**GBST HOLDINGS LIMITED (GBT)**

## *FY11 result in line with recent guidance*

### Event

GBT announced cash NPAT before one-offs of $8.7m for FY11, which was slightly ahead of the FY10 result and in line with the guidance provided in June, and our estimates. No earnings guidance for FY12 was provided, but the commentary on outlook remains up-beat on the back of contract wins that will contribute from FY12.

### Tough conditions in 2H11 overshadow growth in Wealth Management

Operational EBITDA declined by 14.1% to $15.1m reflecting a substantial fall in trading volumes for Australian Broker Services, particularly in 2H11, and increased investment in the Global Broker Services business. Wealth Management was the standout positive, with increasing sales traction in the UK which drove divisional EBITDA growth for FY11 of 25.5% .

### Earnings revisions

Following the result, our earnings forecast has not changed materially.

### Investment conclusion: BUY maintained, price target of $1.85

Whilst the Y-on-Y decline in earnings was disappointing, the FY11 result reflects the large scale and front-end loaded implementation costs associated with recent contract wins across GBT's key businesses. The company expects that these sales will contribute around $7m in revenue to FY12 and a further $3m in FY13, which is consistent with our forecasts, and will drive strong earnings growth over this period. We continue to view the UK Wealth Management as a key growth market for GBT in the medium term along with the Global Broker Services which, based on its performance to date, is a longer term prospect.

At $0.89, GBT is trading a forecast FY12 PE of 5.4x, falling to 4.3x in FY14, and has a forecast fully franked dividend yield of 4.5% rising to 9.0%. We maintain our BUY rating.

| Recommendation | BUY |
|---|---|

| Stock details | |
|---|---|
| ASX code | GBT |
| Price | $0.89 |
| Shares on issue (m) | 66.4 |
| Market capitalisation (m) | $59.1 |
| 52 week range | $0.75 - $1.08 |
| GICS sector | Software and Services |

| Valuation | |
|---|---|
| HGIB valuation | $1.85 |
| Current price | $0.89 |
| Upside / (downside) | 107.3% |

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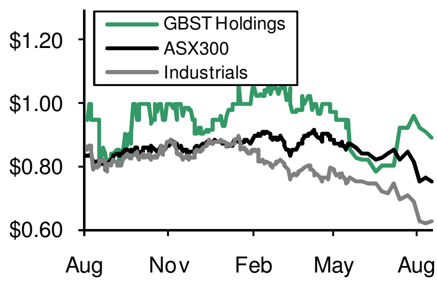
**12 month share price performance**




| Key Financials | | FY11a | FY12f | FY13f | FY14f |
|---|---|---|---|---|---|
| Revenue | AUDm | 67.5 | 74.4 | 78.4 | 82.8 |
| EBIT(A) | AUDm | 14.2 | 17.5 | 19.2 | 20.8 |
| NPAT - cash | AUDm | 8.7 | 10.9 | 12.5 | 13.9 |
| EPS - cash | c | 13.1 | 16.4 | 18.7 | 20.8 |
| PE Ratio | x | 6.8 | 5.4 | 4.7 | 4.3 |
| EV/EBIT(A) | x | 7.0 | 5.5 | 4.6 | 4.1 |
| DPS | c | 4.0 | 4.0 | 6.0 | 8.0 |
| Yield | % | 4.5 | 4.5 | 6.7 | 9.0 |

*Source: HGIB estimates*

## EVENT: Normalised FY11 cash NPAT up 2.4% to $8.7m

GBT announced cash NPAT before one-offs of $8.7m for FY11, which was slightly ahead of FY10 result and in line with the guidance provided in June, and our estimates. No earnings guidance for FY12 was provided, but the commentary on outlook remains upbeat on the back of contract wins that will contribute from FY12.

## Key financial features of the result

- Reported NPAT for FY11 was $1.4m, compared with a loss of $2.4m in the pcp. After adding back non-cash amortisation of customer contracts and approximately $1.0m of post-tax legal costs (relating to action against the vendors of Coexis) NPAT was $8.7m, up 2.4%. EPS declined marginally to 13.1 cents.

- A final dividend of 2.0 cps was announced taking full year dividends to 4.0 cps compared with 2.0 cps in FY10. Despite our expectation for strong EPS growth in FY12 we have forecast flat DPS given the amortisation obligations ($6.0m p.a.) under the existing debt facility.

- Group sales were flat over the year at $67.5m. Operating EBITDA declined 10.7% to $15.1m primarily due to a 13.8% fall in EBITDA from the Australian Broker Services business and increased losses from Global Broker Services. R&D expense increased by 27.2% to $7.3m.

- OCF for FY11 was very strong a $14.1m, representing cash conversion of 147%. Total capex for the year was $3.6m and inline with our expectations. At 30 June, GBT had net debt of $24.3m, representing an $8.3m reduction over the year from operating cash flow. The company recently announced that it had repaid a A$10m loan to its largest shareholder Crown Financial via a new 3-year A$24.0m senior debt facility with NAB. The refinancing of the Crown Financial debt is materially EPS accretive given that it extinguishes 10.5m unlisted options (exercisable at $0.95) and has been replaced with cheaper debt (i.e. 8.07% v. 10.0% p.a).

## Divisional performance summary

**Australian Broker Services:**

The Australian Broker Services division posted a worse than expected result with revenues down 7.3% to $28.0m, and EBITDA down by 13.6% to $9.9m. The 2H11 result was particularly weak with revenue down 12.4% and EBITDA down 29.1%. The fall in EBITDA was mainly attributed to three factors:

1. **Lower retail volumes:** Given both the high level of exposure (60-65% market share) and relatively high incremental margins the 12.5-15.0% reduction in retail volumes that was experienced has had a material negative impact on earnings.
2. **Delayed commencement of the CBA contract:** The CBA Institutional contract, which was announced earlier in the year and scheduled to go live in early May, has experienced delays and only went live on 24 July. This means that the implementation costs are reflected in the FY11 result but not any of the upfront licence fees which we understand to be approximately $1.5m in the first year of the initial three-year contract.
3. **Development costs of Syn~ for Australia** - The FY11 result also includes approximately $2.4m of development costs relating to preparing the Syn~ platform for implementa tion into the Australian market. We expect a similar investment in FY12.

**Divisional interim performance summary**

| | | 1H10A | 2H10A | FY10A | 1H11A | 2H11A | FY11A |
|---|---|---|---|---|---|---|---|
| Australian Broker Services | AUDm | 14.8 | 15.4 | 30.2 | 14.5 | 13.5 | 28.0 |
| *...growth on pcp* | % | | | | -2.0% | -12.4% | -7.3% |
| Global Broker Services | AUDm | 6.3 | 5.8 | 12.1 | 4.9 | 4.1 | 9.1 |
| *...growth on pcp* | % | | | | -22.2% | -28.8% | -25.4% |
| Wealth Management | AUDm | 10.7 | 12.1 | 22.8 | 12.0 | 15.1 | 27.1 |
| *...growth on pcp* | % | | | | 12.7% | 24.9% | 19.2% |
| Financial Services | AUDm | 1.2 | 1.4 | 2.6 | 1.6 | 1.7 | 3.4 |
| *...growth on pcp* | % | | | | 37.3% | 24.4% | 30.3% |
| **Operating revenue** | **AUDm** | **32.9** | **34.7** | **67.6** | **33.0** | **34.5** | **67.5** |
| *...growth on pcp* | % | | | | 0.3% | -0.7% | -0.2% |
| Australian Broker Services | **AUDm** | 5.6 | 6.2 | **11.7** | 5.5 | 4.4 | **9.9** |
| *...growth on pcp* | **%** | | | | *0.0%* | *-29.1%* | ***-15%*** |
| Global Broker Services | AUDm | -0.5 | 0.1 | **-0.4** | -0.6 | -1.5 | **-2.1** |
| *...growth on pcp* | % | | | | - | - | **-** |
| Wealth Management | AUDm | 2.3 | 3.2 | 5.5 | 2.2 | 4.7 | 6.9 |
| *...growth on pcp* | % | | | | *-3%* | *46%* | *26%* |
| Financial Services | AUDm | -0.2 | 0.2 | **0.0** | 0.3 | 0.1 | **0.4** |
| *...growth on pcp* | % | | | | - | - | **-** |
| **Operating EBITDA** | **AUDm** | **7.2** | **9.6** | **16.9** | **7.5** | **7.6** | **15.1** |
| ***...growth on pcp*** | % | | | | **4.0%** | **-20.8%** | **-10.2%** |

Source: HGIB, company reports

**Global Broker Services:**

Global Broker Services posted a disappointing result with sales of $9.1m, down 25.4%, and a full year EBITDA loss of $2.1m. Losses in 2H11 accelerated to $1.5m compared with $0.6m in 1H11. According to management, the result reflected lower sponsored work and higher than forecast implementation and R&D costs. While the company has flagged continued heavy invest in R&D, we have forecast a reduced EBITDA loss of $1.3m for FY12.

**Wealth Management:**

The Wealth Management result was the standout positive feature of the FY11 result. Revenue grew by 19.2% to $27.1m and EBITDA increased by 25.5% to $6.9m. We estimate that the majority of the growth came from the UK business which is achieving increased sales traction.

## Earnings revisions and valuation:

Following the result, our earnings forecast has not changed materially. Our DCF valuation has increased marginally to $1.85 per share and represent s more than 100% upside to the current share price.

**Summary of earnings revisions:**

| | Δ to old forecast | | | New forecast | | |
|---|---|---|---|---|---|---|
| | **FY12f** | **FY13f** | **FY14f** | **FY12f** | **FY13f** | **FY14f** |
| Revenue | -1.9% | -1.9% | New | 74.4 | 78.4 | 80.7 |
| EBITDA | 1.6% | 1.6% | New | 18.7 | 20.4 | 21.0 |
| Cash NPAT | 0.7% | 0.7% | New | 10.9 | 12.5 | 12.9 |
| Cash EPS | 0.3% | 0.3% | New | 16.4 | 18.7 | 19.3 |
| DPS | 0.0% | 0.0% | New | 4.0 | 6.0 | 6.2 |

Source: HGIB

HUNTER GREEN
INSTITUTIONAL BROKING

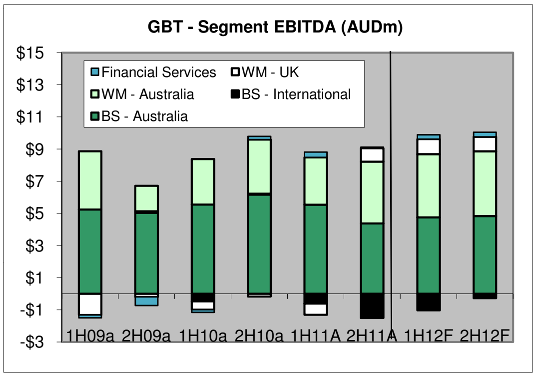
# GBST Holdings Limited (GBT)

**22 August 2011** | **Recommendation: BUY**

| | |
|---|---|
| Current Price: | $0.89 |
| Valuation: | $1.85 |
| Number of shares (m): | 66.4 |
| Market Cap (m): | $59.1 |
| 52-week range: | $0.75 - $1.08 |
| GICS sector: | Software and Services |

| Major shareholders: | | |
|---|---|---|
| | Kim Sundell | 19.0% |
| | Perpetual | 13.7% |
| | John Puttick | 10.6% |
| | Australian Ethical | 7.3% |
| | Renaissance | 6.5% |
| | Stephen Lake | 6.5% |

| Profit & Loss Y/E 30 June | | 2011A | 2012F | 2013F | 2014F |
|---|---|---|---|---|---|
| Net operating revenue | AUDm | 67.5 | 74.4 | 78.4 | 82.8 |
| Operating expenses and R&D | AUDm | -52.4 | -55.7 | -58.0 | -60.8 |
| **EBITDA** | **AUDm** | **15.1** | **18.7** | **20.4** | **22.0** |
| Depreciation | AUDm | -0.9 | -1.1 | -1.2 | -1.3 |
| **EBITA** | **AUDm** | **14.2** | **17.5** | **19.2** | **20.8** |
| Net interest | AUDm | -3.2 | -1.9 | -1.3 | -0.9 |
| **Pre-tax profit** | **AUDm** | **11.0** | **15.6** | **17.8** | **19.8** |
| Tax | AUDm | -2.3 | -4.7 | -5.4 | -6.0 |
| **Adjusted (cash) NPAT** | **AUDm** | **8.7** | **10.9** | **12.5** | **13.9** |
| Significant items (after tax) | AUDm | -7.3 | -6.3 | -6.3 | -6.3 |
| **Reported NPAT** | **AUDm** | **1.4** | **4.6** | **6.1** | **7.5** |




| Cashflow Y/E 30 June | | 2011A | 2012F | 2013F | 2014F |
|---|---|---|---|---|---|
| Pre-tax profit | AUDm | 2.0 | 6.5 | 8.8 | 10.8 |
| Depreciation & amortisation | AUDm | 7.3 | 7.5 | 7.5 | 7.6 |
| Tax paid | AUDm | -0.6 | -2.0 | -2.6 | -3.2 |
| **Gross cashflow** | **AUDm** | **8.7** | **12.0** | **13.7** | **15.1** |
| (Inc)/dec in working capital | AUDm | 3.6 | -3.6 | -0.5 | -0.5 |
| Other | AUDm | 1.9 | 0.0 | 0.0 | 0.0 |
| **Operating cashflow** | **AUDm** | **14.1** | **8.4** | **13.2** | **14.6** |
| Maintenance capex | AUDm | -2.0 | -2.1 | -2.1 | -2.2 |
| Expansionary capex | AUDm | -1.6 | 0.0 | 0.0 | 0.0 |
| Other | AUDm | 0.0 | 0.0 | 0.0 | 0.0 |
| **Investing Cashflow** | **AUDm** | **-3.6** | **-2.1** | **-2.1** | **-2.2** |
| Equity raised | AUDm | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | AUDm | -2.6 | -2.6 | -2.7 | -4.0 |
| Other | AUDm | -5.5 | 0.0 | 0.0 | 0.0 |
| **Financing cashflow** | **AUDm** | **-8.1** | **-2.6** | **-2.7** | **-4.0** |
| **Net change in cash** | **AUDm** | **2.4** | **3.7** | **8.4** | **8.5** |

| Valuation Data Y/E 30 June | | 2011A | 2012F | 2013F | 2014F |
|---|---|---|---|---|---|
| Cash NPAT | AUDm | 8.7 | 10.9 | 12.5 | 13.9 |
| Weighted average diluted shares | m | 66.7 | 66.7 | 66.7 | 66.7 |
| Basic EPS | c | 2.1 | 6.9 | 9.3 | 11.4 |
| **Diluted (cash) EPS** | **c** | **13.1** | **16.4** | **18.7** | **20.8** |
| **P/E Ratio** | **x** | **6.8** | **5.4** | **4.7** | **4.3** |
| **Enterprise value** | **AUDm** | **99.5** | **96.1** | **87.8** | **84.8** |
| EV/EBITDA | x | 6.6 | 5.1 | 4.3 | 3.9 |
| EV/EBITA | x | 7.0 | 5.5 | 4.6 | 4.1 |
| Free cash flow | AUDm | 12.1 | 6.4 | 11.1 | 12.4 |
| **FCF yield** | **%** | **20.5** | **10.8** | **18.7** | **21.1** |
| DPS | c | 4.0 | 4.0 | 6.0 | 8.0 |
| Payout ratio | % | 30.6 | 24.4 | 32.0 | 38.4 |
| **Yield** | **%** | **4.5** | **4.5** | **6.7** | **9.0** |
| Franking | % | 100.0 | 100.0 | 100.0 | 100.0 |
| NTA per share | c | -42.5 | -30.1 | -15.3 | -8.2 |

| Balance Sheet Y/E 30 June | | 2011A | 2012F | 2013F | 2014F |
|---|---|---|---|---|---|
| Cash | AUDm | 5.1 | 5.1 | 5.1 | 5.1 |
| Receivables | AUDm | 11.1 | 13.6 | 14.3 | 15.1 |
| Other | AUDm | 1.2 | 1.2 | 1.2 | 1.2 |
| **Current Assets** | **AUDm** | **17.5** | **19.9** | **20.6** | **21.4** |
| Property, plant and equipment | AUDm | 3.7 | 4.6 | 5.5 | 6.4 |
| Intangibles | AUDm | 68.1 | 61.8 | 55.4 | 49.1 |
| Other | AUDm | 4.1 | 4.1 | 4.1 | 4.1 |
| **Non-current assets** | **AUDm** | **75.9** | **70.5** | **65.1** | **59.6** |
| **Total Assets** | **AUDm** | **93.3** | **90.4** | **85.7** | **81.0** |
| Payables | AUDm | 5.5 | 4.4 | 4.6 | 4.8 |
| Debt | AUDm | 29.4 | 25.7 | 17.3 | 14.0 |
| Other | AUDm | 18.5 | 18.5 | 18.5 | 18.5 |
| **Total Liabilities** | **AUDm** | **53.4** | **48.6** | **40.4** | **37.4** |
| Net Assets | AUDm | 39.9 | 41.8 | 45.3 | 43.6 |
| **Total funds employed** | **AUDm** | **64.2** | **62.4** | **57.4** | **52.6** |

| Profitability ratios Y/E 30 June | | 2011A | 2012F | 2013F | 2014F |
|---|---|---|---|---|---|
| EBITDA / sales | % | 22.4 | 25.1 | 26.0 | 26.6 |
| **EBITA / sales** | **%** | **21.0** | **23.6** | **24.5** | **25.1** |
| Return on average assets | % | 15.2 | 20.2 | 23.1 | 26.6 |
| Return on average funds employed | % | 12.4 | 17.2 | 20.9 | 25.3 |
| **Return on average equity** | **%** | **20.8** | **26.7** | **28.7** | **31.2** |
| Revenue growth | % | -0.2 | 10.2 | 5.4 | 5.6 |
| EBITA growth | % | -9.6 | 23.4 | 9.4 | 8.4 |
| **EPS growth** | **%** | **-0.8** | **25.0** | **14.5** | **11.2** |
| Reported statutory tax rate | % | na | na | na | na |
| Adjusted effective tax rate | % | 21.0 | 30.0 | 30.0 | 30.0 |

| Liquidity and leverage ratios Y/E 30 June | | 2011A | 2012F | 2013F | 2014F |
|---|---|---|---|---|---|
| Surplus cash | AUDm | 0.8 | 0.5 | 0.3 | 0.1 |
| Net debt | AUDm | 28.6 | 25.2 | 17.0 | 14.0 |
| Net debt / (net debt + equity) | % | 41.8 | 37.6 | 27.2 | 24.3 |
| **Interest cover** | **x** | **4.5** | **9.0** | **14.5** | **22.2** |

| HoH Analysis Y/E 30 June | | 2H10A | 1H11A | 2H11A | 1H12F |
|---|---|---|---|---|---|
| Broker Services - Australia | $m | 15.4 | 14.5 | 13.5 | 14.0 |
| Broker Services - International | $m | 5.8 | 4.9 | 4.1 | 5.1 |
| Wealth Management - combined | $m | 12.1 | 12.0 | 15.1 | 15.9 |
| Other | $m | 1.4 | 1.6 | 1.7 | 1.8 |
| **Sales revenue** | **$m** | **34.7** | **33.0** | **34.5** | **36.8** |
| Broker Services - Australia | $m | 6.2 | 5.5 | 4.4 | 4.8 |
| Broker Services - International | $m | 0.1 | -0.6 | -1.5 | -1.0 |
| Wealth Management - combined | $m | 3.2 | 2.2 | 4.7 | 4.9 |
| Other | $m | 0.2 | 0.3 | 0.1 | 0.3 |
| **EBITDA** | **$m** | **9.6** | **7.5** | **7.6** | **8.9** |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