



Swick BUY

Current Price: **\$0.62**
Target Price: **\$0.75**

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

Shares on Issue (m)*: **193.0**
Market Cap (\$m)*: **119.6**
Net Debt (Cash) (\$m)*: **42.9**
Enterprise Value (\$m)*: **162.6**

* Post July capital raising

52 wk High/Low: **\$1.33 \$0.18**
12m Av Daily Vol (m): **0.42**

Key Metrics

10F 11F
EV/EBITDA (x) 4.86 4.38
P/E (x) 11.58 9.66

Ratios

09A 10F 11F
ND / Equity 61.8% 37.7% 27.6%
EBITDA Mgn 24.0% 27.5% 27.5%
RoA 4.2% 11.2% 11.9%
RoE 2.6% 10.7% 11.4%

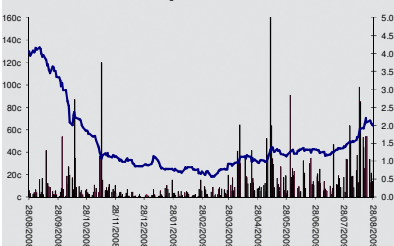
Financials:

09A 10F 11F
Revenue (\$m) 83.7 121.6 135.0
EBITDA (\$m) 20.1 33.4 37.1
Rep. NPAT (\$m) 2.1 10.3 12.4
Net Assets (\$m) 79.6 96.2 108.6
Op CF (\$m) 13.2 27.5 28.4

Per Share Data:

09A 10F 11F
EPS (cps) 1.4 5.4 6.4
DPS (cps) 0.0 0.0 0.0
Div Yield 0.0% 0.0% 0.0%
NTAPS (cps) 43.7 48.3 54.7
CFPS (cps) 8.6 14.4 14.7

Share Price Graph



Analyst:
Ian Christie

31 August 2009

Now for the rebound

Swick Mining Services (SWK) reported FY09 results largely in line with expectations, with steady revenue of \$85m and an 80% fall in NPAT to \$2.1m (inclusive of ~\$2.3m in non-recurring expenses).

Revenue in 2H09 was \$36.8m, down on the \$48.1m in 1H09 due to the reduced number of rigs in work and softer drilling rates in some areas. However, with the quick response to the downturn in 1H09, encouragement can be gained from the rebound in EBITDA margins from 20.8% in 1H09 to 27.4% in 2H09.

\$m	FY08	1H09	2H09	FY09	Δ on FY08
Revenue	84.2	48.1	36.8	84.9	1%
EBITDA	23.3	10.0	10.1	20.1	-14%
EBITDA Margin	28.1%	20.8%	27.4%	23.8%	
EBIT	15.5	3.8	2.8	6.6	-57%
PBT	14.9	2.2	0.4	2.6	-83%
NPAT	10.3			2.1	-80%

Source: SWK

The bottom line was further affected by higher depreciation charges and interest costs, which reflect the considerable investment that SWK had made prior to the downturn.

Gearing at financial year end was 62%, although the \$6.3m raised from a SPP in July would have reduced this ratio closer to 50%. Our balance sheet and cash flow concerns evident at the half year have been allayed by the equity raised as well as our expectation that operating cash flows have improved considerably over the last couple of months.

This has been largely due to a dramatic turnaround in rig utilisation. Forty rigs are currently working for blue-chip clients in Australia (with a focus on gold and iron ore) and three are starting work in North America. SWK is optimistic and anticipating revenue growth in FY10 (although will delay releasing specific guidance).

We were already expecting a significant jump in revenue as rigs in work steadily increase during the coming year. However, given management comments and the margins evident in 2H09, we are encouraged to increase our EBITDA margin expectations, which has had a positive impact on the bottom line forecasts in the coming years.

	FY09	FY10F			FY11F		
	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	84	122	122	0.0%	135	135	0.0%
EBITDA margin	24.0%	25.0%	27.5%	10.0%	25.0%	27.5%	10.0%
NPAT (\$m)	2.1	9.1	10.3	12.4%	11.9	12.4	4.1%

SWK is a very well run business with attractive assets and the spare capacity to take advantage of significant opportunities, both in Australia and in North America. We believe it reacted well to the downturn and enters FY10 as a lean, efficient business. We expect positive newsflow in the coming months as more rigs enter work.

Given the strong growth profile, and assuming continued gains in the resources sector, we are comfortable setting a target price of \$0.75 per share. Although this is a healthy 14x our FY10 NPAT, it is similar to our DCF value which better captures longer-term cash flows. We would look to Buy SWK on weakness and upgrade our recommendation.

BUY

Swick Mining Services

Equities Research
Ian Christie, CFA

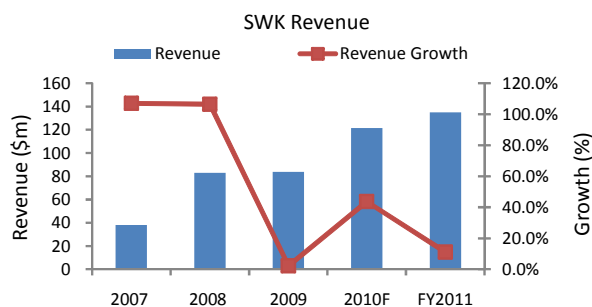
Recommendation	BUY
Current Price (\$)	0.62
All Ords (XAO)	4,495.9

Sector	Resource Services
Market Cap (\$m)	119.6
Date	31 August 2009

Profit and Loss (\$m)	2008A	2009A	2010F	2011F
Revenue	82.8	83.7	121.6	135.0
EBITDA	23.3	20.1	33.4	37.1
Depreciation	-7.8	-13.5	-15.4	-16.4
EBIT	15.5	6.6	18.0	20.7
Net Interest	-0.6	-4.0	-3.4	-3.0
PBT	14.9	2.6	14.7	17.7
Norm. NPAT	10.3	2.1	10.3	12.4

Cash Flow (\$m)	2008A	2009A	2010F	2011F
Receipts	84.3	88.2	115.4	132.9
Payments	-71.8	-71.0	-77.4	-97.2
Other	-0.3	-4.0	-10.5	-7.4
Cash from Operations	12.3	13.2	27.5	28.4
Property, Plant & Equip	-53.5	-52.8	-20.9	-22.1
Payment for Subsidiary	0.0	0.0	0.0	0.0
Other	-0.4	-1.4	0.0	0.0
Cash From Investing	-53.9	-54.1	-20.9	-22.1
Issue of Shares	26.7	8.4	6.3	0.0
New Borrowing	37.4	31.6	16.7	17.7
Repayment of Borrowing	-9.5	-15.9	-19.7	-15.2
Cash From Financing	54.5	24.2	3.3	2.5
Net Cash Flow	12.9	-16.8	10.0	8.8
Ending Cash	25.3	8.5	18.5	27.3

Balance Sheet (\$m)	2008A	2009A	2010F	2011F
Cash	25.3	8.5	18.5	27.3
Receivables	16.5	12.1	18.3	20.3
Inventory	8.5	18.3	12.1	13.4
Other	2.9	2.0	2.0	2.0
Current Assets	53.2	41.0	50.9	63.0
Property, Plant & Equip	75.2	114.2	119.7	125.4
Intangibles	1.3	3.0	3.0	3.0
Other Non-current Assets	3.2	1.5	1.5	1.5
Non-Current Assets	79.6	118.7	124.2	129.8
Total Assets	132.8	159.7	175.1	192.9
Payables	12.1	13.6	18.1	20.1
Borrowings	42.1	57.8	54.8	57.3
Provisions	1.5	1.5	1.5	1.5
Other	8.7	7.1	4.4	5.3
Total Liabilities	64.4	80.0	78.9	84.3
Net Assets	68.4	79.6	96.2	108.6
Ordinary Equity	50.3	58.7	65.0	65.0
Reserves	0.6	0.5	0.5	0.5
Retained Earnings	17.5	20.4	30.7	43.1
Total Equity	68.4	79.6	96.2	108.6



Summary	
Target Price (A\$ per share)	0.75
Forecast 2010 Yield (%)	0.0%
Forecast 2010 P/E (x)	11.6

Valuation Method	Calculations	Results
DCF Valuation	Discount Rate / WACC (%)	11.0%
	PV Free Cash Flow (\$m)	189.8
	Less Net Debt / Plus Cash (\$m)	-42.9
	Unpaid Capital (\$m)	0.0
	Equity Value (\$m)	146.9
	Equity Value (A\$ps)	0.76

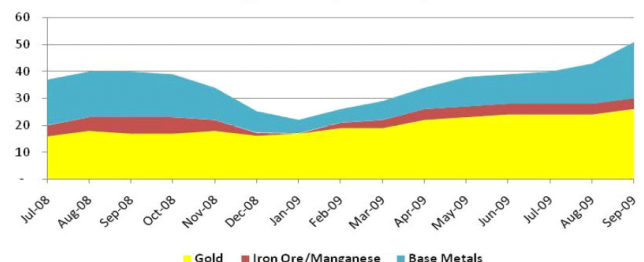
	Multiple	EV	Equity Val	per Share
P/E (2010F) (x)	14.0		143,818	0.75
Multiple Valuation (A\$ps)				0.75

Target Price	0.75
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Financial Ratios	2008A	2009A	2010F	2011F
Balance Sheet Ratios				
Net Debt / Equity (%)	24.5%	61.8%	37.7%	27.6%
Current Ratio (x)	2.1	1.3	1.7	1.9
Net Interest Cover (x)	-18.5	1.7	6.1	10.0
Profitability Ratios				
Gross Margin (%)	28.1%	24.0%	27.5%	27.5%
Net Profit Margin (%)	12.5%	2.5%	8.4%	9.2%
Return on Assets (%)	13.1%	4.2%	11.2%	11.9%
Return on Equity (%)	15.1%	2.6%	10.7%	11.4%
Cash Flow Ratios				
Free Cash Flow Yield	-12.5%	-1.9%	8.8%	8.6%

Per Share Data	2008A	2009A	2010F	2011F
Basic Norm. EPS (cps)	7.2	1.4	5.4	6.4
Diluted Norm. EPS (cps)	7.1	1.4	5.4	6.4
Diluted P/E (x)	18.2	30.1	11.6	9.7
Dividends per share (cps)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
NTA per share (cps)	44.0	43.7	48.3	54.7
Cash Flow per share (cps)	8.5	8.6	14.4	14.7

Rigs in Work by Commodity



Source: SWK

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