

4 May 2010

## NEPTUNE MARINE LTD

### Upgrading to Speculative Buy

We are upgrading our recommendation for Neptune Marine Limited ("Neptune", "NMS", "Company") to Speculative Buy (from Neutral). The share price is now attractive based on our base case FY11 earnings, but there is the added potential that earnings substantially surprise in FY11 (due to the short term nature of NMS work).

### Both divisions disappointing in 1H, but could improve in 2H

The weakness in US gas exploration and the delays in the Qatar project meant that two large NMS vessels (MV Neptune Trident and MV Neptune ROV Supporter) were almost idle in the December quarter. We estimate that the low utilisation subtracted ~\$8m in EBIT from 1H10. The engineering division also had disappointing margins (4.5% EBIT) although revenue was very strong. A problem contract subtracted around \$5m (resulted in a ~\$1.5-2m loss versus an expected ~\$3m profit).

### US gulf oil spill no short term effect, longer term positive

The US gulf oil spill has no impact in the short term, in our view. In the medium term though, increased maintenance and checking requirements should be a positive for the maintenance industry and therefore NMS's US operation.

### Hartleys estimates FY10 NPAT \$7.2m, FY11 \$18.4m

We have decreased our FY10 NPAT estimate to \$7.2m, from \$9.3m previously. We have lowered our FY11 NPAT estimate by 22% to \$18.4m.

### Risk/reward favours Speculative Buy

We are increasing our recommendation to Speculative Buy (from Neutral). We have a \$0.44 twelve month price target, which implies NMS can trade on a FY11 P/E of 10.1x and EV/EBITDA of 5.0x (based on FY10 net debt of \$28.8m).

The risks on earnings from here should be skewed to the upside, and potentially our FY11 NPAT estimate is too low. In theory if FY10 earnings disappointments are one-offs, FY11 NPAT should be towards \$25-\$30m. And there is a Bull case scenario where NPAT is significantly higher.

Given recent disappointments, the lack of earnings visibility and weak cash flow, we are unwilling to upgrade to a Buy (prefer Speculative Buy). To have enough conviction for a Buy, we would like to see evidence of US gas prices increasing and associated vessel rates. That said, we believe the risk/reward for NMS has certainly moved in favour of owning the stock and hence our Speculative Buy recommendation.

<b>Share Price:</b>	\$0.330
<b>Valuation:</b>	\$0.41
<b>12mth price target:</b>	\$0.44

#### Brief Business Description:

Engineering solutions for marine industries (oil & gas, civil, shipping, etc)

#### Hartleys Brief Investment Conclusion

Company needs to demonstrate it has returned to profitability

#### Chairman & CEO:

Ross Kennan (Chairman)  
 Christian Lange (CEO, MD)

#### Top Shareholders:

Acorn Capital (5.3%)

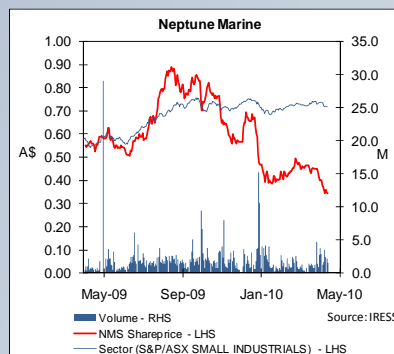
#### Company Address:

Level 16, 140 St George's Terrace,  
 Perth WA 6000

<b>Issued Capital:</b>	417.2m
- fully diluted	480.4m
<b>Market Cap:</b>	\$137.7m
- fully diluted	\$158.5m
<b>Net Debt (30 Jun '10e):</b>	\$28.8m

	FY09a	FY10e	FY11e
Op Cash Flw	35.4	1.1	34.4
Free Cash Flw	-24.9	-31.2	-3.8
<b>NPAT* (A\$m)</b>	<b>25.1</b>	<b>7.2</b>	<b>18.7</b>
EPS* (\$, bas)	8.5	1.8	4.2
P/E (basic)	4.8x	26.8x	8.7x
P/E (norm)	3.9x	18.5x	7.8x
EV / EBITDA	4.0x	6.4x	3.8x
DPS (\$)	-	-	-
Franking	100%	100%	100%
Dividend Yield	0.0%	0.0%	0.0%
N.D. / equity	7%	13%	12%

Source: Hartleys Research. \* normalised



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## SUMMARY MODEL

Neptune Marine (NMS)					Recommendation: <b>Speculative Buy</b>					
<b>Company Information</b>					<b>Profit &amp; Loss (\$m)</b>					
Date	4 May 2010	Level 16, 140 St George's Terrace,			6/08A	6/09A	6/10F	6/11F		
Share Price	\$0.33	Perth WA 6000			Offshore Revenue	44.5	128.1	98.3	116.6	
52 Week High-Low	\$0.90 - \$0.34	Ph:+61 8 9424 1111			Offshore EBIT	11.0	39.4	20.6	31.5	
Market Cap (\$m)	\$137.7	Fax: +61 8 9424 1110			Offshore margin	24.7%	30.8%	21.0%	27.0%	
Enterprise Value (\$m)	\$166.5	<a href="http://www.neptunems.com">www.neptunems.com</a>			Engineering Revenue	42.2	60.8	85.5	94.3	
Ordinary Shares	417.2				Engineering EBIT	7.2	7.0	4.7	8.0	
Fully Diluted Shares	480.4				Engineering margin	17.0%	11.6%	5.5%	8.5%	
					'Yet to be acquired' Revenue				40.0	
					'Yet to be acquired' EBIT				4.0	
					'Yet to be acquired' margin				10.0%	
<b>Valuation</b>					<b>Group Revenue</b>					
Spot DCF Composite of high and low WACC scenarios						<b>87.4</b>	<b>190.9</b>	<b>185.7</b>	<b>252.8</b>	
12mth fwd DCF Composite of high and low WACC scenarios					<i>growth</i>	<i>nm</i>	118.3%	-2.7%	36.1%	
12mth forward P/E (diluted) of 10x (Average comps)					EBITDA - Divisions	19.7	53.7	37.5	56.3	
1x NTA (31 Dec 09)					<b>EBITDA - Group</b>	<b>12.6</b>	<b>42.0</b>	<b>25.8</b>	<b>43.4</b>	
12mth fwd Dividend Yield of 4.3% (Gross up yield = Bank Bills +150bp)					<i>growth</i>	<i>nm</i>	231.9%	-38.4%	68.0%	
<b>12 Months Price Target (wgted avg above 4 avg)</b>					<b>EBITDA / Sales</b>	<b>14.5%</b>	<b>22.0%</b>	<b>13.9%</b>	<b>17.2%</b>	
P / E (6/10F) at price target					Depreciation/Amortisation	-1.5	-7.3	-12.1	-12.8	
P / E (6/11F) at price target					EBIT	11.1	34.7	13.7	30.6	
EV/EBITDA (6/11F) at price target					EBIT / Sales	12.7%	18.2%	7.4%	12.1%	
					Net Interest	0.7	-2.2	-3.9	-5.3	
<b>Multiples (\$/price at \$0.33)</b>					<b>Normalised Pretax Profit</b>	<b>13.2</b>	<b>34.1</b>	<b>9.8</b>	<b>25.3</b>	
P / E (basic, weighted)	11.0x	4.8x	26.8x	8.7x	Tax	-2.4	-8.9	-2.6	-6.6	
P / E (diluted, weighted)	7.5x	3.9x	18.5x	7.8x	Effective Tax Rate	17.8%	26.2%	26.2%	26.2%	
P / E (mkt cap / norm. NPAT)	12.7x	5.5x	19.0x	7.4x	Normalised NPAT	10.9	25.1	7.2	18.7	
Dividend Yield	0.0%	0.0%	0.0%	0.0%	Minorities	0.0	0.0	0.0	0.0	
Group Free Cash Flow (f.c.f) / EV	-3.4%	-8.0%	-3.7%	9.7%	<b>Normalised NPAT to equity</b>	<b>10.9</b>	<b>25.1</b>	<b>7.2</b>	<b>18.7</b>	
Equity f.c.f. / Mkt Cap			-13.8%	2.5%	<b>Norm. Net Profit / Sales</b>	<b>12.4%</b>	<b>13.2%</b>	<b>3.9%</b>	<b>7.4%</b>	
Norm f.c.f. / Mkt cap			-13.8%	2.5%	Abnormals / discontinued	-3.5	-4.2	-2.1	-2.1	
Mkt cap / operating cash flow	12.6x	3.9x	130.0x	4.0x	Reported Profit to equity	7.4	21.0	5.1	16.6	
EV/EBITDA multiple	13.2x	4.0x	6.4x	3.8x	<b>Reported EPS (basic, weighted)</b>	<b>3.0</b>	<b>6.9</b>	<b>1.2</b>	<b>3.8</b>	
EV/EBIT multiple	15.0x	4.8x	12.2x	5.4x	<b>Normalised EPS (dil, wghtd)</b>	<b>4.4</b>	<b>8.5</b>	<b>1.8</b>	<b>4.2</b>	
Price / Book Value	0.7x	0.6x	0.7x	0.6x	<b>DPS (cps)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	
Price / NTA	5.1x	3.1x	3.3x	3.0x	Franking	100%	100%	100%	100%	
					Payout Ratio	0.0%	0.0%	0.0%	0.0%	
<b>Ratios</b>					<b>Cashflow Statement (\$m)</b>					
Return on Average Equity	7.8%	13.3%	2.6%	7.2%	EBITDA	12.6	42.0	25.8	43.4	
Return on Assets	5.7%	8.9%	1.7%	4.7%	Working Capital Change	1.8	1.7	-18.2	3.1	
ND / ND + Equity	-10.3%	6.6%	11.9%	10.7%	Cash from Operations	14.4	43.7	7.7	46.5	
Net Interest Cover (EBIT)	-17.0	15.9	3.5	5.8	Net interest Paid	-0.5	-2.5	-4.0	-5.5	
					Tax Paid	-3.0	-5.8	-2.6	-6.6	
<b>Free Cash Flow Analysis</b>					<b>Net Operating Cash Flow</b>	<b>10.9</b>	<b>35.4</b>	<b>1.1</b>	<b>34.4</b>	
Net Operating Cash Flow	10.9	35.4	1.1	34.4	Capital Expenditure	-16.5	-48.8	-7.3	-18.2	
Capex (Reported)	-16.5	-48.8	-7.3	-18.2	Asset Sales	0.3	0.2	0.0	0.0	
Group Free Cash Flow (rep'ted)	-	5.6	-	6.2	16.2	Other (inc Investments)	-50.9	-21.4	-32.8	-18.0
Fixed Debt Repayments			-12.8	-12.8	<b>Net Investing Cash Flow</b>	<b>-67.2</b>	<b>-70.0</b>	<b>-40.0</b>	<b>-36.2</b>	
<b>Equity Free Cash Flow (rep'ted)</b>			<b>-</b>	<b>19.0</b>	Proceeds from Equity Issues	61.3	11.3	25.1	3.4	
HP Lease Capex (non-cash)			0.0	0.0	Net Change in Debt & Leases	-2.2	29.5	18.8	10.4	
Free Cash Flow (normalised)			-	19.0	3.4	Dividends Paid	0.0	0.0	0.0	
Capex (inc HP) / depreciation			60%	142%	<b>Net Financing Cash Flow</b>	<b>58.9</b>	<b>40.8</b>	<b>43.9</b>	<b>13.8</b>	
					Movement in Cash	2.7	6.2	5.0	12.0	
					HP Lease Capex (non-cash)					
<b>Share Data</b>					<b>Balance Sheet (\$m)</b>					
Ord Issued shares (m)	292,738	334,643	424,036	455,896	Cash	18.2	24.3	29.3	41.3	
<i>growth</i>		14.3%	26.7%	7.5%	Receivables	19.9	38.4	42.8	48.1	
Weighted ave shares (m)	246,715	302,275	416,587	439,966	Inventories	3.3	4.6	5.6	7.3	
<i>growth</i>		22.5%	37.8%	5.6%	Other	1.0	2.3	2.3	2.3	
Diluted shares wgted (m)	251,257	306,234	446,301	453,820	<b>Total Current Assets</b>	<b>42.4</b>	<b>69.5</b>	<b>80.0</b>	<b>99.0</b>	
<i>growth</i>		21.9%	45.7%	1.7%	Property, Plant & Equipment	23.1	69.3	72.7	84.8	
					Intangibles	114.8	145.8	172.5	193.8	
<b>Unpaid Capital including earnouts and expected issues</b>					Other	3.1	5.6	5.6	5.6	
Year Expires	Number	% ord	Avg Price	\$m unpaid	<b>Total Non Current Assets</b>	<b>140.9</b>	<b>220.7</b>	<b>250.8</b>	<b>284.2</b>	
30-Jun-10	7,250,000	1.7%	\$ -	\$ -	<b>Total Assets</b>	<b>183.3</b>	<b>290.3</b>	<b>330.8</b>	<b>383.2</b>	
30-Jun-11	31,859,922	7.6%	\$ 0.11	\$ 3.4	Accounts Payable	21.5	46.7	33.8	43.7	
30-Jun-12	9,432,232	2.3%	\$ 0.12	\$ 1.2	Interest Bearing Liabilities	2.1	12.8	12.8	12.8	
30-Jun-13	1,271,600	0.3%	\$ 0.55	\$ 0.7	Other	4.3	8.9	8.9	8.9	
30-Jun-14	4,950,000	1.2%	\$ 0.39	\$ 1.9	<b>Total Current Liabilities</b>	<b>27.9</b>	<b>68.4</b>	<b>55.5</b>	<b>65.4</b>	
30-Jun-15	400,000	0.1%	\$ 0.33	\$ 0.1	Accounts Payable	18.0	12.7	12.7	12.7	
30-Jun-16	1,000,000	0.2%	\$ 0.53	\$ 0.5	Interest Bearing Liabilities	3.5	24.3	45.3	57.8	
30-Jun-17	3,000,000	0.7%	\$ 0.60	\$ 1.8	Other	0.3	2.9	2.9	2.9	
30-Jun-18	4,000,000	1.0%	\$ 0.58	\$ 2.3	<b>Total Non Current Liabilities</b>	<b>21.9</b>	<b>39.9</b>	<b>60.9</b>	<b>73.4</b>	
TOTAL	63,163,754	15.1%	\$ 0.19	\$ 12.0	<b>Total Liabilities</b>	<b>49.7</b>	<b>108.3</b>	<b>116.4</b>	<b>138.8</b>	
					<b>Net Assets</b>	<b>133.6</b>	<b>181.9</b>	<b>214.4</b>	<b>244.4</b>	
<b>Directors &amp; Senior Management</b>					Net Asset Value / Share (\$)	0.46	0.54	0.51	0.54	
<b>Substantial Shareholders</b>					NTA / Share (\$)	0.06	0.11	0.10	0.11	
Ross Kennan (Chairman)	Acorn Capital			5.3%	Net Debt (net cash)	-12.5	12.9	28.8	29.3	
Christian Lange (CEO, MD)					Last Earnings Estimate Changes: 4 May 2010					
David Agostini										
Robert Scott										
Geoff Newman										
Mr Gabriel Chiappini - Company Secretary										
Mr Geoff Edwards - CFO										
Analyst: Trent Barnett										
Phone: +61 8 9268 3052										
Sources: IRESS, Company Information, Hartleys Research										

Fig. 1: Half year P &amp; L and Balance Sheet

Profit & Loss (\$m)	Dec-07a	Jun-08a	Dec-08a	Jun-09a	Dec-09a	Jun-10e
Offshore Revenue	16.8	27.7	71.0	57.1	39.0	59.2
Offshore EBIT	4.8	6.3	24.8	14.6	6.3	14.4
Offshore margin	28.3%	22.6%	34.9%	25.6%	16.1%	24.3%
Engineering Revenue	14.9	27.3	24.0	36.9	45.3	40.2
Engineering EBIT	2.0	5.1	3.9	3.2	2.0	2.7
Engineering margin	13.7%	18.8%	16.2%	8.6%	4.5%	6.7%
'Yet to be acquired' Revenue						
'Yet to be acquired' EBIT						
'Yet to be acquired' margin						
Group Revenue	<b>32.2</b>	<b>55.2</b>	<b>95.4</b>	<b>95.5</b>	<b>85.3</b>	100.4
sequential growth	<i>nm</i>	71.4%	72.8%	0.1%	-10.7%	17.8%
EBITDA - Divisions	7.5	12.3	31.8	21.9	11.6	25.9
<b>EBITDA - Group</b>	<b>3.5</b>	<b>9.2</b>	<b>21.6</b>	<b>20.4</b>	<b>3.8</b>	<b>22.0</b>
sequential growth	<i>nm</i>	165.6%	135.2%	-5.8%	-81.2%	475.6%
<b>EBITDA / Sales</b>	<b>10.7%</b>	<b>16.6%</b>	<b>22.6%</b>	<b>21.3%</b>	<b>4.5%</b>	<b>21.9%</b>
Depreciation/Amortisation	-0.7	-0.9	-3.1	-4.1	-3.3	-8.8
<b>EBIT</b>	<b>2.8</b>	<b>8.3</b>	<b>18.5</b>	<b>16.2</b>	<b>0.5</b>	<b>13.2</b>
EBIT / Sales	8.7%	15.1%	19.4%	17.0%	0.6%	13.1%
Net Interest	-0.9	1.6	-0.8	-1.3	-1.2	-2.7
<b>Normalised Pretax Profit</b>	<b>2.5</b>	<b>10.8</b>	<b>20.2</b>	<b>13.8</b>	<b>-0.6</b>	<b>10.4</b>
Tax	-0.9	-1.4	-4.6	-4.3	1.8	-4.4
Effective Tax Rate	38.4%	13.1%	22.7%	31.2%	316.5%	42.3%
Normalised NPAT	1.5	9.4	15.6	9.5	1.2	6.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Normalised NPAT to equity</b>	<b>1.5</b>	<b>9.4</b>	<b>15.6</b>	<b>9.5</b>	<b>1.2</b>	<b>6.0</b>
<b>Norm. Net Profit / Sales</b>	<b>4.7%</b>	<b>17.0%</b>	<b>16.4%</b>	<b>10.0%</b>	<b>1.5%</b>	<b>6.0%</b>
Abnormals / discontinued	-0.7	-2.8	-2.7	-0.5	-1.8	-0.3
Reported Profit to equity	<b>0.8</b>	<b>6.6</b>	<b>12.9</b>	<b>9.0</b>	<b>-0.6</b>	5.7
<b>Reported EPS (basic, weighted)</b>	<b>0.40</b>	<b>2.60</b>	<b>4.35</b>	<b>2.59</b>	<b>-0.07</b>	<b>1.30</b>
<b>Normalised EPS (dil, wghd)</b>	<b>0.54</b>	<b>3.09</b>	<b>5.00</b>	<b>2.98</b>	<b>-0.03</b>	<b>1.82</b>
<b>DPS (cps)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.0</b>
Franking	100%	100%	100%	100%	100%	100%
Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Balance Sheet (\$m)	Dec-07a	Jun-08a	Dec-08a	Jun-09a	Dec-09a	Jun-10e
Cash	33.5	18.2	6.6	24.3	37.2	29.3
Receivables	11.7	19.9	42.8	38.4	32.3	42.8
Inventories	1.5	3.3	5.5	4.6	6.4	5.6
Other	0.9	1.0	1.7	2.3	3.1	2.3
<b>Total Current Assets</b>	<b>47.7</b>	<b>42.4</b>	<b>56.5</b>	<b>69.5</b>	<b>79.0</b>	<b>80.0</b>
Property, Plant & Equipment	6.4	23.1	74.8	69.3	77.4	72.7
Intangibles	69.0	114.8	136.3	145.8	161.7	172.5
Other	1.0	3.1	2.7	5.6	6.2	5.6
<b>Total Non Current Assets</b>	<b>76.3</b>	<b>140.9</b>	<b>213.8</b>	<b>220.7</b>	<b>245.4</b>	<b>250.8</b>
<b>Total Assets</b>	<b>124.0</b>	<b>183.3</b>	<b>270.3</b>	<b>290.3</b>	<b>324.4</b>	<b>330.8</b>
Accounts Payable	11.4	21.5	33.9	46.7	42.1	33.8
Interest Bearing Liabilities	1.8	2.1	11.4	12.8	32.1	12.8
Other	1.7	4.3	7.4	8.7	6.1	8.9
<b>Total Current Liabilities</b>	<b>14.9</b>	<b>27.9</b>	<b>52.6</b>	<b>68.2</b>	<b>80.3</b>	<b>55.5</b>
Accounts Payable	10.7	18.0	15.3	12.7	6.2	12.7
Interest Bearing Liabilities	3.9	3.5	25.3	24.3	21.9	45.3
Other	0.3	0.3	1.7	2.9	4.5	2.9
<b>Total Non Current Liabilities</b>	<b>15.0</b>	<b>21.9</b>	<b>42.3</b>	<b>39.9</b>	<b>32.6</b>	<b>60.9</b>
<b>Total Liabilities</b>	<b>29.9</b>	<b>49.7</b>	<b>94.9</b>	<b>108.1</b>	<b>113.0</b>	<b>116.4</b>
<b>Net Assets</b>	<b>94.1</b>	<b>133.6</b>	<b>175.4</b>	<b>182.1</b>	<b>211.4</b>	<b>214.4</b>
Net Asset Value / Share (\$)	0.44	0.46	0.59	0.54	0.51	0.51
NTA / Share (\$)	0.12	0.06	0.13	0.11	0.12	0.10
Net Debt (net cash)	-27.7	-12.5	30.1	12.9	16.9	28.8

We expect 2H10 NPAT  
of around \$6m

We expect net debt of  
\$28.8m at year end

Source: Company Data, Hartleys Estimates +

Fig. 1: Free Cash Flow

*Cash flow should improve in 2H provided boats are working again, but net debt is still expect to increase by ~\$12m on our estimates*

Cashflow Statement (\$m)	Dec-07a	Jun-08a	Dec-08a	Jun-09a	Dec-09a	Jun-10e
EBITDA	3.5	9.2	21.6	20.4	3.8	22.0
Working Capital Change	1.0	0.8	-13.2	8.6	0.0	-18.2
Cash from Operations	4.5	9.9	8.4	29.0	3.8	3.8
Net interest Paid	-0.3	-0.3	-0.6	0.0	-1.2	-2.9
Tax Paid	0.0	-3.0	-1.3	0.0	-3.2	0.7
<b>Net Operating Cash Flow</b>	<b>4.2</b>	<b>6.7</b>	<b>6.4</b>	<b>29.0</b>	<b>-0.6</b>	<b>1.7</b>
Capital Expenditure	-1.8	-14.7	-39.4	-9.3	-8.2	1.0
Asset Sales	0.1	0.2	0.0	0.2	0.3	-0.3
Other (inc Investments)	-13.8	-37.1	-8.0	-13.5	-26.1	-6.7
<b>Net Investing Cash Flow</b>	<b>-15.5</b>	<b>-51.6</b>	<b>-47.4</b>	<b>-22.6</b>	<b>-34.0</b>	<b>-6.0</b>
Proceeds from Equity Issues	29.8	31.5	0.0	11.2	39.8	-14.7
Net Change in Debt & Leases	-1.0	-1.2	29.4	0.1	10.2	8.6
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Financing Cash Flow</b>	<b>28.8</b>	<b>30.2</b>	<b>28.9</b>	<b>11.9</b>	<b>49.7</b>	<b>-5.8</b>
Movement in Cash	17.5	-14.8	-12.0	18.2	15.1	-10.1
Free Cash Flow Analysis	Dec-07a	Jun-08a	Dec-08a	Jun-09a	Dec-09a	Jun-10e
Net Operating Cash Flow	4.2	6.7	6.4	29.0	-0.6	1.7
Capex (Reported)	-1.8	-14.7	-39.4	-9.3	-8.2	1.0
Group Free Cash Flow (rep'ted)	2.4	8.0	33.0	19.7	8.8	2.6
Fixed Debt Repayments					-6.5	-6.3
<b>Equity Free Cash Flow (rep'ted)</b>					<b>- 15.3</b>	<b>- 3.7</b>
HP Lease Capex (non-cash)					0.0	0.0
Free Cash Flow (normalised)					- 15.3	3.7
Capex (inc HP) / depreciation					249%	-11%

Source: Various

Fig. 2: Earnings Changes

Earnings Changes	6/08A	6/09A	6/10F	6/11F
	Actual	Actual	Old	New
Revenue	87.4	190.9	226.6	185.7
<b>EBITDA</b>	<b>12.6</b>	<b>42.0</b>	<b>27.8</b>	<b>25.8</b>
<b>- margin</b>	<b>14.5%</b>	<b>22.0%</b>	<b>12.3%</b>	<b>13.9%</b>
Depreciation/Amortisation	-1.5	-7.3	-12.2	-12.1
EBIT	11.1	34.7	15.5	13.7
Net Interest (ex Deferred)	0.7	-2.2	-3.0	-3.9
Normalised Pretax Profit	13.2	34.1	12.6	9.8
Tax	-2.4	-8.9	-3.3	-2.6
<b>Normalised NPAT</b>	<b>10.9</b>	<b>25.1</b>	<b>9.3</b>	<b>7.2</b>
<b>- Growth % pcp</b>		<b>131.0%</b>	<b>-63.1%</b>	<b>-71.2%</b>
Minorities	0.0	0.0	0.0	0.0
Normalised NPAT to equity	10.9	25.1	9.3	7.2
Abnormals (net of tax)	-2.0	-2.6	-2.1	-2.1
Reported Profit to equity	7.4	21.0	7.2	5.1
<b>Net Debt</b>	<b>-12.5</b>	<b>12.9</b>	<b>7.2</b>	<b>28.8</b>
Reported EPS (basic, weighted)	3.0	6.9	1.7	1.2
<b>Normalised EPS (diluted, weighted)</b>	<b>4.4</b>	<b>8.5</b>	<b>2.3</b>	<b>1.8</b>
<b>- Growth % pcp</b>		<b>94.5%</b>	<b>-73.0%</b>	<b>-79.1%</b>
P/E	7.9x	4.1x	15.0x	19.4x
NTA / Share (\$)	0.06	0.11	0.09	0.11

Source: Hartleys Estimates

## PRICE TARGET METHODOLOGY

*Our price target is the average of four components. The assumption is there is a chance of each of the following happening.*

### Fundamental Valuation (DCF)

Assumes our base case cash flow estimates for NMS are correct and share price trades to our fundamental valuation.

### Market Put (Dividend yield)

Assumes company delivers our earnings estimates, but the equity market falls significantly so that dividend yield becomes the support level for the stock.

### Earnings Disappointment (NTA)

Net Tangible Asset (NTA) Value – assumes the company misses profit estimates and market is only prepared to pay book value.

### Positive Market Momentum (P/E multiple)

Attempts to capture market momentum (i.e. assumes that comparison company P/E's converge when markets are moving).

## PRICE TARGET

Our 12 month risk weighted price target has been changed to \$0.44 (previously \$0.51).

NMS Price Target Methodology	Weighting	Spot	12 mth out
DCF Composite of high and low WACC scenarios	32%	\$0.44	\$0.49
- high WACC of 13.9% (market likes VALUE stocks)	7%	\$0.35	\$0.40
- low WACC of 11.9% (market likes GROWTH stocks)	25%	\$0.46	\$0.52
12mth forward P/E (diluted) of 10x (Average comps)	63%	\$0.39	\$0.46
1x NTA (31 Dec 09)	5%	\$0.12	\$0.12
12mth fwd Dividend Yield of 4.3% (Gross up yield = Bank Bills +150bp)	0%	\$0.00	\$0.00
<b>Risk weighted composite</b>		<b>\$0.39</b>	<b>\$0.45</b>
<b>12 Months Price Target</b>		<b>\$0.45</b>	
Shareprice - Last		\$0.33	
<b>12 mth total return (% to 12mth target + divided)</b>		<b>37%</b>	

Source: Hartleys Estimate

## RISKS

The key risks for NMS (like most industrial companies) is earnings disappointments given the industry is volatile and earnings can disappoint due to cost overruns, project delays, loss of contracts or slower than anticipated new project wins. Although some earnings disappointments can be short term and just a timing issue, other disappointments can be materially value destructive and can sometimes overhang stocks for a long period of time (for example contract disputes). Such disappointments can be very difficult to predict and share price reactions can be severe and immediate upon disclosure by the company. High financial leverage can add to the problem. Working capital funding could also be a risk for small companies in the current environment.

# HARTLEYS RESEARCH COVERAGE LIST

Hartleys Research Coverage					Hartleys	
Name	Ticker	Last Price*	M. CAP (\$m)	EV (\$m)	Research Recommendation	Industry
<b>Oil &amp; Gas</b>						
1. Woodside Petroleum Ltd	WPL	45.24	35,163	39,341	Buy	Major
2. Camarvon Petroleum Ltd	CVN	0.410	282	252	Buy	Producer / Explorer
3. Nexus Energy Ltd	NXS	0.290	278	448	Speculative Buy	Developer / Explorer
4. Tap Oil Ltd	TAP	1.07	167	106	Buy	Producer / Explorer
5. Cooper Energy Ltd	COE	0.500	146	50	Speculative Buy	Producer / Explorer
6. Strike Energy Ltd	STX	0.285	94	86	Buy	Explorer / Producer
7. Red Fork Energy Ltd	RFE	0.635	88	60	Buy	Explorer / Producer
8. Amadeus Energy Ltd	AMU	0.210	64	107	Buy	Producer / Explorer
9. First Australian Resources Ltd	FAR	0.085	56	37	Speculative Buy	Explorer / Producer
10. Adelphi Energy Ltd	ADI	0.305	45	39	Buy	Producer / Developer
11. European Gas Ltd	EPG	0.115	23	87	Speculative Buy	Producer / Explorer
12. Sun Resources NL	SUR	0.066	22	18	Speculative Buy	Explorer / Producer
13. Oilex Ltd	OEX	0.097	21	3	Neutral	Explorer / Producer
			Sub-Total	36,447	40,633	
<b>Resources</b>						
1. Riversdale Mining Limited	RIV	8.95	1,686	1,418	Speculative Buy	Coal
2. Atlas Iron Limited	AGO	2.230	997	852	Buy	Iron Ore
3. Western Areas NL	WSA	4.45	796	975	No Rating	Nickel
4. Dominion Mining Limited	DOM	2.750	284	303	Speculative Buy	Gold
5. Gold One International Limited	GDO	0.270	217	288	Buy	Gold
6. Silver Lake Resources Limited	SLR	1.190	213	182	Speculative Buy	Gold
7. Jabiru Metals Limited	JML	0.365	202	176	Buy	Zinc-Copper
8. Intrepid Mines Limited	IAU	0.390	167	120	Speculative Buy	Gold
9. Focus Minerals Ltd	FML	0.051	146	138	Speculative Buy	Gold Producer
10. Magma Metals Limited	MMB	0.555	90	70	Speculative Buy	PGM-Cu-Ni
11. Peninsula Minerals Ltd	PEN	0.040	55	46	Buy	Uranium Developer / Explorer
12. Emmerson Resources Limited	ERM	0.210	43	30	Speculative Buy	Junior Explorer
13. YTC Resources Limited	YTC	0.260	43	30	Buy	Junior Explorer
14. Centaurus Metals Ltd	CTM	0.066	40	33	Speculative Buy	Iron Ore Developer
15. Ausquest Limited	AQD	0.160	36	10	Speculative Buy	Junior Explorer
16. Shaw River Resources Limited	SRR	0.180	36	29	Speculative Buy	Junior Explorer
17. Ferrum Crescent Limited	FCR	0.220	35	33	Speculative Buy	Iron Ore
18. Hazelwood Resources Ltd	HAZ	0.300	30	26	Speculative Buy	Junior Developer
19. Orion Gold NL	ORN	0.037	28	24	Speculative Buy	Gold
20. Impact Minerals Limited	IPT	0.135	16	12	Speculative Buy	Junior Explorer
21. Southern Gold Limited	SAU	0.110	15	11	Speculative Buy	Junior Explorer
			Sub-Total	5,051	4,701	
<b>Industrials</b>						
1. West Australia News Hdgs Ltd	WAN	7.91	1,833	2,108	Buy	Media
2. Monadelphous Group Limited	MND	15.030	1,293	1,161	Buy	Mining Services
3. Clough Limited	CLO	0.885	601	662	No Rating	Oil & Gas Services (Construction)
4. Macmahon Holdings Limited	MAH	0.695	510	482	Buy	Mining & Civil Construction
5. Mermaid Marine Australia Ltd	MRM	2.680	499	633	Buy	Oil & Gas Services
6. Fleetwood Corporation	FWD	9.30	494	488	Neutral	Consumer & Mining Services
7. Austal Limited	ASB	2.30	433	443	Speculative Buy	Capital Goods
8. Ausdrill Limited	ASL	2.040	427	649	Buy	Mining Services (Drilling & Contract)
9. NRW Holdings Ltd	NWH	1.60	402	467	Buy	Mining & Civil Construction
10. Cash Converters Limited	CCV	0.630	229	186	Buy	Retail & Consumer Finance
11. Decmil Group Limited	DCG	1.60	195	162	Buy	Mining & Civil Construction
12. Southern Cross Electrical	SXE	1.40	169	153	Speculative Buy	Mining Services (Electrical)
13. Imdex Ltd	IMD	0.765	148	163	Buy	Oil & Gas / Mining Drilling Supplies
14. RCR Tomlinson Ltd	RCR	1.115	147	191	Buy	Mining & Industrial Services
15. Neptune Marine Ltd	NMS	0.330	143	155	Speculative Buy	Oil & Gas Services
16. Lycopodium Limited	LYL	3.490	135	120	Buy	Mining & Industrial Services
17. Swick Mining Services Ltd	SWK	0.440	104	153	Speculative Buy	Mining Services (Drilling)
18. VDM Group Limited	VMG	0.415	88	106	Buy	Mining & Civil Construction
19. Pacific Energy Ltd	PEA	0.315	59	113	Buy	Mining Services / Power Generation
20. LogiCamms Limited	LCM	0.980	59	49	Buy	Resource Services
21. Nomad Building Solutions Ltd	NOD	0.210	29	52	Neutral	Residential & Mining Services
			Sub-Total	7,999	8,696	
			GRAND TOTAL	49,497	54,029	

Source: IRESS, Hartleys Research. \* 4 May 2010

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## Hartleys Recommendation Categories

No Rating	No recommendation.
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but it is higher risk than a "Buy". For the share price to rise it may be contingent on the outcome of an uncertain or distant event.
Neutral	Take no action. Stock is already trading near the share price target and there are no foreseeable near term catalysts.
Reduce / Take profits	Stock is trading above the share price target and there is a near term negative catalyst that could cause temporary weakness.
Sell	Significant price depreciation anticipated

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