



Recommendation	<b>Buy</b>
Price	<b>\$3.20</b>
Target (12 mths)	<b>\$4.10</b>
Expected Return	
Capital growth	28.1%
Dividend yield	3.1%
<b>Total expected return</b>	<b>31.2%</b>

Company Data and Ratios	
Enterprise value	\$130m
Market cap	\$141m
Issued capital	44m
Free float	43%
12 month price range	\$1.68 - \$3.30
GICS sector	Software and Services

GBT valuation matrix	
<b>LT ASX volume growth</b>	<b>Valuation</b>
5%	\$4.00
10%	\$4.05
15%	\$4.20
20%	\$4.40

**Disclaimer and disclosures**  
This report must be read with the disclaimer and disclosures on page 4 that form part of it.

**Analysts**  
TS Lim 612 8224 2810  
tslim@sceq.com.au

Lafitani Sotiriou 612 8224 2813  
lsotiriou@sceq.com.au

**Director**  
Rex Adams 612 9231 0880  
rexa@sceq.com.au

## GBST Holdings (GBT)

### Significantly undervalued

- ◆ Clear market leader in transaction processing technology
- ◆ New opportunities in adjacent markets
- ◆ Significant discount to global peers
- ◆ Price target upgraded to \$4.10; maintain Buy

### A scaleable business

GBT provides transaction processing and settlements software / solutions for capital market participants, with its revenues leveraged to ASX trading activity. GBT remains the market leader with >50% share of the equities and derivatives markets, and clients comprising 68% of stockbrokers. With the focus on generating even higher recurring revenues, the margin outlook continues to be favourable. We have consequently upgraded our earnings forecasts by 2-3% across the forecast horizon and have increased our price target by 10cps to \$4.10. Our Buy rating is maintained.

**Adjacent market opportunities.** Our January 2007 report highlighted a number of high-growth segments that could add significant value to GBT, given its transferable skills in providing processing and settlements solutions. These segments include home loan origination, funds management, margin lending, insurance, financial markets trading and treasury services. We believe the potential target market consists of 10,000 mortgage originators, 12,000 financial advisers, industry super funds, building societies, credit unions and the regional banks.

**Price re-rating in order.** GBT's valuation should be benchmarked against the leaders in the provision of global networking solutions, such as Cisco and I-Flex. Despite a far superior ROE, GBT consistently trades at up to 65% discount to comparable companies in Australia, US and India. Given the company's strong potential in generating additional revenue from market adjacencies and from the creation of a global e-commerce community, we feel a re-rating of GBT is justified.

#### Absolute price



Source: Iress

#### Earnings Forecasts

Year end June 30	2006a	2007f	2008f	2009f
NPAT (reported) (A\$m)	6.1	8.3	9.5	10.5
NPAT (adjusted) (A\$m)	6.4	8.3	9.5	10.5
EPS (adjusted) (cps)	14.0	19.0	21.5	23.9
EPS growth (%)	51%	36%	14%	11%
PER (x)	22.9	16.9	14.9	13.4
P/CFPS (x)	14.1	20.6	13.9	12.3
EV/EBITDA (x)	14.4	10.6	9.2	8.1
Dividend (¢ps)	4	10	12	14
Yield (%)	1.3%	3.1%	3.8%	4.4%
ROE (%)	45%	47%	42%	39%

Source: SCE estimates



## The Cisco Kid

The strong showing in GBT's 38% EBITDA margin in 1H07 (previously 31%) appears sustainable given prospects for further cost efficiencies and new product launches (e.g. the TOMS Equities trade order management system that covers all financial products traded on the ASX – to be launched in 2H07). We have upgraded our earnings forecasts across the board (Table 1), and have increased our price target by 10cps to \$4.10. Our Buy rating is maintained.

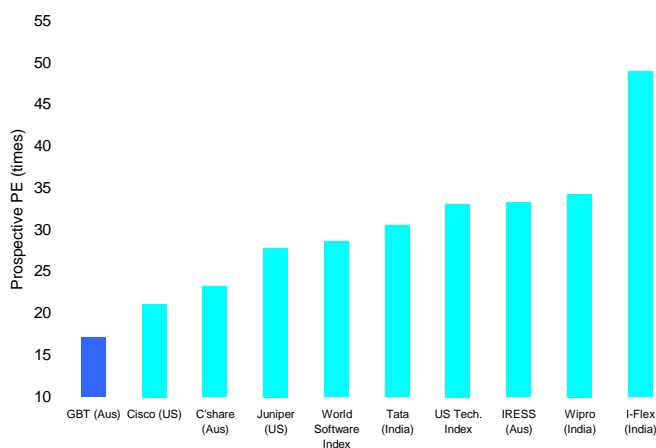
We continue to assert that GBT should be valued as a provider of networking solutions, rationally benchmarked against the global leaders such as Cisco Systems, Juniper Networks, I-Flex Solutions, Wipro and Tata Consultancy Services. GBT now trades at up to a 50% discount to its Australian peers, and up to a 65% discount when compared with the pace-setting US and Indian companies (Figure 1). GBT's superior ROE (Figure 2) and potential revenue gains from market adjacencies and global e-commerce suggest our revised \$4.10 price target is reasonable.

**Table 1 – Estimate changes**

(\$'000)	2007f		2008f		2009f	
	New	Change	New	Change	New	Change
Sales revenue	33,386	0%	36,933	0%	40,430	0%
EBITDA	12,013	5%	13,321	4%	14,603	2%
NPAT	8,333	3%	9,459	2%	10,524	2%
EBITDA margin	36%	2%	36%	1%	36%	1%
EPS (cps)	19.0	4%	21.5	4%	23.9	5%
DPS (cps)	10.0	0%	12.0	0%	14.0	0%
ROE (%)	47%	1%	42%	0%	39%	0%

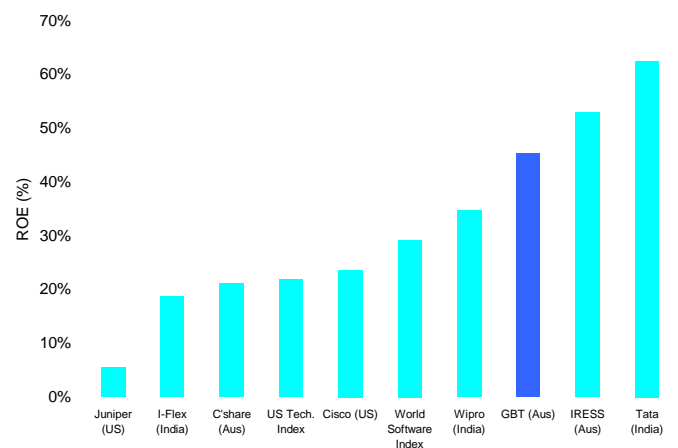
Source: Company data and SCE estimates

**Figure 1 – Prospective PE substantially below peers ...**



Source: Bloomberg, SCE

**Figure 2 – ... but undervalued when its superior ROE is considered**



Source: Bloomberg, SCE



Table 2 – Financial summary

GBST HOLDINGS LIMITED						Share Price (A\$)					3.20
As at 16-Feb-07						Market Cap (A\$M)					141
<b>PROFIT AND LOSS</b>						<b>VALUATION DATA</b>					
<b>Y/e June 30 (\$'000)</b>	<b>2005a</b>	<b>2006a</b>	<b>2007f</b>	<b>2008f</b>	<b>2009f</b>	<b>Y/e June 30</b>	<b>2005a</b>	<b>2006a</b>	<b>2007f</b>	<b>2008f</b>	<b>2009f</b>
Sales revenue	23,725	28,252	33,386	36,933	40,430	Net profit adj (\$'000)	5,229	6,439	8,333	9,459	10,524
<b>EBITDA</b>	<b>4,776</b>	<b>9,024</b>	<b>12,013</b>	<b>13,321</b>	<b>14,603</b>	<b>EPS (c)</b>	<b>9.3</b>	<b>14.0</b>	<b>19.0</b>	<b>21.5</b>	<b>23.9</b>
Depreciation & amortisation	-543	-519	-861	-813	-911	EPS growth (%)	nm	50.8%	35.8%	13.5%	11.2%
Goodwill amortisation	-91	-303	0	0	0	P/E ratio (x)	34.6	22.9	16.9	14.9	13.4
<b>EBIT</b>	<b>4,143</b>	<b>8,202</b>	<b>11,152</b>	<b>12,507</b>	<b>13,692</b>	CFPS (c)	6.0	22.7	15.6	23.0	26.0
Net interest expense	275	426	649	842	1,095	Price/CF (x)	53.3	14.1	20.6	13.9	12.3
<b>Pre-tax profit</b>	<b>4,418</b>	<b>8,628</b>	<b>11,800</b>	<b>13,349</b>	<b>14,787</b>	<b>DPS (c)</b>	<b>2.3</b>	<b>4.0</b>	<b>10.0</b>	<b>12.0</b>	<b>14.0</b>
Tax	720	-2,492	-3,468	-3,890	-4,264	Yield (%)	0.7%	1.3%	3.1%	3.8%	4.4%
Outside equity interests	0	0	0	0	0	Payout (%)	25%	29%	53%	56%	58%
<b>Net profit</b>	<b>5,138</b>	<b>6,136</b>	<b>8,333</b>	<b>9,459</b>	<b>10,524</b>	Franking (%)	100%	100%	100%	100%	100%
Goodwill	91	303	0	0	0	<b>PROFITABILITY RATIOS</b>					
<b>SCEQ adj profit</b>	<b>5,229</b>	<b>6,439</b>	<b>8,333</b>	<b>9,459</b>	<b>10,524</b>	<b>Y/e June 30</b>	<b>2005a</b>	<b>2006a</b>	<b>2007f</b>	<b>2008f</b>	<b>2009f</b>
One-off items	-878	0	0	0	0	EBITDA/sales (%)	20%	32%	36%	36%	36%
Goodwill	-91	-303	0	0	0	EBIT/sales (%)	17%	29%	33%	34%	34%
<b>Reported net profit</b>	<b>4,260</b>	<b>6,136</b>	<b>8,333</b>	<b>9,459</b>	<b>10,524</b>	Return on assets (%)	35%	37%	47%	44%	41%
<b>CASHFLOW</b>						<b>Return on equity (%)</b>	<b>62%</b>	<b>45%</b>	<b>47%</b>	<b>42%</b>	<b>39%</b>
<b>Y/e June 30 (\$'000)</b>	<b>2005a</b>	<b>2006a</b>	<b>2007f</b>	<b>2008f</b>	<b>2009f</b>	Return on funds empl'd (%)	nm	280%	229%	254%	270%
EBITDA	4,776	9,024	12,013	13,321	14,603	Dividend cover (x)	nm	3.5	1.9	1.8	1.7
Change in working capital	323	-1,430	-310	-163	-160	Effective tax rate (%)	-16%	29%	29%	29%	29%
Net interest	-11	363	649	842	1,095	<b>LIQUIDITY AND LEVERAGE RATIOS</b>					
Tax paid	0	-343	-4,448	-4,019	-4,216	<b>Y/e June 30</b>	<b>2005a</b>	<b>2006a</b>	<b>2007f</b>	<b>2008f</b>	<b>2009f</b>
Other	-2,447	2,350	-1,066	118	117	Net debt/(cash) (\$'000)	-6,810	-10,583	-13,027	-17,588	-22,251
<b>Operating cashflow</b>	<b>2,641</b>	<b>9,964</b>	<b>6,838</b>	<b>10,100</b>	<b>11,440</b>	<b>Net debt/equity (%)</b>	<b>-60%</b>	<b>-64%</b>	<b>-66%</b>	<b>-68%</b>	<b>-73%</b>
Capex	-559	-562	-759	-1,024	-1,383	Net interest cover (x)	-15.0	-19.2	-17.2	-14.9	-12.5
Asset sales	0	0	0	0	0	Net debt/EBITDA (x)	-0.9	-1.0	-1.0	-1.1	-1.4
Other investments	-21	-5,907	322	322	322	Current ratio (x)	2.6	2.0	3.7	4.8	5.6
<b>Investing cashflow</b>	<b>-580</b>	<b>-6,468</b>	<b>-437</b>	<b>-702</b>	<b>-1,061</b>	EV/EBITDA (x)	28.0	14.4	10.6	9.2	8.1
Equity raising	3,504	277	0	0	0	Inventory/sales (%)	0%	0%	0%	0%	0%
Dividends paid	-1,020	0	-3,957	-4,836	-5,716	<b>Cash cycle</b>					
Change in borrowings	0	-37	-20	0	0	Days receivable	37	42	35	35	35
Other	-2,150	0	0	0	0	Days inventory	1	0	0	0	0
<b>Financing cashflow</b>	<b>334</b>	<b>239</b>	<b>-3,977</b>	<b>-4,836</b>	<b>-5,716</b>	Days payable	52	39	29	29	29
<b>Net change in cash</b>	<b>2,396</b>	<b>3,735</b>	<b>2,424</b>	<b>4,561</b>	<b>4,664</b>	Cash cycle	-14	3	6	6	6
<b>Cash at end of period</b>	<b>6,883</b>	<b>10,618</b>	<b>13,042</b>	<b>17,603</b>	<b>22,266</b>	Net working assets (\$'000)	-322	-919	402	684	794
<b>BALANCE SHEET</b>						Sales / net working assets	-1.4%	-3.3%	1.2%	1.9%	2.0%
<b>Y/e June 30 (\$'000)</b>	<b>2005a</b>	<b>2006a</b>	<b>2007f</b>	<b>2008f</b>	<b>2009f</b>	<b>MARKET SHARE ASSUMPTIONS</b>					
Cash	6,883	10,618	13,042	17,603	22,266	<b>Y/e June 30</b>	<b>2005a</b>	<b>2006a</b>	<b>2007f</b>	<b>2008f</b>	<b>2009f</b>
Receivables	2,392	3,224	3,201	3,542	3,877	<b>ASX trading volumes</b>					
Inventories	62	3	3	3	3	SEATS transactions (m)	23	32	45	56	67
Other	242	280	200	200	200	- Growth	26%	41%	40%	25%	20%
<b>Current assets</b>	<b>9,579</b>	<b>14,125</b>	<b>16,446</b>	<b>21,347</b>	<b>26,347</b>	SEATS trans'n value (\$bn)	816	1,036	1,313	1,531	1,736
PPE	1,111	1,157	1,055	1,265	1,737	- Growth	28%	27%	27%	17%	13%
Other financial assets	0	0	0	0	0	<b>GBT share</b>					
Intangibles	86	2,382	2,060	1,738	1,416	Share of SEATS trans'ns	37%	40%	41%	42%	43%
Goodwill	0	3,350	3,350	3,350	3,350						
Other	1,066	1,120	1,015	948	884						
<b>Non-current assets</b>	<b>2,264</b>	<b>8,009</b>	<b>7,480</b>	<b>7,302</b>	<b>7,387</b>						
<b>Total assets</b>	<b>11,842</b>	<b>22,134</b>	<b>23,926</b>	<b>28,649</b>	<b>33,734</b>						
Payables	2,844	2,030	1,698	1,876	2,052						
Debt	73	35	15	15	15						
Provisions	972	1,198	1,140	1,191	1,244						
Other	1,121	5,353	3,180	3,051	3,099						
<b>Total liabilities</b>	<b>5,010</b>	<b>8,617</b>	<b>6,033</b>	<b>6,133</b>	<b>6,410</b>						
Shareholders' equity	6,832	13,517	17,893	22,516	27,324						
<b>Total shareholders funds</b>	<b>6,832</b>	<b>13,517</b>	<b>17,893</b>	<b>22,516</b>	<b>27,324</b>						
Total funds employed	22	2,934	4,866	4,928	5,072						
<b>Wtd. diluted shares (m)</b>	<b>36</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>						

Source: Company data and SCE estimates



## Recommendation structure

Buy:	Expect >15% total return on a 12-month view
Speculative Buy:	Expect >30% total return on a 12-month view but carries significantly higher risk than its sector
Fair Value:	Expect total return between -15% and +15% on a 12-month view
Sell:	Expect <-15% total return on a 12-month view

## Southern Cross Equities Limited

Level 32, Aurora Place  
88 Phillip Street, Sydney NSW 2000  
PO Box R234, Royal Exchange NSW 1225  
Telephone: (612) 9231 0880 Fax: (612) 9231 0588

## Research Team

Robert Bishop	Resources Analyst	612 8224 2859	rbishop@sceq.com.au
Peter Chapman	Senior Resources Analyst	612 8224 2847	pchapman@sceq.com.au
TS Lim	Financials Analyst	612 8224 2810	tslim@sceq.com.au
Tim Mann	Industrial Analyst	612 8224 2880	tmann@sceq.com.au
Dinesh Pillutla	Real Estate Analyst	612 8224 2833	dpillutla@sceq.com.au
David Radclyffe	Head of Resources	612 8224 2829	dradclyffe@sceq.com.au
Stuart Roberts	Industrial Analyst	612 8224 2871	sroberts@sceq.com.au
Lafitani Sotiriou	Analyst	612 8224 2813	lsotiriou@sceq.com.au
Joel Weiss	Assistant Analyst	612 9231 0880	jweiss@sceq.com.au
David Whittaker	Head of Research	612 8224 2886	dwhittaker@sceq.com.au

TS Lim / Lafitani Sotiriou  
**Analysts**

Rex Adams  
**Director**

This document is intended solely for the information of the particular person to whom it was provided by Southern Cross Equities Limited and should not be relied upon by any other person. Although we believe that the advice and information which this document contains is accurate and reliable, Southern Cross Equities Limited has not independently verified information contained in this document which is derived from publicly available sources, directors and proposed directors and management. Southern Cross Equities assumes no responsibility for updating any advice, views, opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued. Southern Cross Equities Limited does not give any warranty as to the accuracy, reliability or completeness of advice or information which is contained in this document. Except insofar as liability under any statute cannot be excluded, Southern Cross Equities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

This document has not been written for the specific needs of any particular person and it is not possible to take into account each investors individual circumstances and that investors should make their adviser aware of their particular needs before acting on any information or recommendation. Southern Cross Equities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees, calculated at normal client rates, from transactions involving securities referred to in this document and may hold interests in the securities referred to in this document from time to time.

**Disclosure of Interest**

Southern Cross Equities Ltd and its associates hold 1,266,010 shares in GBST Holdings (GBT) as at the date of this report. This position is subject to change without notice.