

Traffic Technologies (TTI)

Key milestone as earnings emerge

21 February 2007

Opinion Data

Recommendation	Buy
Risk rating	Medium
Current share price	\$0.36
12 month target price	\$0.40
12 month price range	\$0.37 - \$0.23
Market capitalisation	\$41m

Traffic Technologies (TTI) has reported 1H'07 NPAT of \$1.1m against a pcp of (\$0.5m).

We believe the interim result represents a key milestone for the group as the 1H'07 captures a full period of all consolidated businesses.

Key highlights:

- NPAT of \$1.1m and EBITDA of \$2.7m was in-line with Austock forecasts.
- Revenues of \$43.5m were also in-line with forecasts and up 83% on the pcp.

Divisional highlights:

- **Traffic management.** Margin expansion continues with 1H'07 EBITDA of \$2.8m representing margins of 13% vs. 10% in the 2H'06.
- **Signage (De Neefe signs).** Positive EBITDA contribution of \$1.2m vs. (\$0.2m) in the 2H'06. EBITDA margins of 8% achieved.
- **FY'07 forecasts.** Unchanged with EBITDA of \$7.2m and NPAT of \$3.6m. Earnings are skewed to the 2H due to significant government spending in May & June.
- **Outlook.** As the largest operator of traffic management solutions in Australia TTI is well positioned to benefit from +\$15bn in road spending up to 2009. Overlaying the significant roads spend is an increasing regulatory environment.
- **Investment view.** TTI remains attractively priced at 11.3x's FY'07F EPS of 3.1cps representing a 40% discount to the small cap sector.

Our DCF valuation and target price remains \$0.40/share and our recommendation Buy.

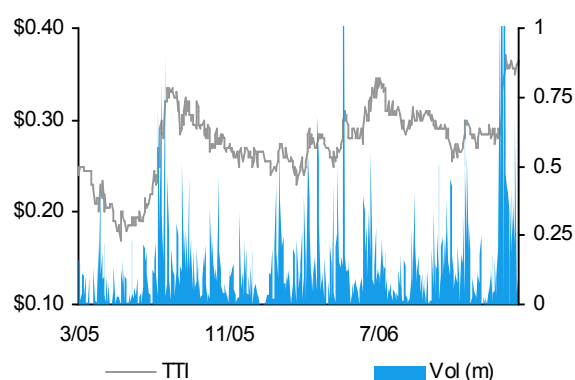
Earnings Forecasts

Y/E June	2006A	2007F	2008F	2009F
Revenue	57.5	95.6	104.6	113.7
EBITDA	1.5	7.2	9.0	10.7
EBIT	0.1	5.3	6.9	8.6
NPAT (reported)	(0.9)	3.6	4.4	5.4
NPAT (adjusted)	(0.6)	3.6	4.4	5.4
Adjusted EPS (cps)	(0.8)	3.1	3.8	4.4
EPS Growth (%)	-	489%	21%	15%
DPS (c)	-	-	1.0	1.0
Dividend Yield (%)	-	-	2.8	2.8
PE adj. (x)	(44.1)	11.3	9.3	8.1
EV / EBITDA (x)	29.8	7.4	5.7	4.3
EV / EBIT (x)	388.1	10.2	7.4	5.3
Gearing (%)	23.1	53.3	24.4	4.8
EBIT Margin (%)	0.2	5.5	6.6	7.6
Interest Cover (x)	0.2	5.5	7.0	8.6

Earnings Adjustments

Y/e Jun (\$m)	2007F	2008F	2009F
Previous NPAT (\$m)	3.6	4.4	5.4
Change in NPAT (%)	-	-	-
Previous EPS (cps)	3.1	3.8	4.4
Change in EPS (%)	-	-	-

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.

Integrated offering established.

TTI operates in four segments of the 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.

Recent media speculation is for the government to budget for a further \$19bn for roads from 2009 – 2014.

1H'07 DIVISIONAL SUMMARY

Margin growth continues within Traffic management

- **Traffic management.** Management have lifted EBITDA margins to 13% during the 1H'07, from 11% in the 2H'06, while also integrating the Protech Traffic Management business. *We note Protech (acquired for \$2m or 3.5x's FY'06 EBIT) made a negligible EBIT contribution for the half.*

Benefits of restructure emerging

Signage. Benefiting from restructuring during FY'06 and the acquisition of Sunny Signs (\$6m or 6x's FY'06 EBIT) in March 2006. EBITDA margins of 8% for 1H'07 expected to lift to +10% in the medium term.

Underperforming in 1H'07.

- **Asset Management.** Effectively the Guard Rail operation acquired in June 2006 (\$6m or 5x's FY'07 EBIT). While earnings are skewed to the 2H, it would appear to be behind expectations with a modest EBIT contribution of \$0.1m for 1H'07.

New business

- **Signals & Hardware.** Emerging business where revenues will be lumpy. Revenues of \$2.2m for the half above expectations.
- **Unallocated costs.** Higher than expected, but within reason for acquisitive business.

Interim results summary & Austock estimates

(\$m) – unless stated	1H'06A	1H'07A	comment	Revised FY'07F	Original FY'07F	comment
Revenues	23.8	45.6	<i>In-line</i>			
Divisional EBITDA						
- Traffic Management	1.3	2.8	<i>Margin growth ahead of forecasts</i>	6.1	4.2	<i>Business firing & upside remains</i>
- Signs	0.1	1.2	<i>In-line</i>	2.6	2.6	<i>On-track</i>
- Asset Management	0.0	0.1	<i>Behind – 2H to improve</i>	0.6	1.6	<i>Under performing</i>
- Signals & Hardware	(0.1)	(0.0)	<i>Emerging – little expectation</i>	0.0	0.2	
- Unallocated	(0.6)	(1.4)	<i>Slightly up</i>	(2.0)	(1.4)	
Total EBITDA	0.7	2.7	<i>On-track for full year</i>	7.2	7.2	<i>Remains the '07 expectation</i>
EBIT	(0.1)	1.7		5.3	5.0	<i>Depreciation lower</i>
NPBT	(0.4)	1.1		4.3	4.1	
NPAT	(0.5)	1.1	<i>In line</i>	3.6	3.6	<i>Unchanged</i>

Source: Company financials & Austock Securities estimates

OTHER KEY POINTS:

Operating cashflow. Negative operating cashflow of (\$0.5m) of which (\$0.4) occurred in the 1Q'07. Trend moving towards positive cashflow.

Balance sheet. Gearing of 55% and interest cover of ~3x's are reasonable.

Management have also conducted the sale and lease back of \$2.5m in fleet vehicles.

OUTLOOK

Immediate outlook positive

Earnings skewed 60/40 to the 2H

The second half will represent ~60% of our FY'07F EBITDA forecast of \$7.2m.

This skew is driven by a significant government spend in the last two months of the financial year.

The skew in earnings for the 2H'07 supported by continued margin growth in Traffic Management, cost rationalisation within the De Neefe Signs operations and a strong order book in asset management.

Industry.

Industry well positioned due to govt spend and regulation

Longer term a continued commitment by government on roads spending underpins the industry in which TTI operates.

A \$15bn commitment on roads from 2005 to 2009 is speculated to be lifted to \$19bn for the subsequent 5-years to 2014.

Importantly for TTI much of the medium-term spending on road upgrades and infrastructure is occurring in northern NSW and Qld which are established markets for TTI.

Traffic Technologies

NFPOS 115 m Price \$ 0.36
Market Cap \$41 m

19-Feb-07
19-Feb-07

PROFIT & LOSS (\$m)

Y/E 31 June	2005A	2006A	2007F	2008F	2009F
Sales Revenue	18.7	57.5	95.6	104.6	113.7
EBITDA	0.3	1.5	7.2	9.0	10.7
D & A	0.5	1.3	2.0	2.0	2.1
EBIT	(0.2)	0.1	5.3	6.9	8.6
Net Interest Expense	0.4	0.7	1.0	1.0	1.0
PBT	(0.6)	(0.6)	4.3	5.9	7.6
Income Tax	0.0	0.0	0.7	1.5	2.2
NPAT - pre-abnormals	(0.6)	(0.6)	3.6	4.4	5.4
Abnormals	0.0	(0.3)	0.0	0.0	0.0
NPAT - reported	(0.6)	(0.9)	3.6	4.4	5.4

BALANCE SHEET (\$m)

Y/E 31 June	2005A	2006A	2007F	2008F	2009F
Cash	1.0	6.7	4.3	4.9	5.4
Debtors	4.2	14.1	14.0	15.4	17.6
Inventory	0.1	3.8	4.8	6.3	7.4
Intangibles	5.6	9.0	15.8	15.8	15.8
PP&E	3.3	9.7	10.5	9.5	8.4
Other assets	0.5	0.6	1.1	1.2	1.3
Total Assets	14.8	44.0	50.6	53.1	56.0
Borrowings	5.4	11.2	17.2	12.2	7.2
Trade Creditors	3.0	11.2	6.7	8.4	9.1
Other Liabilities	0.5	1.8	2.0	1.9	1.9
Total Liabilities	8.9	24.4	26.1	22.7	18.4
NET ASSETS	5.9	19.5	24.5	30.4	37.6

CASHFLOW STATEMENT (\$m)

Y/E 31 June	2005A	2006A	2007F	2008F	2009F
Operating EBITDA	0.3	1.5	7.2	9.0	10.7
- Interest & Tax Paid	0.4	0.7	1.7	2.5	3.2
- Inc in Working Cap./ other	(0.0)	3.3	5.8	1.4	2.7
Operating CF	(0.1)	(2.6)	(0.2)	5.1	4.7
- Maintenance Capex	(0.2)	(2.2)	(1.5)	(1.0)	(1.0)
Free Cashflow	(0.2)	(4.8)	(1.7)	4.1	3.7
- Ord & Pref Dividends	-	-	-	-	-
- Expansion Capex	-	-	(1.3)	-	-
- (Acquisitions)/disposals	(5.9)	(5.8)	(6.5)	-	-
+ Share issues	6.0	13.3	1.1	1.5	1.9
- other	(0.9)	(0.4)	-	-	-
Net Cashflow	(1.0)	2.4	(8.4)	5.6	5.5
Cast at beginning of period	-	1.0	6.7	4.3	4.9
+/-Borrowings / Other	2.1	3.3	6.0	(5.0)	(5.0)
Cash at end of period	1.1	6.6	4.3	4.9	5.4

FULL YEAR DIVISIONAL SALES

Y/E 31 June	2005A	2006A	2007F	2008F	2009F
Sales					
Traffic Management	18.6	32.0	44.1	48.1	52.4
Sign Division		22.8	34.1	37.8	41.2
Asset Management			13.1	14.7	16.0
Other	0.2	0.4	4.2	4.0	4.0
Total	18.8	55.2	95.6	104.6	113.7
Sales growth					
Traffic Management		72%	38%	9%	9%
Sign Division			49%	11%	9%
Asset Management			13%	12%	9%
Other					
Total		194%	73%	9%	9%

INTERIM ANALYSIS (\$m)

Y/E 31 June	2H05	1H06	2H06	1H07	2H07
Sales	11.2	23.8	31.7	44.1	51.5
EBITDA	0.3	0.5	1.2	2.7	4.5
EBIT	(0.4)	(0.2)	0.6	1.7	3.6
NPAT	0.1	(0.5)	0.2	1.1	2.5
EPS (c)	-	-	-	1.0	2.1
DPS (c)	-	-	-	-	-

KEY RATIOS

Y/E 31 June	2005A	2006A	2007F	2008F	2009F
EBITDA Margin (%)	1.6	2.5	7.6	8.6	9.4
EBIT Margin (%)	(1.2)	0.2	5.5	6.6	7.6
NPAT Margin (%)	(3.3)	(1.1)	3.8	4.2	4.7
ROE (%)	(10.4)	(3.2)	14.9	14.6	14.4
ROA (%)	(1.7)	0.3	11.4	14.3	17.0
ROIC (%)	(4.5)	0.6	14.2	13.4	15.5
NTA per share (\$)	0.01	0.10	0.08	0.12	0.18
Eff Tax Rate (%)	-	-	16	26	30
Interest Cover (x)	(0.6)	0.2	5.5	7.0	8.6
Net Gearing (%)	74.3	23.1	53.3	24.4	4.8

VALUATION PARAMETERS

Y/E 31 June	2005A	2006A	2007F	2008F	2009F
Adjusted EPS (cps)	(1.4)	(0.8)	3.1	3.8	4.4
P/E (x)	(25.9)	n/a	11.3	9.3	8.1
PER Rel (XOI)	(242%)	n/a	(33%)	(51%)	(54%)
PER Rel - Small Indust.	(216%)	n/a	(41%)	(41%)	(45%)
Enterprise Value (\$m)	0	0	1	1	0
EV / EBITDA (x)	n/a	n/a	7.4	5.7	4.3
EV / EBIT (x)	n/a	n/a	10.2	7.4	5.3
Price / NTA (x)	64.9	3.7	4.7	3.0	2.0
DPS (cps)	-	-	-	1.0	1.0
Dividend Yield (%)	-	-	-	2.8	2.8
Franking (%)	100	100	100	100	100
CFPS (cps)	(0.1)	(2.2)	(0.2)	4.4	4.1
P / CFPS (x)	(647.8)	(15.9)	(186.1)	8.1	8.7

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	37	Equity Beta	1.5
Other net assets		Cost of Equity	13.5%
Total	62	D/(D+E)	43%
Less Net Debt	13	WACC	11.4%
NPV (\$m)	49	Terminal WACC	11%
NPV per share	\$ 0.40	Terminal Growth	3.0%

Rate	Terminal WACC			
	10.4%	10.9%	11.4%	11.9%
0.0%	\$ 0.34	\$ 0.33	\$ 0.32	\$ 0.31
1.0%	\$ 0.36	\$ 0.35	\$ 0.34	\$ 0.33
1.5%	\$ 0.38	\$ 0.36	\$ 0.35	\$ 0.34
2.5%	\$ 0.41	\$ 0.40	\$ 0.38	\$ 0.36
3.0%	\$ 0.44	\$ 0.41	\$ 0.40	\$ 0.38
4.0%	\$ 0.49	\$ 0.46	\$ 0.44	\$ 0.41

GROWTH PROFILE (YoY)

Y/E 31 June	2005A	2006A	2007F	2008F	2009F
Sales revenue (\$m)	0%	208%	66%	9%	9%
EBITDA (\$m)	0%	384%	397%	24%	19%
NPAT (\$m)	0%	n/a	n/a	21%	22%
Adjusted EPS (cps)	0%	n/a	n/a	17%	19%
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.

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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.

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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.

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- a member of the immediate family of the author of this report

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