



Emerson Stewart SPEC. BUY

23 June 2009

Effective use of surplus cash

Current Price: **\$0.085**

Ticker: **ESW.ASX**
Sector: **Engineering**

Shares on Issue (m): **98.6**
Market Cap (\$m): **8.4**
Debt (\$m): **0.0**
Cash (\$m): **7.5**
Enterprise Value (\$m): **0.8**

* Post proposed buyback & employee share plan

52 wk High/Low: **\$0.235 \$0.050**
12m Av Daily Vol (m): **0.05**

Key Metrics

EV/EBITDA (x) 09F 0.49
P/E (x) 5.38

Financials:

	07A	08A*	09F**
Revenue (\$m)	4.4	10.5	12.7
EBITDA (\$m)	0.4	2.2	1.7
NPAT (\$m)	0.2	1.3	1.6
EBITDA Margin	8.1%	20.8%	13.5%

Notes:

* Adjusted for non-recurring costs

** ESW guidance / Ind. Experts Report

** Excludes prov. for non-recovery of amts owing from Windimurra Vanadium (\$1.2m)

Directors

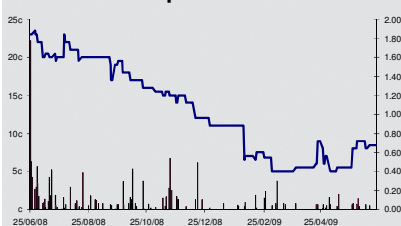
Steven Cole	Non-exec Chairman
Dario Amara	MD/CEO
James Cullen	NED
David Richardson	NED
Rod Smith	Company Secretary

Major Shareholders*

	# (m)	%
Dario Amara	34.7	35.2
Clients of Entrust	22.3	22.6
Employee Share Plan	6.3	6.3
Argonaut	2.6	2.7

* Post proposed buyback & employee share plan

Share Price Graph



Analyst:
Ian Christie

Emerson Stewart (ESW) has entered into an agreement with Redsdale for a selective buy-back of 31.25m shares at an average price of 7.5cps for a total cost of \$2.3m. Redsdale is a substantial 25.3% holder of ESW shares and is controlled by the co-founder and a former director of the Company, Angelo Dabala.

Of the 31.25m shares bought back, ESW intends to cancel 25.00m shares and establish an employee share plan for the remaining 6.25m shares. The transaction is conditional on shareholder approval, which if given, will see shares on issue fall by 20.2%.

This transaction is positive for a number of reasons:

- × The acquisition price is attractive. With cash of \$9.9m at 30 April, ESW cash backing alone accounts for 8.0cps. The Independent Expert, Ernst & Young, in their report valued ESW at between 11.6cps and 13.0cps (based on an EBITDA multiple of between 3 and 4 times).
- × Earnings per share is improved. Based on ESW guidance for FY09 NPAT of \$1.6m, EPS increases from 1.26cps to 1.58cps as a result of the cancellation of 25.0m shares.
- × While cash is reduced from \$9.9m to \$7.5m, the impact on net asset backing per share is negligible, with NTA per share increasing marginally from 10.1cps to 10.2cps. Cash backing per share falls slightly from 8.0cps to 7.6cps.
- × ESW's operations are largely self-funding. The Company will remain in a comfortable cash position post the acquisition, providing the werewithall for ESW to continue pursuing growth opportunities, both organically and through acquisition.
- × The acquisition also removes a large potential seller from the market, reducing the risk of downward pressure on the share price from the share overhang.

The Independent Expert cites the one disadvantage as being the increase in ownership of the Company's largest shareholder, which sees Dario Amara's interest increase from 28.0% to 35.2%. However Mr Amara is already the largest shareholder as well as the Company's CEO/MD and is thus in a position of significant influence already.

Overall we believe this is a positive transaction and an effective use of the Company's surplus cash. The Independent Expert also concludes that the transaction is fair and reasonable to the non-associated shareholders.

In recent times the environment has become more difficult for consulting engineering firms such as ESW as slowing growth has caused a number of projects to be scaled back, delayed or cancelled. Still ESW's order book is >\$60m (up from \$46m 9 months ago) and the Company believes that demand for its services in the short to medium term will remain fairly strong.

With cash of 7.6cps post this transaction, the current share price places hardly any value on the Company's operations. An enterprise value of less than \$1m is unwarranted and we maintain our recommendation.

SPEC BUY

Contact Details
Research:
Ian Christie

Director Research
+61 8 9224 6872

Troy Irvin

Associate Director, Resources
+61 8 9224 6871

Tim Serjeant

Analyst
+61 8 9224 6806

Institutional Sales:
Paul Carter

Executive Director
+61 8 9224 6864

Chris Wippl

Senior Institutional Dealer
+61 8 9224 6875

John Santul

Consultant, Sales & Research
+61 8 9224 6859

Damian Rooney

Senior Institutional Dealer
+61 8 9224 6862

Ben Willoughby

Institutional Dealer
+61 8 9224 6876

Corporate and Retail Sales:
Kevin Johnson

Executive Director
+61 8 9224 6880

Glen Colgan

Executive Director
+61 8 9224 6874

Geoff Barnesby-Johnson

Senior Dealer
+61 8 9224 6854

James McGlew

Senior Dealer
+61 8 9224 6866

Andrew Venn

Dealer
+61 8 9224 6865

Rob Hamilton

Dealer
+61 8 9224 6830

Melaney Brans

Dealer
+61 8 9224 6873

Important Disclosures

- × Argonaut acted as corporate advisor to ESW and as manager and broker to the IPO in June 2008. Argonaut received fees commensurate with these services.
- × Argonaut holds and/or controls 2,626,000 shares in ESW.

General Disclosure and Disclaimer

This research has been prepared by Argonaut Securities Pty Limited (ABN 72 108 330 650) ("ASPL") for the use of the clients of ASPL and its related bodies corporate (the "Argonaut Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this report in any way. ASPL is a holder of an Australian Financial Services Licence No. 274099 and is a Market Participant of the Australian Stock Exchange Limited.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act. This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ASPL has made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Argonaut Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Argonaut Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Argonaut Group and/or its associates, including ASPL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may effect transactions which are not consistent with the recommendations (if any) in this research. The Argonaut Group and/or its associates, including ASPL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ASPL's overall revenues.

© 2009. All rights reserved. No part of this document may be reproduced or distributed in any manner without the written permission of Argonaut Securities Pty Limited. Argonaut Securities Pty Limited specifically prohibits the re-distribution of this document, via the internet or otherwise, and accepts no liability whatsoever for the actions of third parties in this respect.