

# MacarthurCook Limited

## Niche player reaching critical mass



Wilson HTM  
INVESTMENT GROUP

19 July 2006

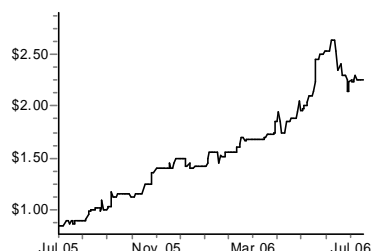
\$2.25

BUY

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### Price Performance



### Security/Capital Details

ASX Code	MCK
Market Cap	\$48 M
Issued Shares	21.3 M
Avg Mth T'over	0.61 M
12 Mth High – Low	\$2.63 - \$0.87

### Key Data/Ratios – FY 2006

EBITDA / Sales	27.6%
EBIT / Sales	25.7%
Net Debt / Equity	-16.2%
Interest Cover	11.0 x
ROE	18.9%
EPS Growth	129.8%
PEG Ratio	0.16 x
NTA / Share	\$ 0.19
12 Mth Price Target	\$ 3.20

BUY: Total return +10% or more over a 12 month period  
HOLD: Total return expected to be between +10% to -10% over a 12-month period  
SELL: Total return expected to be -10% or more over a 12 month period  
TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

June	NPAT (Rep) \$M	EPS (Norm) c	PER x	P/CF x	P/BV x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2005a	0.9	4.7	48.3	8.0	4.9	27.6	0.5	0.2	100
2006e	2.1	10.7	21.0	26.7	3.5	14.3	1.0	0.5	100
2007e	2.8	13.1	17.2	16.7	3.0	10.7	2.0	0.9	100
2008e	3.4	15.9	14.1	13.0	2.5	7.7	2.5	1.1	100

### Equities Research – MacarthurCook Limited

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### Recommendation

MacarthurCook Limited is a property fund manager with a diversified product offering and asset portfolio. The company manages 10 different funds relating to direct property, real estate securities and mortgage investments and has over \$980M of property-related assets under management. MacarthurCook has achieved credible growth in FUM since listing and we are confident that management will continue to grow FUM and increase profitability. We are initiating coverage on MacarthurCook with a Buy recommendation and a share price target of \$3.20.

### Key Points

- MacarthurCook Limited (“MacarthurCook”) is an independent funds manager specialising in direct property, real estate securities and mortgage investments. The company currently has over \$980M of property-related assets under management on behalf of about 10,500 retail and institutional clients.
- The company operates in the funds management industry where the growing pool of superannuation savings will support growth in funds available for investment. The property funds management segment is competitive however MacarthurCook is differentiated to an extent by the diversity of its assets and products.
- Since listing in March 2003 the company has achieved growth in Funds Under Management (FUM) from \$469M at FY04 to \$608M at FY05 and reached more than \$980M by the end of June 2006. The company has expanded its portfolio to 10 separate products including 3 institutional mandates. MacarthurCook currently manages 2 mortgage funds, 4 real estate securities funds and 4 direct property funds.
- Further growth in FUM will be the key driver of future performance of MacarthurCook. We believe the company will achieve growth in FUM by expanding existing funds, launching new funds and winning further institutional mandates. We expect revenues to increase as the pool of funds continues to grow.
- We are forecasting FUM to grow to \$1.5B by the end of FY07 and \$1.9B by the end of FY08. We believe the company is capable of reaching up to \$3-\$5B in FUM over the longer term.
- MacarthurCook’s existing operational infrastructure should support this growth with minimal additional expenditure. Increases in FUM are likely to deliver higher margins as the company benefits from economies of scale and a relatively fixed cost structure.
- During the first half of calendar year 2006, MacarthurCook expanded beyond the domestic market. The company is acting as investment manager of a US-listed REIT which has a focus on Asia Pacific real estate securities. The fund is the only REIT of its type on the AMEX. MacarthurCook is also seeking to raise about \$80M for the listed MacarthurCook Property Securities Fund (ASX: MPS) through a secondary listing in Singapore.
- We initiate coverage of MacarthurCook Limited with a Buy recommendation and a share price target of \$3.20.



## 1. SWOT

The following table highlights the key strengths, weaknesses, opportunities and threats of MacarthurCook Limited.

**Table 1: SWOT Analysis**

<b>Strengths</b>	<ul style="list-style-type: none"><li>▪ Revenues are diversified by asset category and activity type</li><li>▪ Exposed to the growing pool of investor funds resulting from compulsory superannuation savings</li><li>▪ Achieved credible growth in FUM since listing</li><li>▪ Solid growth strategy and prospects</li><li>▪ Experienced management team</li><li>▪ Existing operational infrastructure and staff should support further growth with minimal additional investment</li><li>▪ Good record of product development and strong product pipeline</li><li>▪ Management fees provide recurring, secure earnings base</li><li>▪ Capable of winning institutional investment mandates (e.g. Advance, RMR)</li><li>▪ Business model enables MacarthurCook real estate securities funds to invest in the MacarthurCook direct property funds</li></ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"><li>▪ Relatively young company</li><li>▪ Investment in single asset class - property</li><li>▪ Exposed to property cycles</li><li>▪ Impacted by material increases in interest rate</li><li>▪ Growth depends on the availability of suitable investment opportunities</li><li>▪ Subject to high levels of regulation which can be a relatively heavy burden for smaller companies</li></ul>
<b>Opportunities</b>	<ul style="list-style-type: none"><li>▪ Increase FUM</li><li>▪ Develop and launch new investment funds/ products</li><li>▪ Explore further capital and asset opportunities in international markets</li><li>▪ Broaden investor and distribution base</li><li>▪ List funds on additional investment platforms</li><li>▪ Leverage existing operational infrastructure and staff base for future growth</li><li>▪ Enhance company profile</li><li>▪ Pitch for additional institutional investment mandates (e.g. Advance, RMR)</li><li>▪ Further grow level of real estate securities and direct property assets under management</li></ul>
<b>Threats</b>	<ul style="list-style-type: none"><li>▪ Failure to meet investment income targets</li><li>▪ Rising interest rates make mortgage funds relatively less attractive</li><li>▪ Poor investment performance</li><li>▪ Failure to attract new investors/ funds and increase FUM</li><li>▪ Shortage of suitable investment opportunities in market</li><li>▪ Softer economic conditions</li><li>▪ Higher interest rate environment may see investors shift away from property</li><li>▪ Higher interest rates de-value fixed rate investments (relating specifically to the mortgage funds)</li></ul>

Source: WHTM



## 2. Background

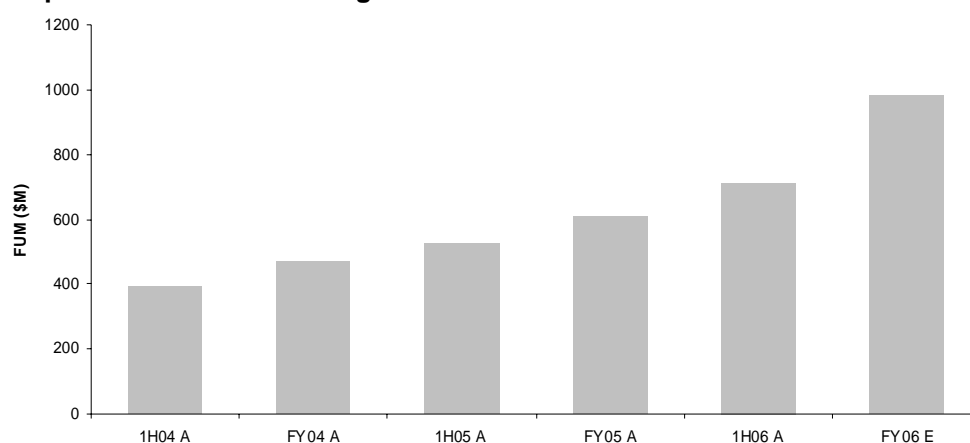
MacarthurCook Limited (“MacarthurCook”) is an independent fund manager with a focus on direct property, real estate securities and mortgage investments. The company has over \$980M of property-related assets under management on behalf of about 10,500 retail and institutional clients. MacarthurCook manages 10 different investment funds.

The management team is comprised of executives with extensive experience in funds management and the property market.

MacarthurCook has achieved growth since its backdoor listing on the Australian Stock Exchange (ASX) in March 2003. The company reported 1H06 NPAT of \$0.7M after achieving its maiden profit in FY05 of \$0.9M.

Funds Under Management (FUM) have steadily increased to reach more than \$980M as at June 2006, up from \$608M at FY05 and \$469M at FY04.

**Graph 1: Funds Under Management**



Source: MacarthurCook, WHTM

MacarthurCook has evolved since its first move of acquiring the National Australia Mortgage Fund in 2003. The company secured investment mandates from Advance and has launched and acquired a range of direct property and real estate securities funds. MacarthurCook is currently the investment manager for 10 listed and unlisted funds or portfolios, including a US-based real estate securities fund.

MacarthurCook has about 500 shareholders. Ascalon Capital Management Ltd, a subsidiary of St. George, is the largest shareholder with 18.2% of issued shares. The Directors and Senior Executives of MacarthurCook own about 16.2% of issued shares and Acorn Capital holds 13.0% of shares in the company.

## 3. Business Model

MacarthurCook specialises in the management of property-related assets and has more than \$980M in FUM with over 10,500 investors. The company has a diversified range of products and sources of capital.

### Products

MacarthurCook is currently the investment manager for 10 different funds. The Funds fall into direct property, real estate securities and mortgage asset categories. Such diversification supports growth in FUM and helps to smooth potential volatility of returns. The variety of assets also broadens the pool of potential investors and capital providers and helps to present a wider range of acquisition opportunities.

MacarthurCook and RMR Advisors Inc., a real estate group based in Boston, have jointly developed the RMR Asia Pacific Real Estate Fund. The fund, which is the first US-based fund to have a focus on Asia Pacific real estate securities, raised \$45M and listed on the American Stock Exchange on 26 May 2006 (AMEX: RAP).



MacarthurCook will act as sub-advisor/ investment manager under RMR Advisors who will manage the fund.

In May 2006, the company announced its intention to raise about \$80M for the ASX-listed MacarthurCook Property Securities Fund through a secondary listing in Singapore. The move will enable expansion of the Fund, potentially through investments in Australian-based funds that invest in emerging markets such as Europe. We expect the listing to be completed early in FY07.

The company had previously flagged that growth may come from overseas activities so neither the US nor the Singapore announcement came as a surprise. We expect MacarthurCook will continue promoting its AsiaPac real estate expertise and target further institutional mandates both in the domestic and international markets.

**Table 2: Summary of Funds (as at 30 June 2006)**

Fund	Asset Category	Fund Type	Fund Size (\$ millions)
MacarthurCook Mortgage Fund *	Mortgages	Unlisted mortgage fund	316
* Includes Advance Mortgage Fund of \$68M	Mortgages	Investment Mandate	
MacarthurCook Diversified Property Income Fund	Real Estate Securities	Unlisted diversified property fund	3
MacarthurCook Property Securities Fund **	Real Estate Securities	Listed real estate securities fund (ASX: MPS)	162
Advance Property Securities Fund	Real Estate Securities	Investment Mandate	62
RMR Asia Pacific Real Estate Fund	Real Estate Securities	US-listed real estate securities fund (AMEX: RAP)	46
MacarthurCook Industrial Property Trust	Direct Property	Unlisted sector-specific property trust	140
MacarthurCook Office Property Trust	Direct Property	Unlisted sector-specific property trust	134
Brand Smart Nunawading Syndicate	Direct Property	Unlisted sector-specific property syndicate	53
Brand Smart Riverbank Syndicate	Direct Property	Unlisted sector-specific property syndicate	70
TOTAL FUM			986
** about \$80M is to be listed on Singapore Exchange (likely to occur early FY07)			+ 80

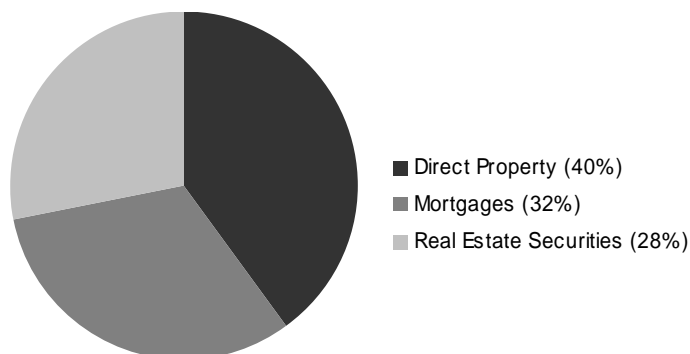
Source: MacarthurCook



## Asset Categories

As at 30 June 2006, 32% of FUM was associated with mortgage-related assets compared to about 28% for real estate securities and about 40% for direct property. We believe that growth in the real estate securities and direct property asset categories through expansion, acquisitions and the launch of new funds is likely to continue to outpace growth in the mortgage funds.

**Graph 2: FUM by Asset Category\* (as at 30 June 2006)**



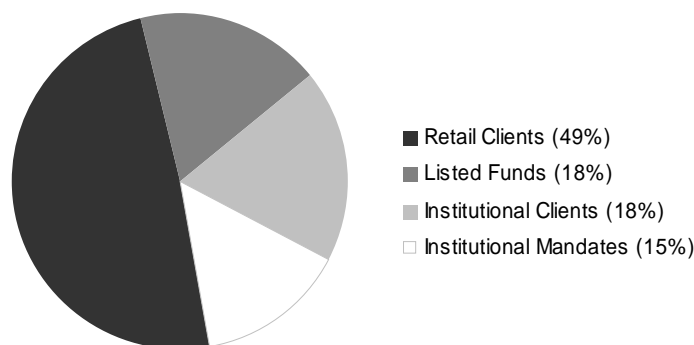
Source: MacarthurCook

\* does not include Singapore Exchange-listed funds

## Sources of Capital

MacarthurCook sources capital (excluding debt) from retail investors, wholesale clients, institutional mandates (such as the Advance and RMR mandates) and the listed market. This diversification lowers the risks associated with a concentrated capital base and broadens the pool of potential capital available to support further growth in FUM. The range of capital sources (excluding debt) also helps to lower volatility of company earnings.

**Graph 3: Capital by Source\* (as at 31 May 2006)**



Source: MacarthurCook

\* does not include Singapore or US-based funds.

- Retail capital is presented when retail investors buy units in MacarthurCook's unlisted mortgage or property funds. Retail capital delivers higher margins and is typically committed for a longer period of time. However, it costs more to acquire and manage, takes more time to generate and typically occurs through smaller average investment amounts.
- Wholesale capital is raised when institutional fund managers buy units in MacarthurCook's unlisted mortgage or property funds. This type of capital usually comes through in larger investment amounts but occurs less frequently.
- Institutional mandates occur when MacarthurCook is appointed investment manager of an institution's fund. MacarthurCook is currently the investment manager of the Advance Property Securities Fund, the Advance Mortgage Fund



and the RMR Asia Pacific Real Estate Fund. Such mandates are associated with large fund amounts and are a positive for branding. The size of the funds involved typically gives negotiating power to the institution and hence can involve lower management fee rates. Mandates are also very important for MacarthurCook in terms of establishing a track record and gaining credibility among institutions.

- Listed capital is sourced from investors in the ASX-listed MacarthurCook Property Securities Fund (ASX: MPS). This capital can be raised relatively quickly and is relatively “sticky”. The comparative importance of MPS has increased during FY06 with a rights offer and public offer that raised \$52M in September 2005. The announcement of plans to raise a further \$80M for the fund via a listing on the Singapore Exchange will bring the MPS contribution to capital to about 21%. MacarthurCook’s RMR Asia Pacific Real Estate Fund is listed on the American Stock Exchange (AMEX: RAP) and is also considered listed capital.

Given the company’s focus on international markets, we expect the proportion of capital sourced from overseas to increase from about 13% currently to at least 20% over the next 2 to 3 years.

## Revenues

Revenues are diversified by activity and across asset categories.

MacarthurCook charges fees for its role as investment manager. These fees are high quality revenue given their recurring and predictable nature. The fee rates vary depending on the fund and the source of capital. For example, the management fee (excluding GST) for the mortgage fund is 1.2% for retail investors, 0.55% for wholesale investors and 0.4% for the Advance institutional mandate. The existing direct property funds incur a management fee of up to 1.5% from retail investors and up to 0.75% from wholesale investors.

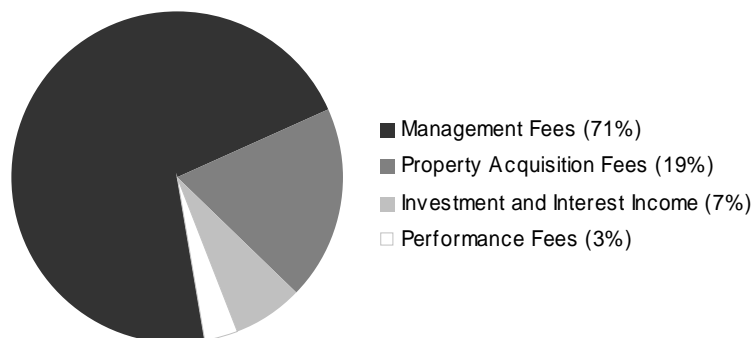
Management fees for the mortgage funds are calculated daily and paid on a monthly basis. Management fees for the direct property funds are calculated monthly based on the grossed-up asset value and are paid quarterly.

Management fees generated about 71% and 53% of FY05 and 1H06 revenues respectively. We expect the proportion of revenue generated from management activities to increase as the company and its funds mature.

MacarthurCook also earns one-off fees for the acquisition and divestment activities associated with its direct property funds. The fee is usually 2% of the property/asset value. Revenue from this source has been critical during the company’s recent development phase, comprising about 20% of FY05 and 45% of 1H06 revenues. These types of fees are lower quality and are harder to forecast.

Income is also generated from performance fees and investment and interest income.

**Graph 4: Revenue by Activity FY05**



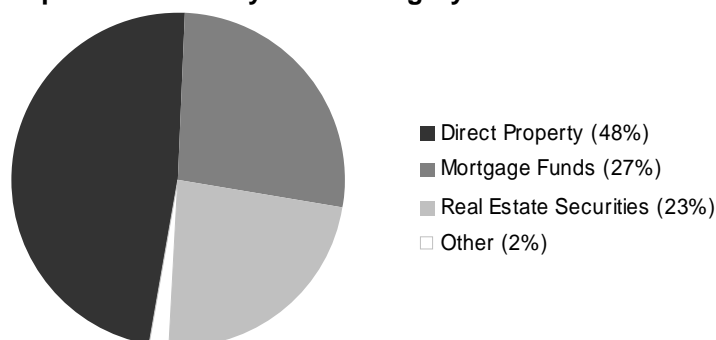
Source: MacarthurCook

Activities related to direct property assets contributed almost 50% of 1H06 revenues due to the high level of property acquisitions that were associated with developing new funds during the period. This is in contrast with FY05 where more than 60% of



revenues came from the mortgage asset category. We expect contributions from direct property will continue to prevail over contributions from the mortgage funds. We are forecasting revenue contributions from the direct property funds of more than 50% in FY06 and FY07.

**Graph 5: Revenue by Asset Category 1H06**



Source: MacarthurCook

The majority of funds have a built-in disposal fee which is payable to MacarthurCook in the event of a sale of assets within a fund. The fee is based on the level of profit that is realised and is typically 2% for most of the funds.

## 4. Operations

### Infrastructure

MacarthurCook has established an operational infrastructure which should support substantial growth in FUM with minimal additional expenditure.

Labour costs were the largest expense in 1H06 at about 26% of revenue and about 30% of total costs. The current staff base includes 11 investment specialists and about 16 support staff. The company has a low staff turnover and all permanent employees are equity owners.

The company recently hired 6 state-based business development managers to support product distribution and has implemented a new business structure with separate divisions to focus on retail and institutional investors. It is expected that this expanded capability will advance the company's prospects of raising money from financial planners throughout Australia.

We expect that further growth in FUM will require only modest levels of additional staff. Given the experience of the existing investment managers we expect new hires to be at the more junior level. This should result in relatively small increases in labour costs beyond FY06.

We expect FY06 occupancy costs to increase inline with additional office space requirements.

We believe that MacarthurCook is approaching critical mass with regards to FUM. Growth in FUM should deliver improved margins from FY07 as economies of scale begin to take effect.

### Distribution

The company actively markets its products to financial advisors. MacarthurCook's key funds are independently rated and are listed on various investment platforms.

- The Mortgage Fund has a "4 star" rating from Property Investment Research, a "Buy" from InvestorWeb and an "Approved" from Managed Investment Assessments. The Fund is listed on the BT Wrap and NetWealth investment platforms.
- The Diversified Property Income Fund has a "Quality" rating from Managed Investment Assessments, a "Recommended" from InvestorWeb and an "Investment Grade" rating from Lonsec. The Fund is listed on the BT Wrap, NetWealth, Macquarie Wrap and Symmetry investment platforms.



- The Industrial Property Trust has a “3 star” rating from ASSIRT, a “Lower Recommended” from Lonsec and a “Recommended” from InvestorWeb. The Fund is listed on the BT Wrap, NetWealth, Aust Choice, Advanteous Investments and Symmetry investment platforms.

### Commissions

MacarthurCook pays upfront and ongoing commissions to financial advisors for the referral of retail investors. Upfront commissions are set at 1% for the Mortgage Fund and up to 4% for Office Property Trust. Ongoing commissions are paid out of MacarthurCook’s management fee at a rate of about 25bps for the mortgage fund and about 30bps for the Industrial Property Trust. Commission expenses were 29% of revenues in 1H06 which was higher than FY05 at 12% due to the launch and sale of units in the Office Property Trust during the period.

Commission expenses are likely to be lumpy as they depend on the timing of new product launches. MacarthurCook’s plans to broaden its distribution channels and further market its funds will help to keep commission expenses material for at least the next 2-3 years.

### Fund Management and Performance

MacarthurCook adopts an active approach to portfolio management with a focus on bottom-up analysis. While each fund is different, the company’s fundamental objective is to provide portfolio diversification by exposing funds to a range of income streams generated from a large number of assets.

A risk management culture is promoted and quality assurance activities are incorporated into the investment approach.

The company has a strong focus on client service and believes that quality staff underpins the success of the business.

Direct property assets are revalued at least once every two years and this is performed on a rotational basis within the different funds

MacarthurCook has a credible track record for delivering forecast returns on the funds it manages. The company has consistently delivered on expectations and has always met or exceeded its distribution commitments.

## 5. Growth Program

MacarthurCook has developed a platform with the credibility, resources and infrastructure to support significant growth.

The company is aiming to increase FUM from more than \$980M to at least \$2B over the medium term. We believe the company is capable of reaching \$3-\$5B in FUM over the longer term.

Growth in FUM is likely to be achieved through:

- Further exploration of opportunities in international markets;
- The launch of new products (such as a retail direct property trust);
- The expansion of management rights;
- The acquisition of investment funds;
- A broader distribution and investor base, and
- A higher profile with wider industry and market recognition.

Compulsory superannuation savings and the new superannuation tax rules should help to support the flow of investor funds.

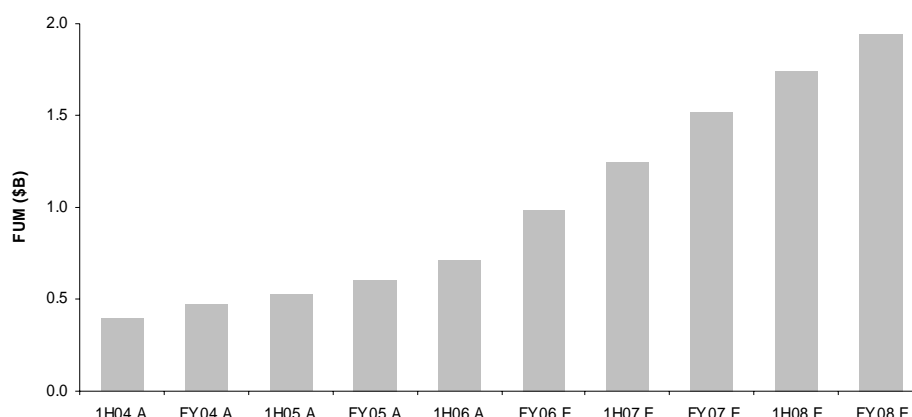
MacarthurCook’s existing operational foundations should support this growth with minimal additional expenditure. We expect increases in FUM to result in improved margins as the company benefits from economies of scale.

We believe the primary risks to growth relate to a shift of investor funds away from



property and a shortage of quality investment opportunities.

### Graph 6: Funds Under Management



Source: MacarthurCook, WHTM

## 6. Industry

MacarthurCook operates in the real estate segment of the funds management industry. The segment is competitive however MacarthurCook is differentiated by the diversity of its assets and products. Competitors tend to have more focused investment strategies which are sometimes more exposed to market cycles.

The wealth management industry is expected to benefit from increases in the flow of savings related to compulsory superannuation.

The property segment is sensitive to general economic conditions particularly domestic and international interest rates. Significant increases to interest rates make mortgage funds relatively less attractive compared to lower risk cash funds. Almost 60% of the mortgage fund is associated with a variable interest rate but there is usually a time associated with the adjustment in returns. Major hikes to interest rates and the associated higher bond yields may see a reallocation of investment away from property.

The biggest threats to performance in the sector include a shift of investor funds away from property and a shortage of quality investment opportunities. The competition for high-quality and good-value property investments is getting more intense. We believe it is unlikely that MacarthurCook will undertake investments that fall below their rigorous investment parameters so a lack of investment opportunities presents a potential threat to growth.

## 7. Forecasts and Valuation

We are forecasting EPS growth of 131% to 10.7 cents in FY06, 22% to 13.1 cents in FY07 and 22% to 15.9 cents per share in FY08.

We are forecasting FUM to grow to \$1.5B by the end of FY07 and \$1.9B by the end of FY08. We believe the company is capable of reaching up to \$3-\$5B in FUM over the longer term. We expect the company to continue expanding its existing funds, particularly the Industrial and Office Property Trusts and the MacarthurCook Property Securities Fund. New funds and additional institutional mandates should also bolster FUM, as will further exploration of international opportunities.

Management's ability to continue delivering returns to clients will be critical in attracting investors and hence growing FUM.

Growth in FUM will be the key driver behind the future profit performance of MacarthurCook. We believe the company will achieve greater FUM by expanding existing funds, launching new funds and winning further mandates. We expect revenues will increase as the pool of funds grows.



Margins should increase as the relatively fixed cost components of the business are spread across a larger revenue base. We expect labour and commission expenses to be the most material operating costs in FY06 and FY07, making up about 40% and 35% of total costs respectively.

We expect MacarthurCook will aim to maintain an average total debt to equity ratio of about 50% (for the management company) in order to achieve appropriate yields. The company's healthy cash position is likely to support a net cash position for at least the medium term but this will depend on the rate of acquisition of funds.

The debt to equity ratio for each of the funds varies depending on the asset category and fund type. Currently, the mortgage funds and the Diversified Property Income Fund have no debt, MPS is about 30% geared and the direct property funds typically have a loan to value ratio of about 60-65%.

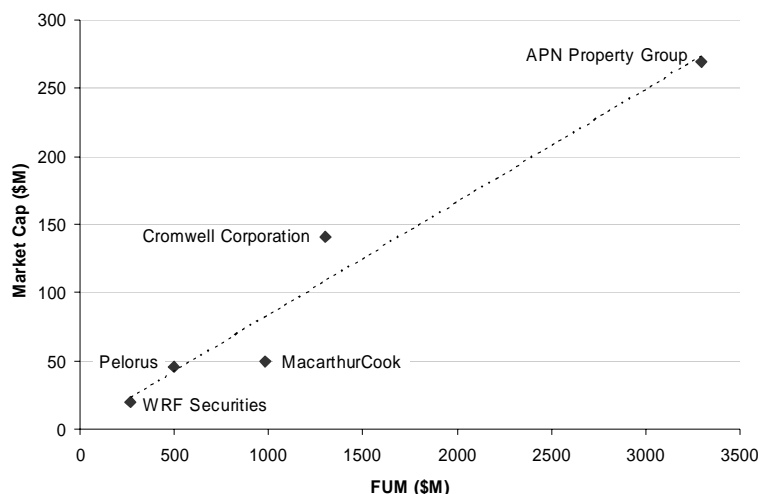
Our valuation considers management's track record in achieving and managing growth in FUM. Management has proven they are adept at launching new funds, managing mature funds and winning investment mandates. Growth in FUM has been impressive and we expect the upward trend to continue.

We view MacarthurCook's move into international markets positively however we acknowledge it is still early days and our forecasts largely focus on domestic activities.

The company plans to reinvest the majority of earnings. Over the medium to longer term we expect the company to pay out about 20% of earnings depending on the levels of cash that are available.

The graph below plots FUM against market capitalisation for some of the key listed fund managers who also specialise in property-related assets. The trend line implies that a company with around \$1B FUM should have a market capitalisation of about \$75M, which is about 50% greater than MacarthurCook's current market capitalisation.

**Graph 7: Funds Under Management vs Market Capitalisation (at 18 July 2006)**



Source: Company data, Bloomberg

When trying to establish a valuation for MacarthurCook it is useful to consider two recent transactions.

In early July OFM Investment Group acquired Century Funds Management. OFM paid \$42.4M in cash/shares for the fund manager. Century is a specialist property fund manager with about \$440M in funds under management. Century has delivered above benchmark performance for the last 4-5 years. The price paid represents a PER of 10.3 times forecast earnings and 9.6% of FUM.

In another recent transaction \$24M has been raised for the IPO of Pelorus Property Group. Pelorus is a vertically integrated property group that generates income from funds management, providing property services, and providing structured finance to owners of commercial and retail property. The implied valuation at listing is a PER



multiple of 12.4 times FY 07 earnings on a forecast 6.5% fully franked yield. Pelorus manages about \$500M of property for various clients.

When looking at all the property management companies a broad brush approach needs to be adopted as no two companies are the same.

We are forecasting that MacarthurCook will have at least \$1.5B under management by June 2007. In our valuation we have considered the likely rate of FUM and profit growth as well as the fact that MacarthurCook is likely to have a fairly stable cost base with increasing revenues.

We believe a FUM valuation multiple (i.e. market capitalisation to FUM) of 4.5x is appropriate at this point in time. This implies a total valuation \$61.5M or \$3.20 per share. We expect the appropriate FUM valuation multiple will increase over time as the company matures and establishes a credible track record.

We would be equally comfortable with a forecast PER of 20 times FY07 earnings given the potential leverage that exists in the company. This also gives a price target of \$3.20.

## 8. Company Details

### Board of Directors

#### Mr Richard M Haddock - Independent Chairman and Non-executive Director

- Twenty five years experience in the investment banking industry including treasury, funds management and stockbroking.
- Currently a Director of Colonial First State Capital Limited, Tishman Speyer Australia Limited, Chairman of Centacare and honorary treasurer of Caritas Australia.
- Formerly Chairman of Cashcard Australia Limited, Deputy Chairman of BNP Paribas Investment Management (Australia) Limited and Director of AXA Insurance (Australia) Limited.

#### Mr Craig M Dunstan - Managing Director

- Founder of MacarthurCook Limited.
- Extensive experience in financial services and particularly investment management.
- Formerly General Manager of Financial Services and Chief Investment Officer of Australian Unity, director of Australian Unity Funds Management Limited, Acorn Capital Limited and Permanent Friendly Society.

#### Mr Phillip J Anderson - Independent Non-executive Director

- Thirty years experience in the property industry in Australia and overseas.
- Currently Chairman of Espreon Limited, a Director of Hastie Group Limited, Isis Projects Pty Ltd and the NSW Growth Centres Commission.
- Formerly Deputy Chief Executive Officer for LJ Hooker Limited and Hooker Housing Group, Finance Director of Civil and Civic Pty Ltd and Lend Lease Property Group, and Chief Executive Officer of Lend Lease Development Pty Ltd.

#### Mr A Hugh Gurner - Non-executive Director

- Over twenty years experience in the corporate finance and financial services industry.
- Founding Executive Director of Citadel Pooled Development Limited.

### Shareholders

MacarthurCook has about 500 shareholders. Ascalon Capital Management Ltd, a subsidiary of St. George, is the largest shareholder with 18.2% of issued shares. The Directors and Senior Executives of MacarthurCook own about 16.2% of issued



shares and Acorn Capital holds 13.0% of shares in the company.

## MacarthurCook Limited (MCK : \$2.25)

## INVESTMENT FUNDAMENTALS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EPS Reported (c)	-8.1	4.6	10.7	13.1	16.0
<b>EPS Normalised (c)</b>	<b>-6.3</b>	<b>4.7</b>	<b>10.7</b>	<b>13.1</b>	<b>15.9</b>
EPS Growth (%)	N/A	157.2%	131.1%	22.2%	22.0%
<b>PER Normalised (x)</b>	<b>-36.0</b>	<b>48.3</b>	<b>21.0</b>	<b>17.2</b>	<b>14.1</b>
DPS (c)	0.0	0.5	1.0	2.0	2.5
Payout (%)	<b>0.0%</b>	<b>10.8%</b>	<b>9.4%</b>	<b>15.3%</b>	<b>15.7%</b>
Yield (%)	0.0%	0.2%	0.5%	0.9%	1.1%
Franking (%)	100%	100%	100%	100%	100%

## VALUATION DATA

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EV / EBITA (x)	482.2	30.0	15.4	11.7	8.5
EV / EBITDA (x)	303.3	27.6	14.3	10.7	7.7
CFPS (c)	-37.1	28.0	8.4	13.5	17.3
<b>Price / CF</b>	<b>-6.1</b>	<b>8.0</b>	<b>26.7</b>	<b>16.7</b>	<b>13.0</b>
Book Value / Share (\$)	0.4	0.5	0.6	0.7	0.9
<b>Price / Book (x)</b>	<b>5.5</b>	<b>4.9</b>	<b>3.5</b>	<b>3.0</b>	<b>2.5</b>

## PROFIT &amp; LOSS (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Sales Revenue	3.6	7.6	11.6	13.2	14.5
EBITDA	0.2	1.6	3.2	4.1	5.3
Depreciation	0.1	0.1	0.2	0.4	0.5
<b>EBITA</b>	<b>0.1</b>	<b>1.5</b>	<b>3.0</b>	<b>3.7</b>	<b>4.8</b>
Amortisation	1.5	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>-1.4</b>	<b>1.5</b>	<b>3.0</b>	<b>3.7</b>	<b>4.8</b>
Net Interest Expense	0.0	0.3	0.0	-0.1	0.0
<b>Pre-tax Profit</b>	<b>-1.5</b>	<b>1.2</b>	<b>3.0</b>	<b>3.8</b>	<b>4.8</b>
Tax	-0.3	0.3	0.9	1.0	1.4
Tax rate (%)	20.0%	25.0%	30.0%	27.4%	30.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>-1.2</b>	<b>0.9</b>	<b>2.1</b>	<b>2.8</b>	<b>3.4</b>
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	-1.2	0.9	2.1	2.8	3.4
Revenue Growth (%)	N/A	110.8%	52.6%	13.7%	10.0%
EBIT Growth (%)	N/A	204.5%	99.3%	25.2%	28.7%
NPAT Growth (%)	N/A	175.0%	140.9%	31.4%	22.1%

## PROFITABILITY RATIOS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
<b>EBIT / Sales (%)</b>	<b>-39.7%</b>	<b>19.7%</b>	<b>25.7%</b>	<b>28.3%</b>	<b>33.1%</b>
ROA (%)	N/A	10.4%	19.9%	21.2%	26.5%
<b>ROE (%)</b>	<b>N/A</b>	<b>10.6%</b>	<b>18.9%</b>	<b>18.7%</b>	<b>19.4%</b>
ROFE (%)	N/A	12.5%	26.9%	32.4%	41.2%

## INTERIMS (\$m)

Half Yr	Dec 04	Jun 05	Dec 05	Jun 06	Dec 06
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	3.0	4.6	6.6	5.0	6.2
EBIT	0.2	1.3	1.2	1.8	1.6
<b>Net Profit</b>	<b>0.1</b>	<b>0.7</b>	<b>0.7</b>	<b>1.4</b>	<b>1.1</b>
EBIT / Sales (%)	5.3%	29.3%	17.7%	36.2%	25.2%

## BALANCE SHEET (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Cash	0.9	3.1	4.4	5.3	8.2
Receivables	0.7	2.3	3.6	4.0	4.4
Inventories	6.1	0.5	0.7	0.8	0.9
Other	0.0	0.2	2.9	3.2	3.1
<b>Current Assets</b>	<b>7.8</b>	<b>6.1</b>	<b>11.6</b>	<b>13.4</b>	<b>16.6</b>
Net PPE	0.3	0.2	0.2	0.1	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	8.2	9.2	9.2	9.2	9.2
Other	0.6	0.2	0.6	0.6	0.5
<b>Non-current Assets</b>	<b>9.1</b>	<b>9.7</b>	<b>10.1</b>	<b>10.0</b>	<b>9.7</b>
<b>Total Assets</b>	<b>16.9</b>	<b>15.9</b>	<b>21.6</b>	<b>23.4</b>	<b>26.3</b>
Current Payables	1.6	1.5	2.3	2.6	2.9
Current Debt	1.0	1.0	1.0	1.0	1.0
Non-Current Debt	5.4	4.2	1.2	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Other	1.1	0.5	3.5	3.8	3.6
<b>Total Liabilities</b>	<b>9.1</b>	<b>7.2</b>	<b>8.0</b>	<b>7.4</b>	<b>7.5</b>
Equity	16.7	16.8	19.8	19.8	19.8
Reserves	0.0	0.0	0.0	0.0	0.0
Retained Profits	-9.0	-8.1	-6.2	-3.8	-1.0
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>7.8</b>	<b>8.7</b>	<b>13.6</b>	<b>16.0</b>	<b>18.8</b>
<b>Total Funds Employed</b>	<b>13.3</b>	<b>10.8</b>	<b>11.4</b>	<b>11.6</b>	<b>11.7</b>

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending June	2004A	2005A	2006E	2007E	2008E
Net Debt (Cash) (\$m)	5.5	2.1	-2.2	-4.3	-7.2
<b>Net Debt / Equity (%)</b>	<b>70.8%</b>	<b>24.2%</b>	<b>-16.2%</b>	<b>-27.2%</b>	<b>-38.0%</b>
Interest Cover (x)	-6.8	3.5	11.0	31.6	64.9
<b>Debt / CashFlow (x)</b>	<b>-1.2</b>	<b>1.0</b>	<b>1.3</b>	<b>0.4</b>	<b>0.3</b>

## CASHFLOW (\$m)

Yr Ending June	2004A	2005A	2006E	2007E	2008E
EBIT	-1.4	1.5	3.0	3.7	4.8
Dep'n and Amort'n	1.6	0.1	0.2	0.4	0.5
Net Int Rec'd (Paid)	0.0	-0.3	0.0	0.1	0.0
Tax Paid	0.0	0.0	-0.9	-1.0	-1.4
Dec / (Inc) W'kg Cap	-5.5	4.0	-0.7	-0.3	-0.2
Other	0.0	0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>-5.3</b>	<b>5.3</b>	<b>1.7</b>	<b>2.9</b>	<b>3.7</b>
Capital Expenditure	-0.3	1.1	-0.2	-0.3	-0.3
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	-14.2	2.5	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-14.5</b>	<b>3.7</b>	<b>-0.2</b>	<b>-0.3</b>	<b>-0.3</b>
Equity Raised	6.6	0.0	3.0	0.0	0.0
Inc / (Dec) in Loans	6.5	-1.3	-3.0	-1.2	0.0
Dividends Paid	0.0	0.0	-0.2	-0.4	-0.5
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>13.1</b>	<b>-1.3</b>	<b>-0.2</b>	<b>-1.6</b>	<b>-0.5</b>
<b>Net Cash Flow</b>	<b>-6.8</b>	<b>7.7</b>	<b>1.3</b>	<b>0.9</b>	<b>2.8</b>

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