

ASG Group

Delivers upbeat FY07 guidance

Strong FY07 guidance following a buoyant year

- ASG provided FY07 EBITDA guidance of at least \$10.7m, +2% higher than our estimate of \$10.5m and +49% higher than the FY06 EBITDA of \$7.2m.
- The strong forecast result is driven by new contract wins and the acquisition of Vindaloo in 1H07. We also believe that ASG is generating a higher level of work within its existing accounts due to buoyant IT demand across corporate and government sectors.

No end in sight to solid pipeline

- It appears that the pipeline of IT outsourcing opportunities for ASG remain significant with a large number of existing government and corporate IT services contracts about to expire over the next 2-3 years. It is likely that these will be broken-up and divided among various IT services providers as part of the sectors' shift towards selective outsourcing. We believe second tier IT outsourcers, such as ASG, are well placed to benefit from this trend.

Slight upgrades to FY07/FY08/FY09 estimates

- We have upgraded our EPS estimates slightly, by 4% in FY07, 3% in FY08 and 3% in FY09, following today's upbeat guidance. Given the number and value of tender opportunities currently available to ASG, we are confident that the earnings risk remains squarely on the upside.

Target price upgraded to \$1.44, maintain BUY

- We maintain that ASG and the sector deserve to trade at a premium PE to the consensus ASX Small Industrials PE given above average forecast EPS growth over FY07-FY09 (3-year EPS CAGR of 32%). Our revised TP is \$1.44 per share (from \$1.38).
- In our view, capacity constraints, i.e. the availability of suitable new labour, remain the key risk to ASG's growth trajectory and our forecast estimates over the next 3-years.

ASZ

BUY

Wednesday, May 23, 2007

Price	\$1.20
12-month target price	\$1.44
DCF valuation	\$1.35
Target valuation method	PE Relatives

GICS sector	Information Technology	
Avg monthly t/o	m	3.5
Diluted mkt capitalisation	\$m	171
Shares on issue	m	124
Enterprise value	\$m	148
Previous rating	BUY	

Year Ended June 30		06A	07E	08E	09E
Sales revenue	\$m	59.2	79.1	104.5	113.8
EBITDA	\$m	7.2	10.9	15.9	17.4
EBITDA margin	%	12.1%	13.8%	15.2%	15.3%
EBIT	\$m	5.9	9.4	14.3	15.8
EBIT margin	%	10.0%	11.9%	13.7%	13.9%
Adjusted NPAT	\$m	4.0	6.5	9.9	11.1

EPS adj	c	3.6	5.4	7.8	8.3
EPS adj growth	%	47%	50%	45%	6%
DPS	c	3.2	4.0	6.0	6.5
Franking	%	100%	100%	100%	100%
PER	x	33.4	22.3	15.4	14.5
PER rel Ex-100 ex Fins	x	146%	116%	96%	102%
Dividend yield	%	2.7%	3.3%	5.0%	5.4%
NTA	\$	0.05	0.06	0.11	0.15

EV/EBITDA	x	20.6	13.6	9.3	8.5
P/OCF	x	32.5	25.7	13.3	11.9
ROIC	%	12%	15%	22%	24%
ROA	%	11%	13%	19%	20%
ROE	%	11%	14%	18%	18%
FCF yield	%	2.5%	3.3%	6.9%	7.7%
Debt / Debt + equity	%	-1%	-6%	-18%	-34%



Source: IRESS

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ASG Earnings Revisions

Figure 1. Earnings revisions

		FY07E			FY08E			FY09E		
		Old	New	Change	Old	New	Change	Old	New	Change
Revenue	\$m	78.7	79.1	0%	104.0	104.5	0%	113.3	113.8	0%
EBITDA	\$m	10.5	10.9	4%	15.4	15.9	3%	16.9	17.4	3%
EBIT	\$m	9.1	9.4	4%	13.9	14.3	3%	15.3	15.8	3%
Adjusted NPAT	\$m	6.2	6.5	4%	9.6	9.9	3%	10.7	11.1	3%
Adjusted EPS	cps	5.2	5.4	4%	7.6	7.8	3%	8.0	8.3	3%
DPS	cps	4.0	4.0	-1%	6.0	6.0	0%	6.3	6.5	4%

Source: Veritas Securities

Valuation

Figure 2. Peer comps and target valuation

PE Peer Comparatives:		
ASX Code	Price	FY 08E
OKN	\$5.77	20.6
SMX	\$5.55	19.8
DWS	\$2.32	15.3
ASZ	\$1.20	15.4
Weighted Average IT Services		18.5
Ex-100 Industrials (ex-financials)		16.1
ASG relative to ex-100 Ind		96%
ASG relative to peer avg		83%
Target Valuation:		
ASG Adjusted EPS		\$0.078
Target PE		18.5
Target Price		\$1.44

Source: Thomson consensus estimates, Veritas Securities

ASG Group (ASZ.AX)

Analyst: Ramoun Lazar

Profit & Loss

Year ending June	2006A	2007E	2008E	2009E
Revenue:				
services	56.1	76.0	101.4	110.7
product	3.2	3.1	3.1	3.1
Total revenue	59.2	79.1	104.5	113.8
Expenses	52.1	68.2	88.6	96.4
EBITDA	7.2	10.9	15.9	17.4
D&A	-1.3	-1.4	-1.5	-1.6
EBIT	5.9	9.4	14.3	15.8
Net interest expense	-0.2	-0.2	-0.1	0.0
EBT	5.7	9.2	14.2	15.8
Tax	-1.7	-2.8	-4.3	-4.7
Adjusted NPAT	4.0	6.5	9.9	11.1
Non-recurring items	0.0	0.0	0.0	0.0
Reported NPAT	5.2	9.2	14.2	15.8

Cashflow

	2006A	2007E	2008E	2009E
EBITDA	7.2	10.9	15.9	17.4
Change in Working Capital	-1.5	-2.9	-0.3	-0.1
Net Interest	-0.2	-0.2	-0.1	0.0
Income taxes paid & other	-0.9	-2.3	-4.3	-4.7
Cashflow from operations	4.6	5.8	11.2	12.5
Capex	-0.9	-0.8	-1.0	-1.0
Total free cashflows	3.7	5.0	10.2	11.5
Other investing cashflows	-1.9	-5.8	-1.5	-1.5
Proceeds/(repay) of borrowings	-1.0	2.2	0.0	0.0
Equity raisings/(buybacks)	1.3	6.3	3.5	5.9
Dividends paid	-2.5	-3.1	-6.4	-8.5
Net change in cash	-0.4	4.6	5.8	7.5

Balance Sheet

	2006A	2007E	2008E	2009E
Cash	3.1	7.7	13.6	21.0
Debtors	13.7	18.3	22.2	23.8
Other current assets	5.2	1.1	1.4	1.5
Current assets	22.0	27.2	37.1	46.3
PPE	2.5	2.5	2.4	2.3
Intangibles	29.3	39.1	40.2	41.2
Other non-current assets	0.0	4.4	4.4	4.4
Non-current assets	31.8	46.0	47.0	47.9
Total assets	53.9	73.2	84.1	94.2
Payables	12.7	16.7	20.2	21.6
Short term borrowings	1.1	1.1	1.1	1.1
Other current liabilities	2.7	0.9	0.9	0.9
Total current liabilities	16.6	18.7	22.1	23.5
Long term borrowings	1.5	4.1	4.1	4.1
Other non-current liabilities	0.4	3.5	3.9	4.1
Total non-current liabilities	1.9	7.6	8.0	8.1
Total liabilities	18.4	26.3	30.1	31.7
Net assets	35.4	46.9	54.0	62.5

Market Measures

Year ending June		2006A	2007E	2008E	2009E
EPS reported	cps	4.7	8.0	12.2	13.6
EPS adjusted	cps	3.6	5.4	7.8	8.3
EPS growth	%	47%	50%	45%	6%
PE multiple	x	33.4	22.3	15.4	14.5
PE relative (ex-100)	%	146%	116%	96%	102%
EBITDA per share	cps	5.8	8.8	12.8	14.0
EBITDA growth	%	66%	51%	46%	9%
P/OCF	x	32.5	25.7	13.3	11.9
FCF per share	\$	0.03	0.04	0.08	0.09
DPS	cps	3.2	4.0	6.0	6.5
Dividend yield	%	2.7%	3.3%	5.0%	5.4%
Franking	%	100	100	100	100
Enterprise value	\$m	148.2	148.2	148.2	148.2
EV/EBITDA	x	20.6	13.6	9.3	8.5

Profitability & Liquidity Ratios

Year ending June		2006A	2007E	2008E	2009E
ROE	%	11.3%	13.8%	18.4%	17.7%
ROIC	%	12.0%	15.0%	22.1%	23.7%
ROA	%	11.1%	13.4%	18.9%	20.2%
FCF yield	%	2.5%	3.3%	6.9%	7.7%
NPAT/sales	%	6.8%	8.2%	9.5%	9.7%
EBITDA/sales	%	12.1%	13.8%	15.2%	15.3%
Interest cover	x	31	48	99	3802
Gearing (ND/[ND+E])	%	-1%	-6%	-18%	-34%
NTA/share	\$	0.05	0.06	0.11	0.15

PE Valuation

	FY08	\$/share
Ex-100 Industrials PE	16.1	
Relative to ex-100 Industrials (ex-financials)	96%	
Target relative	115%	
Target PE	18.5	
Target value per share		\$1.44
Dividend per share		\$0.04
Total expected upside/(downside) return		23%

DCF

	\$m	\$/share
Sum of PV of FCF	76	\$0.61
PV of Terminal Value	73	\$0.58
Cash	8	\$0.07
Total Equity Value	157	\$1.26
1-year forward value		\$1.35

Company Statistics

Current share price	\$ps	\$1.20
Ordinary shares	m	123.9
Options	m	19.0
Diluted market capitalisation	\$m	\$171.5

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RATING

BUY – anticipated stock return is greater than 10%
 SELL – anticipated stock return is less than -10%
 HOLD – anticipated stock return is between -10% and +10%
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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