

18 May 2009

SWICK MINING SERVICES LTD

Guidance Cut but Rig Utilisation has Bounced Strongly

Swick Mining Services Limited ("Swick", "SWK", "Company") has revised down its revenue guidance for FY09 to \$85m. (Previous guidance implied ~\$95m). The downwards revision was due to delays in commencing work after the contract awards.

However, whilst this is disappointing, we note there has been a strong rebound across all four core drilling divisions. Rig utilisation continues to improve remarkably (35% in the January low, to 59% currently and to 63% by June). Three new contracts have been secured which will increase the number of rigs in work to 40, which was the peak level in September 2008. Rig utilisation of the Underground Diamond Drilling, the key operation which contributes 70% of revenue, is currently 81% (from the 51% low).

Our FY10 NPAT Revised down to \$7.4m

As a result of the new guidance, we have revised down our FY09 NPAT estimate to \$2.6m from \$6.4m previously. We have also revised down our FY10 NPAT estimate by \$2.1m to \$7.4m as we would like to be more conservative on costs and margins in this highly competitive environment. Consequently, our valuation has been reduced to 89cps (previously 105 cps). Note that our FY10 forecast is based mainly on Swick's core markets in Australia, without contribution from the North American expansion.

Speculative Buy Maintained

We keep our 12-month price target unchanged at 50cps and maintain our Speculative Buy recommendation. In the long-term, we believe Swick still offers good value as the share price is still trading below NTA (46cps). Though having high operating leverage has adversely affected Swick's FY09 profit, this leverage could also become a positive once there is a recovery in the commodity market. As long as the momentum in the operation continues, there is significant upside in Swick's share price. But if momentum deteriorates again, the leverage issue will come to the forefront.

In the short-term, though rig utilisation has progressively improved to be well above the threshold level (50%) and operating cash flow has currently turned positive, we believe cash flow and working capital management will remain a challenge until debt has been reduced. (In 1H09, Swick had \$53.7m in net debt, 2.4x of EBIT/interest coverage and 0.4x of EBIT/fixed charges coverage). We would prefer to see a strengthening in the balance sheet and improvement in key coverage ratios before considering an upgrade.

Share Price:	\$0.43
Valuation (DCF):	\$0.89
12mth price target:	\$0.50

Brief Business Description:

Mineral drilling specialist servicing predominantly the Australian mining industry

Hartleys Brief Investment Conclusion:

Impressive rebound in rig utilisation. Prefer to see a stronger balance sheet and higher coverage ratios.

Chairman & CEO:

Andrew Simpson (Chairman)
Kent Swick (Managing Director)

Top Shareholders:

Swick Family (31.8%)
Entrust Private Wealth Mgt (10.9%)
Perpetual Limited (9.0%)
Hunter Hall Investment Mgt (6.2%)

Company Address:

64 Great Eastern Highway
South Guildford, WA 6935

Issued Capital: 152.5m

- fully diluted 156.5m

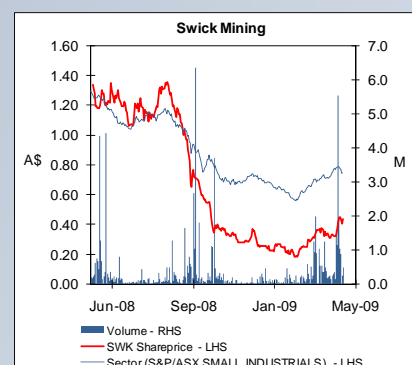
Market Cap: \$65.6m

- fully diluted \$67.3m

Net Debt (31 Dec 08): \$53.8m

	FY08a	FY09e	FY10e
Free Cash Flow	12.2	13.6	14.8
NPAT (A\$m)	10.3	2.6	7.4
EPS (\$, bas)*	7.2	1.7	4.8
P/E (basic)*	6.0x	25.5x	9.0x
P/E (diluted)*	6.0x	26.1x	8.9x
EV / EBITDA	8.8x	6.1x	3.5x
DPS (\$)	-	-	-
Div. Yield	0.0%	0.0%	0.0%
Franking	100%	100%	100%
N.D. / equity	24%	68%	37%

Source: Hartleys Research

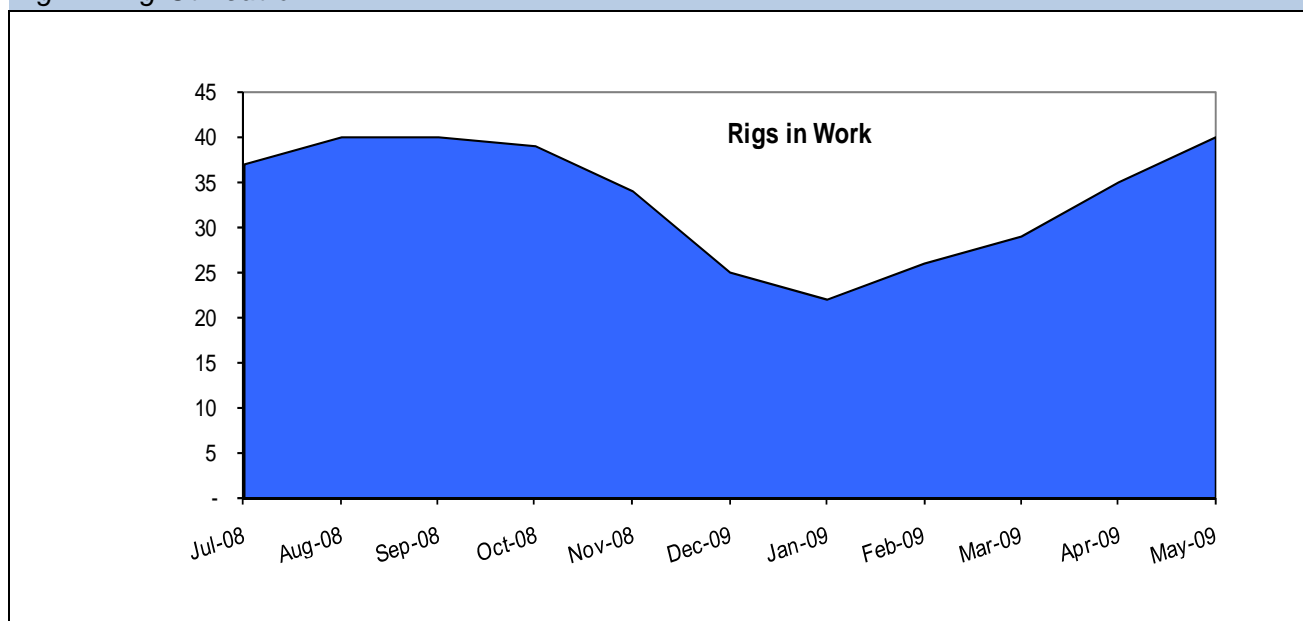


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Fig. 1: Rig Utilisation



Sources: Hartleys Research

Fig. 2: Forecast Changes

Profit & Loss (\$m)	FY07A	FY08A	FY09			FY10		
			Old	New	% Chg	Old	New	% Chg
Revenue	40.2	84.2	94.2	85.7	-9.0%	111.7	103.8	-7.1%
EBITDA	10.1	23.2	23.1	18.6	-19.4%	30.2	27.0	-10.6%
- Margin	26.7%	28.1%	24.7%	21.9%	-11.4%	27.2%	26.2%	-3.7%
Depreciation/Amortisation	-3.6	-7.8	-12.4	-12.4	0.0%	-12.8	-12.8	0.0%
EBIT	6.6	15.4	10.7	6.2	-41.9%	17.4	14.2	-18.3%
- Margin	17.3%	18.6%	11.5%	7.3%	-36.0%	15.7%	13.8%	-12.1%
Net Interest	-0.8	-0.6	-3.2	-3.2	0.0%	-2.9	-2.9	0.0%
Pretax Profit	7.9	14.9	7.5	3.0	-59.7%	14.5	11.4	-21.9%
Tax	-2.5	-4.6	-1.1	-0.5	-59.7%	-5.1	-4.0	-21.9%
NPAT (pre abnormality)	3.9	10.3	6.4	2.6	-59.7%	9.5	7.4	-21.9%
Abnormality	1.5	0.0	0.0	0.0		0.0	0.0	
NPAT (post abnormality)	5.4	10.3	6.4	2.6	-59.7%	9.5	7.4	-21.9%
- Margin	9.8%	12.3%	6.8%	3.0%	-55.7%	8.5%	7.1%	-16.0%

Sources: Hartleys Research

HARTLEYS RESEARCH COVERAGE LIST

Hartleys Research Coverage						Hartleys	
Name	Ticker	Last Price*	M. CAP (A\$m)	EV (A\$m)	Research Recommendation	Industry	
Oil & Gas							
1.	Woodside Petroleum Ltd	WPL	43.49	30,380	33,277	Buy	Major
2.	Eastern Star Gas Ltd	ESG	0.860	702	623	Buy	Producer / Explorer
3.	Carnarvon Petroleum Ltd	CVN	0.590	403	337	Buy	Producer / Explorer
4.	Nexus Energy Ltd	NXS	0.380	245	410	Speculative Buy	Developer / Explorer
5.	Tap Oil Ltd	TAP	0.960	150	96	Buy	Producer / Explorer
6.	Cooper Energy Ltd	COE	0.400	117	23	Buy	Producer / Explorer
7.	Strike Oil Ltd	STX	0.235	77	71	Speculative Buy	Explorer / Producer
8.	Amadeus Energy Ltd	AMU	0.325	65	142	Buy	Producer / Explorer
9.	Red Fork Energy Ltd	RFE	0.575	52	48	Buy	Explorer / Producer
10.	First Australian Resources Ltd	FAR	0.078	45	32	Speculative Buy	Explorer / Producer
11.	European Gas Ltd	EPG	0.140	28	92	Speculative Buy	Producer / Explorer
12.	Oilex Ltd	OEX	0.155	27	12	Speculative Buy	Explorer / Producer
13.	Sun Resources NL	SUR	0.063	14	11	Speculative Buy	Explorer / Producer
14.	Adelphi Energy Ltd	ADI	0.060	9	1	Speculative Buy	Junior
Sub-Total			32,315	35,176			
Resources							
1.	Riversdale Mining Limited	RIV	6.03	1,136	810	Speculative Buy	Coal
2.	Western Areas NL	WSA	4.72	794	928	Buy	Nickel
3.	Andean Resource Ltd	AND	1.56	630	601	Speculative Buy	Gold Developer
4.	Dominion Mining Limited	DOM	4.70	484	532	Speculative Buy	Gold
5.	Atlas Iron Limited	AGO	1.48	443	461	Buy	Iron Ore
6.	Medusa Mining Limited	MML	1.62	270	242	Buy	Gold
7.	Gold One International Limited	GDO	0.290	199	119	Buy	Gold
8.	Jabiru Metals Limited	JML	0.270	135	128	Buy	Zinc-Copper
9.	Intrepid Mines Limited	IAU	0.295	126	104	Speculative Buy	Gold
10.	Magma Metals Limited	MMB	0.440	72	51	Speculative Buy	PGM-Cu-Ni
11.	Emmerson Resources Limited	ERM	0.155	32	20	Speculative Buy	Junior Explorer
12.	Ausquest Limited	AQD	0.135	31	1	Speculative Buy	Junior Explorer
13.	Shaw River Resources Limited	SRR	0.140	18	15	Speculative Buy	Junior Explorer
14.	Hazelwood Resources Ltd	HAZ	0.140	14	14	Speculative Buy	Junior Explorer
15.	Southern Gold Limited	SAU	0.110	14	12	Speculative Buy	Junior Explorer
Sub-Total			4,396	4,039			
Industrials							
1.	West Australia News Hdgs Ltd	WAN	4.31	887	1,204	Buy	Media
2.	Monadelphous Group Limited	MND	10.50	879	749	Neutral	Mining Services
3.	Austal Limited	ASB	2.71	510	416	Speculative Buy	Capital Goods
4.	Clough Limited	CLO	0.605	404	450	No Rating	Oil & Gas Services
5.	Fleetwood Corporation	FWD	6.32	319	330	Buy	Consumer & Mining Services
6.	Mermaid Marine Australia Ltd	MRM	1.56	283	335	Buy	Oil & Gas Services
7.	NRW Holdings Ltd	NWH	0.915	221	274	Speculative Buy	Mining & Civil Construction
8.	Macmahon Holdings Limited	MAH	0.355	190	288	Speculative Buy	Mining & Civil Construction
9.	Neptune Marine Ltd	NMS	0.560	164	194	Speculative Buy	Marine Services
10.	Ausdrill Limited	ASL	0.935	163	331	Buy	Mining Services
11.	Cash Converters Ltd	CCV	0.415	100	103	Buy	Retail & Consumer Finance
12.	Southern Cross Electrical	SXE	0.800	96	72	Neutral	Mining & Civil Construction
13.	Imdex Ltd	IMD	0.475	89	112	Buy	Oil & Gas / Mining Services
14.	GRD Limited	GRD	0.400	77	112	Buy	Mining & Civil Services
15.	Nomad Building Solutions Ltd	NOD	0.510	69	95	Speculative Buy	Residential & Mining Services
16.	Swick Mining Services Ltd	SWK	0.410	63	116	Speculative Buy	Mining Services
17.	Lycopodium Limited	LYL	1.55	59	55	Neutral	Mining & Industrial Services
18.	RCR Tomlinson Ltd	RCR	0.370	45	98	Speculative Buy	Mining & Industrial Services
19.	Paladio Group Ltd	PDO	0.380	44	40	Buy	Mining & Civil Construction
20.	VDM Group Limited	VMG	0.260	29	113	Speculative Buy	Mining & Civil Construction
Sub-Total			4,691	5,488			
49.	GRAND TOTAL		41,402	44,704			

Source: IRESS, Hartleys Research. * 15 May 2009

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Hartleys Recommendation Categories

No Rating	No recommendation.
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but it is higher risk than a "Buy". For the share price to rise it may be contingent on the outcome of an uncertain or distant event.
Neutral	Take no action. Stock is already trading near the share price target and there are no foreseeable near term catalysts.
Reduce / Take profits	Stock is trading above the share price target and there is a near term negative catalyst that could cause temporary weakness.
Sell	Significant price depreciation anticipated

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