

Swick Mining Services Ltd

(SWK \$1.35) Buy

28 August 2008

Analyst: Richard Hamersley

- ▶ **Valuation:** \$1.98/sh
- ▶ **Reason For Update:** FY08 results
- ▶ **Quick Comment:**

Swick has reported NPAT of \$10.3 for FY08, up an impressive 164% on the prior year and ahead of our forecast of \$8.6m.

EBITDA of \$23.3m was up 128% on the prior year and higher than guidance and our forecast of \$21.8m.

The majority of the growth was driven by the core underground diamond drilling division, which contributed 75% of revenue to the group in FY08. Other drilling divisions such as the surface RC is expected to contribute a greater proportion of revenue in FY09.

The balance sheet remains strong with a net debt to equity of 24% at June 2008. We understand Swick is in the process of finalising a debt facility to enable aggressive expansion in FY09.

Our NPAT forecast of \$19m for FY09 remains unchanged.

Swick has guided the market to \$155m revenue for FY09, up 84% on FY08, driven by continued expansion of the underground diamond division and increasing contributions from the other drilling divisions; surface RC, surface diamond, and the new multi-purpose division. We are forecasting Swick can do better than this; our revenue forecast is \$160m for FY09 and in our view there is possible upside to this if Swick expands the surface RC division at a faster rate than we are forecasting.

Swick expects profitability margins to be maintained in FY09; we are forecasting Swick can improve margins with economies of scale and a larger contribution from the higher margin surface RC division.

We estimate approximately 70% of our revenue forecast for FY09 is locked away under contract, a good start to the year, and we understand a further 15% could be locked away under contract if Swick are successful in converting current trials to contracts.

SWK expects demand for mineral drilling services to remain strong in FY09. Despite a recent softening in some commodity prices, Swick's revenue is predominately generated at brownfield sites (existing mines) as opposed to greenfield sites (exploration) and so is more secure in our view.

▶ **Investment Case:**

Our DCF valuation remains relatively unchanged at \$1.98 per share (WACC 12.3%).

Swick currently trades on PER's of 11.1x FY09 and 7.6x FY10, undemanding multiples in our view given the strong 3 year EPS CAGR of 45% we are forecasting.

Swick is currently experiencing exceptional growth driven by contract wins and tendering opportunities.

Swick continues to have a 100% track record of replacing incumbents post a trial period for the underground diamond rigs, primarily due to their superior productivity than standard rigs which has been driven by innovation. Consequently Swick are aggressively growing the underground diamond fleet.

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Tendering opportunities remain robust and SWK expect to be on trial at a number of sites in FY09 with the underground diamond rig. In addition Swick is looking to deploy 3 underground diamond rigs to two large mining houses in Canada's Sudbury region, which hosts significant underground mines, during the Dec Q. Success in winning contracts in Australia with large international mining groups (Barrick Gold, Newmont and Xstrata (Jubilee Mines)) underpins Swick's strategy of expanding into international markets.

Swick expects strong demand from the iron ore sector for the new surface RC rig and as a consequence are investigating an expanded build program for the surface RC division. The new surface RC rig is considered to be less costly for the customer, safer and easier to use than the industry standard.

We maintain our Buy recommendation.

Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Swick Mining Services Ltd during the last year. Euroz Securities has received a fee for these services.

This analyst declares that he has a beneficial interest in Swick Mining Services Ltd.

Swick Mining Services Ltd

28 August 2008

EUROZ

SECURITIES LIMITED

AUSTRALIAN RESEARCH

Sector: Contracting
Recommendation: Buy

Price (\$A): 1.35
Target Price (\$A): 1.98

Market Cap (\$A): 195m
Enterprise Value (\$A): 211.8m

SWICK MINING SERVICES LTD (SWK)	YEAR END 30 JUNE				
Income Statement	07A	08A	09F	10F	11F
Sales	38.0	80.7	157.5	217.5	276.9
Other	0.0	2.1	2.5	2.8	3.0
Revenue	38.0	82.8	160.0	220.3	279.9
COGS	-25.1	-56.3	-106.3	-143.4	-188.5
Other	-2.7	-3.3	-7.3	-8.5	-9.4
EBITDA	10.1	23.3	46.4	68.4	82.1
Depreciation & amortisation	-3.6	-7.8	-15.5	-23.2	-29.0
Other non cash	0.0	0.0	0.0	0.0	0.0
EBIT	6.6	15.5	30.9	45.2	53.0
Net Interest income/(expense)	-0.8	-0.6	-3.8	-5.9	-4.0
Associates	0.0	0.0	0.0	0.0	0.0
Other income/(expense)	0.0	0.0	0.0	0.0	0.0
Abnormal items (pretax)	2.1	0.0	0.0	0.0	0.0
EBT	7.9	14.9	27.1	39.3	49.1
Tax expense	-2.5	-4.6	-8.1	-11.8	-14.7
Minority interest	0.0	0.0	0.0	0.0	0.0
Preference Dividends	0.0	0.0	0.0	0.0	0.0
Reported Earnings	5.4	10.3	19.0	27.5	34.3
Dividends	0.0	0.0	0.0	0.0	0.0
Adjustments (one off)	0.0	0.0	0.0	0.0	0.0
Retained earnings	5.4	10.3	19.0	27.5	34.3
Normalized Net Profit	3.9	10.4	19.0	27.5	34.3
Fully Diluted Net Profit	3.9	10.4	19.0	27.5	34.3
Cash Flow (A\$m)	07A	08A	09F	10F	11F
Pretax Profit	7.9	14.9	27.1	39.3	49.1
+ Depreciation	3.6	7.8	15.5	23.2	29.0
-/+ associates profit/loss	0.0	0.0	0.0	0.0	0.0
+ associates dividends	0.0	0.0	0.0	0.0	0.0
+ Foreign Exchange loss/(gain)	0.0	0.0	0.0	0.0	0.0
- Tax Paid	-0.4	-1.3	-4.6	-8.1	-11.8
+ inc (- dec) in provisions	0.3	2.7	0.0	0.0	0.0
- Profit/+ loss on disposal	-2.1	0.0	0.0	0.0	0.0
+/- Other	3.0	-4.4	0.0	0.0	0.0
Gross Cashflow	12.2	19.6	38.0	54.4	66.3
- Capital expenditure	-22.2	-53.5	-65.4	-53.4	-36.4
+/- Changes in working capital	-7.2	-8.4	-5.1	-5.3	-2.8
Operating Free Cashflow	-17.2	-42.2	-32.4	-4.3	27.1
+/- Acq of subs/other investments	0.0	-0.4	0.0	0.0	0.0
- Dividends	0.0	0.0	0.0	0.0	0.0
+ Proceeds from equity raised	22.5	26.7	0.0	0.0	0.0
+/- Proceeds from disp of subs/FA's	1.6	0.0	0.0	0.0	0.0
+/- Minority interests	0.0	0.0	0.0	0.0	0.0
+/- Other	-7.7	0.7	0.0	0.0	0.0
Net cashflow	-0.8	-15.3	-32.4	-4.3	27.1
Cash at beginning of period	-0.6	-1.4	-16.7	-49.1	-53.4
Cash at end of period	-1.4	-16.7	-49.1	-53.4	-26.4
Balance Sheet (\$m)	07A	08A	09F	10F	11F
Cash	12.4	25.3	7.9	13.6	40.7
Receivables	9.3	14.8	19.2	24.2	28.0
Inventories	3.3	8.5	14.4	19.8	25.2
Other	0.3	4.6	4.6	4.6	4.6
Current Assets	25.3	53.2	46.1	62.3	98.5
Receivables	0.0	0.0	0.0	0.0	0.0
Assets available for sale	0.0	0.0	0.0	0.0	0.0
Property/Plant/Equipment	29.5	75.2	125.0	155.3	162.6
Intangibles	0.2	1.3	1.3	1.3	1.3
Deferred tax assets	0.7	0.3	0.3	0.3	0.3
Non Current Assets	30.4	76.7	126.6	156.8	164.2
Total Assets	55.8	129.9	172.7	219.1	262.6
Payables	-7.4	-9.7	-14.9	-20.1	-26.4
Interest bearing liabilities	-4.8	-7.2	-7.2	-7.2	-7.2
Provisions	-0.6	-2.4	-2.4	-2.4	-2.4
Other	-0.6	-1.7	-5.3	-9.0	-11.9
Current Liabilities	-13.4	-21.1	-29.8	-38.7	-47.9
Interest bearing liabilities	-9.1	-34.8	-49.8	-59.8	-59.8
Payables	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	-1.5	-1.5	-1.5	-1.5
Deferred Tax	-2.4	-4.1	-4.1	-4.1	-4.1
Non Current Liabilities	-11.5	-40.4	-55.4	-65.4	-65.4
Total Liabilities	-24.8	-61.5	-85.3	-104.1	-113.4
Net Assets	31.0	68.4	87.4	114.9	149.3
Contributed equity	25.4	50.9	50.9	50.9	50.9
Reserves	0.0	0.0	0.0	0.0	0.0
Retained profits	5.6	17.5	36.5	64.1	98.4
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total equity	31.0	68.4	87.4	114.9	149.3

PERFORMANCE RATIOS	07A	08A	09F	10F	11F
Growth and Margins					
Revenue Growth	96%	112%	95%	38%	27%
EBITDA Growth	261%	129%	100%	47%	20%
EBIT Growth	143%	135%	100%	46%	17%
Normalized Net Profit Growth	133%	165%	82%	45%	25%
EBITDA margin	26.7%	28.1%	29.0%	31.1%	29.3%
EBIT margin	17.3%	18.7%	19.3%	20.5%	19.0%
Normalized net profit margin	10.3%	12.6%	11.9%	12.5%	12.3%
Effective tax rate	31%	31%	30%	30%	30%
Liquidity					
Capex/depreciation (x)	6.2	6.9	4.2	2.3	1.3
Current ratio (x)	1.9	2.5	1.5	1.6	2.1
Quick ratio (x)	2.9	4.1	1.8	1.9	2.6
Receivable days	59	55	39	36	34
Inventory days	31	38	39	44	44
Payable days	95	55	42	44	45
Risk Measures					
Dividend Cover (x)	na	na	na	na	na
Payout ratio (%)	0%	0%	0%	0%	0%
Net interest cover (x)	8.2	26.0	8.2	7.7	13.3
Net debt/equity (%)	5%	24%	56%	46%	18%
Returns					
Return on avg capital employed (%)	20%	15%	19%	21%	22%
Return on invested capital (%)	28%	16%	16%	17%	15%
WACC (%)	12%	12%	12%	12%	12%
Return on assets (%)	12%	12%	18%	29%	34%
Return on average equity (%)	33%	21%	24%	27%	21%
Company cost of equity (%)	15%	15%	15%	15%	15%
SHARE DATA/VALUATION	07A	08A	09F	10F	11F
Share Data					
Issued shares (m)	120	153	153	153	153
Weighted ave shares (m)	99	144	153	153	153
Fully diluted shares (m)	99	144	156	156	156
Basic EPS (c)	5.5	7.2	12.4	18.0	22.5
YoY change (%)	na	31%	74%	45%	25%
Fully diluted EPS (c)	5.5	7.3	12.3	17.8	22.2
YoY change (%)	na	33%	69%	45%	25%
Fully diluted normalised EPS (c)	4.0	7.2	12.2	17.7	22.0
YoY change (%)	na	81%	69%	45%	25%
Dividend/share	0.0	0.0	0.0	0.0	0.00
Franking (%)	na	na	na	na	na
Gross cashflow/share (c)	12.4	13.6	24.9	35.6	43.4
NBV/share (c)	25.7	44.8	57.3	75.3	97.8
NTA/Share (c)	25.7	44.8	57.3	75.3	97.8
Valuation					
PER (Basic) (x)	24.6	18.8	10.9	7.5	6.0
PER (Fully diluted) (x)	24.6	18.5	11.0	7.6	6.1
PER (Fully diluted, normalized) (x)	34.0	18.7	11.1	7.6	6.1
P/CFPS (x)	10.9	9.9	5.4	3.8	3.1
Price/NBV (x)	5.2	3.0	2.4	1.8	1.4
Price/NTA (x)	5.2	3.0	2.4	1.8	1.4
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Fully diluted normalized 3yr EPS Cagr (%)	na	64%	45%	32%	na
PEG ratio (x)	na	0.3	0.2	0.2	na
EV	134.8	211.8	259.5	263.8	211.8
EV/EBITDA (x)	13.3	9.1	5.6	3.9	2.6
EV/EBIT (x)	20.5	13.7	8.4	5.8	4.0
EV/Revenue (x)	3.5	2.6	1.6	1.2	0.8
NPV (A\$/sh)			1.98		
WACC (%)			12.3%		
OTHER INFORMATION					
Estimated free float					65%
12-mth High/Low (A\$/sh)				2.25 / 1.00	
Average daily volume (A\$m)				1.0	
ASX Code				SWK	
Next Result				HY09 (Feb 09)	
COMPANY DESCRIPTION					
Swick was listed on the ASX in November 2006. Swick provides surface and underground drilling services to mining companies in Australia across a range of commodities, mainly nickel, copper, manganese, bauxite, and gold. Swick currently has 5 types of drill rigs; underground diamond, underground long-hole, surface RC, surface air-vac, and surface diamond.					

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