

DKN Financial Group (DKN)

Well-positioned after tough year

26 August 2008

Opinion Data

Recommendation	Buy
Risk rating	Medium
Current share price	\$0.79
12 month target price	\$1.00
12 month price range	\$1.80 - \$0.64
Market capitalisation	\$113m

DKN reported FY'08 adjusted NPAT of \$8.7m, which was 2% below guidance and our forecast \$8.9m. This was a reasonable result given a volatile period for equity markets. Key points:

- Reported NPAT was \$6.6m, included a \$2.1m after-tax settlement for Westpoint claims.
- Result includes a 7.5 month contribution from the Lonsdale and Wrap businesses.
- Costs were higher than expected** with the cost-to-income ratio at 48% vs. guidance of 45%.
- 2H'08 FUA levels fell 9%** from 1H to \$8.1bn, with weak equity market continuing to impact growth. A positive for the group, however, is that net inflows remain solid with \$451m in the 2H.
- Forecast changes.** No guidance was provided for FY'09; we have taken a conservative approach and reduced our forecasts by 4%. Our FY'10 forecasts are largely unchanged.
- Key risk** remains that equity markets will remain weak throughout FY'09, which will impact FUA through both investment performance and inflows.
- Investment view.** Buy. While the share price is unlikely to bounce significantly given current volatility in equity markets, it should be supported near-term by the current buy-back.

DKN's underlying business remains sound and solid FUA net inflows are a major positive. Longer-term the firm is well-placed for any recovery in equity markets.

We maintain our \$1.00/share price target, which is a 25% discount to our DCF valuation of \$1.34/share (previously \$1.36/share).

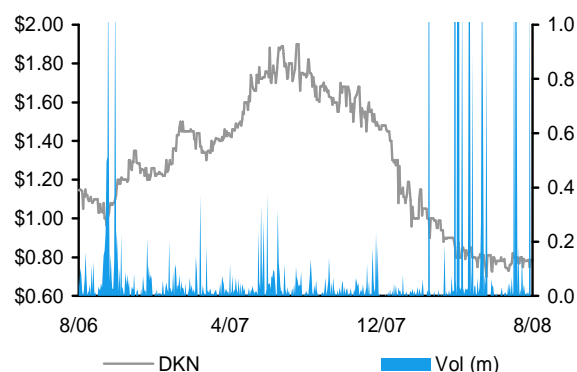
Earnings Forecasts

Y/e Jun (\$m)	2008A	2009F	2010F	2011F
Revenue	24.9	33.6	37.3	40.1
EBITDA	13.6	18.2	20.7	22.7
EBIT	13.3	17.8	20.2	22.2
NPAT (reported)	6.7	11.7	13.7	15.4
NPAT (adjusted)	8.7	11.7	13.7	15.4
Adjusted EPS (cps)	7.3	8.1	9.5	10.6
EPS Growth (%)	4%	11%	17%	13%
DPS (c)	4.5	5.3	6.0	7.0
Dividend Yield (%)	5.7	6.7	7.6	8.9
PE adj. (x)	10.8	9.7	8.3	7.4
EV / EBITDA (x)	8.4	6.6	5.7	5.0
EV / EBIT (x)	8.4	6.6	5.7	5.0
Gearing (%)	cash	2%	1%	-2%
EBIT Margin (%)	53.5	52.9	54.1	55.2
Interest Cover (x)	11.5	18.5	33.7	226.9

Earnings Adjustments

Y/e Jun (\$m)	2008A	2009F	2010F
Previous NPAT (\$m)	8.9	12.2	13.6
Change in NPAT (%)	-2%	-4%	1%
Previous EPS (cps)	7.6	8.4	9.3
Change in EPS (%)	-4%	-4%	2%

DKN Share Price / Volume



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FY'08 RESULT

RESULT SUMMARY

Earnings.

Includes 7.5month contribution from Lonsdale & Wrap.

- **Product & platform** revenues were \$18m, with an EBIT contribution (pre-unallocated expenses) of \$13m.
- **Lonsdale** revenues were \$5.4m, with an EBIT contribution (pre-unallocated expenses) of \$1.7m.
- **Minority equity investments** contributed NPAT of \$1.9m, up from \$1.0m in pcp. This was driven by further investments in financial planners- UPA and MWP.

Solid net cash position.

Balance sheet. DKN had no net debt with cash of \$16.7m as at 30 June 2008. Due to the current buy-back and potential further minority investments, the group maintains debt of \$16m on its balance sheet.

Cash flow. DKN delivered operating cash flow of \$2.7m, up from \$1.9m in pcp.

Other points:

Cost-to-income ratio higher than expected at 48%

- **Funds Under Advice (FUA)** reached \$8.1bn, which was down 9% from 1H and below guidance of \$8.4bn. According to DKN, market movements impacted FUA by 18%. Importantly, net inflows remained solid with \$451m recorded in the 2H.
- **Cost-to-income ratio** was higher than expected at 48% vs. guidance of 45%. Going forward we expect it to slowly reduce towards the 40% level over the next 3-4 years.
- **Buy-back** is over 50% complete and should support the share-price over the near-term. DKN is buying back up to 5% of shares, which should be completed in 1H'09.

FORECAST CHANGES

Reduced FY'09 forecasts by 4% to be conservative.

We have reduced our FY'09F EPS forecasts by 4%, mainly due to the impact of current market conditions on inflows and FUA growth. Our forecasts for FY'10 remain largely unchanged.

Austock forecasts and analysis

\$(m) – unless stated	FY'07A	FY'08A	Comment	FY'09F	FY'10F
Revenues	11.1	24.9	<i>Includes share of associate profits</i>	33.6	37.3
EBITDA	6.6	13.6		18.2	20.7
NPAT	4.9	6.6	<i>Includes \$2.1m settle for Westpoint claims</i>	11.7	13.7
NPAT Adj	4.9	8.7		11.7	13.7
EPS- Adj	7.0	7.3		8.1	9.5

Source: Austock estimates and company financials

DKN Financial Group Ltd

Price \$ 0.79
 Market Cap \$113 m

Date 26-Aug-08
 Model Update 26-Aug-08

PROFIT & LOSS (\$m)

Y/E 30 June	2007A	2008A	2009F	2010F	2011F
Revenue	11.1	24.9	33.6	37.3	40.1
EBITDA	6.1	13.6	18.2	20.7	22.7
Depreciation & Amortisation	0.0	0.3	0.5	0.5	0.5
EBIT	6.1	13.3	17.8	20.2	22.2
Interest expense	0.5	-1.2	-1.0	-0.6	-0.1
PBT	6.6	12.2	16.8	19.6	22.1
Income Tax	1.7	3.5	5.0	5.9	6.6
Adjusted NPAT	4.9	8.7	11.7	13.7	15.4
Abnormal	0.0	-2.0	0.0	0.0	0.0
Reported NPAT	4.9	6.7	11.7	13.7	15.4

BALANCE SHEET (\$m)

Y/E 30 June	2007A	2008A	2009F	2010F	2011F
Cash	3.1	16.8	7.5	5.1	5.4
Debtors	1.4	4.6	6.1	6.8	7.3
Inventory	-	-	-	-	-
Intangibles	20.1	146.9	146.7	146.5	146.3
PP&E	0.1	1.2	1.3	1.4	1.5
Other assets	22.6	19.3	19.4	19.5	19.6
Total Assets	47.2	188.7	185.6	188.4	189.9
Borrowings	-	16.0	10.0	7.0	2.0
Trade Creditors	1.0	3.8	5.1	5.7	6.1
Other Liabilities	1.6	3.0	3.0	3.0	3.0
Total Liabilities	2.5	22.8	18.1	15.7	11.1
NET ASSETS	44.7	165.9	167.5	172.8	178.8

CASHFLOW STATEMENT (\$m)

Y/E 30 June	2007A	2008A	2009F	2010F	2011F
Operating EBITDA	6.1	13.6	18.2	20.7	22.7
- Interest & Tax Paid	0.1	4.7	6.0	6.5	6.7
- Inc in Working Cap./ other	4.1	6.3	5.4	5.2	5.1
Operating CF	1.9	2.7	6.8	9.1	10.8
- Maintenance Capex	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Free Cashflow	1.9	2.7	6.8	9.0	10.8
- Ord & Pref Dividends	(2.7)	(4.1)	(7.1)	(8.3)	(9.5)
- Expansion Capex	0.0	0.0	0.0	1.0	2.0
- (Acquisitions)/disposals	(3.6)	(29.5)	(5.0)	0.0	0.0
+ Share issues	0.0	25.7	(0.9)	0.0	0.0
- other	2.0	2.9	2.9	2.9	2.9
+/-Borrowings / Other	0.0	16.0	(6.0)	(6.0)	(4.0)
Cash at end of period	3.1	16.8	7.5	6.1	7.4

INTERIM ANALYSIS

Y/E 30 June	1H08A	2H08A	1H09F	2H09F	Diff %
Sales	9.0	15.9	16.0	17.6	77%
EBITDA	5.3	8.4	8.4	9.9	59%
NPAT	3.6	5.1	5.3	6.5	48%
DPS	1.0	3.5	2.5	2.8	150%

DIRECTORS

Mr Rob Hunwick	Chairman	Mr Peter Dunn	Non-Exec
Mr Chris Kelaher	Non-Exec	Mr Phil Butterworth	CEO

KEY RATIOS

Y/E 30 June	2007A	2008A	2009F	2010F	2011F
EBIT Margin (%)	54.9	53.5	52.9	54.1	55.2
NPAT Margin (%)	44.1	34.8	35.0	36.7	38.5
ROE (%)	10.9	5.2	7.0	7.9	8.6
ROA (%)	13.8	7.8	10.0	11.0	12.0
ROIC (%)	10.8	5.2	7.3	8.1	8.8
NTA per share (\$)	33.3	13.2	14.3	18.1	22.4
Eff Tax Rate (%)	30.0	30.0	30.0	30.0	30.0
Interest Cover (x)	cash	11.5	18.5	33.7	226.9
Net Gearing (%)	cash	cash	1.5%	1.1%	-1.9%

VALUATION PARAMETERS

Y/E 30 June	2007A	2008A	2009F	2010F	2011F
Adj EPS (cps)	7.0	7.3	8.1	9.5	10.6
P/E (x)	11.2	10.8	9.7	8.3	7.4
PER Rel (XOI)	-45%	-31%	-30%	-32%	
PER Rel - Small Indust.	-46%	-28%	-30%	-31%	
Enterprise Value (\$m)	54.9	112.6	116.4	115.7	110.5
EV / EBITA (x)	8.9	8.3	6.4	5.6	4.9
EV / EBIT (x)	9.0	8.4	6.6	5.7	5.0
Price / NTA (x)	0.0	0.1	0.1	0.0	0.0
DPS (cps)	6.0	4.5	5.3	6.0	7.0
Dividend Yield (%)	7.6	5.7	6.7	7.6	8.9
Franking (%)	100	100	100	101	102
CFPS (cps)	1.3	1.9	4.7	6.3	7.5
P / CFPS (x)	59.4	41.8	16.6	12.5	10.5

DCF VALUATION & SENSITIVITY

PV Forecast CF (07-09)	36.1	Risk Free Rate	6.5%
PV Growth CF (10-15)	57.3	Equity Risk Premium	5.0%
PV Perpetuity	99.7	Equity Beta	1.4
		Cost of Equity	13.4%
Total	193.1	D/(D+E)	0%
Less Net Debt	(0.8)	WACC	13.4%
NPV (\$m)	193.9	Terminal WACC	11.5%
NPV per share	\$ 1.34	Terminal Growth	3.5%

Terminal Growth Rate	Terminal WACC			
	9.5%	10.5%	11.5%	12.5%
0.0%	\$ 1.23	\$ 1.17	\$ 1.13	\$ 1.09
1.0%	\$ 1.30	\$ 1.23	\$ 1.17	\$ 1.13
1.5%	\$ 1.34	\$ 1.26	\$ 1.20	\$ 1.15
2.5%	\$ 1.43	\$ 1.34	\$ 1.26	\$ 1.20
3.5%	\$ 1.57	\$ 1.43	\$ 1.34	\$ 1.26
4.0%	\$ 1.65	\$ 1.49	\$ 1.38	\$ 1.30

GROWTH PROFILE (YoY)

Y/E 30 June	2007A	2008A	2009F	2010F	2011F
Sales revenue (\$m)	17%	125%	35%	11%	8%
EBITDA (\$m)	21%	122%	34%	14%	9%
NPAT (\$m)	26%	77%	35%	17%	13%
Adjusted EPS (cps)	1%	4%	11%	17%	13%
DPS (cps)	20%	-25%	17%	14%	17%

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.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

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.

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