

11 Aug 2009

SWICK MINING SERVICES LTD

Traction Building up in North America

Swick Mining Services Limited ("Swick", "SWK", "Company") has secured another underground diamond drilling contract with a new client in Alaska, USA. This contract marks the second win in North America following the first win two months ago in Canada. Work will commence in September 2009 with one rig and will take up to 4 months to complete. As the client is in the advanced exploration stage, we believe Swick is well-positioned for subsequent businesses (the first mover advantage) when the client moves onto the production stage. We also believe that negotiations with other potential clients are reaching fruition. If things evolve as planned, we could potentially expect Swick to have over 10 rigs in work in North America by the end of FY10. Note also that the North American market yields higher margins than Australia.

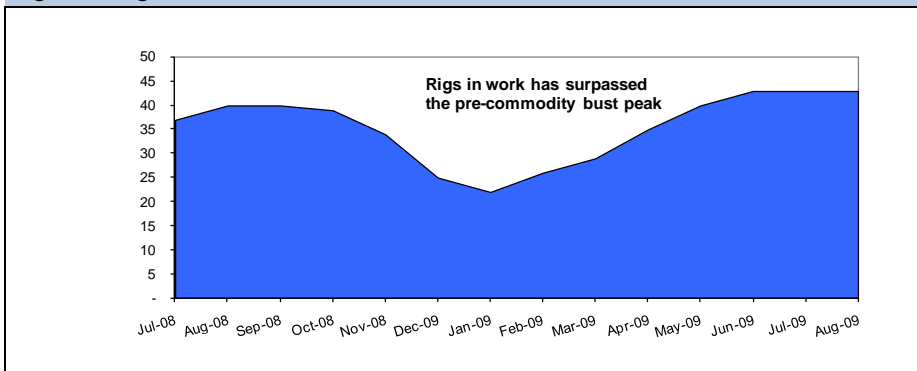
Start Building Rigs Again

Swick has also seen mining activities picking up on the domestic front. The Company currently has 43 rigs (all types) in work in Australia which is back to its September-08 peak. We expect the utilisation level to increase to 50 rigs over the next 4-6 months, meaning the Australian fleet should be fully utilised by January 2010. In a nutshell, we could expect to see a total of 17-19 more rigs in work both in Australia and overseas by the end of FY10. Note that though the outlook looks solid for FY10, the impact of rigs going back to work will not have helped 2H09. Therefore, our expectation of a weak FY09 result is not reflective of current operations.

Retain Buy

Our forecast and valuation for Swick remains unchanged. Swick is currently trading at a P/E of 11.3x for FY10 (relatively at par to peers of 11.0x) and 8.5x for FY11 (below peers of 9.5x). We believe Swick still offers good value at this level given the earnings growth potential in Swick and the potential upside from recovery at the macro level. We reiterate our Buy recommendation for Swick with a 12-month price target of \$0.71 per share.

Fig. 1: Rig Utilisation



Source: Hartleys Research

Share Price:	\$0.54
Valuation (DCF):	\$0.96
12mth price target:	\$0.71

Brief Business Description:

Mineral drilling specialist servicing predominantly the Australian mining industry

Hartleys Brief Investment Conclusion:

A bottom-up play with potential upside on recovery at the macro level.

Chairman & CEO:

Andrew Simpson (Chairman)
Kent Swick (Managing Director)

Top Shareholders:

Swick Family (26.9%)
Entrust Private Wealth Mgt (8.6%)
Perpetual Limited (9.0%)
Thorney Investment Group (5.4%)

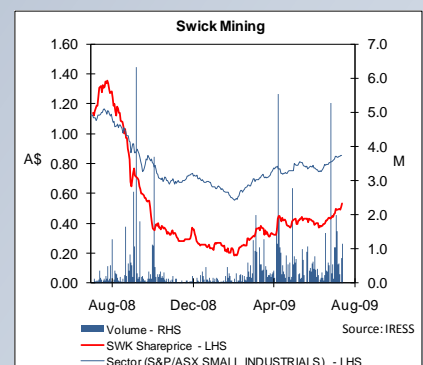
Company Address:

64 Great Eastern Highway
South Guildford, WA 6935

Issued Capital:	193.0m
- fully diluted	195.4m
Market Cap:	\$103.2m
- fully diluted	\$104.5m
Net Debt (31 Jul 09e):	\$39.3m

	FY09a	FY10e	FY11e
Free Cash Flw	13.6	6.7	12.8
NPAT (A\$m)	2.6	9.2	12.2
EPS (\$, bas)*	1.7	4.8	6.4
P/E (basic)*	31.6x	11.2x	8.4x
P/E (diluted)*	40.5x	11.2x	8.4x
EV / EBITDA	7.6x	4.7x	4.1x
DPS (\$)	-	-	-
Div. Yield	0.0%	0.0%	0.0%
Franking	100%	100%	100%
N.D. / equity	68%	30%	13%

Source: Hartleys Research



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SUMMARY MODEL

Swick Mining Services Limited (SWK)					Recommendation: Buy						
Key Market Information					Company Information						
Share Price	\$0.54				Andrew Simpson (Chairman)						
Market Capitalisation (\$m)	\$103.2				64 Great Eastern Highway						
Ordinary Shares on Issue (after capital raising)	192,974,970				South Guildford, WA 6935						
Enterprise Value (\$m)	\$142.5				Ph: (08) 9277 8800						
Year Rolling Volume (m)	105.0				Fax: (08) 9277 8844						
Year Rolling Turnover (\$m)	\$52.5				www.swickmining.com.au						
52 Week High-Low	\$0.19 - \$1.49				Phillip Lockyer Company Secretary - Jason Giltay						
Profit & Loss (\$m)					Top Shareholders						
	6/08A	6/09F	6/10F	6/11F							
Revenue	84.2	85.7	115.8	139.4	Swick Family 26.9%						
EBITDA	23.3	18.6	30.3	34.9	Entrust Private Wealth Mgt 8.6%						
Depreciation/Amortisation	-7.8	-12.4	-13.3	-14.2	Perpetual Limited 9.0%						
EBIT	15.5	6.2	17.0	20.8	Thorney Investment Group 5.4%						
Net Interest	-0.6	-3.2	-2.8	-2.0							
Pretax Profit	14.9	3.0	14.2	18.8							
Tax	-4.6	-0.5	-5.0	-6.6							
NPAT Pre Minorities	10.3	2.6	9.2	12.2							
Minorities/Associates	0.0	0.0	0.0	0.0							
Net Profit After Tax	10.3	2.6	9.2	12.2							
Abnormals (net of tax)	0.0	0.0	0.0	0.0							
Reported Profit	10.3	2.6	9.2	12.2							
Cashflow Statement (\$m)					Growth Rates						
	6/08A	6/09F	6/10F	6/11F	6/08A	6/09F	6/10F	6/11F			
Receipts from Customers	84.3	88.6	109.1	134.4	Revenue Growth	117.9%	2.9%	34.9%	20.3%		
Payments Suppliers/Employees	-71.8	-71.3	-86.6	-103.9	EBITDA Growth	129.0%	-19.8%	62.6%	15.3%		
Cash from Operations	12.6	17.3	22.5	30.5	EBIT Growth	134.5%	-59.6%	173.3%	21.8%		
Net Interest Paid	1.0	-3.2	-2.8	-2.0	Pretax Profit Growth	88.6%	-79.6%	368.0%	32.4%		
Tax Paid	-1.3	-0.5	-5.0	-6.6	Net Profit Growth	162.6%	-75.0%	257.9%	32.4%		
Net Operating Cash Flow	12.3	13.6	14.7	21.9	EPS Growth	80.3%	-76.4%	183.6%	32.4%		
Capital Expenditure	-53.5	-45.0	-9.9	-7.4							
Asset Sales	0.0	0.0	0.0	0.0							
Investments	-0.4	0.0	0.0	0.0							
Net Investing Cash Flow	-53.9	-45.0	-9.9	-7.4							
Proceeds from Equity Issues	26.7	0.0	14.5	0.0							
Net Change in Debt & Leases	27.8	9.7	-10.0	-4.5							
Dividends Paid	0.0	0.0	0.0	0.0							
Other Items	0.0	0.0	0.0	0.0							
Net Financing Cash Flow	54.5	9.7	4.5	-4.5							
Movement in Cash	12.9	-21.7	9.3	10.0							
Balance Sheet (\$m)					Per Share Data						
	6/08A	6/09F	6/10F	6/11F	6/08A	6/09F	6/10F	6/11F			
Cash	25.3	3.6	12.9	22.8	EPS (basic, weighted)	7.2	1.7	4.8	6.4		
Receivables	16.5	13.1	18.9	22.7	PER (basic, weighted)	7.5	31.6	11.2	8.4		
Inventories	8.5	12.8	18.9	22.7	EPS (fully diluted, weighted)	7.1	1.3	4.8	6.4		
Other	2.9	2.9	2.9	2.9	PER (fully diluted, weighted)	7.5	40.5	11.2	8.4		
Total Current Assets	53.2	32.4	53.6	71.2	Operating Cashflow / Share (¢)	8.5	8.9	7.6	11.4		
Property, Plant & Equipment	75.2	107.8	104.4	97.7	Price / CFPS	6.3	6.0	7.0	4.7		
Receivables	0.0	0.0	0.0	0.0	Free Cashflow / Share (¢)	8.5	7.0	5.5	9.0		
Intangibles	1.3	1.3	1.3	1.3	DPS (¢)	0.0	0.0	0.0	0.0		
Investments	0.0	0.0	0.0	0.0	Yield	0.0%	0.0%	0.0%	0.0%		
Other	3.2	3.2	3.2	3.2	Payout Ratio	0.0%	0.0%	0.0%	0.0%		
Total Non Current Assets	79.6	112.2	108.8	102.1	Franking	100%	100%	100%	100%		
Total Assets	132.8	144.6	162.4	173.3	Net Asset Value / Share (¢)	44.9	46.5	49.2	55.6		
Accounts Payable	12.1	11.7	15.7	18.9	NTA / Share (¢)	44.0	45.7	48.6	54.9		
Interest Bearing Liabilities	9.5	19.2	16.2	11.6							
Provisions	1.5	1.5	1.5	1.5							
Other	1.7	1.7	1.7	1.7							
Total Current Liabilities	24.8	34.0	35.1	33.7							
Accounts Payable	0.0	0.0	0.0	0.0							
Interest Bearing Liabilities	32.5	32.5	25.5	25.5							
Provisions	0.1	0.1	0.1	0.1							
Other	7.0	7.0	7.0	7.0							
Total Non Current Liabilities	39.6	39.6	32.6	32.6							
Total Liabilities	64.4	73.6	67.7	66.3							
Net Assets	68.4	71.0	94.8	107.0							
					Financial Ratios						
					6/08A	6/09F	6/10F	6/11F			
					EBITDA / Sales	28.1%	21.9%	26.4%	25.3%		
					EBIT / Sales	18.6%	7.3%	14.8%	15.0%		
					Net Profit / Sales	12.5%	3.0%	8.0%	8.8%		
					Effective Tax Rate	30.6%	15.0%	35.0%	35.0%		
					Return on Average Equity	15.1%	3.6%	9.7%	11.4%		
					Return on Assets	14.4%	4.4%	11.4%	13.8%		
					Return on Tangible Capital Empl	18.4%	5.3%	13.9%	17.3%		
					Net Debt / Equity	24.5%	67.8%	30.4%	13.4%		
					Net Interest Cover (EBIT)	26.0	1.9	6.0	10.6		
					Fixed Charges Coverage	2.0	0.5	1.3	1.7		
					EV/EBITDA multiple	6.1	7.6	4.7	4.1		
					EV/EBIT multiple	9.2	22.8	8.4	6.9		
					Price / Book Value	1.2	1.1	1.1	1.0		
					Price / NTA	1.2	1.2	1.1	1.0		
					Valuation Targets						
					DCF (WACC 10.8%, Terminal growth 2.50%)						
					12mth forward P/E (diluted) of 8.5x (Comps Average Micro Cap)						
					1x Net Tangible Assets						
					12mth fwd Dividend Yield of 3.2% (Gross up yield = Bank Bills +13%)						
					Composite Valuation (Weighted-average of Above 4)						
					12 Months Price Target						
					\$0.96						
					\$0.42						
					\$0.44						
					\$0.00						
					\$0.60						
					\$0.71						
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Phone: +61 8 9268 2837					Phone: +61 8 9268 3052						
					Last Updated: 11 August 2009						
Sources: IRESS, Company Information, Hartleys Research											

PRICE TARGET METHODOLOGY

Our price target is the weighted-average of the following four components:

1. Fundamental Valuation (DCF, 40%)
Assumes our base case cash flow estimates are correct and the stock trades to fundamental valuation.
2. Market Put (Dividend yield, 10%)
Assumes company delivers our earnings estimates, but the equity market falls significantly so that dividend yield becomes the support level for the stock.
3. Earnings Disappointment (NTA, 15%)
Net Tangible Asset (NTA) Value - assumes the company misses profit estimates and market is only prepared to pay book value.

4. Positive Market Momentum (P/E multiple, 35%)

Attempts to captures market momentum (i.e. assumes that comparison company P/E's converge when markets are moving).

Implicitly, our conservative price target assumes that there is a 85% chance our earnings estimates occur, 15% chance earnings are disappointing and zero chance of a positive surprise.

We have increased our 12-month price target to \$0.71 from \$0.64 per share due to rerating in the sector's comparable PE (from 8.0x to 8.5x) and the increased weighting towards DCF (from 35% to 40%).

SWK Price Target Methodology	Weighting	Spot	12 mth out
DCF (WACC 10.8%, Terminal growth 2.50%)	40%	\$0.96	\$1.10
12mth forward P/E (diluted) of 8.5x (Comps Average Micro Cap)	35%	\$0.42	\$0.57
1x Net Tangible Assets	15%	\$0.44	\$0.44
12mth fwd Dividend Yield of 3.2% (Gross up yield = Bank Bills +130bp)	10%	\$0.00	\$0.00
Composite Valuation (Weighted-average of Above 4)		\$0.60	\$0.71
12 Months Price Target		\$0.71	
Shareprice - Last		\$0.54	
12 mth total return (% to 12mth target + divided)		32%	

Source: Hartleys Estimate

Risks

The key risks for SWK is earnings disappointments given that its core market is cyclical, the industry is volatile and pricing becomes more competitive. Earnings can disappoint due to cost overruns, project delays, loss/early termination of contracts or slower than expected new project wins, particularly in regard to the crystallisation of its North America expansion.

Although some earnings disappointments can be short term and just a timing issue, other disappointments can be materially value destructive and can sometimes overhang stocks for a long period of time (for example contract disputes). Such disappointments can be very difficult to predict and share price reactions can be severe and immediate upon disclosure by the Company. Working capital funding could also be a risk for a small company with high capex and debt repayment commitment like SWK in the current credit environment. However, the recent capital raising has alleviated funding risks.

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	43.97	30,715	33,612	Buy Major
2.	Eastern Star Gas Ltd	ESG	1.03	841	762	Buy Producer / Explorer
3.	Carnarvon Petroleum Ltd	CVN	0.645	440	406	Buy Producer / Explorer
4.	Nexus Energy Ltd	NXS	0.335	216	373	Speculative Buy Developer / Explorer
5.	Tap Oil Ltd	TAP	1.05	164	110	Buy Producer / Explorer
6.	Red Fork Energy Ltd	RFE	1.38	161	153	Buy Explorer / Producer
7.	Cooper Energy Ltd	COE	0.410	120	24	Buy Producer / Explorer
8.	First Australian Resources Ltd	FAR	0.145	95	78	Speculative Buy Explorer / Producer
9.	Strike Oil Ltd	STX	0.220	72	65	Buy Explorer / Producer
10.	Amadeus Energy Ltd	AMU	0.295	58	110	Buy Producer / Explorer
11.	European Gas Ltd	EPG	0.250	50	114	Speculative Buy Producer / Explorer
12.	Oilex Ltd	OEX	0.245	43	33	Speculative Buy Explorer / Producer
13.	Sun Resources NL	SUR	0.090	31	21	Speculative Buy Explorer / Producer
14.	Adelphi Energy Ltd	ADI	0.061	9	1	Speculative Buy Junior
Sub-Total			33,015	35,864		
Resources						
1.	Riversdale Mining Limited	RIV	6.40	1,206	880	Speculative Buy Coal
2.	Western Areas NL	WSA	5.78	972	1,106	Buy Nickel
3.	Andean Resource Ltd	AND	1.960	794	765	Speculative Buy Gold Developer
4.	Atlas Iron Limited	AGO	1.95	754	704	Buy Iron Ore
5.	Medusa Mining Limited	MML	2.660	443	416	Buy Gold
6.	Dominion Mining Limited	DOM	4.180	430	479	Speculative Buy Gold
7.	Gold One International Limited	GDO	0.310	223	144	Buy Gold
8.	Jabiru Metals Limited	JML	0.330	180	162	Buy Zinc-Copper
9.	Intrepid Mines Limited	IAU	0.325	139	117	Speculative Buy Gold
10.	Magma Metals Limited	MMB	0.760	124	103	Speculative Buy PGM-Cu-Ni
11.	Emmerson Resources Limited	ERM	0.220	45	33	Speculative Buy Junior Explorer
12.	Peninsula Minerals Ltd	PEN	0.037	41	27	Speculative Buy Uranium Developer / Explorer
13.	Ausquest Limited	AQD	0.140	32	2	Speculative Buy Junior Explorer
14.	Shaw River Resources Limited	SRR	0.170	22	19	Speculative Buy Junior Explorer
15.	Southern Gold Limited	SAU	0.100	12	10	Speculative Buy Junior Explorer
16.	Hazelwood Resources Ltd	HAZ	0.110	11	11	Speculative Buy Junior Explorer
17.	YTC Resources Limited	YTC	0.250	11	8	No Rating Junior Explorer
Sub-Total			5,439	4,986		
Industrials						
1.	West Australia News Hdgs Ltd	WAN	6.30	1,296	1,599	Buy Media
2.	Monadelphous Group Limited	MND	11.690	978	849	Neutral Mining Services
3.	Clough Limited	CLO	0.840	561	607	No Rating Oil & Gas Services
4.	Austal Limited	ASB	2.660	500	406	Speculative Buy Capital Goods
5.	Mermaid Marine Australia Ltd	MRM	2.27	414	466	Buy Oil & Gas Services
6.	Macmahon Holdings Limited	MAH	0.490	360	392	Speculative Buy Mining & Civil Construction
7.	Fleetwood Corporation	FWD	6.92	349	360	Buy Consumer & Mining Services
8.	NRW Holdings Ltd	NWH	1.15	277	330	Buy Mining & Civil Construction
9.	Ausdrill Limited	ASL	1.340	234	402	Buy Onshore Drilling & Mining Services
10.	Neptune Marine Ltd	NMS	0.620	181	155	Speculative Buy Marine Services
11.	Imdex Ltd	IMD	0.840	158	186	Buy Oil & Gas / Mining Services
12.	Southern Cross Electrical	SXE	1.10	132	108	Buy Mining & Civil Construction
13.	Cash Converters Ltd	CCV	0.485	117	117	Buy Retail & Consumer Finance
14.	Decmil Group Limited	DCG	0.880	102	98	Buy Mining & Civil Construction
15.	Nomad Building Solutions Ltd	NOD	0.650	88	114	Speculative Buy Residential & Mining Services
16.	RCR Tomlinson Ltd	RCR	0.700	86	138	Speculative Buy Mining & Industrial Services
17.	Swick Mining Services Ltd	SWK	0.535	82	135	Buy Mining Services
18.	Lycopodium Limited	LYL	1.80	68	65	Neutral Mining & Industrial Services
19.	VDM Group Limited	VMG	0.430	49	132	Speculative Buy Mining & Civil Construction
20.	GRD Limited	GRD	0.535	33	68	Buy Mining & Civil Services
Sub-Total			6,065	6,729		
GRAND TOTAL			44,519	47,579		

Source: IRESS, Hartleys Research. * 11 Aug 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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