



Imdex Limited (IMD) - Buy

Early Stages of Cyclical Upswing, Upgrades Likely

Recommendation		Buy
Previous		n/a
Risk		High
Price Target		\$0.95
Previous		n/a
Share Price (A\$)		\$ 0.71
ASX Code		IMD
52 week low - high (A\$)		0.17-0.75
Capital structure		
Shares on Issue (M)		330
Market Cap (A\$M)		234
Net Debt/(Cash) (A\$M)*		-7
EV (A\$M)*		227
Options/ Warrants (M)		38
Fully diluted EV (\$M)		254
12mth Av Daily Volume ('000)		777
Board		
Mr Anthony Wooles	Non-Executive Chairman	
Mr Bernie Ridgeway	Managing Director	
Mr Kevin Dundo	Non-Executive Director	
Mr Ivan Gustavino	Non-Executive Director	
Ms Sally-Anne Layman	Non-Executive Director	
Substantial Shareholders		
Fidelity		9.0%
Perennial Value Management		6.8%
Tribeca		5.6%
Wilson Asset Management		5.6%
Share Price Graph		



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 The analyst owns no shares in IMD.

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Event:

- 1H17A results. In-line with expectations, restructured & moving forward.

Analysis:

- 1H17A results were in-line with expectations. Underlying EBITDA \$13.5m (+68% y-o-y) implying 2017E of at least \$27m. With a slight seasonal weighting in 2H, assisted by growth in sales, it is possible that IMD could achieve an EBITDA of c.\$30m. Operating cash conversion was not perfect (mid 70%), but should revert to normal in 2H (apparently impacted by FX and legal costs). We will monitor heading into FY17E results.
- The leverage effect for IMD can be quite significant. With 20% sales growth in 2018E, EPS could be as high as c.8.4 cents, so valuation could be closer to \$1.25 (vs our 92 cents). Assumes +60% gross margin & cost base of c.\$80m per annum.
- Margins at the peak of the cycle were 20-25% (vs c.+16% today). Whilst new products have high charge out rates, we understand that today IMD is not able to push up prices on its traditional rental fleet.
- Overall the outlook is positive and IMD management believe it is in the early stages of cyclical upswing: 1H +20% growth in rental equipment (Jan/Feb c.+26%) and in our opinion may accelerate. Increase in activity has been across the board, Canada, Latin America, West Africa & Australia.
- Business improvement has not just been related to the gold price, base metals have increased, so financial improvement of IMD has been broader based, compared to recent past.
- Management are not concerned on capex blowing out from renting of instruments, its product out on hire fully depreciated. Newer tools are rented at higher rates, so highly profitable (capex c.\$5m in 2017, maybe +\$7m in 2018E).
- Financing costs in 2H and FY18E are minimal compared to history (\$16.2m in 1H), after eliminating the Bain financing (10.75%, along with 37m warrants, with no strike price).
- Net cash is c.\$7m. IMD has a BankWest facility of \$30m @ 3.6%. In January \$3.5m was received from the divestment of AMC Oil and Gas.

Earnings and Valuation:

- We estimate 2018E EPS of 6.3 cents (with operating leverage & likely higher sales growth in 2018E, it may end up being higher), at 15x PER, we value IMD at 95 cents.
- On the whole, the worst should be behind IMD and management has appeared to stabilize its cost base / cleaned out unprofitable operations, to benefit from a cyclical upswing in its core markets.

Recommendation:

- We recommend IMD as a BUY based on its relative valuation and potential upside to consensus earnings. PT \$0.95.