

# Talking Point...

**BUY**

## Coffey Projects (COF.ASX, Mkt Cap \$56.3m, \$0.22/sh) – Earnings Stabilised, Valuation Compelling: Price Target \$0.38/sh

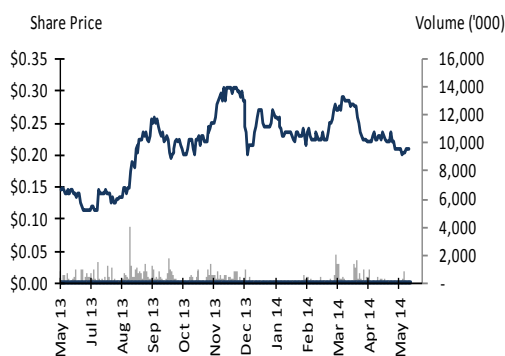
### Company Statistics

ASX Code	COF
Share Price (A\$)	\$0.22
52 week low - high (A\$)	0.115 - 0.32
Risk	High
Shares on Issue (m)	255.8
Market Cap (A\$m)	56.3
Net Debt/(Cash) (A\$m)	61.0
EV (A\$m)	117.3
Options on issue (m) - unlisted	0.0
12mth Av Daily Volume ('000)	379

### Major Shareholders

Commonwealth Bank Group	7.9%
Ellerston Capital Limited	7.7%
Northcape Capital Pty Ltd	6.71%
Cleste Funds Management	6.26%
H.E.S.T. Australia Limited	6.23%

### Share Price Graph



### INTRODUCTION:

- COF is a specialist professional services consultancy firm operating in three main segments being Geoservices, Project Management and International Development.
- COF operates globally and has offices in Australia & New Zealand, Americas, Africa, Asia Pacific, Europe and the Middle East and generates annualised revenues in excess of \$600m.
- The stock has been a multi-year laggard, now trading around all time lows after falling from a high of over \$4.00 per share in 2007 following a series of earnings downgrades, asset write-downs, internal restructuring and management changes.

### GEOSERVICES AT BOTTOM OF THE CYCLE:

- Geoservices comprises specialised geotechnical, environment and mining consulting services, as well as materials testing and analysis. The business delivers services to public and private sector clients across resources, infrastructure and property.
- Geoservices makes up circa 49% of group revenues and is split 70% domestic, 30% offshore. The offshore business has shown some recent growth, whereas the domestic side remains weak due to the mining sector downturn. Revenues have fallen from \$70m in Q4 2012 down to \$46m in Q3 2014.
- A key strength of this business is in its diversity of revenue streams, with revenue derived from Infrastructure, Mining, Oil & Gas, and Commercial Property. Going forward revenues from mining may still be declining slightly, however oil & gas is steady, and we expect to see some growth from property and infrastructure.

### SOLID OUTLOOK FOR INTERNATIONAL DEVELOPMENT:

- International Development is the standout segment for the company. It delivers consulting and training services alongside governments and donor agencies to strengthen governance, promote economic growth, and create conditions for sustainable development.
- Revenues from this segment account for circa 45% of the group and are split 70% from offshore donors and 30% from domestic donors. Despite a somewhat subdued macro environment for this division, COF has managed to grow revenues relatively consistently over the last two years, with Q3 2014 revenues of \$83m compared to \$70m in Q3 2012.
- Aid packages from USA, Britain & Canada continue to be robust. UK aid in particular is showing some good growth, and COF has a lot of scope to grow in this market. US aid is flat, but COF has a good niche in this market, particularly in the area of managing US development of bureaucracies in the Middle East. Domestically the last ALP government was negative for this division as outsourcing of aid/donor contracts reduced from 40% to 20% of total Australian aid packages. Aus aid market outlook is flat in the near term, with the budget in FY2014 around \$5b compared to \$5.1b in 2013. In the medium term COF are bullish on this market.

### PROJECT MGT MAKING POSITIVE CONTRIBUTION:

- This segment provides project management and advisory services to public and private sector clients across the property and infrastructure project lifecycles.
- This business is small (circa 6% of group revenues), but mgt have now got it to a stable and profitable base on which they can build on.

**RESTRUCTURING PHASE BEHIND IT:**

- Under Managing Director John Douglas who took over in March 2011, COF has undergone significant cost rationalisation, asset sales and a management restructuring programme, with over \$80m of restructuring costs and asset write-downs since FY2012.
- The company was recapitalised in October 2011 via a \$40m rights issue at \$0.38 per share.
- The company now has an efficient yet scalable cost base, is profitable across all three operating segments, and has reduced borrowings to a very manageable \$60m, with our FY14 normalised interest cover estimated at 2.6 times, increasing to 3.2 times in FY15.

**NEAR TERM CATALYSTS:**

- The company will be announcing 2014 full year results on 11 August 2014. We expect normalised earnings to highlight the compelling valuation metrics at the current share-price. We also expect commentary to illustrate an improving operating outlook.
- It is also relevant to note that the global engineering services industry is one that is entering a theme of consolidation and COF has an open share register. Both the Geoservices and International Development businesses would have appeal to an international player. COF would have appetite to further diversify its Geoservices business via an acquisition; however we would not expect the company to equity fund anything with the share-price at current levels.
- We believe the company would want to re-instate a dividend in order to demonstrate its improving financial position and restore confidence, prior to undertaking any issue of shares.

**OVERLOOKED & FUNDAMENTALLY UNDERVALUED:**

- **With a market cap of less than \$60m COF has fallen off most investors radars, and now offers compelling investment metrics.**
- **We are forecasting FY14 EPS pre NRI's and amortisation of 4.3 cps, increasing to 4.8 cps in FY15. This puts the stock on an adjusted PER of 5.1 x for FY14 dropping to 4.6 x for FY15.**
- **We recommend COF as a BUY with a price target of \$0.38/share or 8.0 times FY15 underlying NPAT pre-NRI's & amortisation.**

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