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DDH1 (DDH)

Top pick (and shovel play)

Recommendation
Buy (unchanged)
Price
$1.135
Target (12 months)
$1.48 (previously $1.45)

GICS Sector

Materials

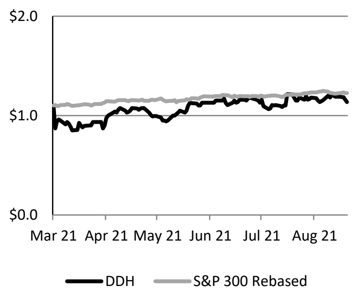
Expected Return	
Capital growth	**30.4%**
Dividend yield	**4.0%**
Total expected return	**34.4%**

Company Data & Ratios	
Enterprise value	**$374.5m**
Market cap	**$389.1m**
Issued capital	**342.8m**
Free float	**55.4%**
Avg. daily val. (52wk)	**$277,480**
12 month price range	**$0.81-1.265**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.21	1.03	
Absolute (%)	-6.20	10.19	
Rel market (%)	-7.58	3.80	

Absolute Price



SOURCE: IRESS

Pro Forma results ahead of Prospectus forecast

DDH has delivered a strong maiden result as a listed company, with Pro Forma financial results in line with its Jul'21 update that was ahead of Prospectus estimates. Drilling revenues grew +17.3% YoY to $294.6m (BPe $294.2m), driven by ongoing drill rig fleet growth (+11.4% YoY), expanding utilisation (+320bps to 76.6%) and higher than forecast revenue per shift (FY21 $6,486 | Prospectus $6,395). EBITDA increased +15.8% YoY to $74.6m (BPe $74.8m), reflecting a slightly lower EBITDA margin (-46bps YoY) due to higher costs relating to COVID-19 impediments and labour. The final dividend was declared at 2.18¢ps ff (BPe $1.9¢ps). Other highlights include:

FY21 utilisation implies strong 2H21e: FY21 utilisation of 76.6% (Prospectus 74.5%) implies 2H21 utilisation of ~79.5%, which was likely weighted to 4Q21. Momentum has continue into FY22e, with current utilisation in the "mid-80%s".

Set to deliver strong FY22 growth: DDH is set to deliver strong FY22e growth supported by the annualised contribution from the +10 rigs added to the fleet in FY21 and another +8 rigs that will be added to the fleet in FY22 (+7 to delivered by Dec'21).

Rates forecast to increase: Rates are forecast to increase in FY22e due to high demand, constrained rig supply, and tight labour. ~10-12 month lead times on new rigs will limit the speed of a supply response, supporting utilisation and rates in our view.

Cost pressures moderate margin expectations: COVID-19 impediments and labour related cost inflation is moderating margin expectations. However, we still expect higher utilisation and rates to drive higher gross profit and EBITDA per average rig.

Investment view: Retain Buy recommendation

We have marginally increased our Underlying EPS estimates by +0.2%, +0.3%, with higher revenue forecasts offset by higher cost assumptions. We expect ongoing rig fleet growth to drive FY22e earnings growth, while tight demand and supply conditions present upside risk to our utilisation and rate assumptions. Ongoing east coast lockdowns presents near-term operational challenges (QLD:WA border is most important), although we expect strong operating leverage as conditions normalise. We reiterate our Buy recommendation, with a $1.48ps Price Target (previously $1.45ps).

Earnings Forecast

June Year end	2021	2022e	2023e	2024e
Drilling revenue ($m)	294.6	345.7	367.0	376.0
Underlying EBITDA ($m)	74.6	87.1	95.0	96.5
NPAT (reported) ($m)	35.2	40.1	44.8	45.9
NPAT(A) (Adjusted) ($m)	36.7	41.6	46.3	46.5
EPS (Adjusted) (¢ps)	10.7	12.1	13.5	13.6
EPS growth (%)		13.6%	11.2%	0.4%
PER (x)	9.5	9.3	8.4	8.4
EV/EBITDA (x)	5.0	4.3	3.9	3.9
Dividend (¢ps)	2.2	4.5	4.8	4.8
Yield (%)	1.9%	4.0%	4.2%	4.2%
Franking (%)	100%	100%	100%	100%
FCF Yield (%)	2.0%	7.7%	10.9%	9.5%
ROE (%)	18.2%	16.9%	17.2%	16.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 1 - FY21 result summary

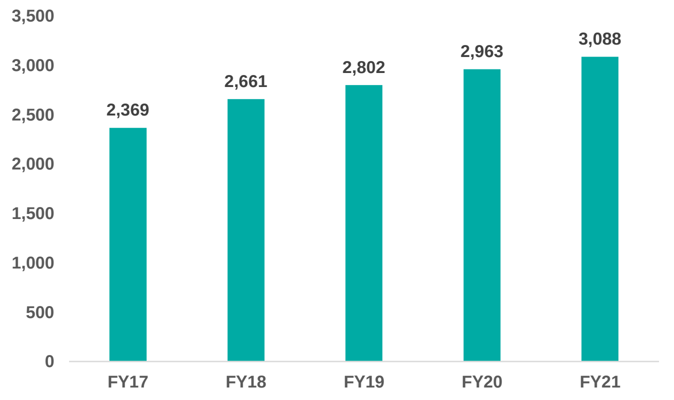
Year End 30 June	Pro forma historicals 2018	2019	2020	2021	2021e	Diff (%)	YoY (%)
Closing rigs (#)	73	82	88	98	99	-1	+10
Net additional rigs	*9*	*9*	*6*	*10*	*11*	*-1*	*+4*
Available shifts (#)	*41,355*	*46,573*	*51,851*	*59,295*	*58,801*	*+494*	*+7,444*
Utilisation (%)	74.7%	75.4%	73.4%	76.6%	75.0%	+160bps	+320bps
Number of shifts (#)	30,892	35,116	38,059	45,420	44,101	*+1,319*	*+7,361*
Revenue per shift ($)	*5,712*	*6,050*	*6,563*	*6,486*	*6,670*	-184	-77
Drilling revenue ($m)	176.4	212.4	249.8	294.6	294.2	0.2%	17.9%
Cost of sales	(111.7)	(134.4)	(158.7)	(188.5)	(190.0)	-0.8%	18.8%
Gross profit	**64.7**	**78.0**	**91.1**	**106.1**	**104.1**	1.8%	16.5%
Gross profit margin (%)	*36.7%*	*36.7%*	*36.5%*	*36.0%*	*35.4%*	*+60bps*	*-45bps*
Other revenue	2.0	2.9	2.9	4.4	4.3	3.2%	51.5%
S,G&A	(23.3)	(25.9)	(28.5)	(35.5)	(32.6)	9.0%	24.7%
Share based payments	(1.0)	(1.0)	(1.0)	(0.3)	(1.0)	-73.2%	-73.2%
EBITDA	**42.3**	**54.0**	**64.5**	**74.6**	**74.8**	-0.2%	15.8%
EBITDA margin (%)	*24.0%*	*25.4%*	*25.8%*	*25.3%*	*25.4%*	*-9bps*	*-46bps*
Depreciation	14.9	16.5	19.5	21.6	21.5	0.7%	10.5%
EBIT(A)	27.4	37.5	44.9	53.1	53.3	-0.5%	18.1%
Acquisition amortisation	2.3	2.3	2.3	2.1	2.3	-4.7%	-6.6%
EBIT	25.2	35.3	42.6	50.9	51.1	-0.4%	19.5%
Net interest	(0.7)	(0.6)	(0.7)	(0.7)	(0.7)	-3.5%	-3.5%
PBT	24.5	34.7	41.9	50.2	50.4	-0.3%	19.9%
Operating income tax expense	(7.6)	(8.9)	(12.9)	(15.1)	(15.1)	-0.3%	16.8%
NPAT	16.8	25.8	29.0	35.2	35.3	-0.3%	21.2%
Acquired amotisation (post-tax)	*1.6*	*1.6*	*1.6*	*1.5*	*1.6*	*-4.7%*	*-6.6%*
NPAT(A)	18.4	27.4	30.6	36.7	36.8	-0.5%	19.8%
Underlying EPS - NPAT(A) (¢ps)				*11.9*	*10.7*	*10.8%*	*N/A*
Dividend (¢ps)				*2.2*	*1.9*	*14.7%*	*N/A*

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Key observations

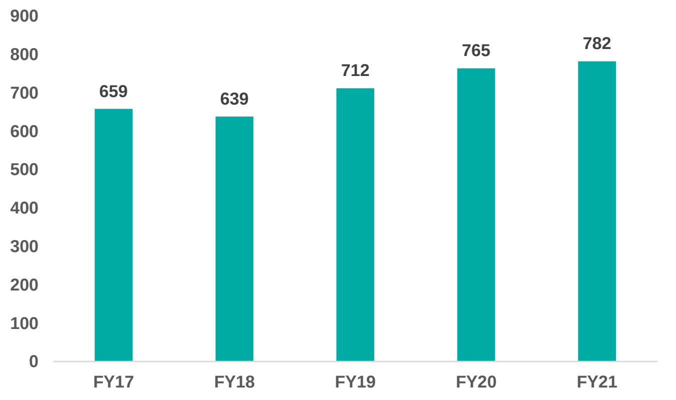
- DDH grew +11.4% to 98 rigs (BPe 99) and is expecting to add another +8 rigs in FY22e, bringing the fleet to 106 rigs (BPe 108). DDH is expecting to take delivery of +7 of the new rigs by the end of 1H22e, meaning the majority should contribute to 2H22e.
- Utilisation increased +320bps to 76.6% (BPe 75.0%), implying 2H21 utilisation of ~79.5%. Management commented utilisation is currently in the mid-80%s, although noted seasonality will affect the 1H22e total (e.g. Christmas break).
- Revenue per shift was $6,486 (BPe $6,670), ahead of the Prospectus forecast of $6,395.
- Drilling revenue increased +17.3% YoY to $294.6m (BPe $294.2m), driven by the drill rig fleet growth, expanding utilisation and higher than Prospectus revenue per shift.
- We estimate the gross profit margin at 36.0% (in line with Prospectus forecasts), although note it has not been disclosed.
- Other revenue included $2.0m of 'training booster incentives' which should largely recur in 1H21e.
- EBITDA grew +15.8% to $74.6m (BPe $74.8m), although the EBITDA margin declined -46bps to 25.3%, reflecting cost pressure being recovered by higher rates. Despite this, EBITDA per average rig increased from $764.5k to $782.5k.
- NPAT(A) was in line with expectations, +21.2% to $35.2m (BPe $35.3m)
- Underlying EPS was higher than expectation driven by lower WANOS due to the IPO, rather than higher earnings, we have normalised this in our numbers.
- A 2.12¢ps ff final dividend (BPe $1.9cps) was declared by the board.

Figure 2 - Revenue / average rig ($'000)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 - EBITDA / average rig ($'000)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Earnings revisions

We have marginally increased our Underlying EPS estimates by +0.2%, +0.3%, with higher revenue forecasts offset by higher cost and depreciation assumptions.

We have also increased our FY22e operating cash flow forecasts, accounting for the increased tax shield (Deferred Tax Asset), resulting from the tax base reset.

We expect ongoing rig fleet growth to drive FY22e earnings growth, while tight demand and supply conditions present upside risk to our, and consensus utilisation and rate assumptions. Ongoing east coast lockdowns presents near-term operational challenges (QLD:WA border is most important), although we expect strong operating leverage as conditions normalise.

FY22e P/E of 9.3x is attractive in our view, given the possibility of an upgrade cycle as border conditions normalise.

Figure 4 - Changes to EPS

Earnings Changes		2021			2022e			2023e	
June Year End	old	new	% change	old	new	% change	old	new	% change
Revenue ($m)	294.2	294.6	0.2%	328.6	345.7	5.2%	356.7	367.0	2.9%
EBITDA ($m)	74.8	74.6	-0.2%	85.7	87.1	1.7%	93.9	95.0	1.2%
EPS (Underlying) (¢ps)	10.7	10.7	-0.5%	12.1	12.1	0.2%	13.5	13.5	0.3%

SOURCE: BELL POTTER SECURITIES ESTIMATES

We reiterate our Buy recommendation, with a $1.48ps Price Target (previously $1.45ps).

Figure 5 - Valuation

Methodology	Weighting	Value
ROIC Valuation	30%	$1.79
DCF Valuation	70%	$1.35
Target Price		$1.48

SOURCE: BELL POTTER SECURITIES ESTIMATES

Business overview

Company description

DDH1 (DDH) is a leading provider of specialised drilling services to the Australian mining industry and operates Australia's largest surface fleet of operational mineral drill rigs. The company is headquartered in Perth, Western Australia, and also maintains a Brisbane office to service the east coast market.

DDH offers its drilling services via three specialised brands: (1) DDH1 Drilling; (2) Strike Drilling; and (3) Ranger Drilling; each with differing specialities and target market. DDH1 Drilling, which represents ~69% of revenue, typically focuses on technically challenging directional drilling at depth, while Strike Drilling specialises in early-stage exploration, and Ranger Drilling specialises in iron ore.

Revenue is a function of the number of rigs, utilisation and rates, although specialisation (expertise, equipment and complexity), productivity (metres per shift) and operating efficiency (variable costs) also drive profitability per rig.

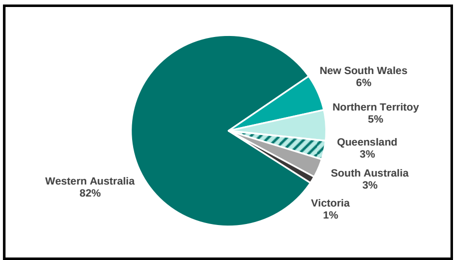
Investment thesis

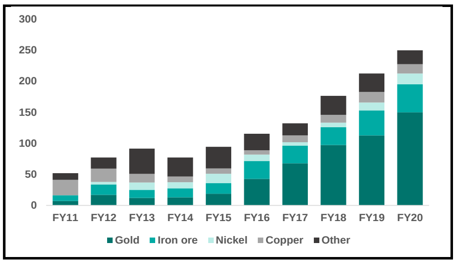
We currently have a Buy recommendation on DDH and a target price of $1.48 per share.

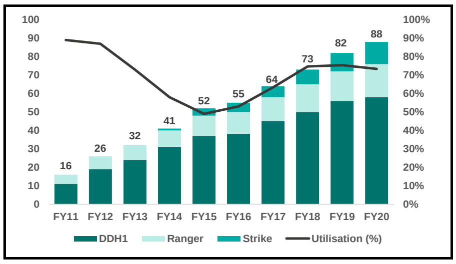
Our favourable view is supported by: (1) an unmatched record of profitable growth; (2) materially higher margins, revenue and metres per rig than listed peers; (3) upside to key revenue drivers of utilisation and rates when compared to previous upcycles; (4) headroom to pursue accelerated organic and inorganic growth options; and (5) supportive macro indicators for FY22e Australian exploration expenditure, including drilling activity, junior capital raisings data and key commodity prices.

Figure 6 - Company overview

Brand (FY21e revenue share*)		
DDH1 Drilling *(68.5%)* Specialised diamond drilling services, with expertise in deep and technically challenging drilling (up to 3,000 metres).	**Strike Drilling *(19.7%)*** Air Core and Reverse Circulation drilling services which are predominantly used for Greenfield stage exploration.	**Ranger Drilling (11.9%)** Reverse Circulation services for all stages of the mine life cycle of Western Australian Iron Ore companies.
Drill fleet and employee numbers		
• 67 multi-purpose Diamond Core rigs (~10 undergound), adding 7 rigs in FY21e**. • 704 employees.	• 12 drill rigs (7 dual-purpose and 4 Reverse Circulation), adding 1 rig in FY21e**. • 96 employees.	• 20 drill rigs (majority medium sized Reverse Circulation, with some Diamond Core), adding 3 rigs in FY21e**. • 197 employees.
Commodity and mine life cycle focus		
• Non-ferrous metals • All stages of mine life cycle	• Non-ferrous metals • All stages of mine life cycle	• Iron ore • All stages of mine life cycle
FY20 revenue by state*	**Historical revenue by commodity***	**Historical number of rigs***







SOURCE: COMPANY DATA, *PRO FORMA, **EXCLUDES THE ADDITIONAL FOUR RIGS DDH SECURED IN MAR'21 AND ANY PLANNED DECOMMISIONING

Key risks to investment thesis

Risks to investment thesis

Key risks to DDH include, although are not limited to:

Commodity price risk: Exploration expenditure decisions are typically made in part based upon commodity prices that are inherently cyclical. Lower than expected prices, or adverse changes in demand for any of the key commodities (e.g. gold, iron ore, copper) may have an adverse effect on demand for DDH's services, particularly Greenfield exploration.

Supply of equipment: DDH's revenue is leveraged to drill rigs. Any impediments accessing drill rigs to renew and grow its fleet in a timely affordable fashion, or required ancillary equipment and supplies, may adversely affect DDH's financial performance.

Contract risk: DDH's contracts are generally awarded via competitive tendering processes and are between three months to three years in length. Contracts can typically be terminated at convenience with minimal compensation (usually limited to demobilisation costs). Any significant mispricing of tenders, terminations by customers, or variance in scope may adversely affect DDH's financial performance.

Competition risk: DDH operates in a competitive fragmented market, with many competitors of differing sizes. An escalation in competition or competitors consolidating the market may result in lower rates, margins or market share.

Concentration risk: While DDH has a relatively diversified customer base, its top 10 clients contributed ~62% of FY20 revenue. Any termination or material reduction in service levels to a key customer may adversely affect earnings, particularly if DDH is unable to redeploy its resources in a timely manner.

Geographical risk: DDH's operations are predominantly located in Western Australia (~82% of FY20 revenue), some of which are provided in remote locations. The concentration and remoteness exposes DDH to a number of risks (e.g. weather events, travel impediments, and labour shortages).

Risks of labour shortages and costs: Increases to activity in the resources industry, particularly drilling, is increasing the competition for skilled personnel. The loss of, or failure to attract and retain skilled labour, or any increases to costs that cannot be recouped, would likely have an adverse effect on DDH's operations and financial performance.

Key staff risk: The loss of key management personnel, delays in their replacement, and/or failure to attract new talent may adversely affect DDH's operations.

Occupational health & safety risk: Any adverse workplace incident or the failure to comply with regulations may result in significant liabilities against DDH. Any claim or resultant interruptions could adversely affect DDH's operations and reputation.

Acquisition risks: DDH has undertaken several acquisitions in the last four years, and has stated that it continues to evaluate acquisition opportunities. There is a risk that DDH will not be able to execute acquisitions as planned, with risks to integration, retention of key people, realisation of synergies and execution of financial forecasts.

Reputational risk: Poor delivery of services, operational failures, adverse media coverage or other disputes may impact DDH's brand and reputation, adversely impacting relationships with potential and existing customers and/or employees.

Regulatory risk: Any adverse change in regulations that affect DDH's, or its underlying customer's business models, such as additional environmental regulations, could adversely affect costs and demand for DDH's services.

DDH1
as at 30 August 2021

Recommendation	Buy
Price	$1.135
Target (12 months)	$1.48

Table 1 - Financial summary

June Year End					
Profit & Loss (A$m)	**2020***	**2021**	**2022e**	**2023e**	**2024e**
Drlling revenue	**249.8**	**294.6**	**345.7**	**367.0**	**376.0**
. . . Change	*17.6%*	*17.9%*	*17.3%*	*6.2%*	*2.5%*
Gross Profit	**91.1**	**106.1**	**121.0**	**131.8**	**135.4**
Gross margin (%)	*36.5%*	*36.0%*	*35.0%*	*35.9%*	*36.0%*
Other income	2.9	4.4	3.2	2.0	2.0
Operating expenses	(29.5)	(35.8)	(37.1)	(38.8)	(40.8)
Underlying EBITDA	**64.5**	**74.6**	**87.1**	**95.0**	**96.5**
Depreciation	19.5	21.6	27.1	28.4	29.6
Underlying EBIT(A)	**44.9**	**53.1**	**60.0**	**66.6**	**66.9**
Amortisation	2.3	2.1	2.1	2.1	0.8
EBIT	**42.6**	**50.9**	**57.9**	**64.5**	**66.1**
Net Interest	(0.7)	(0.7)	(0.5)	(0.5)	(0.5)
Pre-tax profit	**41.9**	**50.2**	**57.3**	**64.0**	**65.6**
Tax expense	(12.9)	(15.1)	(17.2)	(19.2)	(19.7)
. . . tax rate	30.8%	30.0%	30.0%	30.0%	30.0%
Underlying NPAT	**29.0**	**35.2**	**40.1**	**44.8**	**45.9**
Abs. & extras. (post-tax)	-	22.0	-	-	-
Reported Profit	**29.0**	**57.2**	**40.1**	**44.8**	**45.9**
Acquired intangibles	*1.6*	*1.5*	*1.5*	*1.5*	*0.6*
Underlying NPAT(A)	**30.6**	**36.7**	**41.6**	**46.3**	**46.5**
Cashflow (A$m)	**2020***	**2021**	**2022e**	**2023e**	**2024e**
Underlying EBITDA	**64.5**	**74.6**	**87.1**	**95.0**	**96.5**
Change in working capital	5.9	(5.6)	(8.9)	13.5	1.9
Tax Paid	-	(17.6)	(9.2)	(19.2)	(19.7)
Net Interest Expense	(0.8)	(2.5)	(0.5)	(0.5)	(0.5)
Other	0.3	(0.3)	-	-	-
Operating cash flow**	**69.9**	**48.6**	**68.5**	**88.8**	**78.3**
Capex	(28.0)	(39.0)	(38.0)	(34.5)	(35.1)
Lease liabilities	-	(2.7)	(0.7)	(0.7)	(0.7)
Free Cash Flow	**41.9**	**6.9**	**29.8**	**53.7**	**42.5**
Dividends paid		-	(15.0)	(24.0)	(24.7)
Acquisitions		-	-	-	-
Share Issues		31.5	-	-	-
Change in borrowings		(61.4)	-	-	-
Other		34.8	-	-	-
Net Change in Cash		**11.7**	**14.8**	**29.7**	**17.8**
Balance Sheet (A$m)	**2020***	**2021**	**2022e**	**2023e**	**2024e**
Cash	2.9	14.6	29.4	59.1	77.0
Receivables	41.9	55.7	63.7	42.6	44.6
Inventory	23.6	26.1	30.1	30.7	32.1
Other current assets	0.7	5.5	1.5	1.5	1.5
Current assets	**69.1**	**101.9**	**124.8**	**134.0**	**155.2**
Fixed assets	107.2	129.4	140.9	147.7	153.8
Right-of-Use Assets	5.1	5.4	4.2	4.2	4.2
Intangibles	7.5	5.4	3.3	1.1	0.3
Goodwill	25.4	25.4	25.4	25.4	25.4
Other non-curr assets	0.6	15.0	11.0	11.0	11.0
Non Current Assets	**145.8**	**179.4**	**184.8**	**189.4**	**194.7**
Total Assets	**214.9**	**281.3**	**309.6**	**323.4**	**349.9**
Short term debt	-	-	-	-	-
Lease liabilities	0.7	3.2	3.2	3.2	3.2
Creditors	21.4	28.8	31.9	24.9	30.3
Provisions	5.3	8.4	8.4	8.4	8.4
Other current liabilities	-	-	-	-	-
Current Liabilities	**33.1**	**40.4**	**43.5**	**36.6**	**41.9**
Long term debt	-	-	-	-	-
Lease liabilities	4.7	6.4	6.4	6.4	6.4
Other	8.3	0.8	0.8	0.8	0.8
Non Current Liabilities	**13.0**	**7.2**	**7.2**	**7.2**	**7.2**
Total Liabilities	**46.1**	**47.6**	**50.7**	**43.8**	**49.1**
Net Assets	**168.8**	**233.7**	**258.8**	**279.6**	**300.8**
Share capital	365.8	375.0	375.0	375.0	375.0
Reserves	(197.0)	(262.7)	(262.7)	(262.7)	(262.7)
Retained earnings	-	121.4	146.5	167.3	188.5
Shareholders Equity	**168.8**	**233.7**	**258.8**	**279.6**	**300.8**
Net debt/(cash) $m	(2.9)	(14.6)	(29.4)	(59.1)	(77.0)
WANOS (m/share)	*307.8*	*307.8*	*342.8*	*342.8*	*342.8*

Price	$1.135
Recommendation	Buy
Shares on issue (m)	342.8
Market cap ($m)	389.1
Target Price (A$ps)	$1.48

Assumptions	**2020***	**2021**	**2022e**	**2023e**	**2024e**
Closing rigs (#)	88	98	106	112	118
Average rigs	*84.3*	*95.4*	*103.5*	*109*	*115*
Utilisation (%)	73.4%	76.6%	80.5%	79.7%	78.0%
Shifts worked (#)	38,059	45,420	51,378	53,575	55,300
Revenue / shift ($)	6,563	6,486	6,728	6,850	6,799
Valuation Ratios	**2020***	**2021**	**2022e**	**2023e**	**2024e**
Underlying EPS* (¢ps)**		**10.7**	**12.1**	**13.5**	**13.6**
. . . % change			*13.6%*	*11.2%*	*0.4%*
P/E (x)		**9.5**	**9.3**	**8.4**	**8.4**
EV/EBITDA (x)		5.0	4.3	3.9	3.9
EV/EBIT(A) (x)		7.1	6.2	5.6	5.6
NTA ($ps)		0.66	0.67	0.74	0.80
P/NTA (x)		1.7	1.7	1.5	1.4
Book Value ($ps)		0.76	0.75	0.82	0.88
Price/Book (x)		1.5	1.5	1.4	1.3
DPS (¢ps)		2.2	4.5	4.8	4.8
*. . . % pay-out ****		*18.3%*	*37.0%*	*35.5%*	*35.4%*
Yield (%)		**1.9%**	**4.0%**	**4.2%**	**4.2%**
Franking (%)		100%	100%	100%	100%
Performance Ratios	**2020***	**2021**	**2022e**	**2023e**	**2024e**
Revenue growth (%)	17.6%	17.9%	17.3%	6.2%	2.5%
EBITDA growth (%)	19.4%	15.8%	16.7%	9.0%	1.6%
EBITDA margin (%)	25.5%	25.0%	25.0%	25.7%	25.5%
EBIT(A) growth (%)	19.7%	18.1%	13.1%	11.0%	0.4%
EBIT(A) margin (%)	17.8%	17.7%	17.2%	18.1%	17.7%
OCF Realisation (%)		60.1%	98.7%	118.0%	102.5%
FCF Realisation (%)		12.0%	74.3%	119.9%	92.6%
FCF Yield %		2.0%	7.7%	10.9%	9.5%
ROE (%)	21.7%	18.2%	16.9%	17.2%	16.0%
ROIC (%)		29.3%	25.1%	26.8%	28.5%
Fixed Asset Turnover		2.49	2.50	2.54	2.49
Capex/Depreciation	0.62	0.69	0.61	0.61	0.62
Interest Cover	60.86	75.33	110.61	124.84	129.48
Current Ratio	2.09	2.52	2.87	3.66	3.70
Net Debt/EBITDA	+ve	+ve	+ve	+ve	+ve
Net Debt/Equity (%)	+ve	+ve	+ve	+ve	+ve
Half Yearly Assumptions	**1H20**	**1H21**	**1H22e**	**1H23e**	**1H24e**
Closing rigs (#)			105	109	115
Average rigs			*101.5*	*107.5*	*113.5*
Utilisation (%)			79.5%	81.5%	78.0%
Shifts worked (#)			24,873	27,007	27,289
Revenue / shift ($)			6,780	6,900	6,850
Half Yearly	**1H20**	**1H21**	**1H22e**	**1H23e**	**1H24e**
Drlling revenue			**168.6**	**186.3**	**186.9**
. . . Change			*19.2%*	*10.5%*	*0.3%*
Gross profit			**59.0**	**66.7**	**67.3**
Gross margin (%)			*35.0%*	*35.8%*	*36.0%*
EBITDA			**42.8**	**48.6**	**48.1**
Depreciation			12.9	14.0	14.7
EBIT(A)			**30.0**	**34.6**	**33.5**
Amortisation			1.1	1.1	0.8
Net Interest			(0.3)	(0.3)	(0.3)
Pre-tax profit			**28.6**	**33.3**	**32.4**
Tax expense			(8.6)	(10.0)	(9.7)
. . . tax rate			30.0%	30.0%	30.0%
Underlying Net Profit**			**20.0**	**23.3**	**22.7**
Acquired intangibles			*0.8*	*0.8*	*0.6*
Underlying NPAT(A)			**20.8**	**24.0**	**23.3**

Pro forma numbers

**** Pro forma Operating cash flows exclude Net interest and Income tax paid**

***** On Underlying NPAT(A)**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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