Austock Securities

Traffic Technologies (TTI)

FY'06 Result – earnings emerging

5 September 2006

Opinion Data

Recommendation	**Buy** (from Strong Buy)
Risk rating	**High**
Current share price	**$0.315**
12 month target price	**$0.40**
12 month price range	**$0.35 - $0.17**
Market capitalisation	**$37m**

Traffic Technologies (TTI) have reported underlying FY'06 EBITDA of $1.9m vs. Austock forecasts of $1.7m. The NPAT was ($0.2m).

Highlights:

- **Margin growth emerging.** 2H'06 EBITDA margins of 3.6% vs. 2.4% in the 1H'06. FY'07F EBITDA margins to lift to 7.5% *(recent acquisitions impacting positively).*
- **Traffic Management.** Organic growth of 19% delivering EBITDA of $3.2m. Margins increased with 2H'06 margins of +10% vs. 1H'06 margins of 8.8%. We forecast FY'07 EBITDA of $4.2m.
- **De Neefe Sign** *(acquired Oct '05).* Restructuring complete and costs capped at $0.6m vs. $0.8m forecast.
- **Adjustments to FY'07 forecasts:**
  - We increase EBITDA by 6% to $7.2m, from $6.8m, due to margin growth in Traffic management and Signage operations; while
  - NPAT reduces by 12% to $3.6m, from $4.2m, being impacted by higher depreciation forecasts and interest expense.
- **1H'07 result a key milestone.** While NPAT earnings transparency has been difficult to date, TTI's 1H'07 result will capture a full period of all consolidated businesses.
- **Investment view.** Our DCF valuation and target price remains $0.40/share and our recommendation Buy *(from Strong Buy). (Note: As the largest operator of traffic management solutions in Australia, TTI is well positioned to benefit from $15bn in road spending up to 2009 and the impact of an ever increasing regulatory environment).*

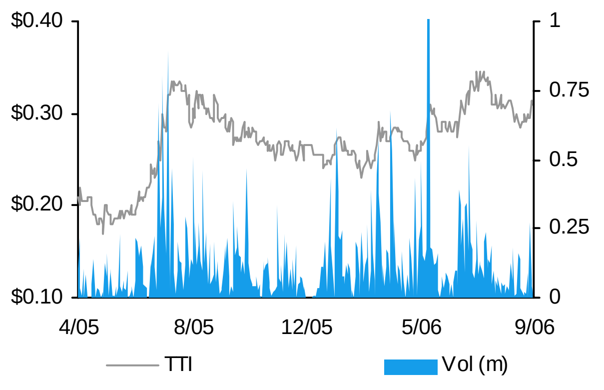
Earnings Forecasts

Y/E June	2006A	2007F	2008F	2009F
Revenue	57.5	96.5	106.0	113.0
EBITDA	1.5	7.2	9.0	10.9
EBIT	0.1	5.0	6.8	8.5
NPAT (reported)	(0.9)	3.6	4.5	5.5
NPAT (adjusted)	(0.2)	3.6	4.5	5.5
Adjusted EPS (cps)	(0.3)	3.1	3.8	4.5
EPS Growth (%)	n/a	n/a	22%	18%
DPS (c)	-	-	1.0	1.0
Dividend Yield (%)	-	-	3.2	3.2
PE adj. (x)	-	10.0	8.2	6.9
EV / EBITDA (x)	27.7	6.4	5.3	4.0
EV / EBIT (x)	327.2	9.2	7.0	5.2
Gearing (%)	23.1	40.9	31.0	15.2
EBITDA Margin (%)	1.6	2.6	7.5	8.5
Interest Cover (x)	0.2	5.9	8.6	8.7

Earnings Adjustments

Y/E June	2006A	2007F	2008F	2009F
Previous NPAT ($m)	(0.2)	4.2	4.8	5.7
Change in NPAT(%)	0%	-12%	-4%	-2%
Previous EPS (cps)	(0.3)	3.4	4.0	4.7
Change in EPS (%)	0%	-6%	-3%	-2%

TTI Share Price / Volume



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TTI BACKGROUND

FY'06 establishes national footprint

FY'06 has seen TTI establish its national traffic management offering with the acquisition of five businesses involved within the broader traffic management industry. Settlement of a further business in July 2006 *(Protech Traffic Management)* has laid the foundations for a national traffic management operation, the first of its kind in Australia.

Integrated offering established.

TTI operates in four segments of the broader traffic management industry which include Traffic management, Traffic Signage, Signals & Hardware and Asset management.

Govt spending underpinning market

TTI's growth is underpinned by the government's commitment to spend +$3bn per annum until 2009 on road funding and we estimate that traffic management represents ~5-6% of this expenditure going forward.

RESULTS SUMMARY

As tabled below, underlying FY'06 EBITDA of $1.9m was in-line with Austock forecasts of $1.7m. Underlying NPAT of ($0.2m) was in line with expectations.

Two variances to Austock forecasts include:

- Interest expense of $0.9m vs. forecasts of $0.4m; and
- De Neefe restructuring costs capped at $0.6m vs. forecasts of $0.8m.

				Austock Forecasts			
Y/E 30 June *$(m) unless stated*	**FY'06F**	**FY'06A**	**Comment**	**FY'07F *Orig***	**FY'07F *Revised***	**Comment**	**FY'08F**
Revenues	**55.2**	**57.5**		**95.6**	**96.5**	*12-months of Sunny & Guard Rail*	**106.0**
Divisional EBITDA							
- Traffic Management	**2.8**	**3.2**	*Margin growth*	**4.1**	**4.2**	*Margin base higher*	**4.9**
- Signs	0.5	0.1	*De Neefe under restructure*	2.3	2.6	*Sunny signs +$1m / De Neefe $1.5m*	3.4
- Asset Mgt	**0.0**	**0.1**	*Established June '06*	**1.4**	**1.6**	*12-month impact of Guard Rail*	**1.8**
- Unallocated/other	(1.7)	(1.3)	*Below expectation*	(1.0)	(1.2)		(0.6)
Total EBITDA	**1.7**	**1.9**		**6.8**	**7.2**	*Impact of Acquisitions (see over)*	**9.0**
Depn & Ammort	(1.6)	(1.3)	*Below forecasts FY'06*	(1.8)	(2.2)	*Higher asset base FY'07*	(2.2)
EBIT	**0.1**	**0.6**		**5.1**	**5.0**		**6.8**
Interest expense	(0.4)	(0.8)		(0.6)	(0.9)	*Working capital financing*	(0.8)
NPAT - underlying	**(0.2)**	**(0.2)**		**4.2**	**3.6**	*Depn & interest exp*	**4.5**
Sig. Items	(0.8)	(0.3)	*De Neefe restructuring costs*	0.0	0.0		0.0
Share option exp.		(0.4)					
NPAT - reported	**(1.0)**	**(0.9)**		**4.2**	**3.6**		**4.5**

Source: Company financials & Austock Securities estimates

FY'07 FORECASTS

EBITDA lift for FY'07…..

We have lifted our EBITDA assumptions to $7.2m from $6.8m post the FY'06 results driven by higher EBITDA margins from Traffic management and the completion of a restructure within the De Neefe signage business.

Margin jump for FY'07

Margin growth for FY'07. We expect FY'06 EBITDA margins of 3.3% *(3.6% in the 2H'06 vs. 2.4% in the 1H'06)* to lift to 7.5% for FY'07 *(1H'07F 6.5% and 2H'07F 8.4%)*.

Margin growth driven by full-year contributions from Sunny Signs *(acquired March '06)*, Guard Rail *(acquired June '06)* & Protech Traffic Management *(acquired July '06).*

We forecast the three businesses to achieve FY'07 EBITDA of ~$3m representing EBITDA margins of +10%.

…..however NPAT pulled back

While we have lifted EBITDA, we have reduced FY'07 NPAT from $4.2m to $3.6m reflecting:

- depreciation charges lifting by $0.4m to $2.2m given a higher than forecast asset base and fleet upgrades taking place;
- interest charges lifting by $0.4m reflecting higher factoring utilisation and funding;
- NPAT lift of $0.2m as a result of EBITDA increase.

Interim result

1H'07 results important milestone. With all consolidated businesses operating under TTI from 1 July 2006, the 1H'07 result will be an important milestone in providing greater visibility on earnings of current business.

OTHER FINANCIAL POINTS OF INTEREST

Traffic management labour intensive

Cashflow. Operating cashflow of ($2.7m) reflects a ($3.1m) movement in working capital to fund ramp up for new businesses acquired and organic growth *(+19% for Traffic Management).*

Given the high level of labour costs involved in traffic management new contracts usually result in a 6 – 8 week lag before the cash benefit of new business cycles in with normal operations.

Note: The fourth quarter will traditionally see a spike in Working Capital as government and council bodies increase spending leading into the end of the financial year.

Balance sheet.

Debt. Borrowings of $11.2m include $5.2m from a debtor factoring facility *(50% utilisation)* and $2m in convertible notes issued to Equity Partners.

Gearing. Cash on hand of $6.7m will have been drawn down by $5.7m acquisitions of Protech and Guard rail. We estimate FY'06 gearing of 23% will lift to 41% for FY'07.

Borrowings. An increase in borrowings of $3.2m reflects largely increased funding for new vehicles.

PPE. Approximately $3m higher than expected with fleet upgrades beginning in the 4Q'06. We forecast a further $2.5m for capex in FY'07.

Traffic Technologies

		Price	$ 0.32	5-Sep-06
NFPOS	115 m	Market Cap	$36 m	5-Sep-06

PROFIT & LOSS ($m)

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
Sales Revenue	18.7	57.5	96.5	106.0	113.0
EBITDA	**0.3**	**1.5**	**7.2**	**9.0**	**10.9**
D & A	0.5	1.3	2.2	2.2	2.3
EBIT	**(0.2)**	**0.1**	**5.0**	**6.8**	**8.5**
Net Interest Expense	0.4	0.7	0.9	0.8	1.0
PBT	**(0.6)**	**(0.6)**	**4.2**	**6.0**	**7.5**
Income Tax	0.0	0.0	0.6	1.6	2.2
NPAT - pre-abnormals	**(0.6)**	**(0.2)**	**3.6**	**4.5**	**5.3**
Abnormals/ share exp	0.0	(0.7)	0.0	0.0	0.0
NPAT - reported	**(0.6)**	**(0.9)**	**3.6**	**4.5**	**5.3**

KEY RATIOS

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
EBITDA Margin (%)	1.6	2.6	7.5	8.5	9.6
EBIT Margin (%)	(1.3)	0.2	5.2	6.4	7.5
NPAT Margin (%)	(3.3)	(1.1)	3.7	4.2	4.7
ROE (%)	(10.6)	(3.1)	14.7	15.6	15.6
ROA (%)	(1.7)	0.3	11.3	14.6	17.4
ROIC (%)	(4.6)	0.7	14.5	14.0	15.5
NTA per share ($)	0.01	0.09	0.08	0.11	0.15
Eff Tax Rate (%)	-	-	15.0	26.0	30.0
Interest Cover (x)	(0.6)	0.2	5.9	8.6	8.7
Net Gearing (%)	75.7	23.1	40.9	31.0	15.2

BALANCE SHEET ($m)

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
Cash	1.0	6.7	3.3	3.3	4.1
Debtors	4.2	14.1	14.2	15.6	17.5
Inventory	0.1	3.8	4.8	6.4	7.3
Intangibles	5.2	9.0	15.0	15.0	15.0
PP&E	3.3	9.7	10.1	9.3	8.3
Other assets	1.3	0.6	0.6	0.6	0.6
Total Assets	**15.1**	**44.0**	**48.0**	**50.2**	**52.9**
Borrowings	5.4	11.2	13.2	12.2	9.2
Trade Creditors	3.0	11.2	8.7	7.4	7.9
Other Liabilities	0.5	1.8	1.8	1.8	1.8
Total Liabilities	**9.3**	**24.4**	**23.9**	**21.6**	**19.1**
NET ASSETS	**5.8**	**19.5**	**24.1**	**28.6**	**33.8**

VALUATION PARAMETERS

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
Adjusted EPS (cps)	(1.4)	(0.3)	3.1	3.8	4.3
P/E (x)	n/a	n/a	10.2	8.4	7.3
PER Rel (XOI)	n/a	n/a	(40%)	(56%)	(59%)
PER Rel - Small Indust.	n/a	n/a	(47%)	(47%)	(50%)
Enterprise Value ($m)	18	41	46	48	44
EV / EBITDA (x)	61.8	27.7	6.4	5.3	4.0
EV / EBIT (x)	n/a	327.2	9.2	7.0	5.2
Price / NTA (x)	24.7	3.5	4.0	2.9	2.1
DPS (cps)	-	-	-	1.0	1.0
Dividend Yield (%)	-	-	-	3.2	3.2
Franking (%)	-	-	-	100	100
CFPS (cps)	(0.1)	(2.2)	1.8	2.2	4.5
P / CFPS (x)	(574.8)	(14.1)	17.9	14.6	7.0

CASHFLOW STATEMENT ($m)

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
Operating EBITDA	0.3	1.5	7.2	9.0	10.9
- Interest & Tax Paid	0.4	0.7	1.5	2.3	3.2
- Inc in Working Cap./ other	(0.0)	3.3	3.7	4.2	2.4
Operating CF	(0.1)	(2.6)	2.0	2.5	5.2
- Maintenance Capex	(0.2)	(2.2)	(1.5)	(1.0)	(1.0)
Free Cashflow	(0.2)	(4.8)	0.5	1.5	4.2
- Ord & Pref Dividends	-	-	-	-	-
- Expansion Capex	-	(1.4)	(1.0)	(0.5)	(0.5)
- (Acquisitions)/disposals	(5.9)	(4.4)	(6.0)	-	-
+ Share issues	6.0	13.3	1.1	-	-
- other	(0.9)	(0.4)	-	-	-
Net Cashflow	(1.0)	2.4	(5.4)	1.0	3.7
Cast at beginning of period	-	1.0	6.7	3.3	3.3
+/-Borrowings / Other	2.1	3.3	2.0	(1.0)	(3.0)
Cash at end of period	1.1	6.6	3.3	3.3	4.1

DCF VALUATION & SENSITIVITY

PV Forecast CF (05-08)	6	Risk Free Rate	6.0%
PV Growth CF (09-14)	19	Equity Risk Premium	5.0%
PV Perpetuity	36	Equity Beta	1.5
Other net assets		Cost of Equity	13.5%
Total	61	D/(D+E)	43%
Less Net Debt	10	WACC	11.7%
NPV ($m)	51	Terminal WACC	11.5%
NPV per share	$ 0.42	Terminal Growth	3.0%

	Terminal WACC			
Rate	**10.7%**	**11.2%**	**11.7%**	**12.2%**
0.0%	$ 0.36	$ 0.35	$ 0.34	$ 0.33
1.0%	$ 0.38	$ 0.37	$ 0.36	$ 0.35
1.5%	$ 0.40	$ 0.38	$ 0.37	$ 0.36
2.0%	$ 0.41	$ 0.40	$ 0.38	$ 0.37
3.0%	$ 0.45	$ 0.43	$ 0.41	$ 0.40
4.0%	$ 0.50	$ 0.47	$ 0.45	$ 0.43

FULL YEAR DIVISIONAL SALES

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
Sales					
Traffic Management	18.6	32.0	42.3	46.1	49.7
Sign Division		22.8	39.7	43.3	45.4
Asset Management			14.0	15.5	16.9
Other	0.2	0.4	0.5	1.2	1.3
Total	**18.8**	**55.2**	**96.5**	**106.0**	**113.3**
Sales growth					
Traffic Management		72%	32%	9%	8%
Sign Division			74%	9%	5%
Asset Management			20%	10%	9%
Other					
Total		**194%**	**75%**	**10%**	**7%**

GROWTH PROFILE (YoY)

Y/E 30 June	2005A	2006A	2007F	2008F	2009F
Sales revenue ($m)	0%	208%	68%	10%	7%
EBITDA ($m)	0%	395%	389%	25%	20%
NPAT ($m)	0%	n/a	n/a	26%	18%
Adjusted EPS (cps)	0%	n/a	n/a	22%	15%
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

INTERIM ANALYSIS ($m)

Y/E 30 June	2H05	1H06	2H06	1H07	2H07
Sales	11.2	23.8	31.7	46.1	50.3
EBITDA	0.3	0.5	1.2	3.0	4.2
EBIT	(0.4)	(0.2)	0.6	1.9	3.1
NPAT	**0.1**	**(0.5)**	**0.2**	**1.3**	**2.3**
EPS (c)	(2.4)	(0.8)	0.2	1.5	1.9
DPS (c)	-	-	-	-	-

MAJOR SHAREHOLDERS

	(m)	(%)
Equity Partners Two Pty Ltd	31.7	32.3
Contelite	7.3	6.9
Astra Glen	7.2	6.8
CVC	3.1	3.2

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% - 5%	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

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of Warren Jeffries about the subject issuer and its securities. No part of the analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

In addition, Warren Jeffries certifies that none of the following persons holds an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence the report:

- the author of this report;
- a member of the immediate family of the author of this report ;
- Austock Securities Limited;
- an associate of Austock Securities Limited within the meaning of the Corporations Act.

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Disclosure of Corporate Involvement

In the last 12 months the company identified in this publication has paid fees to Austock or related entities. The total corporate fees received by Austock and its associates from TTI during the past 12-month's amounts to $133k. That remuneration might reasonably be expected to be to be capable of influencing Austock in providing the general advice in this publication.

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