FINANCIAL REVIEW

SE Smart Investor

HD **Fertile ground to dig for profits**

BY Trevor Hoey

WC 2,778 words

PD 16 May 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 46

LA English

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HOEY'S TOP TEN

TD

ASX CODE: CLX
CTI Logistics

	2012	2013
Rev	$98.0m	$127.1m
Profit	$7.3m	$9.8m
EPS	12.4¢	16.6¢
Div	6.5¢	7.5¢

52wk ▲	$2.75
52wk ▼	$1.64
Yield	4.02%
Mkt cap	$130.0m
P/Eratio	11.8

ASX CODE: GFF Goodman Fielder

	2012	2013
Rev	$2.2bn	$2.2bn
Profit	$139.9m	$109.8m
EPS	8.3¢	5.3¢
Div	2.5¢	3.0¢
52wk ▲	$0.79	
52wk▼	$0.48	
Yield	5.93%	
Mkt cap	$1.3bn	
P/Eratio	N/A	

ASX CODE: PEK Peak Resources

	2012	2013
Rev	$0.3m	$2.4m
Profit	$5.3m	$2.9m
EPS	3.0¢	1.1¢
Div	N/A	N/A
52wk ▲	$0.19	
52wk ▼	$0.05	
Yield	N/A	
Mkt cap	$22.1m	
P/Eratio	N/A	

ASX CODE: MOY Millennium Minerals

2012 2013
Rev $0.3m $120.2m
Profit $16.8m $41.7m
EPS 0.5¢ 1.5¢
Div N/A N/A
52wk ▲ $0.42
52wk ▼ $0.01
Yield N/A
Mkt cap $21.1m
P/Eratio 6.3

ASX CODE: MIN Mineral Resources
2012 2013
Rev $982.2m $1.1bn
Profit $242.2m $180.4m
EPS 132.3¢ 97.5¢
Div 46.0¢ 48.0¢
52wk ▲ $12.74
52wk ▼ $7.99
Yield 5.34%
Mkt cap $2.2bn
P/Eratio 8.7

ASX CODE: FTZ Fertoz
Rev N/A N/A
Profit N/A N/A
EPS N/A N/A
Div N/A N/A
52wk ▲ $0.67
52wk ▼ $0.27
Yield N/A
Mkt cap $21.1m
P/Eratio N/A

ASX CODE: AFJ Affinity Education **Group**

2014
Rev N/A $3.7m
Profit N/A $8.9m
EPS N/A N/A
Div N/A N/A
52wk ▲ $1.45
52wk ▼ $0.98
Yield N/A
Mkt cap $174.4m
P/Eratio N/A

ASX CODE: ALU Altium
2012 2013
Rev $54.0m $66.7m
Profit $6.0m $1.5m
EPS 6.1¢ 1.4¢
Div 5.0¢ 11.0¢
52wk ▲ $2.80
52wk ▼ $1.34
Yield 5.36%
Mkt cap $253.3m
P/Eratio 25.3

ASX CODE: WEB Webjet
2012 2013
Rev $57.7m $74.8m
Profit $13.6m $6.5m
EPS 18.8¢ 8.7¢
Div 13.0¢ 13.0¢

52wk ▲ $4.84
52wk ▼ $2.40
Yield 4.82%
Mkt cap $218.3m
P/Eratio 22.3

ASX CODE: SFX Sheffield Resources

	2012	2013
Rev	N/A	$0.6m
Profit	$1.1m	$0.1m
EPS	1.7¢	0.1¢
Div	N/A	N/A

52wk ▲ $1.05
52wk ▼ $0.25
Yield N/A
Mkt cap $116.6m
P/Eratio 609.4

Organic growth, acquisitions and foreign markets all contribute to good prospects for companies across IT, food, transport and mining sectors, writes Trevor Hoey.

1

CTI Logistics

Argonaut commenced coverage of CTI Logistics with a buy recommendation and a 12-month price target of $2.85. CTI is an established provider of transport, logistics and security services to the West Australian market. It has more than 5000 customers ranging from small local businesses to ASX 100 companies, and has almost 700 vehicles, from couriers through to road trains.

The senior management team has been in place for more than 20 years.

Executive chairman David Watson and joint managing directors Bruce Saxild and David Mellor have plenty of skin in the game, holding about 54 per cent of shares.

While they have taken a measured approach to growth, they have consistently underpromised and outperformed, delivering return on equity of about 20 per cent. Based on Argonaut and Bell Potter forecasts, this is expected to continue at least to 2014-15 even though the company will face a slowing in growth as the WA mining sector comes off the boil.

Over the next two years, management will turn its attention to other growth initiatives including expansion of its warehousing and distribution footprint and penetration of new-growth markets such as online sales and home deliveries, a relatively immature area of its business, but one it already has enough experience with in terms of understanding how to strategically increase its market presence.

The 10 per cent fall in CTI's share price after its interim result wasn't so much related to its performance over the prior six months but the outlook statement, which pointed to challenging conditions in the WA market. But management has a track record of successfully adapting to varying environments, and the upside that should stem from the near-term completion of its warehousing and distribution complex should help to offset negative conditions across other areas of its business, as well as laying a sound platform for medium-term growth.

CTI is well leveraged to a pick-up in consumer spending and provides good exposure to the trend towards online buying.

Si view: As a provider of storage and transport for retail stores including delivery of goods purchased in store or online, CTI is positioned to clip the ticket at all stages of the procurement and supply chain.

n TREVOR HOEY Trevor Hoey uses socio-economic trends to identify stocks with the best potential for growth.

2

Goodman Fielder

Goodman Fielder's already depressed share price fell further after informing the market its 2013-14 earnings before interest and tax (EBIT) would be lower than previously advised. Having indicated full-year earnings would be in line with 2012-13, the revised guidance implied EBIT would be between 10 per cent and 15 per cent below consensus forecasts of $180 million.

The midpoint of this guidance reflected EBIT of $157.5 million. This was nearly $30 million shy of EBIT from continuing operations in 2012-13, highlighting the fact that management's shift from a year-on-year comparison to a consensus comparison tended to mask the full impact of the revision. The company's net debt position as at June 30, 2014 is unlikely to reduce, indicating Goodman will enter 2014-15 still on the back foot, both financially and operationally.

The manufacturer and distributor of bakery, grocery and dairy products said trading conditions in Australia and New Zealand had deteriorated and manufacturing and supply-chain cost savings under project "Renaissance" had been delayed. There are issues outside Goodman's control affecting performance; one of the primary factors is increased competition, notably that from large retailers substituting private-label brands. This trend is likely to gain momentum.

Goodman identified the effect of private label, competitor and in-store baking competition on its proprietary brands.

Similar issues were noted across its grocery business, with management stating that volumes of its core categories of spreads, dressings and mayonnaise had reduced significantly due to increased pressure from private-label substitution.

Si view: Wilmar International and First Pacific came to the rescue of shareholders in late April with a takeover offer of 65¢ a share – an almost 50 per cent premium to the 12-month low of 48¢ struck in early April.

3

Peak Resources

Peak Resources' share price fired up nearly 30 per cent on the day it released a preliminary feasibility study (PFS) relating to its wholly owned Ngualla rare earth project in Tanzania. Understandably, these projects often receive little attention as rare earth has a habit of translating into rare profits.

One of the biggest challenges faced by companies developing rare earth projects is the capital needed to bring them to production. There was positive news in the PFS regarding the Ngualla project.

The underlying capital cost had been lowered by US$91 million ($97 million) and the study determined that development costs would be paid back within a three-year period. It also indicated that the average annual operating free cash flow would be US$174 million, representing an internal rate of return (post tax and royalties) of 39 per cent. The PFS indicates production of 10,000 tonnes a year as a base case metric could be achieved over 58 years.

Si view: High value products in the resource favour Peak. Neodymium and praseodymium seem to have a sustained outlook; they are used in electronic devices, wind turbines and hybrid cars.

4

Millennium Minerals

Under the radar and underrated, gold producer and explorer Millennium Minerals delivered a $41.7 million maiden profit for the 12 months to December 31, which, when announced, triggered a sharp share price re-rating. While $27.8 million related to unrealised derivative gains and an income tax benefit, this was still a good operational result, particularly given it was a year of transition for the company.

Millennium operates the Nullagine gold project in Western Australia's Pilbara. It has seven deposits, and the key infrastructure and processing facilities are within 10 kilometres of Nullagine township, which is ideal in terms of minimising costs. The 1.5 million tonnes a year processing plant went into commercial production in January, 2013.

As outlined by managing director Brian Rear, delivering a maiden result in the first year of production is a significant milestone. Particularly impressive was the company's net operating cash flow of $30.4 million.

Si view: While the maiden profit was well received, analysts at Patersons recently highlighted the need for the company to develop a new life of mine schedule, factoring in lower gold prices.

5

Mineral Resources

As an iron ore producer with operations in the Pilbara and Yilgarn regions, it hasn't been surprising to see Mineral Resources' share price trail off in the past month, coming back from its 12-month high of $12.74 to close out April at $11.62.

This represented a decline of about 9 per cent, but while significant, there are other players in the sector that have been hit far worse. The company is well placed to recover all of its lost ground and hit a new 12-month high in the coming months with recent guidance providing improved earnings visibility and the prospect of outperformance at the production level.

While management acknowledged uncertainty in the Chinese market, it is still of the view there is the potential to exceed sales guidance of between 9.5 million tonnes and 10 million tonnes by between 15 per cent and 20 per cent.

Mineral Resources also confirmed it was on track to achieve full-year profit guidance of between $247.8 million and $252.8 million.

Si view: The midpoint of profit guidance represents earnings of $1.34 a share, implying a sector discount P/E multiple, and suggesting the company could trade closer to $14.04, its 12-month consensus target.

6

Fertoz

Interest in North America-based phosphate producer Fertoz could soon gain momentum after the company announced successful laboratory testing had resulted in the signing of agreements with two organic farms in western Canada to trial the agronomic effectiveness of phosphate from its Wapiti East project.

There is strong demand for the company's phosphate products from organic farmers, who are focused on achieving optimum soil mineral balance and believe high phosphate availability, along with a mix of important secondary and tertiary minerals present in the Wapiti phosphate rock, will lead to significant yield improvements.

Testing revealed Fertoz's project has high available phosphate when compared to similar organic fertilisers. Management expects to secure first sales in 2014, indicating that there is not a substantial lead time in terms of generating revenues. Fertoz is exploring for high-grade phosphate in Canada and the United States, two of the world's largest agricultural economies.

Si view: Both Canada and the US import phosphate rock. Fertoz is well placed to service those markets given it has four projects in Canada and an option in Idaho – all of which are adjacent to infrastructure.

7

Affinity Education Group

Affinity Education Group's proposed acquisition of 51 childcare and education centres for $80 million was the most significant development for the company since it listed on the ASX in December 2013. The purchase is expected to be highly earnings-per-share accretive in 2013-14, based on underlying full-year pro-forma earnings projections excluding transaction costs.

Completion of the acquisition is expected to occur over about three months subject to conditions. Management said there was a compelling strategic rationale behind the acquisitions, aside from benefits of scale.

The acquisitions will be funded through $65 million in cash and about $15 million in shares, representing a multiple of 5.2 times anticipated 12-month forward centre-based earnings before interest and tax. This makes for an interesting comparison with fellow childcare owner-operator G8 Education, which has tended to limit purchase prices to about 4.5 times EBIT.

Si view: Affinity's new centres will add 3769 licensed places to its portfolio, bringing total places to 8290. The biggest shift will be a rise in Victorian places from 425 to 1663, prospectively lifting its revenue contribution from 10 per cent pre-acquisition to 21 per cent.

8

Altium

Shares in electronics design software company Altium were well-supported after the company delivered strong growth in sales, revenue and cash for the three months to March 31, 2014. The company maintained its strong record in China and management announced a welcome turnaround in the Americas, where it had moved to an indirect sales model.

Altium could experience significant growth from the Americas in the coming 12 months, with sales on a year-to-date basis up by 9 per cent and momentum expected to continue at least for the rest of 2013-14.

Sales of $18.2 million represented an increase of 8 per cent compared with the previous corresponding period, and the company finished the quarter in a good cash position with US$19.3 million ($20.8 million), up 33 per cent from $14.5 million as at December 31, 2013.

Altium shapes up as one of the better-value stocks in the IT sector after delivering a first-half net profit of US$5.4 million, up 45 per cent on the previous corresponding period.

Si view: Moelis forecasts full-year net profit of $21.4 million, representing earnings per share of 19.1¢, and dividends of 12¢ in 2013-14 and 2014-15. The broker has a buy recommendation, with a 12-month price target of $3.

9

Webjet

With its share price trading well below its 12-month high, Webjet may be worth considering. There are signs its overseas expansion is gaining traction, and given its portfolio of international accommodation products there may be chances to boost its international flights business.

Bureau of Statistics data indicate companies with exposure to overseas travel trends are likely to fare better in the next year. Having negotiated a transitional period with the integration of its overseas hotels business and delivered better margins for the first half of 2013-14, the company seems a turnaround story.

Consequently, Webjet has plenty going for it from an operational perspective. It is also financially robust, carrying zero debt as at December 31. The company is trading on a 2014-15 multiple of about 12.5, yet it is expected to deliver earnings per share growth of 14.3 per cent in 2014-15, suggesting it is good value on a price-earnings to growth basis.

Si view: Bell Potter has a 12-month stock price target of $3.20, implying substantial upside to recent trading levels. Webjet's forecast 16¢ dividend in 2014-15, about a 6 per cent yield, also makes it attractive.

10

Sheffield Resources

Hartleys' analysts are bullish about the prospects of Sheffield Resources, and their sentiment was strengthened after the company delivered an upbeat scoping study on its Thunderbird mineral sands project. The report featured impressive projected and estimated production and financial parameters, such as an initial mine life of 32 years, targeted first production in 2017 and annualised earnings before interest, tax, depreciation and amortisation of $140 million.

Life-of-mine revenue is expected to be $10 billion with a two-year capital payback period and EBITDA for the first 10 years is likely to be $187 million a year. Based on this, Hartleys raised its recommendation from "speculative buy" to "buy", upgrading its 12-month price target from $1.33 to $2.00. The scoping study estimated pre-production costs at $294 million, and Hartleys expects a further $15 million in study work will bring the upfront capital requirement to $309 million.

Si view: Hartleys assumes a 60:40 mix of debt and equity, but estimates the project may be fully equity-funded at prices above $3.00 per share. Based on this, Sheffield would deliver a $98.5 million profit in 2017-18.

CO fdgl : Goodman Fielder Ltd

IN i41 : Food/Beverages/Tobacco | icnp : Consumer Goods

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