

CPT Global (CGO)

Soft 1H, supported by dividend

3 March 2008

Opinion Data

Recommendation	Buy
Risk Rating	High
Current share price	\$0.91
12 month target price	\$1.10 (from \$1.60)
Market capitalisation	\$31m

CPT Global's (CGO) core business is in capacity planning, performance tuning and systems testing - in other words, squeezing every last drop out of IT systems.

The 1H'08 NPAT increased 5% to \$1.3m, below expectations. Key points:

- **Revenue rose 23%** to \$23m. Domestic revenue contributed \$18.5m and the remainder was from the international business where revenue increased 11%.
- **EBIT margins** contracted to 9% from 11.2% in pcp due to expansion costs in the Australian business (80% of 1H revenue) and a 2H earnings skew to offshore risk/reward work.
- Operating cashflow was lower than expected but explained by three size payments being received in the first week of January.
- An interim dividend of 3.25cps (ff) was declared. We forecast a full year dividend of 7.8cps.
- **FY'08.** We are confident in a strong increase in 2H revenue and earnings, mainly from offshore. **Our NPAT forecast** has been lowered to \$3.0m from \$3.6m previously. We believe our medium term forecasts are achievable given progress with offshore financial service companies over the last year.

Investment View. Retain Buy.

We recommend CGO because it is a well managed business leveraged to the financial services & telco sectors (+75% of the business).

We are cognisant that micro cap stocks are likely to trade at a discount to the market into 2008. Our revised price target is \$1.10/share, 9x's EBIT and a 7% fully franked dividend. Our DCF valuation is \$1.27/share with undemanding assumptions.

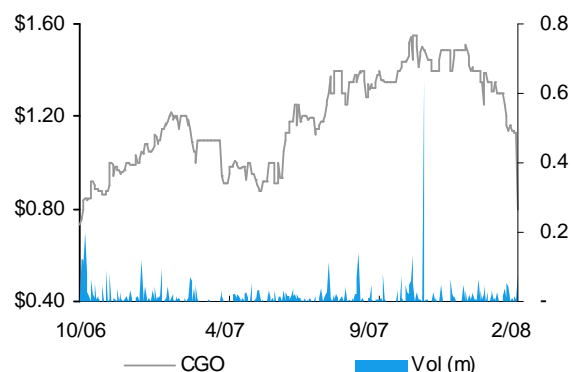
Earnings Forecasts

Y/end June (A\$m)	2007A	2008F	2009F	2010F
Revenue	41.4	48.2	54.2	61.0
EBITDA	4.6	4.8	5.6	6.4
EBIT	4.4	4.5	5.3	6.1
NPAT (adjusted)	3.0	3.0	3.5	4.0
EPS adj. (cps)	8.6	8.4	9.8	11.2
EPS Growth (%)	44%	-2%	17%	14%
DPS (c)	7.8	7.8	8.7	9.0
Dividend Yield (%)	8.5%	8.5%	9.6%	9.9%
PE (x)	10.6	10.8	9.2	8.1
EV / EBITDA (x)	7.7	7.3	6.5	5.8
EV / EBIT (x)	7.9	7.8	6.8	6.1
Gearing (%)	-5%	-7%	-5%	-4%
EBIT Margin (%)	11%	9%	10%	10%
Interest Cover (x)	na	na	na	na

Earnings Adjustments

Y/end June (A\$m)	2008F	2009F	2010F
Previous NPAT (\$m)	3.6	4.7	5.9
Ch. in NPAT (%)	-15%	-20%	-22%
Previous EPS (cps)	10.2	13.1	16.6
Ch. in EPS (%)	-15%	-20%	-22%

CGO Share Price / Volume



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1H'08 DIVISIONALS

FY'08F NPAT
 lowered to \$3m

Divisional performances:

- Domestic operations revenue rose to \$18m, up 27% on pcp. Domestically the contracted forward order book is 81% of the FY'08 target. CGO forecasts +20% growth in FY'08;
- Overseas operations contributed revenue of \$4.7m, up 11% on pcp. With several new companies engaging CGO and all major existing contracts being renewed, we expect overseas growth to continue.

1H'08 EBIT margins contracted to 8.8% from 11.2% in pcp mainly due to expansion costs in the domestic business and capacity increases in the offshore risk/reward work.

Earnings Summary

	1H'08A	Vs pcp	2H'08F	Vs. pcp	Comments	FY'08F	FY'09F	FY'08F growth	FY'09F growth
Sales									
- Australia	18	15	18	17	<i>Forecast to lift as % of business</i>	36	40	14%	10%
- Overseas	5	4	7	5		12	14	25%	20%
Total	23	19	25	23		48	54	16%	12%
EBIT	2.0	2.1	2.5	2.3	<i>Expected flat at the FY</i>	4.5	5.3	3%	17%
NPAT	1.3	1.3	1.7	1.7		3.0	3.5	-1%	17%
EPS	3.6	3.8	4.8	5.0		8.4	9.8	-2%	17%
DPS	3.3	3.3	4.5	4.5		7.8	8.7	0%	12%
Ratios									
EBIT margin	8.8%	11.2%	9.9%	10.1%	<i>Contracting due to expansion costs & capacity increases</i>	9.4%	9.8%		
Tax rate	38%	37%	38%	25%		34%	34%		
Payout	91%	85%	93%	91%		92%	88%		

Source: Austock estimates

International growth assumptions. CGO's international revenue increased by 80% in FY'07 and we forecast 25% growth in FY'08. Whilst international only represents ~20% of revenue currently, we forecast that it will grow to over a third of the business by FY'10. Longer-term this should also increase CGO's overall EBIT margin.

CGO is targeting \$120m in annualised revenue by June 2011. Our forecasts are ~20% below this.

CPT Global
NFPOS
34 m
Price \$0.91
Market Cap \$31 m
Date: 1-Mar-08
Model Updated: 1-Mar-08
PROFIT & LOSS (\$m)

Y/E June 30	FY'06A	FY'07A	FY'08F	FY'09F	FY'10F
Sales	31.3	41.4	48.2	54.2	61.0
EBITDA	3.3	4.6	4.8	5.6	6.4
Depn & Amort	-0.1	-0.2	-0.3	-0.3	-0.3
EBIT	3.2	4.4	4.5	5.3	6.1
Net Interest	0.0	0.0	0.0	0.0	0.0
Income tax expense	-1.1	-1.4	-1.5	-1.8	-2.1
PAT including OEI	2.1	3.0	3.0	3.5	4.0
Reported NPAT pre abs.	2.1	3.0	3.0	3.5	4.0
Adjusted NPAT	2.1	3.0	3.0	3.5	4.0

BALANCE SHEET (\$m)

Y/E June 30	FY'06A	FY'07A	FY'08F	FY'09F	FY'10F
Cash	2.5	0.8	1.2	0.8	0.7
PP&E	0.2	0.5	0.8	1.1	1.5
Debtors & Inventory	8.4	12.9	13.5	14.9	16.4
Intangibles	9.8	9.8	9.8	9.8	9.8
Other assets	0.4	1.1	0.8	1.0	1.1
Total Assets	21.3	25.1	26.1	27.6	29.6
Borrowings	0.0	0.0	0.0	0.0	0.0
Trade Creditors	3.0	4.5	5.2	5.8	6.6
Other Liabilities	1.7	2.9	3.0	3.4	3.8
Total Liabilities	4.7	7.4	8.2	9.2	10.4
NET ASSETS	16.6	17.7	17.9	18.4	19.2
OEI and Pref Shares	0.0	0.0	0.0	0.0	0.0
Shareholder Equity	16.6	17.7	17.9	18.4	19.2

CASHFLOW STATEMENT (\$m)

Y/E June 30	FY'06A	FY'07A	FY'08F	FY'09F	FY'10F
Operating EBITDA	3.3	5.0	4.8	5.6	6.4
Interest & Tax Paid	(1.1)	(1.4)	(1.5)	(1.8)	(2.1)
Working Cap.	0.1	(2.9)	0.1	(0.8)	(0.6)
Operating CF	2.3	0.7	3.4	3.0	3.7
Maintenance Capex	0.1	0.5	0.3	0.3	0.4
Free Cashflow (FCF)	2.2	0.2	3.1	2.7	3.1
Ord & Pref Dividends	(2.0)	(2.3)	(2.8)	(3.1)	(3.2)
Expansion Capex	0.0	0.0	0.0	0.0	0.0
Net Other	0.0	0.1	0.0	0.0	0.0
Net Cashflow	0.2	(2.0)	0.4	(0.4)	(0.1)

INTERIM ANALYSIS (\$m)

	2H06	1H07	2H07	2H-yoy
Australian sales	12.7	14.5	17.4	20%
Overseas sales	2.2	4.3	5.1	19%
Total sales	14.9	18.8	22.5	20%
EBIT	1.4	2.1	2.3	9%
NPAT	1.0	1.3	1.7	29%
EPS	3.1	3.8	5.0	29%
DPS	3.3	3.3	4.5	38%

KEY RATIOS

Y/E June 30	FY'06A	FY'07A	FY'08F	FY'09F	FY'10F
EBIT Margin (%)	10.2%	10.6%	9.4%	9.8%	9.9%
NPAT Margin (%)	6.5%	7.3%	6.2%	6.5%	6.6%
ROE (%) y/e	12%	17%	17%	19%	21%
ROA (%) y/e	17%	19%	19%	21%	22%
ROIC (%) Av.	21%	27%	27%	31%	33%
NTA per share (\$)	0.19	0.22	0.23	0.25	0.27
Eff Tax Rate (%)	36%	31%	34%	34%	34%
Interest Cover (x)	na	na	na	na	na
Net Gearing (%)	-15.0%	-4.8%	-6.8%	-4.5%	-3.6%

VALUATION PARAMETERS

Y/E June 30	FY'06A	FY'07A	FY'08F	FY'09F	FY'10F
Adjusted EPS (c)	6.0	8.6	8.4	9.8	11.2
Adjusted PE (x)	15.2	10.6	10.8	9.2	8.1
PER Rel - All Ind. Ex-Fin.	-32%	-48%	-31%	-33%	-34%
PER Rel - Small Indust.	-32%	-48%	-31%	-33%	-34%
Enterprise Value (\$m)	34.8	34.8	35.2	36.2	37.1
EV / EBITDA (x)	10.5	7.7	7.3	6.5	5.8
EV / EBIT (x)	10.9	7.9	7.8	6.8	6.1
Price / NTA	4.8	4.1	3.9	3.7	3.3
DPS (cps)	6.0	7.8	7.8	8.7	9.0
Dividend Yield (%)	6.6%	8.5%	8.5%	9.6%	9.9%
Franking (%)	100%	100%	100%	100%	100%
Free Cash / Share (c)	6.5	0.7	8.8	7.6	8.6
Price / FCF PS (x)	14.1	131.0	10.3	12.0	10.5

DCF VALUATION

PV Forecast CF (08-12)	8.0	Risk Free Rate	6.0%
PV Grow th CF (12-17)	15.1	Equity Risk Premium	5.0%
PV Perpetuity	19.4	Equity Beta	1.3
Surplus Assets	0.0	Medium Term Grow th	8.0%
Total	42.5	D / (D + E)	-3%
Net cash less OEI	-0.8	WACC	12.4%
NPV (\$m)	43.3	Terminal WACC	12.4%
NPV per diluted share	\$ 1.27	Terminal Grow th	3.0%

WACC

Term. Growth Rate	13.4%	12.4%	11.4%	10.4%
1.5%	\$ 1.09	\$ 1.19	\$ 1.32	\$ 1.47
2.0%	\$ 1.11	\$ 1.22	\$ 1.35	\$ 1.51
2.5%	\$ 1.13	\$ 1.24	\$ 1.38	\$ 1.56
3.0%	\$ 1.15	\$ 1.27	\$ 1.42	\$ 1.62
5.0%	\$ 1.26	\$ 1.43	\$ 1.64	\$ 1.94

GROWTH PROFILE (YoY)

Y/E June 30	FY'06A	FY'07A	FY'08F	FY'09F	FY'10F
Sales (\$m)	9%	32%	16%	12%	13%
EBITDA (\$m)	-4%	38%	6%	16%	14%
Adj. NPAT (\$m)	-15%	46%	-1%	17%	14%
Adj. EPS (cps)	-16%	44%	-2%	17%	14%
DPS (cps)	9%	29%	0%	12%	3%

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Recommendation Criteria

Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Strong Buy	Buy	Hold	Lighten	Sell
25% +	25% - 10%	10% - (5%)	(5%) - (15%)	(15%) +

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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