Company Profile

Ord Minnett Research Thursday, 28 January, 2010

DKN Financial

The "Metcash" of wealth management services

- DKN has 4 major businesses lines; a distribution platform (wrap account wholesaling), a product platform (sourcing/provision of products for distribution in wealth management to over 300 practices), Lonsdale (a full service dealer group available to over 100 practices) and Equity.
- With a recently improved equity market, the outlook for the business is much improved. Secular growth drivers assist the business independently of the equity markets.
- The performance of Lonsdale (acquired in Nov 2007) has been masked by tough equity markets – this should start to improve.
- Increased superannuation savings, an ageing population, changes to the tax system and the increased need for sophisticated, yet sensible, financial advice are all factors that provide solid support for this business and some independence from fluctuations in financial markets.
- OM expects that the business improve in FY10 particularly in 2H10. DKN should be well positioned into FY11, particularly as inflows improve and average balances increase given the high operating leverage (75% fixed, 25% variable cost base) of the business model.
- This note reviews previous forecasts and previews upcoming 1H10 results, with coverage transitioning to Stephen Scott. We have retained the accumulate recommendation and have made some very modest changes to our forecasts. OM's DCF valuation is $0.84.

Key Financials

Year-end June (A$)	FY08A	FY09A	FY10E	FY11E
Revenue ($m)	25.0	24.1	25.5	29.2
EBITDA ($m)	12.6	10.0	11.3	13.4
Net profit after tax ($m)	6.5	-11.5	7.3	8.9
EPS (¢)	5.0	-7.7	5.0	6.0
P/E (x)	14.5	-9.4	14.7	12.1
EV/EBITDA	8.3	10.3	9.0	7.4
Dividend (¢)	4.5	2.0	2.8	3.7
Net Yield (%)	6.2%	2.7%	3.9%	5.1%
Franking (%)	100%	100%	100%	100%
Normalised NPAT ($m)	8.6	6.2	7.3	8.9
Normalised EPS (¢)	6.6	4.2	5.0	6.0
EPS Growth (%)	-2.7%	-37.0%	18.7%	21.3%
Normalised P/E (x)	11.0	17.4	14.7	12.1
Relative P/E (%)	74%	117%	99%	82%
Normalised ROE (%)	5.2%	4.3%	4.9%	5.8%

Source: Iress, Company Data, Ord Minnett Est. Share price: $ 0.73 Jan 27, 2010

ASX A$0.73

Recommendation
ACCUMULATE

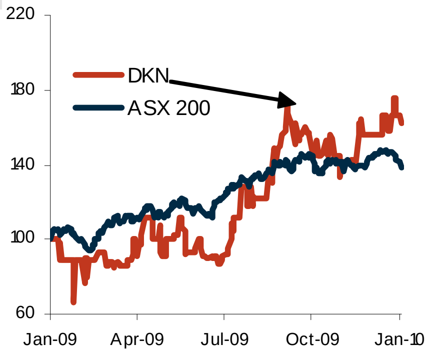
Risk Assessment
HIGH

Sector

Stephen Scott
Head of Research
Email - sscott@ords.com.au

Company Name	
ASX Code	DKN
52 week range	$0.30-$0.78
Market Cap	103.8
Shares Outstanding	142.2
Av Daily Turnover	125,000
ASX100	4,670
ASX200 Industrials	3,871
NTA FY09 (¢ per share)	9.5
Net Debt FY09 (m)	1.9

Relative price performance



Source: Iress

Consensus earnings

	FY10F	FY11F
NPAT (C)*	7.0+	n/a
NPAT (OM)	7.3	8.9
EPS (C)	n/a	n/a
EPS (OM)	5.0	6.0

Source: * DKN guidance

1H10 results preview

We expect the business to report a modest improvement in "spot" fund balances above the improved September 2009 balance of $7.6 bn. Commentary around the FY10 guidance of underlying profit of "at least $7m" has been an area of focus, with management providing positive commentary at the November AGM.

Spot balances should be higher – the equity market had a strong start in Q1 then a subdued 2Q.

Table 1. Summary 1H10 result

	1H09A	1H10F	% change
Revenue	12.4	11.7	-5.6%
EBIT	4.6	4.6	n.c
NPAT	-14.6	3.0	n.m
NPAT Normalised	3.4	3.0	-11.7%
EPS reported	*-10.4*	*2.1*	*n.m*
EPS normalised	*2.4*	*2.1*	*-12.5%*
DPS Interim	*3.5*	*1.4*	*n.m*
FUA balance $bn	*6.6*	*7.9*	*+19%*

Source: Company data, Ord Minnett

The business may also provide further clarity around the Equity division's performance. OM notes that a further acquisition has occurred in the New Year suggesting a greater degree of confidence in investing again. Maintenance and/or stabilisation of the platform and product margins will be an area of focus. Fund balances were driven up in the 1Q10 (Sept 09) and are probably only slightly up in 2Q10 (Dec 09) due to market movements (possibly flat due to declines in some asset classes). OM is expecting a strong second half as inflows and higher average fund balances will produce incremental profit for the full 2H10.

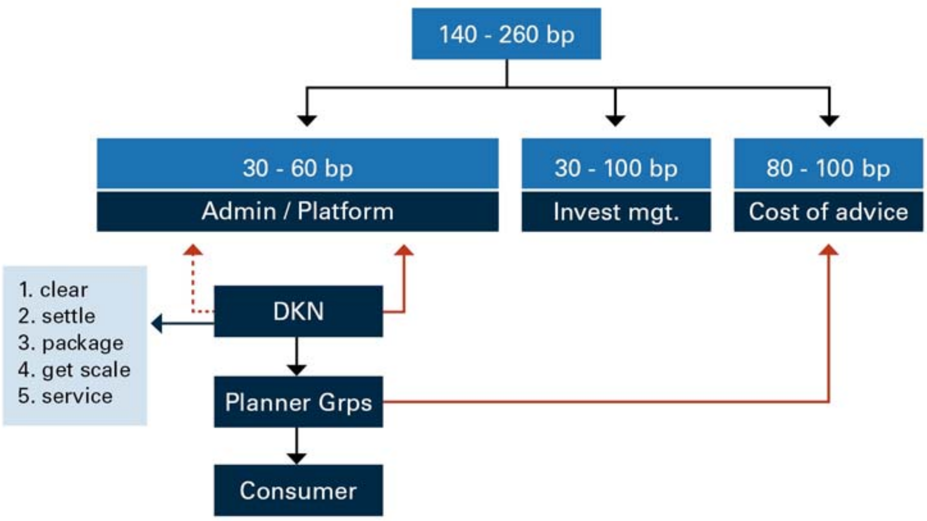
The equity division has started to invest again

An update on DKN's ability to adapt to recent regulatory developments, particularly the Cooper review (Superannuation) and the drive to a fee for service system, will also be important.

We have retained our recommendation as an accumulate based on a through review of the longer term business drivers. Our DCF valuation for DKN is $0.84.

The chart shows the basic food chain of the industry

Fees & Expenses as a % of FUA



Source: Ord Minnett Research

Divisional review

The four major divisions and business drivers are, in order:

1. Platform FUA

2. Product FUA

3. Lonsdale's performance

4. Equity/loan divisions – provides solutions to financial services businesses that are either for sale, looking to acquire and or need capital.

1. Platform solutions

The good news as revealed at the November AGM is that fund balances have grown in the platform area, driven by market movements and inflows. With 1Q10 boosted by a 21.5% return in the S&P/ASX 200 – the asset class weighted market improvement for the platform business is ~10 %+ (depending on the exact allocations). Approximately 42% of the BT wrap assets are in Australian equities.

Better fund flows and higher fund balances should (ceteris paribus) materially help the 2H10 as the full impact is felt.

Analysis table of recent FUA for DKN for 2009

30 June 09 fund balance	$m	Comment
Platforms	5,700	~ 67% in BT wrap – rest in other platforms
Product	1,100	Cash/conservative mix – annuities
Total – 30 June 09	6,800	
30 Sept 09 fund balance		
Platforms	6,500	Most BT wrap - $166m inflow and ~$600 in market movement
Products	1,100	Minimal inflow/market movement
Total 30 Sept	7,600	11.7% growth – mainly market movements

Source – OM estimates, DKN

Inflows tracking at ~$170m per quarter

Higher fund balances in the early part of the year are helpful in driving up the average fund balance and therefore earnings, for the group over the full year. OM note that the 2Q10 (to Dec09) has been much more subdued, with only a ~3.4% increase in the S&P/ASX 200., and other assets classes reporting much more modest, or even negative, returns. Fund flows are likely to remain positive due to a lag between market movement and investor propensity to invest.

Platform solutions

	1H09A	2H09A	FY09A	1H10F	2H10F	FY10F
Platform solutions Revenue $m	6.5	8.3	14.8	7.1	8.2	15.2
EBIT $m	-	-	9.8	4.6	5.6	12.0
Drivers						
Spot balance $bn	5.467	5.700	5.7	6.6	7.0	7.0
Average balance $bn	6.034	5.584	6.15	6.15	-	6.35
Revenue bp aver. Balance*	10bp	15bp	24bp	11.5bp	12.5bp	24bp

* Halves don't equal full year due to product mix and balance volatility
Source – OM estimates, DKN

OM estimate that an old back book of up to $600-$800m in FUA exists at 30-40 bp – feedback is that this back book has remained steady due to the sticky nature of retail funds – over time this might change.

Product solutions

Product solutions are far more conservatively positioned with the majority of funds in annuities and other conservative investments. Based on commentary at the recent AGM we are expecting little growth from this business, apart from perhaps modest inflows. Margins in this area are lower than for the platform solutions business.

Product solutions balance

	1H09A	2H09A	FY09A	1H10F	2H10F	FY10F
Product solutions Revenue $m	1.1	1.0	2.1	1.0	1.1	2.0
EBIT $m			1.5	0.7	0.8	1.5
Drivers						
Spot balance $bn	1.166	1.10	1.10	1.1	1.3	1.3
Average balance $bn	1.333	1.133	1.3	1.2	-	1.2
Revenue bp aver. Balance*	9bp	10bp	16bp	8bp	9bp	17bp

* halves don't equal full year due to product mix and balance volatility
Source – OM estimates, DKN

As can be seen from the table above, we are forecasting modest margin improvement during FY10. Fund balances are expected to remain fairly stable, with any inflows seen as an unexpected upside.

OM notes that product solutions have 300 advisor groups and that the average group has $22m in these products (platform and product platform). Further penetration into new advisor networks acts as a driver for the business. IBIS estimates that 25% of the market is self employed or operate as an independent group – this is a key area of growth for DKN to target.

OM estimates that there could be over 4,000 “independent” planners or about 25% of the industry.. Clearly some planners would not be commercially attractive to deal with but many would be. For DKN a larger planner network provides a degree of upside with greater FUA also increasing buying power for the entire DKN network.

In summary

Analysis of platform solutions leads OM to expect an ending balance of $8.3bn for the group, with the majority of that balance attributable to market movements – any inflows are an added bonus. This figure requires markets to remain stable at current levels with any sustained drop in market value heavily impacting the group's balance.

Lonsdale

This business has 103 practices using its services and linked into its network. We characterise the Lonsdale service is an "AFSL license in a box" – available to quality financial planners who wish to outsource this part of their business. This means that on average each group provides circa $86k in revenue and $22k in EBIT. The key to Lonsdale is continued recruitment of new practices using its services. OM is expecting some revenue growth and EBIT up modestly on last years $2.2m for Lonsdale.

The business has had a good start to the year, adding an additional 3 practices to its current group of over 103. Lonsdale is critical in adding scale to the platform business by adding new practices fund balances to the DKN platform (where possible).

OM believe that DKN may also re-order the segmental accounts into the near future to pull out Lonsdale's platform revenue out and put it into the platform business.

Acquisition and succession (Equity partners)

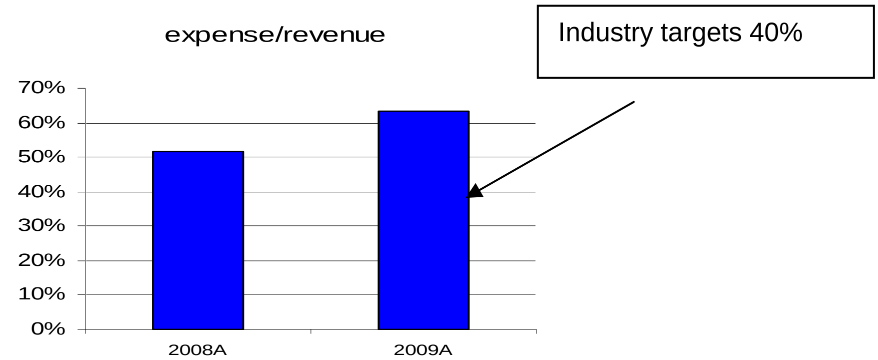
We expect that this division will have modest growth and contribute $1.2m in EBIT to DKN. Management indicated that 5 of the 6 practices where stakes were recently acquired are performing well, but clearly the financial crisis has hurt these investments. This division could provide an upside surprise for DKN in FY10, OM believes that the market will ascribe a lower value to these earnings than earnings from the platform business.

This does give the broader business deal flow and a matching service, but taking direct equity stakes appears to have been at times of mixed success. This problematic practice has already been impaired. Lessons have been learnt and will not be repeated according to management. OM also notes that these minority positions tend to pay dividends to DKN making it easier to track to true profitability.

Expense ratios

DKN currently operates at an expense to revenue ratio of 60%+. Best practice for larger fund managers is in the 40's. DKN will not axiomatically get to this level. We believe the business needs great scale. It is hard to be certain but we believe that about 70-75% of costs are fixed (wages, IT, et al) and about 25% variable – staff bonuses and some rebates to advisors.

Expense/revenue ratio for DKN



DKN have produced a chart at the AGM showing a fulcrum point at about $8bn of funds under management where profitability starts to accelerate.

Each $1bn in FUA appears to add about $1m to profit after tax according to the chart.

OM has also conducted it own rough analysis of fixed vs variable costs and believes the leverage is high.

Assumptions

1. Use 2009 results as basic metrics – noting that average fund balance did vary widely during the year – so we have fixed the average balance at $6.8bn for this exercise.
2. Margins assumed on the fund balance steady at 24.9 bp.
3. 75% of the 2009 entire cost base is fixed (ceteris paribus). This will alter as the revenue mix changes.
4. 25% of the 2009 entire cost base is variable – variable costs grow in line with platform revenue growth- this will alter as revenue mix changes.
5. There is no other cost growth.
6. Other revenue remains flat (Lonsdale).
7. FUA increases A$1bn increments

Operating leverage example – OM

	2009	+$1bn	+$2bn
FUA $bn – average	6.8	7.8	8.8
DKN b.p charged	24.9	24.9	24.9
Platform revenue $m	**16.9**	**19.5**	**21.8**
Other revenue		15.4%	11.5%
Total revenue	24.1	26.7	28.9
Total cost base	14.6	15.2	15.6
Fixed cost base	75%	-	-
Fixed costs	10.9	10.9	10.9
Variable	25%	-	-
Variable costs	3.7	4.2	4.7
EBIT	9.5	11.5	13.3
EBIT Delta		+2.0	+3.8

Source – OM

This analysis does not fully map to DKN's profit leverage analysis but is does suggest substantial upside exists if FUA continue to grow throughout time.

OM estimates that the BT wrap platform may have between $25bn- $30bn on it. Major players include Count, Shadforths, WHK and DKN (with about $5-$6bn each). BT would therefore find it hard to lose DKN as a client as profitability of the business would be disproportionately hit (it would also have a high degree of operating leverage in our view).This helps to entrench the role of aggregators such as DKN against the threat of BT and other wrap providers "going" direct to planners.

Growth drivers for the DKN and the industry

- Complexity of superannuation regulation, complexity of the actual products and the tax system will continue to drive the need for financial advice. This will also continue to drive the need for solutions like Lonsdale, who provide all encompassing advice, regulatory and research capability.
- IBIS estimates that there are 16,300 financial advisors and that 25% are independent or self employed. This implied a pool of over 4,000 individual and independent planners can be targeted by DKN to grow a network and improve buying power.
- Mandatory employer contributions make up approximately 1/3 of industry revenue.
- The ageing population and the increased propensity of older Australian to seek financial advice will increase the need for DKN's services. The ageing of the population is set to accelerating for the next 5 -10 years. IBIS estimates that 56% of those who use a financial planner on an ongoing basis are over 55. The average 65 year old contributes 25% compared to 10% for a 20 year old.
- The increased preservation age and rising age pension limits also serve to drive up balances and the propensity to save. People can now contribute up to the age of 75. The $50,000 deductible contribution limit also helps to stimulate demand. The addition of bonuses and allowances into the calculable wage for super contributions will serve to increase total contributions.
- Improving employment levels and gains in real wages create ongoing increases in inflows to the superannuation system.
- Favourable tax regulation such tax-free withdrawals for over-60's, lift the flow of money and also acts as an incentive to save.
- It is estimated that 80% of retail investment enters the market via platforms and that the wrap market is worth $387bn.
- Introduction of consumer choice will gradually enable employees to take control and also accelerate growth in self managed funds. Employee choice may stimulate demand for wrap solutions at the expense of industry funds. It is estimates that 2,500 new self managed accounts are opened each month and that self managed funds are now 1/3 of total superannuation assets.
- Currently 7/10 Australians don't seek financial advice – often these are young people or people with little wealth but growing individual balances and awareness will lead this to change over time. OM notes that the current pension is $671 a fortnight for singles and $506 per person for a couple. This surely acts as a strong incentive for the population to save for their own retirement.
- There is an increasing effort by large institutions to affiliate with financial advisor networks. This drive for scale will increasingly force remaining independent groups to use DKN and others to aggregate buying power.
- Increasing compliance burdens and technology demands also force independent groups to "outsource" this work to the likes of Lonsdale.
- This industry is now one of the fastest growing in Australia, with growth rates well above nominal GDP.

Risks

- DKN's position in the value chain as an aggregator of volume allows them to exploit this power to negotiate, but could lead to disintermediation by BT and others should they moving to a direct.
- The Cooper review into Superannuation is set to examine trailing commissions and the expense ratios of super funds. A move towards a fixed fee or an hourly rate and away from a percentage of assets could seriously hinder the planning industry. **DKN receives a % fee already from the client's assets under management and so is very much less exposed to potential changes to commission structures**. In fact OM understands that DKN already fully discloses all arrangements and receives minimal (no) commission from fund managers.
- The industry and DKN are committed to a fee for service model – where exact commissions are disclosed up front and advice paid for more explicitly. In other words, the value proposition needs to be clear.
- Back end trail commission from fund manager's to advisors will need to be disbanded.
- The industry will argue that retaining the percentage of assets structure will continue to align investor and manager interests. Advisors that have moved to an hourly rate model have found that billing clients up front, establishing billing systems and attributing work effort to be difficult hurdles. **DKN may suffer if** a radical change to the planning industry forces planners to reduce their use of wrap platforms and/or cut fees paid to platform providers.
- Hourly rates or fixed fees may also cap advisors liability to the fee paid and not the damage to the entire portfolio. Perhaps a damages suit could be brought – but capping advisor fees opens up potential array of new legal problems that regulators need to consider.

  The key source of regulatory concern is commission payments from fund managers back to advisors that are not explicitly disclosed. This has encourages some advisors to steer clients into high commission paying products (with at times dire consequences). The move will be to fee base services where the client directly pays the fund manager and any other service provider – with this all disclosed upfront.
- Financial markets remaining buoyant and consumers remaining committed to investing in super remain large drivers. <u>OM note that there are a host of non market drivers such as the tax system, government policy and demographics that are NOT equity market driven.</u>
- A major financial scandal in a similar fashion to Westpoint may again catch the industry out. DKN have systems, risk mitigation (planners are independent) and processes to deal with this, however further scandals will occur and require management. DKN do not have any legal matters outstanding according to its most recent annual report.
- Given the highly scalable nature of the business any loss of high performing practices could have considerable impact
- Loss leading competition from the major players, such as discounted professional indemnity insurance etc, could also be a threat.
- DKN also needs to continue to retain a differentiating factor in a very competitive market place.

Appendix

Ripoll review – recent findings

Bernie Ripoll MP, Chair of the Parliamentary Joint Committee on Corporations and Financial Services, has released his report on the inquiry into corporate collapses, financial services and products in Australia.

The inquiry came about as a consequence of the Storm financial and Opes Prime corporate collapses and the resulting investor losses.

The inquiry looked at the role played by financial advisers, the state of the general regulatory environment, the role played by remuneration models such as commissions, the licensing arrangements for those selling and marketing financial products and services, and consumer protection and insurance matters.

Some of the findings include fiduciary duty of financial advisors to be enshrined into law and the cost of financial advice to be tax deductible.

The report did not explicitly ban commissions or trails but said quote:-

“We also recommend that the government consult with the industry on the best way to cease payments from product manufacturers to financial advisors such as commissions and volume bonuses”

OM’s believes that the industry will look to fully disclosure and attribute costs and fees rather than completely abolish percentage of asset based arrangements.

Cooper review

The Review has a broad terms of reference - it has been charged with examining and analysing the governance, efficiency, structure and operation of Australia's superannuation system. The Review is focused on achieving an outcome that is in the best interests of members and maximises retirement incomes for Australians.

The review is expected to be delivered to the Government by 30 June 10.

The next federal Election is to be held between August 2010 and February 2011.

DKN Financial Group

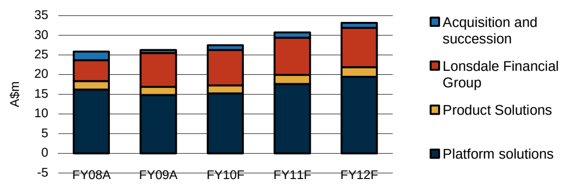
Accumulate

Profit & Loss Statement (A$m)	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	25.0	24.1	25.5	29.2	31.7
Operating Costs	0.0	0.0	0.0	0.0	0.0
EBITDA	**12.6**	**10.0**	**11.3**	**13.4**	**14.8**
Depreciation & amortisation	-0.3	-0.5	-0.5	-0.6	-0.6
EBIT	**12.3**	**9.5**	**10.8**	**12.8**	**14.2**
Net Interest	-0.3	-0.7	-0.3	-0.1	0.0
PBT pre-unusual items	**12.0**	**8.8**	**10.5**	**12.7**	**14.3**
Unusual non-operating items	0.0	0.0	0.0	0.0	0.0
NPBT	**12.0**	**8.8**	**10.5**	**12.7**	**14.3**
Income Tax Expense	-3.4	-2.6	-3.1	-3.8	-4.3
NPAT pre-OEI	**8.6**	**6.2**	**7.3**	**8.9**	**10.0**
Minority interest	0.0	0.0	0.0	0.0	0.0
NPAT	8.6	6.2	7.3	8.9	10.0
Abnormals / convertible dist.	-2.1	-17.7	0.0	0.0	0.0
Reported NPAT	**6.5**	**-11.5**	**7.3**	**8.9**	**10.0**
Normalised NPAT	**8.6**	**6.2**	**7.3**	**8.9**	**10.0**
Effective Tax Rate	28.3%	29.5%	30.0%	30.0%	30.0%
Reported - diluted EPS	5.0	-7.7	5.0	6.0	6.8
Normalised (diluted) EPS	6.6	4.2	5.0	6.0	6.8
DPS (cps)	4.5	2.0	2.8	3.7	4.2
Dividend Yield (%)	6.2%	2.7%	3.9%	5.1%	5.8%
Payout Ratio	68%	48%	55%	60%	60%
Franking	100%	100%	100%	100%	100%
Free cash flow (cps)	1.2	1.4	5.3	6.1	7.0
FCF Yield (%)	1.7%	1.9%	7.2%	8.4%	9.5%

Cash Flow Statement (A$m)	FY08A	FY09A	FY10F	FY11F	FY12F
Gross cashflow	6.6	10.7	11.5	13.1	14.6
Net Interest (paid)/received	-1.2	-1.2	-0.3	-0.1	0.0
Tax Paid	-2.7	-2.1	-3.1	-3.8	-4.3
Other Operating Items	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	**2.7**	**7.4**	**8.0**	**9.2**	**10.4**
Capex	-0.9	-0.1	-0.5	-0.5	-0.5
Net Acquisitions and Investments	-29.2	-1.5	-1.0	-1.0	-1.0
Other investing items	3.6	1.7	0.0	0.0	0.0
Investing Cash Flow	**-26.5**	**0.1**	**-1.5**	**-1.5**	**-1.5**
Inc/(Dec) in Equity	25.7	0.0	1.0	0.0	0.0
Inc/(Dec) in Borrowings	16.0	-2.7	-5.0	0.0	0.0
Dividends Paid	-4.2	-4.8	-3.9	-5.1	-5.8
Other Financing Items	0.0	-5.4	0.0	0.0	0.0
Financing Cash Flow	**37.5**	**-12.9**	**-7.9**	**-5.1**	**-5.8**
Net Inc/(Dec) in Cash (ex-FX)	**13.7**	**-5.4**	**-1.4**	**2.5**	**3.1**

Balance Sheet (A$m)	FY08A	FY09A	FY10F	FY11F	FY12F
Cash and Cash Equivalents	16.8	11.5	10.1	12.6	15.7
Current Receivables	4.6	6.3	6.4	7.3	7.9
Other Current Assets -Inv	0.4	0.4	0.4	0.4	0.4
PP & E	1.2	1.1	1.1	1.0	0.9
Intangibles	147.0	135.1	135.1	135.1	135.1
Other Non Current Assets	18.7	12.5	13.5	14.5	15.5
Total Assets	**188.7**	**166.9**	**166.6**	**170.9**	**175.6**
Short term Debt	2.6	3.2	3.2	3.2	3.2
Current Payables	3.8	4.1	4.3	5.0	5.4
Other Current Liabilities	2.1	1.1	1.1	1.1	1.1
Long term Debt	13.4	10.2	5.2	5.2	5.2
Other Non Current Liabilities	0.8	4.1	4.1	4.1	4.1
Total Liabilities	**22.7**	**22.7**	**17.9**	**18.6**	**19.0**
Total Equity	**166.0**	**144.2**	**148.6**	**152.4**	**156.6**
Net Debt	-0.8	1.9	-1.7	-4.2	-7.3

FY09A Revenue



Divisions (A$m)	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue					
Platform solutions	16.2	14.8	15.2	17.6	19.4
Product Solutions	2.2	2.1	2.0	2.3	2.5
Lonsdale Financial Group	5.3	8.6	9.0	9.5	10.0
Acquisition and succession	2.2	0.8	1.2	1.3	1.3
Total	-0.9	-2.2	-2.0	-1.5	-1.5
Total	**25.0**	**24.1**	**25.5**	**29.2**	**31.7**
Drivers					
Dfunds Soln aver bal $m	4,850	6,150	6,350	7,350	8,100
Margin bp - aver funds	33	24	24	24	24
Product Soln average bal $m	931	1,300	1,200	1,350	1,450
Margin bp - aver funds	14	16	17	17	17

Operational Metrics (%)	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue growth	124.7%	-3.4%	5.9%	14.5%	8.4%
EBIT margin	49.3%	39.5%	42.3%	43.8%	45.0%
EBIT growth	101.8%	-22.7%	13.4%	18.5%	11.3%
Normalised EPS growth	-2.7%	-37.0%	18.7%	21.3%	12.5%
Return on asset	4.7%	4.0%	4.5%	5.2%	5.7%
Normalised ROE	5.2%	4.3%	4.9%	5.8%	6.4%

Valuation Ratios (x)	FY08A	FY09A	FY10F	FY11F	FY12F
Reported P/E	14.5	-9.4	14.7	12.1	10.8
Normalised P/E	11.0	17.4	14.7	12.1	10.8
Price To Free Cash Flow	58.6	53.1	13.9	11.9	10.5
EV / EBITDA	8.3	10.3	9.0	7.4	6.5
EV / EBIT	8.5	10.8	9.5	7.8	6.8

Leverage	FY08A	FY09A	FY10F	FY11F	FY12F
Net Debt / Equity	0%	1%	-1%	-3%	-5%
Net Debt / (ND + Equity)	0%	1%	-1%	-3%	-5%
Net Debt / Total Assets	0%	1%	-1%	-2%	-4%
EBITDA Interest Cover (x)	42.0	14.3	34.0	128.9	-399.3
EBIT Interest Cover (x)	41.0	13.6	32.5	123.1	-383.2

Substantial Shareholders	m	%
Zurich Financial Services	44.0	30.9%
Perennial IOOF	26.7	18.8%
Paradice Investment Management	7.7	5.4%

Valuation	A$m	A$	
WACC (%)			12.1%
Fully Diluted Number of shares (m)			147.2
Cost of Equity			13.6%
D/EV			20.0%
Risk Free Rate			5.0%
	A$m	**A$**	
Operational NPV (5 year Forecast)	44.3	0.30	
Terminal Value	73.1	0.50	
Net Debt	-1.7	-0.01	
Franking Credits Value (50% weight)	7.3	0.05	
Group NPV	119.1	**0.84**	
Current Share Price		0.73	
NPV Discount to Share Price			**15.1%**

Source: Ord Minnett, Company Data.

Please contact your Ord Minnett Adviser for further information on our document.

Research			
Stephen Scott	Head of Research	Sydney	sscott@ords.com.au
John Lawlor	Senior Research Analyst	Brisbane	jlawlor@ords.com.au
Peter Arden	Senior Research Analyst	Melbourne	parden@ords.com.au
Richard Ivers	Senior Research Analyst	Melbourne	rivers@ords.com.au
David Sakti	Research Associate	Melbourne	dsakti@ords.com.au
Brad Dunne	Assistant Analyst	Sydney	bdunne@ords.com.au
Corporate Finance			
Trent Donnelly	Corporate Finance Director	Sydney	tdonnelly@ords.com.au
Conrad Anderson	Corporate Finance Manager	Sydney	canderson@ords.com.au
Robert Stone	Corporate Finance Manager	Sydney	rstone@ords.com.au

Ord Minnett Branches

Sydney (Head office)
Level 8
NAB House
255 George Street
Sydney NSW 2000
Tel: (02) 8216 6300
Fax: (02) 8216 6311

Gold Coast
Level 7,
50 Appel St
Surfers Paradise QLD 4217
Tel: (07) 5557 3333
Fax: (07) 5574 0301

Mackay
45 Gordon Street
Mackay QLD 4740
Tel: (07) 4969 4888

Wollongong
3/55 Kembla Street
Cnr Market and
Kembla Streets
Wollongong NSW 2520
Tel: (02) 4226 1688
Fax: (02) 4226 1604

Adelaide
Level 11
11-19 Grenfell Street
Adelaide SA 5000
Tel: (08) 8203 2500
Fax: (08) 8203 2525

Caloundra, Sunshine Coast
79-81 Bulcock Street
Caloundra QLD 4551
Tel: (07) 5491 3100
Fax: (07) 5491 3222

Melbourne
Level 23
120 Collins Street
Melbourne VIC 3000
Tel: (03) 9608 4111
Fax: (03) 9608 4142

Brisbane
Level 10, Waterfront Place
1 Eagle St
Brisbane QLD 4000
Tel: (07) 3214 5555
Fax: (07) 3214 5550

Canberra
101 Northbourne Avenue
Canberra ACT 2600
Tel: (02) 6206 1700
Fax: (02) 6206 1720

Newcastle
41-45 Newcomen Street
Newcastle NSW 2300
Tel: (02) 4910 2400
Fax: (02) 4910 2424

Buderim
Sunshine Coast
84 Burnett Street
Buderim QLD 4556
Tel: (07) 5430 4444
Fax: (07) 5430 4400

Coffs Harbour
Suite 4
21 Park Avenue
Coffs Harbour NSW 2450
Tel: (02) 6652 7900
Fax: (02) 6652 5716

Tamworth
Suite 3
344-346 Peel Street
Tamworth NSW 2340
Tel: (02) 6761 3333
Fax: (02) 6761 3104

www.ords.com.au

Ord Minnett Limited
ABN 86 002 733 048
ASX Market Participant
AFS Licence Number 237121

www.ords.com.au

Guide to Ord Minnett Recommendations

BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over 12 months.
ACCUMULATE	The stock's total return is expected to be between 5% and 15%. Investors may add to existing holdings, or initiate holdings on share price weakness.
HOLD	The stock is fairly priced, and its total return is expected to be between 0% and 5%.
LIGHTEN	The stock's total return is expected to be less than 0% and possibly down 15%. Investors should consider selling into share price strength.
SELL	The stock's total return is expected to lose 15% or more.
RISK ASSESSMENT	Classified as High, Medium or Low, denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, volatility, nature of its operations and other relevant quantitative and qualitative criteria.