

GBST Holdings (GBT) (Going Global – positioned for improving market conditions)

Date: 28th March 2010

Recommendation:
BUY

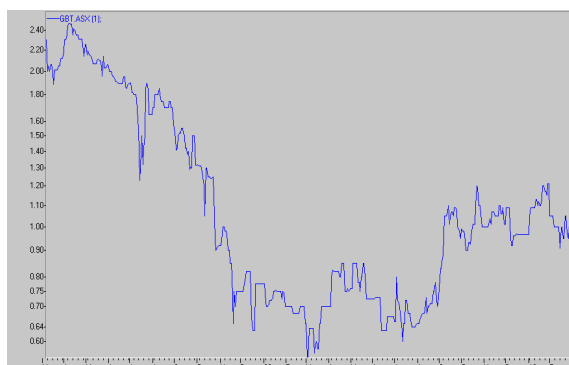
Price:
\$0.96

Valuation:
\$1.53

Key Statistics:

ASX Code:	GBT
Ordinary Shares on issue (m)	66.03
Market Cap (\$0.95)	A\$62.7m
Ave daily turnover	A\$20k
Debt	A\$32m
Cash	A\$3.2
Valuation:	\$1.53
Current price:	\$0.96

GBST 24 month share price performance



Source: Iress



Source: GBT

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Event:

- GBST is a leading provider of securities transaction and fund administration software to the financial services industry. Their three business segments of broker services, wealth management and financial services were all impacted by the global financial crisis. The past 18 months has seen GBST make two meaningful business purchases and substantially restructure debt from the August 2009 capital raising. GBST is now well positioned to benefit from improving global financial activity in calendar 2010 and 2011.

Background:

- GBST was established in 1983 to provide global technology services to the financial services industry. The company listed on the Australian Stock Exchange in June 2005 and has a strong track record of innovation and growth.
- In a constantly evolving financial services landscape, GBST has broadened and diversified its ability to service customers. They have made a number of key acquisitions to have a genuinely global influence. The global financial crisis impacted the revenue streams and funds under management of most financial services providers. This has impacted the GBST business, however, has also provided opportunity such as the opening to purchase the Coexis business in the UK, a new generation technology for the administration of financial instruments with an existing global reach.

Investment opinion:

- We believe the improving global financial services landscape provides the catalyst to examine GBST, given the leverage of their business to improving market conditions.
- **We initiate coverage with a DCF valuation of \$1.53 and a buy recommendation.**

Historic and forecast financial results:

Profit and Loss

	2008	2009	2010 (h)	2010(f)	2011(f)
Sales Revenue	60.7	62.2	32.9	69.4	77.7
Core EBITDA	17.3	13.4	7.2	14.0	16.2
Depn and Amort	-4.1	-6.8	-3.9	-7.2	-7.6
Core EBIT	13.2	6.6	3.3	6.8	8.6
Net Interest	-1.2	-3.3	-1.7	-2.8	-2.3
Pre Tax Profit	12.0	3.3	1.6	4.1	6.3
Tax	-3.6	0.1	-0.36	-1.2	-1.9
Outside equity interests	0.0	0.0	0.0	0.0	0.0
Adj NPAT	8.4	3.4	1.2	2.9	4.4
One-off items	-2.3	-0.6	0	-0.3	-0.3
NPAT reported	6.1	2.8	1.2	2.6	4.1

- The GBT reported results were negatively impacted by the Global Financial Crisis (GFC).
- Looking forward, a number of factors, including the large reduction in debt in late 2009, the improving domestic and international financial market conditions, and expected business synergies from GBT's recent acquisition should deliver much improved trading results.

Australian Broker Services:

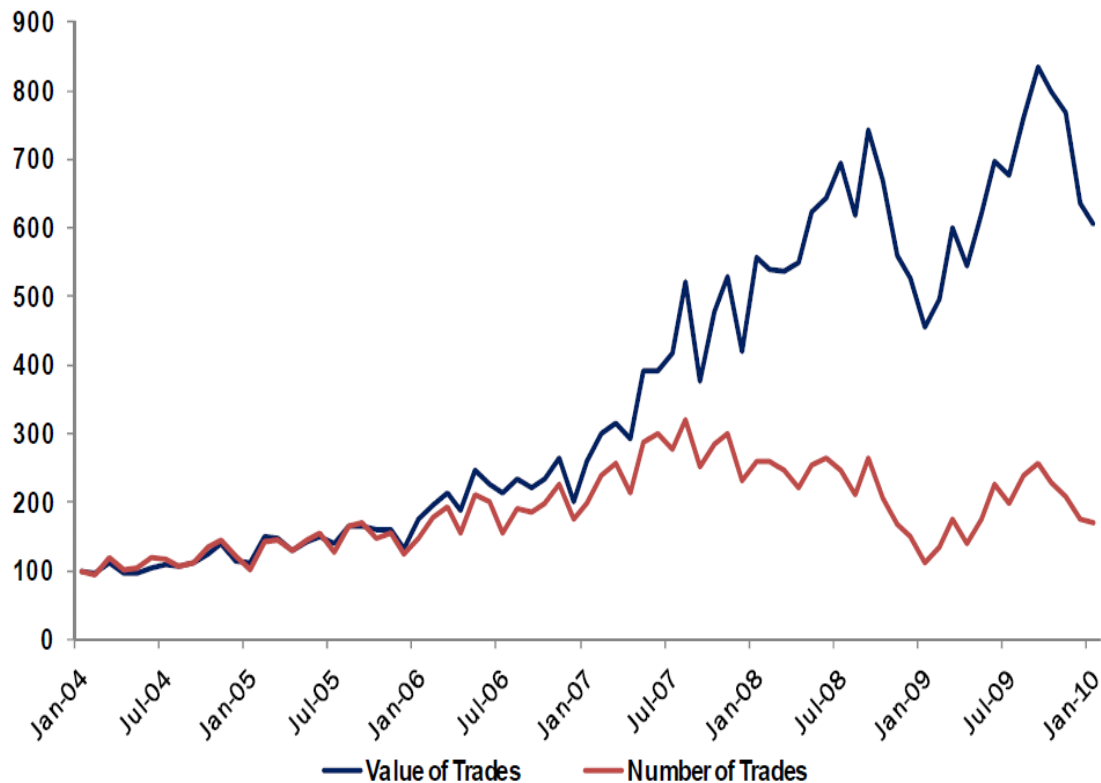
- The GBST shares division continues to underpin the group with a strong performance through the GFC and a dominant market position in Australia, processing 44% of the ASX traded volume. The acquisition of the DCA platform allows GBST to process over 70% of derivative volumes daily and reinforces their position in the Australian market.
- Recurring annuity income contributes over 90% of operating revenue of which almost half is on a fixed fee basis and half variable basis on either the customer's ASX trading activity, or in some cases, the customer's funds or loans under management.

International Broker services:

- The Coexis acquisition in late 2008 is yet to produce the results initially expected. The strategic rationale to purchase this business continues to appear of sound logic as this business has the potential to expand the scope and functionality of the existing Shares business as well as extending the geographic reach.
- A significant amount of historic revenues for Coexis have been sourced from two customers that accounted for a large portion of total revenue. In July 2008, the largest customer was subject to a takeover which resulted in its agreement with Coexis being terminated.
- After a significant earnings decline in 2009, it is expected the Coexis business will deliver improved results in FY10, which will be an important catalyst in improving overall share market sentiment towards GBT.

Chart 1:

Daily Trades on the ASX



Source: IRESS

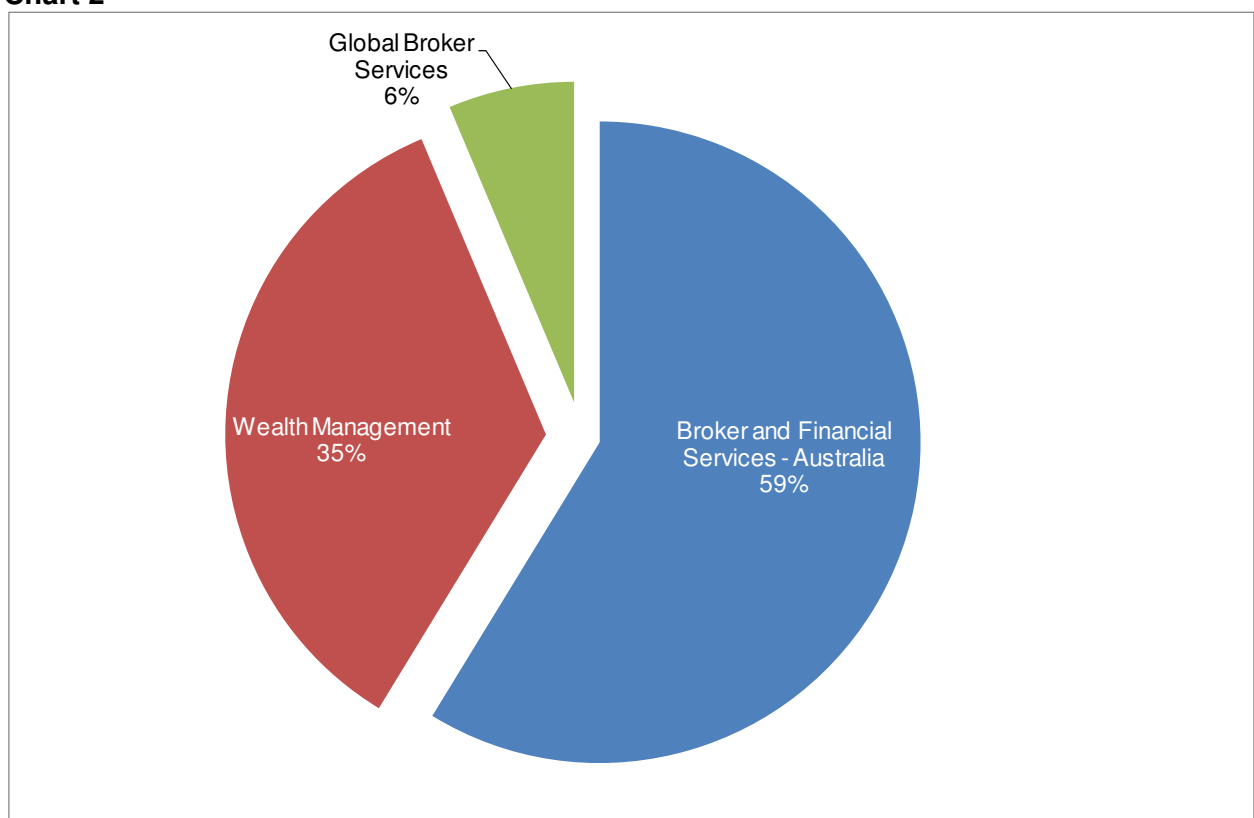
Leverage to improving market conditions:

- We believe GBST offers investors leverage to improving market conditions in the Australian, Asian and UK equity markets.
- Both the value and number of trades on the ASX were impacted by the GFC, however, these are well off their lows and appear to be stabilizing.
- Consolidation in the Australian broker industry is likely to continue. GBST is the dominant provider of third party clearing technology and well positioned to benefit from this.
- Integration of recent acquisitions can potentially expand the scope of offering and enhance revenues as the financial services industry recovers

Valuation:

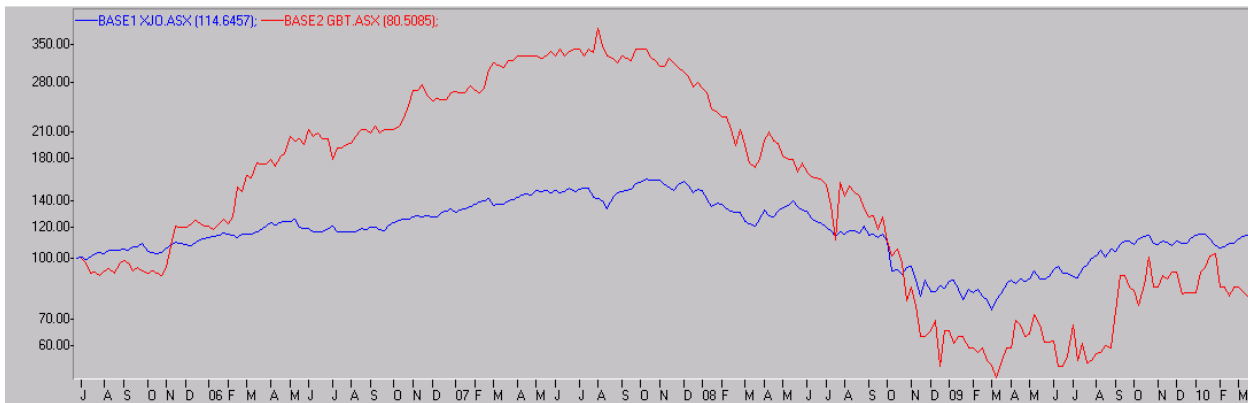
- We have valued GBST on a DCF method to obtain a valuation of \$1.53 per share.
- Some of the assumptions behind this valuation include a WACC of 11.0%, a stock beta of 1.20 and a risk free rate of 6.50%.
- We have conservatively modeled improving revenues from the Australian Broker Services and assumed modest growth from Coexis (Global Broker Services). The GBST revenues are leveraged to improving market conditions and it is very possible our assumptions will appear too conservative should equity markets continue to gain strength in the first half of 2010. A 5% outperformance of our revenue forecasts increase the DCF valuation to \$1.79 all else being equal.

Chart 2



- We forecast the Australian Broker and Financial services to continue to deliver the bulk of the earnings with future growth opportunities existing in Global Broker Services

Chart 3:



- The above chart displays the XJO 200 index and GBT from a common base of 100 in June 2005, when GBT listed on the ASX. It highlights the share price leverage of GBST relative to a rising index. It also clearly displays the downside magnification when the global financial crisis took hold in late 2008. While there has been a steady improvement in the XJO 200 index from March 2009, GBT shares are still noticeably lagging the index.

Senior Management Changes:

- On the 31st March senior management changes for the GBST Global Broker Services division was announced. Patrick Salis (GBST Holdings CFO) has been appointed interim CEO of the Global Broker Services Division.
- We believe this signals a clear focus from GBST to integrate and cross pollinate the Australian Broker Services and Financial Services lessons internationally. We do not consider the senior management changes a risk to existing business and customer retention.

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Recommendation Structure

The recommendation system rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 30% or more total return; ADD within the range of 15 and 30%; NEUTRAL within the range of 0 and 15%; REDUCE within the range of 0 and -15%; SELL -15% or less. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

Analyst certification and disclosure of interest

The analyst certifies that the views expressed in this research accurately reflect their personal views about the subject securities.