

7 April 2010

# Firstfolio Limited (FFF)

**Analyst**  
TS Lim 612 8224 2810

## Mopping up the opposition

**Authorisation**  
Stuart Roberts 612 8224 2871

### Recommendation

**Buy**

### Price

**\$0.078**

**Target (12 months)**

**\$0.120**

FFF's acquisition of selected LeaseChoice assets marks its entry into the higher margin SME/business banking market space. This is expected to enhance capital efficiency through virtual distribution and returns. Our Buy rating is also supported by FFF's value upside as an active consolidator of mortgage managers and a target for larger players seeking alternate distribution channels/outsourcing partners.

### Expected Return

Capital growth **53.8%**

Dividend yield **0.0%**

Total expected return **53.8%**

### Company Data & Ratios

Enterprise value **\$71m**

Market cap **\$57m**

Issued capital **729m**

Free float **74.6%**

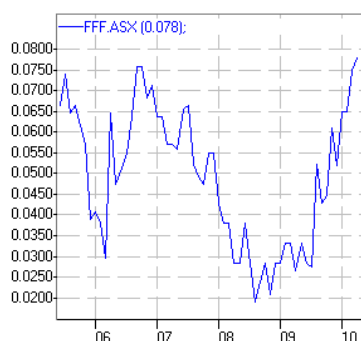
12 month price range  
**\$0.024 - \$0.080**

GICS sector

### Diversified Financials

Disclosure: SCE acted as underwriter/lead manager of a 1:2 rights issue to raise \$12.1m in December 2009 and received a fee.

### Absolute Price



SOURCE: IRESS

### Expansion into adjacent segments

FFF has acquired selected assets of LeaseChoice (a specialist provider of business equipment finance and leasing solutions) for \$2.4m. The consideration is made up of \$1.75m upfront cash payment, \$500,000 in FFF shares (with agreed escrow) and \$150,000 deferred cash payment. The assets acquired include the LeaseChoice business name, web-site and origination systems. As part of the deal, FFF will have access to LeaseChoice's wholesale funding arrangements for future loans originated and managed under FFF ownership. The transaction is expected to be EPS accretive within the first year, adding at least \$750,000 in EBITDA.

### LeaseChoice transaction to enhance strategic ambitions

The bolt-on acquisition enables FFF to deploy a suite of SME/corporate products through its virtual and physical distribution channels in a highly capital efficient manner. Other strategic benefits include revenue diversification into the higher margin space, scope for cross-sell and enhanced network effect through new government and institutional clients. Buy maintained given FFF's strategic appeal to larger players seeking scale and role as an active consolidator in mortgage management and aggregation.

### Earnings Forecast

Year end 30 June (ex-LeaseChoice)	2009	2010e	2011e	2012e
EBITDA (A\$m)	5.4	10.6	15.3	18.9
NPAT (statutory) (A\$m)	3.3	5.3	7.2	8.8
EPS (statutory) (cps)	0.8	0.9	0.9	1.2
EPS growth (%)	n/m	9%	10%	22%
PER (x)	9.9	9.1	8.3	6.7
P/EBITDA (x)	10.5	5.4	3.7	3.0
EV/EBITDA (x)	13.1	6.7	4.6	3.7
Dividend (¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0%	0%	0%	0%
ROE (%)	36%	19%	21%	21%

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

# The virtual bank

**Venturing into the higher margin SME and business banking space**

**EPS accretive within the first year, adding at least \$750,000 to EBITDA**

## Building capital efficient scale

FFF’s core competency is in managing the full home loan life cycle including lead generation, processing, verification, settlement and ongoing management of the loan (Figure 1). The company’s value proposition to customers is built around a strong back office platform, blend of virtual and physical distribution networks and process efficiencies (Figure 2).

In our initiation note<sup>1</sup>, we wrote about how FFF’s network effect value would be enhanced by expansion into adjacent segments – specifically into the higher margin SME and business banking market space. This is where the company’s capabilities can be easily transferred given comparable decisioning and operational processes.

FFF announced today it has ventured into the business equipment finance and leasing solutions segments by acquiring LeaseChoice’s business name, web-site and origination systems for \$2.4m.

The consideration is made up of \$1.75m upfront cash payment, \$500,000 in FFF shares (with agreed escrow) and \$150,000 deferred cash payment. As part of the deal, FFF will have access to LeaseChoice’s wholesale funding arrangements for future loans originated and managed under FFF ownership. The transaction is expected to be EPS accretive within the first year, adding at least \$750,000 in EBITDA.

We believe this makes strategic sense as it enables FFF to deploy a suite of SME and corporate leasing products (e.g. office equipment, furniture, IT systems, trucks and medical equipment) through its distribution channels in a capital efficient manner. We expect FFF to reap additional benefits such as revenue diversification (that would lower operating risk) and greater scope for cross-sell through enhanced network effect (i.e. new government and institutional clients).

Figure 1 – E2E distribution model



<sup>1</sup> FFF: A bank in everything but name. Southern Cross Equities, 17 March 2010.

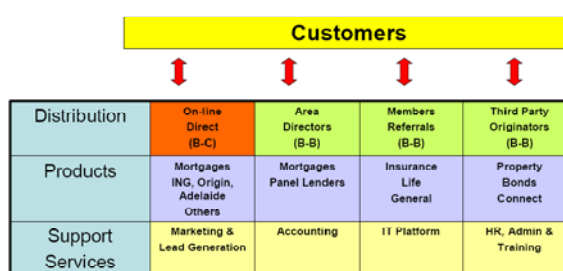
We do not expect the market adjacency to end here and see other opportunities in General Insurance and Life Risk. These are regarded as compatible products that have relatively successful penetration rates through virtual channels.

The convergence of mortgage broking and financial planning under ASIC’s new licensing regime should also expand cross-sell opportunities for FFF in terms of advice products and services.

Figure 2 – Customer-centric model



Distribution Model



SOURCE: COMPANY DATA

**Low risk, capital efficient investment proposition**

We retain the view that FFF is a mortgage bank in everything but name, uniquely positioned to capitalise on the strong outlook for financial services but without the usual credit/operating risks and capital constraints. The company’s value drivers include the ability to utilise its seasoned financial services distribution platform (with sufficient capacity for future expansion) to extract economies of scale from additional managed loan book acquisitions, sustain earnings growth from increasing footprints in QLD, VIC and WA, and leverage on capital efficiencies leading to 20%+ ROE in the medium term.

Our \$0.12 price target and Buy rating are further supported by the following strategic attributes:

1. **Breakaway value as a preferred strategic partner** – One key area for banks to generate additional value is through outsourcing and we believe FFF is well placed to assume some of the banks’ mortgage processing functions.
2. **Active participant in sector consolidation** – FFF is well positioned to capitalise on the inevitable consolidation within the mortgage broking market as a result of lower commissions and higher regulatory costs. The number of mortgage brokers has fallen by 40% to 15,000 in the past two years as a result of the GFC and the trend is expected to continue – particularly with mortgage brokers that are inefficient and sub-scale. FFF is expected to pick up additional scale at distressed prices and extract further economies of scale.
3. **M&A appeal as an alternate distribution channel** – As an alternate/cost effective distribution channel, FFF retains its strategic appeal to both the majors and smaller players lacking in physical footprints outside their respective home bases, e.g. regional and foreign banks.

**Price target \$0.12, maintain Buy**

# Firstfolio profile

## Company history/description

FFF started as professional services and software solutions provider Midware Limited in 2000. In 2003, it entered the mortgage processing and wholesaling /management markets by acquiring The Mortgage Processing Centre and associated company Australian Wholesale Lending. This was followed by the purchase of mortgage aggregator New Loan Australia in 2004 for just under \$1m.

As part of its Go Forward Strategy, the company decided to overhaul itself and focus on growth opportunities related to innovative lending solutions (through financial product intermediaries and in particular loan originators). This is based on its competency in managing the full loan transaction life cycle from lead through settlement including ongoing management.

Midware's legal and software businesses were divested in 2004. In line with the strategy shift, the new value proposition to potential clients (e.g. individual mortgage brokers, broker groups and independent businesses providing branded lending solutions) now revolves around a strong back office platform, growing distribution network, flexibility (as compared with traditional lenders) and consistency and speed of service.

At the end of 2004, Midware changed its name to Affiance to complete its transformation into a financial services platform. This was followed by a series of acquisitions in the mortgage aggregation/management market space (see transaction details below).

The company changed its name to Firstfolio (FFF) in 2006 to reflect the core business activities of mortgage processing and management, including the provision of wholesale funds from leading financial institutions. More recently, FFF has moved into direct distribution of financial services solutions and products through its e-Choice acquisition and New Loan brand.

## Board and management

1. **Tom Hartigan (Chairman)** – Appointed Chairman in 2002 with over 20 years experience as a director of Australian public companies including Metway Bank and Midland Credit.
2. **Mark Flack (Executive Director)** – Mark is foundation Director, entrepreneur with 20 years commercial experience and a CPA for over 15 years.
3. **Anthony Wales (Non-executive Director)** – Appointed in 2002 and previously Founding and Executive (Finance) Director of Computershare.
4. **Michael Hogg (Non-executive Director)** – Global CEO of the Cobra Group, one of the world's largest face-to-face sales and marketing groups.
5. **Anthony Harris (Non-executive Director)** – Founder of the Money Store with extensive experience in construction, property and finance.
6. **Mark Forsyth (Chief Executive Officer)** – Appointed in 2006 and has a 25-year international career in corporate restructuring and business development.

## Major shareholders

1. Welas Pty Ltd (a company associated with Anthony Wales; 17.1%)
2. Citicorp Nominees Pty Limited (5.6%)
3. Mr John Barlow (4.9%)
4. Mr Mark Flack (3.4%)

(The top 20 shareholders own 55.4% of the company)

## Significant transactions

1. **The Mortgage Processing Centre Pty Limited/Australian Wholesale Lending Pty Limited (2003):** E2E mortgage processing centre/mortgage wholesaler and aggregator; purchase price includes cash and 36m FFF shares.
2. **New Loan Australia Pty Limited (2004):** Mortgage aggregator with \$300m LUM; purchase price \$974,000.
3. **Lawfund Australia Pty Limited (42.4%) (2006):** Mortgage aggregator with \$5.0bn LUM; purchase price \$2.7m (cash).
4. **Lawfund Australia Pty Limited (39.3%) (2007):** Mortgage aggregator with \$5.7bn LUM; purchase price \$3.3m (cash and shares).
5. **\$0.6bn LUM (2007):** Acquired from Capital First; purchase price \$1.8m (cash and FFF shares).
6. **Lawfund Australia Pty Limited (18.3%) (2007):** Mortgage aggregator with \$5.7bn LUM, over 1,000 members and a network of over 400 lending managers; purchase price \$1.1m (cash).
7. **eChoice Pty Limited (2008):** Internet lending service provider including wholesale mortgage manager and aggregator with \$2.6bn LUM; purchase price \$19.2m (\$0.3m upfront, \$1.8m FFF shares and \$17.1m deferred over four years).
8. **Domain Financial Services Pty Limited (2008):** Wholesale mortgage manager with \$1.0bn LUM; purchase price \$6.8m (\$0.7m upfront, \$6.1m deferred over four years).
9. **Loan Services Australia Pty Limited (2009):** Wholesale mortgage manager with \$2.0bn LUM; purchase price \$15.4m (\$10.0m upfront, \$5.4m deferred over three years).
10. **First Chartered Capital Corporation Pty Limited (2009):** Mortgage manager and aggregator with \$3.5bn LUM; purchase price \$1.5m (\$0.2m FFF shares, \$1.3m deferred over 1.5 years).
11. **Xplore Capital Limited (expected to complete first half 2010):** Direct retailer and marketer of mortgage services with \$0.5bn LUM; purchase price \$3.0m (cash or cash and FFF shares).
12. **LeaseChoice assets:** These include the LeaseChoice business name, website and origination systems; purchase price \$2.4m (\$1.75m upfront cash payment, \$500,000 in FFF shares (with agreed escrow) and \$150,000 deferred cash payment).

## Investment strategy

FFF's strategy revolves around the following competencies:

1. Partnership-based business model that leverages on the network effect and facilitates rapid geographic expansion without heavy capital expenditure;
2. Strong relationships with clients;
3. Lead generation and management using direct sales experience; and
4. Innovative product and service offering.

FFF's value drivers include the ability to utilise its well-tested financial services distribution platform (sufficient capacity) to extract economies of scale from additional LUM acquisitions, earnings growth from increasing footprint in QLD, VIC and WA, and capital efficiencies leading to 20%+ ROE in the medium term.

## Valuation

The \$0.12 per share price target is based on a blended valuation of the DCF (equity) methodology (\$0.17 per share using a 12.9% hurdle rate and 3% terminal growth rate) and 2010e EV/EBITDA multiple of 6 times less net debt (\$0.07 per share), weighted equally.

We have used the DCF (equity) methodology given FFF is expected to have stable leverage post its rights issue in December 2009 and its dividend is expected to commence in 2014e once the deferred cash consideration liability is fully repaid. We have also factored into the DCF a discretionary \$0.5m IT expenditure per year to maintain the company's strategic advantage in virtual distribution.

The price target represents 14.0 times 2010e earnings and 8.2 times 2010e EBITDA, falling to 10.4 times and 4.6 times respectively in 2012e.

## SWOT analysis

### Strengths

1. Experienced management with M&A execution capabilities and integration experience;
2. Strong service culture and brand;
3. Cost efficiency with further scope for scale economies;
4. Risk management; and
5. Virtual distribution capabilities.

### Weaknesses

1. Heavily reliant on a few wholesale bank funders; and
2. Heavily reliant on the home mortgage category.

**Opportunities**

1. Thawing of RMBS market to underpin sector lending efforts;
2. Mortgage broking consolidation as a result of lower commissions and regulatory reforms (licensing and compliance costs) to increase M&A growth opportunities;
3. Market adjacency opportunities, e.g. personal and SME lending products coupled with increasing wholesale bank funder willingness to lend; and
4. Capability transfer/offshore initiatives.

**Threats**

1. Risk of failing to comply with lending authority;
2. Risk of overseas lenders pulling out of Australia; and
3. Macroeconomic factors such as higher unemployment and slowing credit growth especially as the First Home Buyers scheme winds down (although the risk is dissipating given an improving local economy and a pickup in investment home loans).

# Glossary

**Aggregator** – This is essentially an “aggregator” or franchise platform to which the mortgage broker belongs. The mortgage aggregator provides support services to brokers and gets a cut of the upfront and trail commissions payable to the broker (i.e. clipping the pass-through).

As indicated earlier, we understand lenders are unlikely to deal with smaller brokers that are unable to deliver higher volumes of approvals. As an aggregator, FFF’s loan management platform provides the solution and “aggregates” sufficient home loan applications to satisfy the lenders’ requirements.

**Broker** – The mortgage broker usually works with retail and business clients as an independent service provider, determining their borrowing needs and ability to repay, and managing the process from approval through to settlement. Post-settlement, there is no more involvement with the mortgage.

The broker can only offer loans from the lender panel they are accredited with (banks, specialist non-conforming/non-bank lenders and mortgage managers). The broker is typically paid by the lender through upfront (30-70bp of the loan amount) and trail commissions (5-25bp of the loan amount over the life of the loan).

A finance broker specialises in business finance such as leasing, debtor finance, etc.

**Manager** – The mortgage manager is a specialist who organises funding from a variety of lenders and is responsible for the ongoing prudent management of the loan life cycle (e.g. credit risk assessment, repayment monitoring, insurance renewals and interest rate adjustments).

While the credit risk resides with the lender and not the mortgage manager, there are some cases in which the latter is partially liable if lending criteria and processes are not maintained. The failure to comply with the lending authority means the lender could technically ask the manager to buy out an impaired loan, although the risk is mitigated by the manager’s Professional Indemnity insurance. To enhance compliance/corporate governance, the mortgage manager is subject to regular audits by the lender (possibly every two months).

The manager is usually paid an establishment and/or management fee by the lender. We understand a variant of the mortgage manager is the wholesaler who arranges funding for clients who wish to brand their own loan products (i.e. under a white-labelling agreement).

# Firstfolio Limited

as at 7 April 2010

Recommendation

Buy

Price

\$0.078

Target (12 months)

\$0.120

Table 1 - Financial summary

Firstfolio						Share Price (A\$)						0.078
As at	7-Apr-10					Market Cap (A\$M)						57
<b>PROFIT AND LOSS</b>												
<b>Y/e June 30 (\$m)</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>VALUATION DATA</b>						
Revenue from continuing ops	41.6	47.4	60.7	72.1	79.1	<b>Y/e June 30</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	
Other income	0.1	0.1	0.2	0.2	0.2	NPAT (statutory basis) (\$m)	-1.1	3.3	5.3	7.2	8.8	
<b>Total revenue</b>	<b>41.6</b>	<b>47.5</b>	<b>61.0</b>	<b>72.3</b>	<b>79.3</b>	NPAT (cash basis) (\$m)	-0.9	4.5	8.4	10.8	13.6	
Commission expense	-31.5	-29.5	-34.2	-38.0	-39.9	<b>EPS (statutory) (cps)</b>	<b>-0.3</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>1.2</b>	
Processing & other expense	0.0	0.0	-1.7	-1.9	-1.9	- Growth	n/m	n/m	9%	10%	22%	
Overheads	-10.2	-12.6	-14.5	-17.2	-18.6	EPS (diluted) (cps)	-0.3	0.8	0.9	0.9	1.2	
<b>Total operating expenses</b>	<b>-41.7</b>	<b>-42.1</b>	<b>-50.4</b>	<b>-57.1</b>	<b>-60.4</b>	- Growth	n/m	n/m	9%	10%	22%	
<b>EBITDA</b>	<b>0.0</b>	<b>5.4</b>	<b>10.6</b>	<b>15.3</b>	<b>18.9</b>	P / E ratio (times)	-26.0	9.9	9.1	8.3	6.7	
Depreciation	-0.2	-0.2	-0.7	-0.2	-0.2	<b>P / EBITDA ratio (times)</b>	<b>Large</b>	<b>10.5</b>	<b>5.4</b>	<b>3.7</b>	<b>3.0</b>	
Amortisation	0.0	-0.1	-0.1	0.0	0.0	P / Book ratio (times)	10.1	5.5	2.0	1.6	1.3	
<b>EBIT</b>	<b>-0.2</b>	<b>5.1</b>	<b>9.9</b>	<b>15.1</b>	<b>18.7</b>	Net DPS (cps)	0.0	0.0	0.0	0.0	0.0	
Finance costs	-0.9	-1.8	-3.6	-4.8	-6.1	Yield	0%	0%	0%	0%	0%	
<b>NPBT</b>	<b>-1.1</b>	<b>3.3</b>	<b>6.3</b>	<b>10.3</b>	<b>12.6</b>	Franking	0%	0%	0%	0%	0%	
Income tax expense	0.0	0.0	-1.0	-3.1	-3.8	Payout (statutory basis)	0%	0%	0%	0%	0%	
<b>NPAT (statutory basis)</b>	<b>-1.1</b>	<b>3.3</b>	<b>5.3</b>	<b>7.2</b>	<b>8.8</b>	<b>PROFITABILITY RATIOS</b>						
Non-cash adjustments	0.2	1.2	3.1	3.6	4.8	<b>Y/e June 30</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	
<b>NPAT (cash basis)</b>	<b>-0.9</b>	<b>4.5</b>	<b>8.4</b>	<b>10.8</b>	<b>13.6</b>	EBITDA / total revenue	0%	11%	17%	21%	24%	
<b>CASHFLOW</b>						<b>EBIT / total revenue</b>	<b>0%</b>	<b>11%</b>	<b>16%</b>	<b>21%</b>	<b>24%</b>	
<b>Y/e June 30 (\$m)</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	ROA	-5.2%	6.7%	7.0%	9.3%	10.9%	
EBITDA	0.0	5.4	10.6	15.3	18.9	<b>ROE</b>	<b>-21%</b>	<b>36%</b>	<b>19%</b>	<b>21%</b>	<b>21%</b>	
Change in working capital	1.5	12.4	-3.3	0.1	-3.4	ROFE	-7%	16%	16%	15%	16%	
Net interest	-0.9	-1.8	-3.6	-4.8	-6.1	Dividend cover (times)	n/m	n/m	n/m	n/m	n/m	
Tax paid	0.0	0.0	-1.0	-3.1	-3.8	Effective tax rate	0%	0%	16%	30%	30%	
<b>Operating cashflow</b>	<b>0.6</b>	<b>15.9</b>	<b>2.7</b>	<b>7.4</b>	<b>5.6</b>	<b>LIQUIDITY / LEVERAGE RATIOS</b>						
Capex	0.0	0.0	0.0	0.0	0.0	<b>Y/e June 30</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	
Other	0.0	-0.9	-0.8	0.0	0.0	Net debt / (cash) (\$m)	11.8	12.6	14.3	16.1	15.5	
<b>Investing cash flow</b>	<b>0.0</b>	<b>-0.9</b>	<b>-0.8</b>	<b>0.0</b>	<b>0.0</b>	Net debt / equity	211%	122%	49%	45%	35%	
Equity raised	1.1	1.8	13.4	0.0	0.0	Net interest cover (times)	-0.2	2.8	2.7	3.1	3.0	
Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt / EBITDA (times)	n/m	2.3	1.3	1.1	0.8	
Borrowings	1.6	-3.3	10.8	1.5	1.0	Current ratio (times)	0.6	0.3	0.6	0.6	0.9	
Other	-5.2	-13.2	-23.6	-7.8	-4.0	Cash cycle (days)						
<b>Financing cashflow</b>	<b>-2.5</b>	<b>-14.6</b>	<b>0.7</b>	<b>-6.3</b>	<b>-3.0</b>	- Payables	48	59	88	85	85	
Net change in cash	-1.9	0.4	2.5	1.1	2.6	- Receivables	41	40	58	55	55	
<b>Cash at end of period</b>	<b>0.3</b>	<b>0.7</b>	<b>3.2</b>	<b>4.4</b>	<b>7.0</b>	- Net cash cycle	7	20	30	30	30	
<b>BALANCE SHEET</b>						<b>EV / EBITDA (times)</b>	<b>n/m</b>	<b>13.1</b>	<b>6.7</b>	<b>4.6</b>	<b>3.7</b>	
<b>Y/e June 30 (\$m)</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>INTERIMS</b>						
Cash and cash equivalents	0.3	0.7	3.2	4.4	7.0	<b>1H09</b>	<b>2H09</b>	<b>1H10</b>	<b>2H10e</b>	<b>1H11e</b>		
Receivables	4.6	5.1	9.6	10.9	11.9	Revenue from continuing ops	21.3	26.1	28.1	32.6	35.1	
<b>Current assets</b>	<b>4.9</b>	<b>5.8</b>	<b>12.8</b>	<b>15.2</b>	<b>18.8</b>	Other income	0.0	0.0	0.1	0.1	0.1	
Deferred tax assets	0.7	0.7	0.0	0.0	0.0	<b>Total revenue</b>	<b>21.3</b>	<b>26.1</b>	<b>28.3</b>	<b>32.7</b>	<b>35.3</b>	
Intangibles	16.2	41.0	60.6	60.6	60.6	Commission expense	-14.7	-14.7	-16.3	-17.9	-18.8	
PP&E	0.3	0.3	0.3	0.4	0.4	Processing & other expense	0.0	0.0	-0.8	-0.9	-0.9	
Other assets	0.2	1.1	1.9	1.9	1.9	Overheads	-5.5	-7.1	-6.7	-7.8	-8.4	
<b>Total assets</b>	<b>22.2</b>	<b>48.9</b>	<b>75.6</b>	<b>78.1</b>	<b>81.7</b>	<b>Total operating expenses</b>	<b>-20.2</b>	<b>-21.8</b>	<b>-23.8</b>	<b>-26.6</b>	<b>-28.1</b>	
Payables	4.1	4.8	8.2	8.8	9.3	<b>EBITDA</b>	<b>1.1</b>	<b>4.3</b>	<b>4.5</b>	<b>6.1</b>	<b>7.2</b>	
Loans	3.7	8.1	1.5	3.0	4.0	Depreciation	-0.1	-0.1	-0.6	-0.1	-0.1	
Deferred cash consideration	0.0	7.7	8.3	7.6	3.8	Amortisation	0.0	-0.1	-0.1	0.0	0.0	
Other current liabilities	0.4	0.5	4.1	4.1	4.1	<b>EBIT</b>	<b>1.0</b>	<b>4.1</b>	<b>3.8</b>	<b>6.1</b>	<b>7.1</b>	
<b>Current liabilities</b>	<b>8.2</b>	<b>21.0</b>	<b>22.2</b>	<b>23.5</b>	<b>21.2</b>	Finance costs	-0.5	-1.3	-1.6	-2.0	-2.3	
Loans	8.5	5.2	16.0	17.5	18.5	<b>NPBT</b>	<b>0.5</b>	<b>2.8</b>	<b>2.2</b>	<b>4.0</b>	<b>4.8</b>	
Other borrowings	0.0	0.0	0.0	0.0	0.0	Income tax expense	0.0	0.0	0.0	-1.0	-1.4	
Deferred cash consideration	0.0	12.3	11.4	3.8	0.0	<b>NPAT (statutory basis)</b>	<b>0.5</b>	<b>2.8</b>	<b>2.2</b>	<b>3.0</b>	<b>3.4</b>	
Other liabilities	0.0	0.1	-2.9	-2.9	-2.9	Non-cash adjustments	0.1	1.1	1.7	1.5	1.7	
<b>Total liabilities</b>	<b>16.6</b>	<b>38.6</b>	<b>46.6</b>	<b>41.9</b>	<b>36.7</b>	<b>NPAT (cash basis)</b>	<b>0.6</b>	<b>3.9</b>	<b>3.9</b>	<b>4.5</b>	<b>5.0</b>	
Contributed equity	25.3	27.1	40.6	40.6	40.6	EPS (statutory) (cps)	0.1	0.7	0.5	0.4	0.4	
Reserves	2.5	2.7	2.7	2.7	2.7	Net DPS (cps)	0.0	0.0	0.0	0.0	0.0	
Retained earnings	-22.2	-19.5	-14.3	-7.1	1.7	EBITDA / total revenue	5%	16%	16%	19%	20%	
<b>Total shareholders' equity</b>	<b>5.6</b>	<b>10.3</b>	<b>29.0</b>	<b>36.2</b>	<b>45.0</b>	EBIT / total revenue	5%	16%	14%	19%	20%	
<b>Total sh. equity &amp; liabs.</b>	<b>22.2</b>	<b>48.9</b>	<b>75.6</b>	<b>78.1</b>	<b>81.7</b>	ROE	14%	61%	24%	22%	22%	
<b>Total funds employed</b>	<b>17.4</b>	<b>22.9</b>	<b>43.3</b>	<b>52.3</b>	<b>60.5</b>							
<b>WANOS - basic (m)</b>	<b>369</b>	<b>417</b>	<b>613</b>	<b>761</b>	<b>761</b>							
<b>WANOS - diluted (m)</b>	<b>375</b>	<b>417</b>	<b>613</b>	<b>761</b>	<b>761</b>							

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

**Recommendation structure**

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 0% and +15% on a 12 month view

Reduce: Expect -15% and 0% total return on a 12 month view

Sell: Expect <-15% total return on a 12 month view

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Disclosure: Southern Cross Equities acted as underwriter/lead manager of a 1:2 rights issue to raise \$12.1m in December 2009 and received a fee.