



Swick BUY

27 August 2008

Current Price: **\$1.31**
Valuation: **\$1.62**

Ticker: **SWK.ASX**
Sector: **Resource Services**

Shares on Issue (m): **152.5**
Market Cap (\$m): **199.8**
Net Debt (Cash) (\$m): **16.7**
Enterprise Value (\$m): **216.6**
52 wk High/Low: **\$2.18 \$1.02**
12m Av Daily Vol (m): **0.30**

Key Metrics

	09F	10F
EV/EBITDA (x)	5.20	4.34
P/E (x)	10.83	8.59

Ratios

	08A	09F	10F
ND / Equity	24.5%	55.1%	22.0%
EBITDA Mgn	26.2%	26.2%	26.0%
RoA	16.1%	18.6%	22.1%
RoE	15.1%	21.6%	20.5%

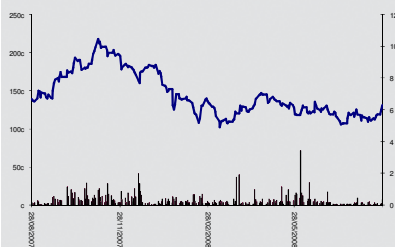
Financials:

	08A	09F	10F
Revenue (\$m)	84.2	155.1	186.3
EBITDA (\$m)	24.6	41.7	49.9
NPAT (\$m)	10.3	18.8	23.5
Net Assets (\$m)	68.4	87.3	114.9
Op CF (\$m)	12.3	21.2	31.6

Per Share Data:

	08A	09F	10F
EPS (cps)	7.1	12.1	15.3
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	44.0	56.4	72.9
CFPS (cps)	8.5	13.9	20.5

Share Price Graph



Analyst:
Ian Christie

Meets Aggressive Targets

SWK met the key challenges of managing strong growth and achieving aggressive targets in FY08 by doubling revenue once again, and providing a 164% increase in NPAT to \$10.3m. After accounting for equity issued during the year, this resulted in an 80% increase in EPS to 7.2cps. Margins have also improved with the growing scale of the operations, and at over 26% at the EBITDA line, compare favourably with peers.

The underground diamond drilling division accounted for 75% of revenue, although surface RC and diamond drilling are making good contributions. These latter divisions are poised for strong growth and are expected to contribute an increasingly significant portion of revenue going forward.

The underground diamond drilling division's performance has been impressive. A 100% success rate in converting trial work into long-term contracts shows that the rigs' innovative design has been successful in improving productivity. Trials are underway at other sites (such as Goldfield's Agnew and St Ives mines), and discussions are ongoing with other mining groups.

Canada has been identified as a target market for the underground rigs, and the newly appointed manager for the region will take delivery of an initial shipment of rigs in September for trialling in Ontario. It is early days, and of course a lot harder to penetrate foreign markets, but the upside is significant if the take-up resembles anything like the initial penetration in Australia.

SWK has also established a new multi-purpose drilling division to capitalise on the demand for rigs capable of drilling both RC and diamond holes. Four rigs for this division are due to be delivered in September and October to service contracts already awarded. A further four rig build programme has also been approved.

The aggressive rollout of new rigs over the last year has necessitated significant capex, and working capital requirements have also increased with the Company's growth. Debt (the majority of rigs are financed) and equity were both raised during the year, and gearing was 24.5% at financial year end. Looking ahead, SWK will require significant capex (at least \$50m) to meet the rig build programme in FY09, taking net debt to equity above 50% by financial year end.

SWK expects revenue of \$155m for FY09 (a further 84% growth) and to at least maintain its profitability margins. This revenue is achievable given the run-rate entering into FY09 and the aggressive planned rig rollout. Furthermore, the full impact of new rigs built during FY09 will also be reflected in strong revenue growth in FY10 (at least 20%), to which the surface RC and diamond divisions, as well as Canada, provide upside potential.

We expect EPS of 12.1cps in FY09, putting SWK on a P/E of 10.8x earnings. This is not demanding given the Company's growth potential and falls to 8.6x on FY10 earnings. Our DCF based valuation of \$1.62 also suggests expansion is not fully factored in. Confidence in SWK's ability to meet aggressive growth targets has been strengthened with these results, and our recommendation is unchanged.

BUY

Swick Mining Services

Equities Research
Ian Christie, CFA

Recommendation	BUY
Current Price (\$)	1.31
All Ords (XAO)	5,087.8

Sector	Resource Services
Market Cap (\$m)	199.8
Date	27 August 2008

Profit and Loss (\$m)	2007A	2008A	2009F	2010F
Revenue	38.0	84.2	155.1	186.3
EBITDA	12.3	24.6	41.7	49.9
Depreciation	-3.6	-7.8	-10.8	-10.9
EBIT	8.8	16.8	30.9	39.0
Interest	-0.9	-2.0	-4.0	-5.4
PBT	7.9	14.9	26.9	33.6
NPAT	5.4	10.3	18.8	23.5

Cash Flow (\$m)	2007A	2008A	2009F	2010F
Receipts	32.2	84.3	141.1	178.9
Payments	-26.7	-71.8	-111.5	-135.8
Other	-0.4	-0.3	-8.4	-11.5
Cash from Operations	5.1	12.3	21.2	31.6
Property, Plant & Equip*	-22.2	-53.5	-7.9	-1.9
Payment for Subsidiary	0.0	0.0	0.0	0.0
Other	1.4	-0.4	0.0	0.0
Cash From Investing	-20.8	-53.9	-7.9	-1.9
Issue of Shares	22.5	26.7	0.0	4.1
Net Borrowing	5.0	27.8	-3.5	-22.8
Cash From Financing	27.5	54.5	-3.5	-18.8
Net Cash Flow	11.8	12.9	9.8	10.9
Ending Cash	12.4	25.3	35.2	46.1
* Capex (incl Fin. Lease)			52.6	12.8

Balance Sheet (\$m)	2007A	2008A	2009F	2010F
Cash	12.4	25.3	35.2	46.1
Receivables	9.3	14.8	27.4	32.8
Inventory	3.3	8.5	15.5	18.7
Other	0.3	4.6	4.6	4.6
Current Assets	25.3	53.2	82.6	102.2
Property, Plant & Equip	29.5	75.2	117.0	118.9
Intangibles	0.2	1.3	1.3	1.3
Other Non-current Assets	0.7	0.3	0.3	0.3
Non-Current Assets	30.4	76.7	118.6	120.5
Total Assets	55.8	129.9	201.2	222.7
Payables	7.4	9.7	18.6	22.4
Borrowings	13.8	42.1	83.3	71.4
Provisions	0.6	3.9	3.9	3.9
Other	3.0	5.8	8.1	10.1
Total Liabilities	24.8	61.5	113.9	107.8
Net Assets	31.0	68.4	87.3	114.9
Ordinary Equity	1.1	50.3	50.3	54.4
Reserves	0.0	0.6	0.6	0.6
Retained Earnings	5.6	17.5	36.4	59.9
Total Equity	31.0	68.4	87.3	114.9

Summary	
Valuation (A\$ per share)	1.62
Forecast 2009 Yield (%)	0.0%
Forecast 2009 P/E (x)	10.8

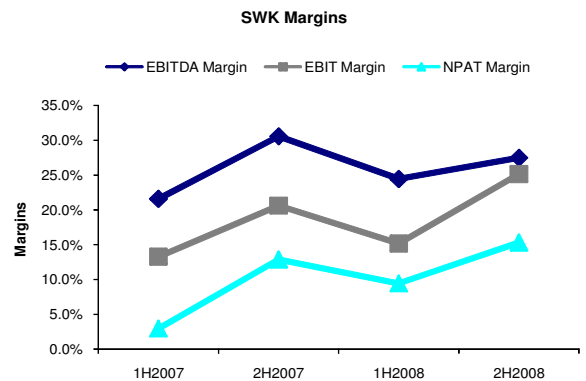
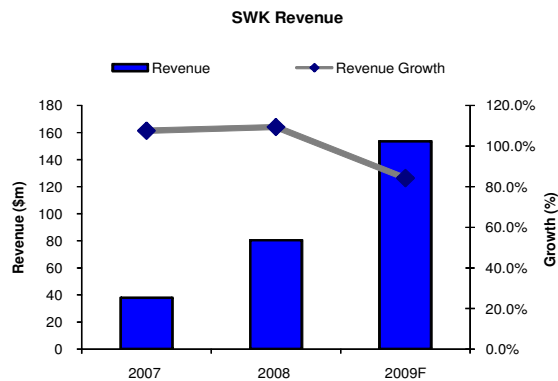
Valuation Method	Calculations	Results
DCF Valuation	Discount Rate / WACC (%)	11.8%
	PV Free Cash Flow (\$m)	267.5
	Less Net Debt / Plus Cash (\$m)	-16.7
	Unpaid Capital (\$m)	3.7
	Equity Value (\$m)	254.5
Equity Value (A\$ps)		1.62

Peer Multiples FY09	Multiple	EV	Equity Val	per Share
EV/EBITDA (2009F) (x)	3.8	158,057	141,322	0.90
EV/EBIT (2009F) (x)	5.4	166,816	150,081	0.95
P/E (2009F) (x)	7.8		146,593	0.93
Multiple Valuation (A\$ps)				0.93

Valuation	1.62
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Financial Ratios	2008A	2009F	2010F
Balance Sheet Ratios			
Net Debt / Equity (%)	24.5%	55.1%	22.0%
Current Ratio (x)	2.5	1.6	1.9
Net Interest Cover (x)	28.3	11.9	11.4
Profitability Ratios			
Gross Margin (%)	26.2%	26.2%	26.0%
Net Profit Margin (%)	12.8%	12.3%	12.8%
Return on Assets (%)	16.1%	18.6%	22.1%
Return on Equity (%)	15.1%	21.6%	20.5%
Cash Flow Ratios			
Free Cash Flow Yield	-12.5%	-13.7%	11.8%

	2008A	2009F	2010F
Basic EPS (cps)	7.2	12.4	15.3
Diluted EPS (cps)	7.1	12.1	15.3
Diluted P/E (x)	18.2	10.8	8.6
Dividends per share (cps)	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%
NTA per share (cps)	44.0	56.4	72.9
Cash Flow per share (cps)	8.5	13.9	20.5



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