

Traffic Technologies (TTI)

14 June 2007

Opinion Data

Recommendation	Buy
Risk rating	High
Current share price	\$0.42
12 month target price	\$0.50
12 month price range	\$0.54 - \$0.25
Market capitalisation	\$68m

Traffic Technologies (TTI) have provided guidance that FY'07 revenues will be \$90 - \$95m, below Austock forecasts of \$99.6m and previous guidance of \$100m.

We believe the adverse impact of the revenue shortfall for FY'07 will be compounded by an underperforming Guardrail operation and timing issues on new product sales.

Earnings impact FY'07. EBITDA reduced by 23% \$6.3m, from \$8.2m, representing EPS of 2.0cps.

Earnings impact FY'08. EBITDA reduced by 6% to \$14.5m, from \$15.7m, representing EPS of 4.1cps.

Three key issue impacting FY'07.

- **Revenue shortfall.** We have reduce FY'07F revenues by 7%, or \$7.1m to \$92.5m as traditional yearend spend by road authorities hasn't materialised.
- **Guardrail** (*Asset Management business*). Continues to have margin pressure and we forecast a negligible FY'07 EBITDA contribution.
- **Timing issues.** Orders are pending for ~\$5m of barriers and hardware, which are not in our estimates but do represent sales that were expected by management in FY'07.
- **Bolt-on acquisitions announced costing \$0.9m.** Purchased for 3x's FY'07F EBIT.
- **Outlook.** TTI's market continues to be underpinned by the Federal Government commitment to funding for roads. In the May Federal Budget Government announced that it will invest \$22.3 bn on Australia's roads from 2009-10 to 2013-14, representing a 41% increase on current funding.
- **Valuation.** We remain positively disposed to the industry and management and retain our Buy recommendation. Target price reduced to \$0.52/share (from \$0.55).

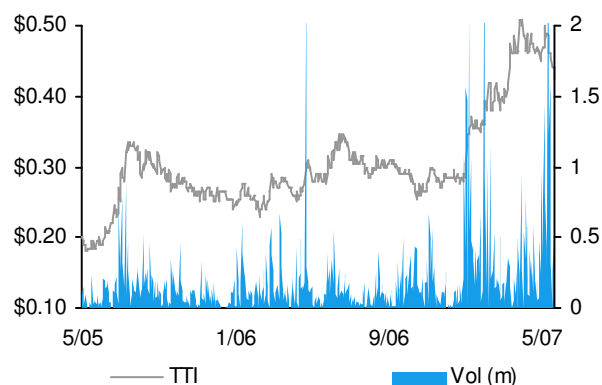
Earnings forecasts

Y/E June	2006A	2007F	2008F	2009F
Revenue	57.5	92.5	124.4	135.0
EBITDA	1.5	6.3	14.5	16.4
EBIT	0.1	4.1	12.0	14.0
NPAT (reported)	(0.9)	2.4	6.8	8.5
NPAT (adjusted)	(0.6)	2.4	6.8	8.5
Adjusted EPS (cps)	(0.8)	2.0	4.1	5.0
EPS Growth (%)	-41%	345%	106%	22%
DPS (c)	-	-	1.0	1.0
Dividend Yield (%)	-	-	2.4	2.4
PE adj. (x)	(52.2)	21.3	10.3	8.5
EV / EBITDA (x)	34.7	15.5	6.7	5.4
EV / EBIT (x)	451.8	23.9	8.1	6.3
Gearing (%)	23.1	78.0	54.3	29.1
EBIT Margin (%)	0.2	4.5	9.6	10.3
Interest Cover (x)	0.2	2.8	4.9	6.8

Earnings Adjustments

Y/E June	2007F	2008F	2009F
Previous NPAT (\$m)	4.0	7.4	9.4
Change in NPAT (%)	-38.4%	-8.1%	-9.6%
Previous EPS (cps)	3.3	4.5	5.5
Change in EPS (%)	-39.4%	-8.7%	-8.8%

TTI Share Price / Volume



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TTI BACKGROUND

	TTI have spent the past two years consolidating the broader traffic management industry which has laid the foundations for a national traffic management operation, the first of its kind in Australia.
<i>Integrated offering established.</i>	TTI operates in four segments of the traffic management industry which include Traffic management, Traffic Signage, Signals & Hardware and Asset management. The company recently added the Aldridge Traffic group to its operations. Aldridge being the market leader in Australia for the manufacture and supply of traffic signals specialising in the use of LED technology.
<i>Govt spending underpinning market</i>	TTI's growth is underpinned by the government's commitment to spend +\$15bn for the 5-year period to 2009-10 on road funding and we estimate that traffic management represents ~5-6% of this expenditure going forward. The May Federal Budget has seen the current \$15bn spend to 2009-10 lifted by 41% to +\$22bn for the 5-year period commencing from 2009/10.

ISSUES FOR FY'07

	Revenue shortfall. TTI have guided that FY'07 revenues will fall between \$90 - \$95m. This is 5-10% below previous guidance of \$100m. We believe that with management focussed on integration and restructuring over the past 12-months that they have not been able to fully capitalise on the strong market over that period. We estimate the revenue shortfall will cut across all businesses (<i>refer table on page 3</i>).
<i>While disappointing not a material concern</i>	Guardrail. The Guardrail business has not had the supplier support of raw materials as part of TTI that it did as a stand alone operation. Management advise that a number of Guardrails competitors are now benefiting from volume benefits previously afforded to Guardrail prior to being acquired. Guardrail should be generating revenues of +\$12m p.a. and EBITDA margins +10%.
<i>Key disappointment for the group and the only area of concern.</i>	Timing issues. We understand a +\$5m order book for signals and hardware products that was expected to be executed in FY'07, but will now fall into FY'08. We make little allowance for these products in our forecasts (<i>excluding Aldridge</i>) as we perceive them as somewhat lumpy revenue opportunities at this stage. Nevertheless signals and hardware do form part of the TTI's longer-term product offering.

FINANCIAL IMPACTS FOR FY'07 & FY'08.

	FY'07. EBITDA revised down from \$8.2m to \$6.3m, NPAT from \$4m to \$2.4m with EPS reduced from 3.3cps to 2.0cps. We note that our FY'07F NPAT result still represents a material improvement on the (\$0.9m) reported for FY'06.
	FY'08. EBITDA revised down from \$15.7m to \$14.5m with EPS reduced from 4.5cps to 4.1cps. Note: FY'08 will include full 12-months of Aldridge Traffic Group (<i>acquired May 2007</i>) which will represent EBITDA of ~\$6.7m for FY'07.

REVISED AUSTOCK ESTIMATES – FY'07 & FY'08

	FY'06A	1H'07A	2H'07F	2H'07F		FY'07F	FY'08F	FY'08F
(\$m) – unless stated			<i>orig</i>	<i>revised</i>	<i>Comments</i>	<i>revised</i>	<i>original</i>	<i>revised</i>
Revenues								
- Traffic Management	33.0	20.5	23.6	21.6	Modest revenue pullback	42.1	48.1	48.9
- Signs	23.7	14.8	19.3	15.2	\$4m of the \$7m adj	30.0	37.8	33.3
- Asset Management	0.5	6.1	7.0	6.0		12.1	14.7	12.7
- Signals & Hardware	0.5	2.0	6.2	6.2	Aldridge represents \$25.5m for '08	8.2	29.5	29.5
Total revenues	57.8	43.5	56.0	49.0		92.5	130.1	124.4
EBITDA								
- Traffic Management	3.2	2.8	3.4	2.8	Pulled back \$0.6m for 2H'07	5.6	6.3	6.4
margin (%)	10%	14%	14%	13%	Slightly aggressive originally	13%	13%	13%
- Signs	0.1	1.2	1.4	1.0		2.1	3.3	2.8
margin (%)	1%	8%	7%	6%	Slight easing for 2H'07	7%	9%	8%
- Asset Management	0.1	0.1	0.8	0.0	Clear disappointment – '08 cut	0.3	1.2	0.5
margin (%)	19%	2%	11%	2%		2%	8%	4%
- Signals & Hardware	-0.2	0.0	1.0	1.0		1.0	7.0	7.3
margin (%)	n/a	n/a	17%	17%		12%	24%	25%
- Unallocated	-1.7	-1.4	-1.1	-1.1	Lifted by \$0.5m for '08	-2.5	-2.0	-2.5
Total EBITDA	1.5	2.7	5.5	3.4		6.3	15.7	14.5
EBIT	0.6	1.7	4.3	2.4		4.1	13.2	11.9
NPAT	-0.2	1.1	2.9	1.3		2.4	7.4	6.7
EPS	n/a				Stock ~10x's for FY'08	2.0	4.5	4.1

Source: Company financials & Austock Securities estimates

DIVISIONAL COMMENTARY - FY'07 ESTIMATES

Steady and continues to evolve.

Traffic Management. We have reduced 2H'07 revenues by \$2M and our 2H'07 margin assumptions from 14% to 13%. We forecast FY'07 EBITDA of \$5.5m with EBITDA margins of 13% representing a 30% above those achieved in the FY'06.

Continues to improve

Signage (De Neefe). We have reduced 2H'07 revenues by \$4m and our 2H'07 margins from 7% to 6% for the 2H'07.

We forecast FY'07 EBITDA of \$2.1m against a breakeven result in the pcp. We estimate Sunny Signs (*acquired May 2006*) will contribute EBITDA of ~\$0.8m with TTI's underlying operations generating ~\$1.3m.

Clear disappointment of the group

Guardrail. We have forecast a marginal EBITDA contribution for FY'07. The business should be generating revenues of +\$12m and EBITD margins in excess of 10%.

While the business compliments TTI's broader offering it appears to be suffering under TTI's ownership as volume and margin benefits previously afforded to Guardrail would appear to have been now passed onto many of its competitors.

Management are in the process of rectifying key raw material sourcing.

Lumpy and difficult to forecast

Signals & Hardware (excluding Aldridge). We are mindful that management have an order book for +\$5m of barriers and hard good which due to timing issues will fall into FY'08. Our FY'08 forecasts allow for the impact of these revenues.

Jewel in the business.

Aldridge. An established business that provides a high degree of earnings certainty to TTI's integrated traffic management offering.

We are comfortable Aldridge will deliver the \$1m in EBITDA forecast for FY'07 (*acquired May 2007*) and generate EBITDA of \$6.7m for FY'08.

OUTLOOK FOR FY'08 AND BEYOND.

Auslink 2 underpins medium-term industry growth.

41% increase to National roads funding from 2009/10 underpins TTI's market.

Auslink represents the Australian Government's move towards more cooperative transport planning and funding by federal, state and territory jurisdictions. Its aim is to help Australia's transport infrastructure better meet the challenges the nation faces in the global market place.

Auslink 1 has seen the Australian Government is support this roads initiative with \$15 billion in expenditure in its first five years, or \$300m p.a. to 30 June 2009.

In the Australian Government's 2007-08 Budget it announced that it will invest \$22.3 billion on Australia's land transport system from 2009-10 to 2013-14. The new funding represents a 41% increase on the Auslink 1 funding initiative and will be available under Auslink 2 the second stage of the Auslink national land transport plan.

Regulation to support growth

While the significant level of government funding and projects will be the key driver to TTI's market in the medium-term, continued regulation tightening for workers in the traffic management industry only compounds the opportunity going forward.

RECOMMENDATION & VALUATION

While we recognise there may be some surprise at the magnitude of our FY'07 earnings revision, particularly on the back of a relatively innocuous revenue guidance, we believe the short-term negatives will remain predominantly quarantined to FY'07 and in part reflect the relatively early development of TTI's business model.

We remain comfortable with industry dynamics that TTI operates in and management's strategy in establishing a 'one-stop-shop' offering in an ever increasing regulatory environment providing for the safety of traffic control workers.

Valuation reduced, but recommendation unchanged.

Our DCF valuation and target price has moved from has moved marginally down from \$0.55/share to \$0.52/share.

Our recommendation remains a Buy with TTI trading on FY'08F PE of 10.3x's representing a 38% discount to its small cap peers.

Traffic Technologies

Price \$ 0.42
 NFPOS 162 m Market Cap \$68 m

13-Jun-07
 13-Jun-07

PROFIT & LOSS (\$m)

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
Sales Revenue	18.7	57.5	92.5	124.4	135.0
EBITDA	0.3	1.5	6.3	14.5	16.4
D & A	0.5	1.3	2.2	2.5	2.5
EBIT	(0.2)	0.1	4.1	12.0	14.0
Net Interest Expense	0.4	0.7	1.5	2.4	2.0
PBT	(0.6)	(0.6)	2.6	9.5	11.9
Income Tax	0.0	0.0	0.2	2.8	3.5
NPAT - pre-abnormals	(0.6)	(0.6)	2.4	6.8	8.5
Abnormals	0.0	(0.3)	0.0	0.0	0.0
NPAT - reported	(0.6)	(0.9)	2.4	6.8	8.5

BALANCE SHEET (\$m)

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
Cash	1.0	6.7	1.9	1.4	0.6
Debtors	4.2	14.1	18.5	22.4	23.6
Inventory	0.1	3.8	8.3	10.6	11.5
Intangibles	5.6	9.0	45.8	45.8	45.8
PP&E	3.3	9.7	12.3	11.2	9.8
Other assets	0.5	0.6	1.1	1.2	1.3
Total Assets	14.8	44.0	87.9	92.6	92.6
Borrowings	5.4	11.2	32.2	27.2	17.2
Trade Creditors	3.0	11.2	13.6	15.2	15.5
Other Liabilities	0.5	1.8	2.7	2.1	2.1
Total Liabilities	8.9	24.4	48.7	44.7	35.0
NET ASSETS	5.9	19.5	39.2	48.0	57.6

CASHFLOW STATEMENT (\$m)

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
Operating EBITDA	0.3	1.5	6.3	14.5	16.4
- Interest & Tax Paid	0.4	0.7	1.7	5.2	5.5
- Inc in Working Cap./ other	(0.0)	3.3	6.2	5.3	1.9
Operating CF	(0.1)	(2.6)	(1.5)	4.0	9.1
- Maintenance Capex	(0.2)	(2.2)	(1.5)	(1.5)	(1.0)
Free Cashflow	(0.2)	(4.8)	(3.0)	2.5	8.1
- Ord & Pref Dividends	-	-	-	-	-
- Expansion Capex	-	-	(1.3)	-	-
- (Acquisitions)/disposals	(5.9)	(5.8)	(38.5)	-	-
+ Share issues	6.0	13.3	17.0	2.0	1.1
- other	(0.9)	(0.4)	-	-	-
Net Cashflow	(1.0)	2.4	(25.8)	4.5	9.2
Cast at beginning of period	-	1.0	6.7	1.9	1.4
+/-Borrowings / Other	2.1	3.3	21.0	(5.0)	(10.0)
Cash at end of period	1.1	6.6	1.9	1.4	0.6

FULL YEAR DIVISIONAL SALES

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
Sales					
Traffic Management	18.6	32.0	42.1	48.9	53.8
Sign Division		22.8	30.0	33.3	36.3
Asset Management			12.1	12.7	13.9
Signals & Hardware	0.2	0.4	8.2	29.5	31.0
Total	18.8	55.2	92.5	124.4	135.0
Sales growth					
Traffic Management		72%	32%	16%	10%
Sign Division			32%	11%	9%
Asset Management			4%	5%	9%
Signals & Hardware					
Total		194%	68%	35%	8%

INTERIM ANALYSIS (\$m)

Y/E 30 June	2H05	1H06	2H06	1H07	2H07
Sales	11.2	23.8	31.7	43.5	49.0
EBITDA	0.3	0.5	1.2	2.7	3.6
EBIT	(0.4)	(0.2)	0.6	1.7	2.4
NPAT	0.1	(0.5)	0.2	1.1	1.3
EPS (c)	-	-	-	1.0	1.0
DPS (c)	-	-	-	-	-

KEY RATIOS

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
EBITDA Margin (%)	1.6	2.5	6.9	11.7	12.2
EBIT Margin (%)	(1.2)	0.2	4.5	9.6	10.3
NPAT Margin (%)	(3.3)	(1.1)	2.6	5.4	6.3
ROE (%)	(10.4)	(3.2)	6.3	14.2	14.8
ROA (%)	(1.7)	0.3	4.8	13.1	15.2
ROIC (%)	(4.5)	0.6	8.0	11.7	13.3
NTA per share (\$)	0.01	0.10	(0.0)	0.01	0.07
Eff Tax Rate (%)	-	-	20	29	29
Interest Cover (x)	(0.6)	0.2	2.8	4.9	6.8
Net Gearing (%)	74.3	23.1	78.0	54.3	29.1

VALUATION PARAMETERS

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
EPS (cps)	(1.4)	(0.8)	2.0	4.1	5.0
P/E (x)	(30.6)	n/a	21.3	10.3	8.5
PER Rel (XO)	n/a	n/a	26%	(46%)	(52%)
PER Rel - Small Indust.	n/a	n/a	3%	(38%)	(46%)
Enterprise Value (\$m)	23	51	99	97	88
EV / EBITDA (x)	n/a	n/a	15.5	6.7	5.4
EV / EBIT (x)	n/a	n/a	23.9	8.1	6.3
Price / NTA (x)	76.7	4.4	(10.3)	33.7	6.1
DPS (cps)	-	-	-	1.0	1.0
Dividend Yield (%)	-	-	-	2.4	2.4
Franking (%)	100	100	100	100	100
CFPS (cps)	(0.0)	(1.6)	(0.9)	2.4	5.6
P / CFPS (x)	(1,078.9)	(26.5)	(44.4)	17.2	7.5

DCF VALUATION & SENSITIVITY

PV Forecast CF (05-08)	14	Risk Free Rate	6.0%
PV Growth CF (09-14)	42	Equity Risk Premium	5.5%
PV Perpetuity	63	Equity Beta	1.5
Other net assets		Cost of Equity	14.5%
Total	119	D/(D+E)	43%
Less Net Debt	30	WACC	11.8%
NPV (\$m)	89	Terminal WACC	12%
NPV per share	\$ 0.52	Terminal Growth	3.0%

Terminal Rate	Terminal WACC			
	10.9%	11.4%	11.9%	12.4%
0.0%	\$ 0.46	\$ 0.44	\$ 0.43	\$ 0.42
1.0%	\$ 0.49	\$ 0.47	\$ 0.46	\$ 0.44
1.5%	\$ 0.50	\$ 0.49	\$ 0.47	\$ 0.46
2.5%	\$ 0.54	\$ 0.52	\$ 0.50	\$ 0.49
3.0%	\$ 0.57	\$ 0.54	\$ 0.52	\$ 0.50
4.0%	\$ 0.63	\$ 0.60	\$ 0.57	\$ 0.54

GROWTH PROFILE (YoY)

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
Sales revenue (\$m)	0%	208%	61%	35%	8%
EBITDA (\$m)	0%	384%	335%	129%	13%
NPAT (\$m)	0%	n/a	n/a	178%	25%
Adjusted EPS (cps)	0%	n/a	n/a	106%	22%
DPS (cps)	0%	0%	0%	0%	0%

DIRECTORS

Mr Sam Kavourakis	Chairman	Mr Alan Brown	Non-Exec
Mr Con Scrinis	MD	Mr. Cary Stynes	Non-Exec
Mr Con Liosatos	MD	Dr Richard Gregson	Non-Exec

MAJOR SHAREHOLDERS

	(m)	(%)
Equity Partners	31.7	29.2%
National Nominees	6.6	6.0%
Contelite	4.0	3.6%
Astra Glen	4.0	3.6%

Note: includes 77m FPO & 31.7m shares currently classified as convertible note.

Directory

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Recommendation Criteria

Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Strong Buy	Buy	Hold	Lighten	Sell
25% +	25% - 10%	10% - (5%)	(5%) - (15%)	(15%)+

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

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