because history has shown that market sentiment is fleeting, momentum can quickly reverse, and the herd is sometimes a dangerous crowd. Occasionally, this approach causes our recommendations to appear out of step, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. The brief definitions that follow help illustrate our methodology. Extensive methodology documents are available on our website.

Morningstar Research Process for Company Analysis



Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high quality companies. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, profits are more susceptible to competition. Companies with a narrow moat are likely to achieve normalised excess returns beyond ten years while wide moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low quality, no moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.



Fair Value Estimate

Our fair value estimate is primarily based on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because history has shown that the market price of a security will migrate towards the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

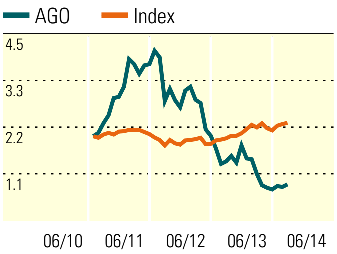
The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered.

Atlas Iron Limited AGO

Snapshot

Fair Value Uncertainty	Very High
Moat Rating	None
Fair Value $	1.10
Market Cap $Mil	787
Morningstar Style Box	
Price $ (4:00PM 13-Sep-2013)	0.86
52 Week High/Low $	1.95/0.69
Shares Issued Mil	910
Morningstar Sector	Basic Materials
Morningstar Industry	Steel
GICS Sector	Materials

Price vs. Market



	06/12	06/13	06/14e	06/15e
NPAT ($Mil)	76.1	14.7	-32.0	19.1
EPS ¢	8.7	1.6	-3.5	2.1
EPS Chg %	-58.9	-81.3	-314.2	–
DPS ¢	3.0	3.0	0.0	0.0
Franked %	0.0	0.0	0.0	0.0
Div Yld %	1.0	2.1	0.0	0.0
P/E x	35.5	86.8	-24.9	41.6

Source: Morningstar estimates 11-Sep-2013 .

Profile

Atlas Iron Limited (AGO) is an an independent Australian iron ore company, mining and exporting Direct Shipping Ore (DSO) from its operations in the Northern Pilbara region of Western Australia (WA). Currently, all of AGO's existing projects have total Resources of 1.09Bt@ 56.1% Fe, 7% SiO2, 3.3% Ai2O3, 0.09%P, 0.02%S, 8.6% LOI, 61.6% cafe, and Reserves (Proven and Probable) of 499Mt @ 56.1% Fe, 6.7% SiO2, 2.9% Al2O3, 0.1%P, 0.02% S, 8.8% Loi, 61.6% CaFe.

Analyst Recommendation: **Accumulate** (4:00PM 13-Sep-2013)

▼**0.86** Price

Buy	**Accumulate**	Hold	Reduce	Sell

$ 0.55 0.88 1.38 1.93

Investment Perspective by Gareth James 26-Aug-2013

Atlas Iron's earnings are leveraged to the volatile iron ore price making the shares a high-risk investment, although we expect production growth to boost earnings despite a backdrop of falling iron ore prices. If, however, the iron ore price remains strong in the long term, Atlas could be worth much more than our fair value estimate. Bulk commodities are notoriously capital-intensive yet Atlas grew production cheaply with relatively small mines located close to port. Future growth is likely to be more expensive due to industry-wide cost inflation. We expect the Horizon One expansion project to be largely internally funded but Horizon Two has far more uncertainty. The outcomes of Horizon Two feasibility studies, expected in 2013, are critical to the future direction of the company and could significantly impact valuation. Atlas has many positive attributes which make it a likely takeover target.

Research Archive

Time	Date	Recommendation	Price $	Event
4:00PM	13-Sep-2013	**Accumulate**	0.87	$
Price move through trigger level				
4:00PM	11-Sep-2013	**Hold**	0.90	$
Price move through trigger level				
6:01PM	26-Aug-2013	**Accumulate**	0.81	
Atlas's Viability in Question Following Weak Result				
0:00AM	23-Aug-2013	**Under Review**	—	
Atlas's Disappointing Result Raises Questions Over Long-Term Viability				
3:39PM	29-Jul-2013	**Accumulate**	0.81	
Deterioration in Atlas's Business Quality Continues and We Lower Our Fair Value Estimate				

$ = Price Move = Research Report

Financials

	06/11	06/12	06/13	06/14e	06/15e
Sales Revenue ($Mil)	586.1	618.1	698.3	995.6	893.7
EBITDA Margin %	37.5	21.3	17.2	16.0	10.5
EBIT ($Mil)	189.9	92.5	21.3	-49.3	27.3
EBIT Margin %	32.4	15.0	3.0	-5.0	3.1
Adjusted NPAT ($Mil)	136.3	76.1	14.7	-32.0	19.1
Reported NPAT ($Mil)	168.6	-114.6	-467.5	-32.0	19.1
Earnings Per Share ¢	21.1	8.7	1.6	-3.5	2.1
Avg no. of Shares ($Mil)	646.6	878.8	907.5	921.0	921.0
Book Value Per Share ¢	268.0	212.2	176.6	170.6	172.6
Net Operating Cashflow ($Mil)	257.0	284.8	168.3	345.7	72.8
Capex ($Mil)	0.0	0.0	0.0	-326.0	-150.0
Free Cash Flow ($Mil)	216.2	191.6	-90.0	17.2	-77.2

Consensus out of 8 analysts

	2013	2014e	2015e
EPS ¢	2.0	4.0	8.0
DPS ¢	3.0	3.0	3.0
Dividend Yield %	3.5	3.5	3.2

Key Dates

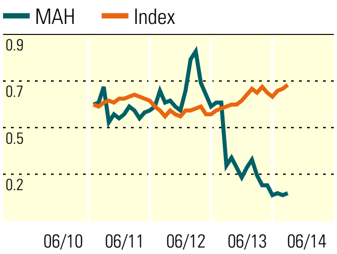
Fiscal Year End	30 Jun	AGM	30 Oct 2013
Listing Date	17 Dec 2004	DRIP	Active

Macmahon Holdings Limited MAH

Snapshot

Fair Value Uncertainty	High
Moat Rating	None
Fair Value $	0.13
Market Cap $Mil	183
Morningstar Style Box	
Price $ (4:00PM 13-Sep-2013)	0.14
52 Week High/Low $	0.54/0.09
Shares Issued Mil	1,262
Morningstar Sector	Industrials
Morningstar Industry	Engineering & Construction
GICS Sector	Industrials

Price vs. Market



	06/12	06/13	06/14e	06/15e
NPAT ($Mil)	36.7	44.8	37.4	31.3
EPS ¢	4.9	4.5	3.0	2.5
EPS Chg %	–	-8.0	-33.9	-16.5
DPS ¢	4.0	0.0	0.0	0.0
Franked %	100.0	100.0	100.0	100.0
Div Yld %	6.2	0.0	0.0	0.0
P/E x	13.2	7.2	4.9	5.8

Source: Morningstar estimates 20-Aug-2013 .

Profile

Macmahon Holdings Limited (MAH) is an Australian company providing mining services to clients throughout Australia, New Zealand, South East Asia, Mongolia and Africa. Mining services range from mine development to materials delivery, design, construction and on-site services. MAH manages mines for mining companies, across a variety of base and precious metals and commodities.

Analyst Recommendation: **Hold** (4:00PM 13-Sep-2013)

▼0.14 Price

Buy	Accumulate	**Hold**	Reduce	Sell
$	0.08	0.11	0.15	0.20

Investment Perspective by Ross MacMillan

20-Aug-2013

Macmahon Holdings provides infrastructure construction services in Australia and mining services in Australia, Asia and Africa. The construction business undertakes infrastructure project work for mining companies and government. The main exposure is to the oil, gas, water, road and rail infrastructure sectors. The mining services business undertakes surface and underground mining and is strongly leveraged to the resources boom, with exposure to gold, iron ore, coal, limestone, diamonds and copper. The company has benefited from robust domestic investment growth, particularly in the mining and energy sectors. However, the mining services and infrastructure construction industries are highly cyclical, volatile and competitive, which can adversely impact earnings. This is a no-moat business. The company is 19%-owned by Leighton Holdings (ASX:LEI).

Research Archive

Time	Date	Recommendation	Price $	Event
4:00PM	13-Sep-2013	**Hold**	0.14	$
Price move through trigger level				
4:00PM	11-Sep-2013	**Reduce**	0.16	$
Price move through trigger level				
8:39PM	20-Aug-2013	**Hold**	0.14	Research Report
Poor Result and Tougher Times Ahead for Macmahon				
4:00PM	20-Aug-2013	**Hold**	0.14	$
Price move through trigger level				
4:00PM	19-Aug-2013	**Reduce**	0.17	$
Price move through trigger level				

$ = Price Move   = Research Report

Financials

Financials	06/12	06/13	06/14e	06/15e
Sales Revenue ($Mil)	876.1	1,165.5	944.1	859.1
EBITDA Margin %	16.1	15.2	14.7	14.4
EBIT ($Mil)	62.6	84.5	70.4	61.7
EBIT Margin %	7.2	7.4	7.5	7.2
Adjusted NPAT ($Mil)	36.7	44.8	37.4	31.3
Reported NPAT ($Mil)	56.1	-29.5	37.4	31.3
Earnings Per Share ¢	4.9	4.5	3.0	2.5
Avg no. of Shares ($Mil)	752.6	996.9	1,261.7	1,261.7
Book Value Per Share ¢	47.4	40.2	37.9	40.4
Net Operating Cashflow ($Mil)	86.8	108.6	17.0	107.1
Capex ($Mil)	-186.4	-201.7	-150.0	-105.0
Free Cash Flow ($Mil)	-92.8	-24.5	-116.9	12.2

Consensus out of 6 analysts

	2013	2014e	2015e
EPS ¢	-3.0	2.0	3.0
DPS ¢	0.0	0.0	1.0
Dividend Yield %	—	1.7	5.2

Key Dates

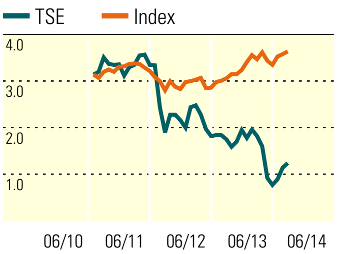
Fiscal Year End	30 Jun	AGM	15 Nov 2013
Listing Date	01 Dec 1983	DRIP	Active

Transfield Services Limited TSE

Snapshot

Fair Value Uncertainty	High
Moat Rating	None
Fair Value $	1.10
Market Cap $Mil	635
Morningstar Style Box	
Price $ (4:00PM 13-Sep-2013)	1.24
52 Week High/Low $	2.16/0.66
Shares Issued Mil	512
Morningstar Sector	Industrials
Morningstar Industry	Engineering & Construction
GICS Sector	Industrials

Price vs. Market



	06/12	06/13	06/14e	06/15e
NPAT ($Mil)	77.4	61.7	60.1	63.2
EPS ¢	14.3	12.0	11.7	12.3
EPS Chg %	-72.4	-15.8	-2.7	5.2
DPS ¢	14.0	3.0	0.0	6.0
Franked %	10.0	0.0	0.0	50.0
Div Yld %	6.0	1.8	0.0	4.8
P/E x	16.4	13.8	10.6	10.1

Source: Morningstar estimates 28-Aug-2013 .

Profile

Transfield Services Limited (TSE) is a provider of operations, maintenance, asset management and project management services. TSE operates in Australia, New Zealand, the United States, the United Arab Emirates, Qatar, South East Asia, India and Canada across industries, including mining and process, hydrocarbons, roads, rail and public transport, water, power, telecommunications, facilities management and defence. TSE provides services through its subsidiaries including APP, Broadspectrum, Easternwell, Hofincons, and ICD.

Analyst Recommendation: **Hold** (4:00PM 13-Sep-2013)

▼1.24 Price

Buy	Accumulate	**Hold**	Reduce	Sell
$	0.66	0.94	1.27	1.71

Investment Perspective by Ross MacMillan

28-Aug-2013

Transfield Services (Transfield) is a long-established operations and maintenance services provider, which holds solid domestic market share. The company's main exposures are to the mining, energy and infrastructure sectors. The diverse revenue base aims at lowering risk and expanding growth opportunities. The business' key strength stems from the ability to lock out competitors through long-running maintenance contracts and developed knowledge of client operations. We do not rate Transfield as having an economic moat due to lacklustre contract execution ability and strong customer bargaining power. The Easternwell acquisition in December 2010 delivers technical expertise in mineral and coal seam gas well drilling, but requires high capital expenditure. Consistent project execution and Easternwell growth remain unresolved issues which continue to be problematic for management despite large contract wins.

Research Archive

Time	Date	Recommendation	Price $	Event
4:00PM	13-Sep-2013	**Hold**	1.24	$
Price move through trigger level				
4:00PM	10-Sep-2013	**Reduce**	1.29	$
Price move through trigger level				
4:00PM	06-Sep-2013	**Hold**	1.18	$
Price move through trigger level				
4:00PM	03-Sep-2013	**Reduce**	1.36	$
Price move through trigger level				
4:00PM	29-Aug-2013	**Hold**	1.10	$
Price move through trigger level				

$ = Price Move   = Research Report

Financials

Financials	06/11	06/12	06/13	06/14e	06/15e
Sales Revenue ($Mil)	2,900.3	3,106.9	3,409.2	3,344.6	3,319.9
EBITDA Margin %	12.2	6.6	-3.2	6.8	7.2
EBIT ($Mil)	288.3	114.1	-217.9	138.6	149.9
EBIT Margin %	10.4	3.9	3.6	4.3	4.5
Adjusted NPAT ($Mil)	254.5	77.4	61.7	60.1	63.2
Reported NPAT ($Mil)	134.6	84.7	-250.0	55.9	63.2
Earnings Per Share ¢	51.7	14.3	12.0	11.7	12.3
Avg no. of Shares ($Mil)	492.4	541.7	513.2	513.2	513.2
Book Value Per Share ¢	228.2	195.7	145.2	156.1	162.4
Net Operating Cashflow ($Mil)	82.2	122.7	210.4	20.9	156.3
Capex ($Mil)	-73.1	-225.8	-159.1	-75.5	-78.9
Free Cash Flow ($Mil)	-91.8	-134.5	116.7	-46.5	92.0

Consensus out of 5 analysts

	2013	2014e	2015e
EPS ¢	-49.0	11.0	13.0
DPS ¢	3.0	3.0	8.0
Dividend Yield %	2.4	2.2	6.4

Key Dates

Fiscal Year End	30 Jun	AGM	25 Oct 2013
Listing Date	03 May 2001	DRIP	Active