



## AUSTRALIA

PGA AU Outperform  
Price 16 Feb 10 A\$1.15

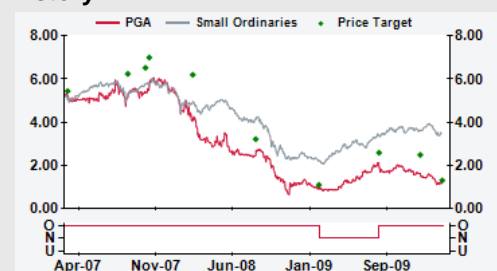
Relative to Volatility index ex 100 Very High

12-month target A\$ 1.30  
12-month TSR % +20.6  
Valuation A\$ 1.30  
- PER  
GICS sector Media  
Market cap A\$m 205  
30-day avg turnover A\$m 0.5  
Number shares on issue m 178.4

### Investment fundamentals

Year end 30 Jun		2009A	2010E	2011E	2012E
Sales revenue	m	440.6	436.2	451.6	487.7
EBIT	m	72.4	67.2	80.0	86.3
Reported profit	m	21.4	22.7	37.4	41.0
Adjusted profit	m	28.2	28.7	37.4	41.0
Gross cashflow	m	49.7	52.8	59.2	64.6
CFPS	¢	44.0	32.5	33.2	36.2
CFPS growth	%	-4.6	-26.2	2.1	9.0
PGCFPS	x	2.6	3.5	3.5	3.2
PGCFPS rel	x	0.27	0.35	0.41	0.43
EPS adj	¢	24.9	17.5	20.9	23.0
EPS adj growth	%	-1.4	-29.9	19.9	9.6
PER adj	x	4.6	6.6	5.5	5.0
PER rel	x	0.26	0.40	0.43	0.47
Total DPS	¢	11.2	8.7	10.5	11.5
Total div yield	%	9.8	7.6	9.1	10.0
Franking	%	100	100	100	100
ROA	%	9.7	8.4	9.7	10.4
ROE	%	12.5	9.0	9.7	10.1
EV/EBITDA	x	3.7	4.7	4.2	3.9
Net debt/equity	%	98.5	58.4	56.9	50.0
P/BV	x	0.5	0.5	0.5	0.5

### PGA AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2010  
(all figures in AUD unless noted)

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# Photon Group

## Result in line with guidance

### Event

- PGA reported adjusted 1H10 NPAT and EPS of \$9.7m and 6.2cps, a slight increase of 2% and a decrease of 30%, respectively, from the pcp, with the capital raising adverse to EPS as expected.
- This result was in line with management guidance of adjusted 1H10 NPAT of \$9.5m released in late-January.

### Impact

- The first half was marked by difficult economic conditions, adverse currency movements from the strong AUD (PGA sources approximately 35% of its earnings offshore) and a poor performance in particular from the internet division.
- 1H10 EBITDA was \$37.3m, down 7% on the pcp, as the downturn in the internet division combined with \$760K of redundancy costs drove EBITDA lower, notwithstanding improved contributions from most of the other divisions. Field Marketing was down 14% at the EBITDA line, as it was cycling a strong comp, with 1H09 containing a number of non recurring projects.
- Adjusted operating cash flow to EBITDA conversion was 45% in 1H10, compared with 20% in the pcp, mainly on the back of working capital management initiatives implemented by management during the half. PGA is currently within debt covenants based on LTM data – interest cover is 4.7x vs requirement of over 3x; leverage ratio is 2.5x compared with requirement of under 3x.
- Management re-affirmed its full-year guidance of \$89m for FY10 at the adjusted EBITDA line.

### Earnings and target price revision

- FY10 EPS: 17.5cps down 19% from 21.7cps pursuant to management guidance.
- Target price revised to \$1.30 from \$2.48 per share.

### Price catalyst

- 12-month price target: A\$1.30 based on a PER methodology.
- Catalyst: Announcement of a new CEO prior to June 2010, FY09 result.

### Action and recommendation

- Uncertainty around management changes and the complexity of the PGA business have contributed to the company's poor performance recently.
- However, the cyclical uptick should help the company as below-the-line marketing spending returns. Target price revised to \$1.30 per share.

**Fig 1 1H10 NPAT in line with expectations**

Income statement AUD\$m	1H09A	1H10A	% chg
<b>Revenue (Net)</b>	<b>221.4</b>	<b>196.3</b>	<b>-11.3%</b>
Other	0.6	0.3	-55.4%
<b>Total revenue</b>	<b>222.0</b>	<b>196.6</b>	<b>-11.4%</b>
Expenses	181.7	159.3	-12.3%
<b>Adjusted EBITDA</b>	<b>40.3</b>	<b>37.3</b>	<b>-7.4%</b>
Depreciation	5.9	4.3	-28.0%
Amortisation - Identifiable Intangibles	4.0	6.0	50.0%
<b>EBIT</b>	<b>30.3</b>	<b>27.0</b>	<b>-11.0%</b>
Interest - PV Charges	2.5	3.1	24.0%
<b>Reported NPAT (after minority interests)</b>	<b>5.3</b>	<b>2.9</b>	<b>-45.0%</b>
<b>Adjusted NPAT (after minority interests)</b>	<b>9.5</b>	<b>9.7</b>	<b>1.9%</b>
Reported EPS	4.9	1.9	-62.3%
Adjusted EPS	8.8	6.2	-29.2%
<b>Cash EPS**</b>	<b>15.0</b>	<b>12.1</b>	<b>-19.7%</b>
Dividend	6.0	3.0	-50.0%
<b>EFPOWA</b>	<b>106.6</b>	<b>155.8</b>	

\*\*Adjusted for Amortisation Intangibles and PV charges related to earn-outs

Source: Company data, Macquarie Research, February 2010

## Important disclosures:

**Recommendation definitions****Macquarie - Australia/New Zealand**

Outperform – return >5% in excess of benchmark return  
Neutral – return within 5% of benchmark return  
Underperform – return >5% below benchmark return

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
Neutral – expected return from -10% to +10%  
Underperform – expected return <-10%

**Macquarie First South - South Africa**

Outperform – expected return >+10%  
Neutral – expected return from -10% to +10%  
Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
Neutral – return within 5% of benchmark return  
Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
Neutral (Hold) – return within 5% of Russell 3000 index return  
Underperform (Sell) – return >5% below Russell 3000 index return

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 31 December 2009**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.94%	60.52%	37.50%	43.42%	65.26%	41.60%	(for US coverage by MCUSA, 3.76% of stocks covered are investment banking clients)
Neutral	35.58%	18.70%	53.13%	49.06%	29.11%	36.80%	(for US coverage by MCUSA, 4.51% of stocks covered are investment banking clients)
Underperform	16.48%	20.79%	9.38%	7.52%	5.63%	21.60%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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