



Recommendation	Buy
Price	\$4.00
Target (12 mths)	\$4.60
Expected Return	
Capital growth	15.0%
Dividend yield	3.0%
Total expected return	18.0%

Company Data and Ratios	
Enterprise value	\$168m
Market cap	\$179m
Issued capital	45m
Free float	44%
12 month price range	\$2.11 - \$4.00
GICS sector	Software and Services

Disclaimer and disclosures
 This report must be read with the disclaimer and disclosures on page 6 that form part of it.

Analysts
 Laffitani Sotiriou 612 8224 2813
 lsotiriou@sceq.com.au

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

Authorisation
 David Radclyffe 612 9231 0880
 dradclyffe@sceq.com.au

GBST Holdings (GBT)

Solid trading growth

- ◆ Integrated business model is a natural defence
- ◆ Peer comparison highlights value
- ◆ Acquisition hungry
- ◆ Upgrading price target to \$4.60

Leveraged to share market activity

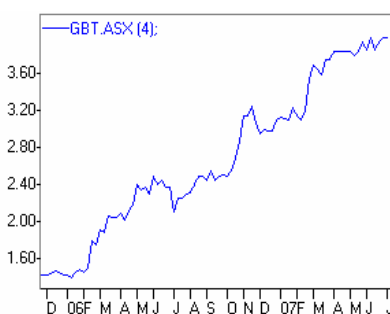
GBST is a software services company leveraged to the Australian stock market. Although increased transaction activity does not translate into one-for-one revenue growth for GBST, the number of share transactions in Australia is up 53% for FY07 (discussed page 3). The increased activity is supported by legislated superannuation, which is forecast to triple over the next 15 years (figure 6).

PE comparison forms valuation. With stable cash flows, the sticky nature of the customer base, an integrated business model and solid fundamentals, we believe a PE comparison is the most appropriate valuation method to use. We feel that the superior ROE (figure 1) and a solid EPS growth outlook for 3 years (figure 2) justifies comparison with the likes of IRESS and Computershare. On this basis we arrive at a base case valuation of \$4.60 with upside to \$5.00.

Structural change. There are emerging themes such as Margin Lending, Private Equity and Hedge Funds that should lead to a shift in assessing future trends. Margin Lending amplifies an individual's capacity to invest, while Private Equity and Hedge Funds are driving the increased frequency of trades. All three are considered to be in the early stages and beneficial for GBST.

Under appreciated factor. The healthy state of Australian banks, the tight regulatory environment and strict credit policies have helped foster a 'risk taking' sentiment. Take Japan by contrast, the unravelling and write-off of billions of dollars, due in part to a poor banking system, has scared Japanese investors into being risk averse.

Absolute price



Source: Iress

Earnings Forecasts

Year end June	2006a	2007f	2008f	2009f
NPAT (reported) (A\$000's)	6,136	8,036	9,582	11,029
NPAT (adjusted) (A\$000's)	6,136	8,036	9,582	11,029
EPS (adjusted) (cps)	14.0	17.9	21.4	24.6
EPS growth (%)	26%	28%	19%	15%
PER (x)	28.7	22.3	18.7	16.3
EV/Sales (x)	5.9	5.3	4.4	3.8
EV/EBITDA (x)	18.3	14.1	12.0	10.3
Dividend (cps)	4.0	10.0	12.0	14.0
Yield (%)	1.0%	2.5%	3.0%	3.5%
ROE (%)	60%	51%	47%	43%

Source: SCEQ estimates



Market comparison justifies upgrade

IRESS & Computershare are an appropriate benchmark

GBST's successful acquisition of Palion, and cementing of market position is great news. We feel that the superior ROE (figure 1) and a solid EPS growth outlook for 3 years (figure 2), justifies comparison with the likes of IRESS and Computershare. All three are exposed to the solid fundamentals discussed earlier, are Australian companies and provide software solutions to participants in the stock market.

PE comparison forms valuation. With stable cash flows, the sticky nature of the customer base, an integrated business model and solid fundamentals, we believe a PE comparison is the most appropriate valuation method to use. Therefore, a FY08 PE target of 21 times is reasonable considering the IRESS FY08 trading range is around 22 – 25 times and Computershare 21- 24 times (figure 3). We assume a base case FY08 PE of 21 times and upside of 23 times. This implies a base case valuation of \$4.60, with upside to \$5.00.

Upside potential with further acquisitions

Acquisition hungry. The company has made it clear that an acquisition is being sought. With an ungeared balance sheet, there is capacity for the company to spend \$20 – 40m. It would appear that acquisition opportunities are limited in their core activities – however we do expect upside here through the integrated model.

Financial Services has grown. And so has the need for complex software support. Managed funds, corporate actions, fixed income and data management in general are all areas the company could move into.

Figure 1 – 3 year average prospective ROE

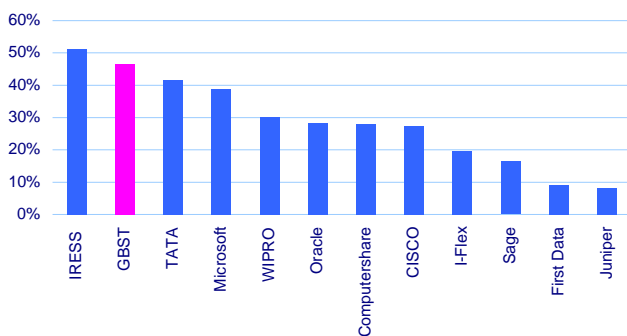


Figure 2 – 3 year average prospective EPS growth

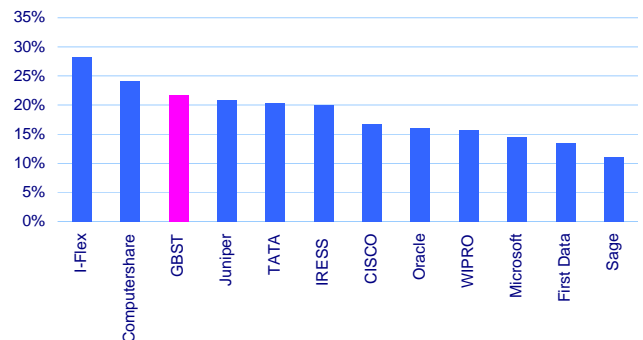


Figure 3 – Prospective FY08 PE(x)

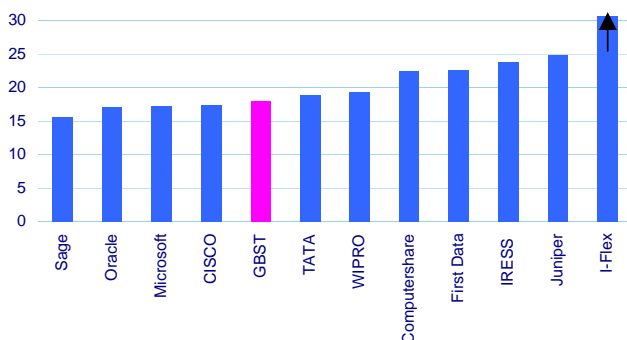
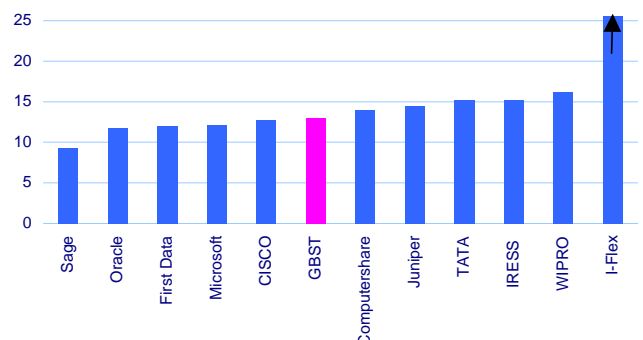


Figure 4 – Price / prospective FY08 EBITDA (x)



Source for all four: Thomson & Southern Cross Equities estimates



Solid trading growth

GBST is a software services company leveraged to the Australian stock market. Although increased transaction activity does not translate into one-for-one revenue growth for GBST, the number of share transactions in Australia is up 53% for FY07, with the value being traded up 32% (figure 5). An increased use of derivatives, solid fundamentals and the network effect are supportive of our view on GBST.

The fundamentals remain firm

Legislated superannuation growth has helped shape the Australian share market today. Current superannuation balances are forecast to more than triple over the next 15 years (figure 6). Not all monies will be allocated to Australian shares, however much of it is likely to be, leading to increased transaction activity.

Structural change. There are emerging themes such as Margin Lending, Private Equity and Hedge Funds that should lead to a shift in assessing future trends. Margin Lending amplifies an individual's capacity to invest, while Private Equity and Hedge Funds are driving the increased frequency of trades. All three are considered to be in the early stages and beneficial for GBST.

Middle class. Wealthier, more technologically savvy middle class has increased awareness of how to invest in shares (online trading, financial advisors) and is in a position to do so (increased wealth, income and strong economy).

Under appreciated factor. The healthy state of Australian banks, the tight regulatory environment and strict credit policies have helped foster a 'risk taking' sentiment. In Japan by contrast, the unravelling and write-off of billions of dollars, due in part to a poor banking system has scared Japanese investors into being risk averse.

Network effect is real. Whether it is middle class investors via online trading, Hedge Funds, or Superannuation Funds - the more parties plugging into the share network, the more liquidity that is created. More buyers and sellers allows for increased transaction activity in stocks that may have previously been illiquid.

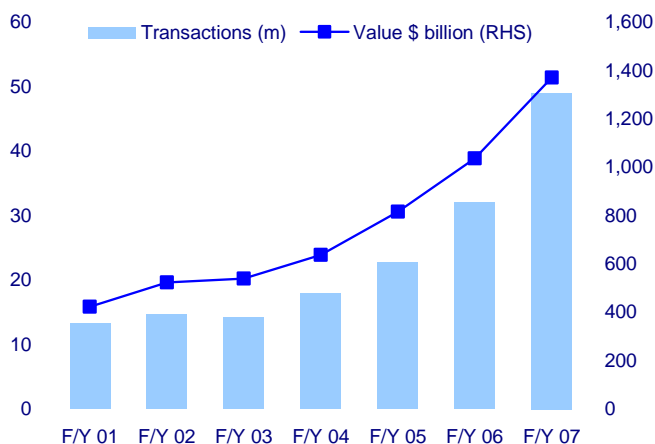
Limitations to growth. Although strong fundamentals and increased transaction activity is positive for GBT, understanding the limitation is important. About 40% of GBT's revenue is leveraged to share market transaction growth, restricting the upside potential. It is unlikely that this ratio will change much over the coming years. Also, there are more trades being booked per contract note, again working against GBT as the first pricing point is the contract note. Despite these factors, we believe the fundamentals will support the company going forward.

Superannuation balances are forecast to triple over the next 15 years

A wealthier middle class is helping growth

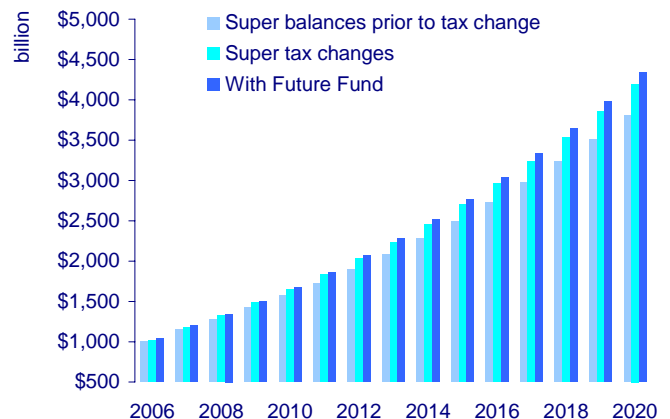
About 40% of GBST's revenue is leveraged to share market transaction growth

Figure 5 – Number of transactions and total value



Source: IRESS

Figure 6 – Superannuation growth



Source: APRA & Southern Cross Equities Estimates



Integrated business model

GBST is able to offer value-add to clients via various product offerings, as discussed below:

Tailored solutions

Tailored solutions help to entrench the client base

This is where the client engages GBST's Research & Development (R&D) team for a tailored solution (see figure 7). The client pays the cost of the development, creating a revenue stream for GBST. A new product is created, further entrenching the client, as there is a desire to make the most of the investment. In some cases, the product can be repackaged and sold to the existing pool of clients (great for ROE).

Cross-sell existing products

As the stock market becomes more complex, with varying derivatives, futures, and margin lending, there is a greater need for software solutions that brings it all together. GBST currently has around a dozen products with new ones being developed.

In-house R&D for new products

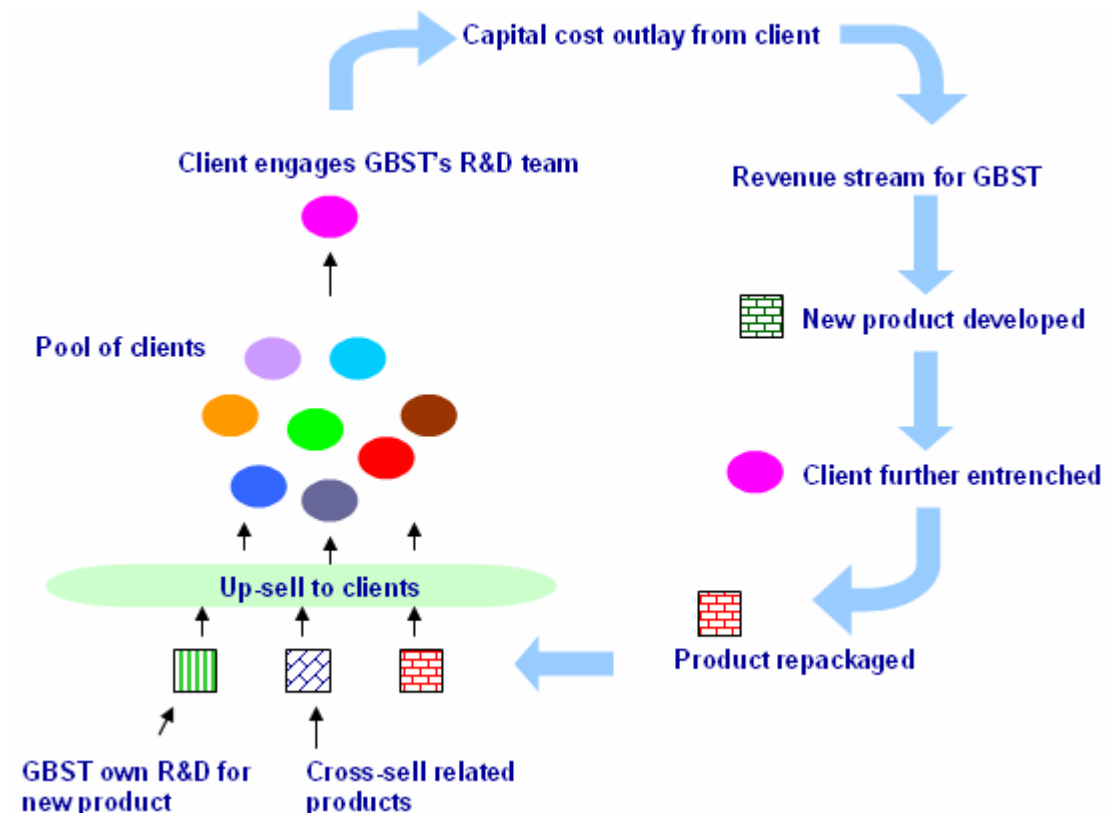
Some disappointment with delays for one-stop shop product

It is important that any software company continue with R&D to create new products. There has been some success in this area, with bolt-on products such as Databus and Web Services being offered. However there has been some disappointment with delays in bringing together a one-stop shop product for brokers. We see this as a short-term problem. New product is still being workshopped – just at a slower pace than anticipated. This is in part exacerbated by a skills shortage – GBST is finding it difficult to get appropriately skilled staff.

Difficult for competition

It takes significant planning, training and investment for a broking firm to switch providers. With a dominant market position and an integrated business model we feel there is a natural defence to other players wanting to compete.

Figure 7 – Integrated business model



Source: Southern Cross Equities



Table 1 - Financial Summary

GBST Holdings (GBT)						Share Price (A\$)					4.00
As at	5-Jul-07					Market Cap (A\$m)					179
PROFIT AND LOSS						VALUATION DATA					
Y/e June 30 (\$'000)	2005a	2006a	2007f	2008f	2009f	Y/e June 30	2005a	2006a	2007f	2008f	2009f
Sales revenue	23,717	28,241	31,348	36,496	41,024	Net profit adj (\$'000)	4,875	6,136	8,036	9,582	11,029
EBITDA	4,854	9,047	11,645	13,322	15,054	EPS adj (c)	11.1	14.0	17.9	21.4	24.6
Depreciation & amortisation	-634	-823	-1,021	-725	-696	EPS growth (%)	na	26%	28%	19%	15%
Goodwill amortisation	0	0	0	0	0	P/E ratio (x)	36	29	22	19	16
EBIT	3,343	8,224	10,624	12,597	14,359	CFPS (c)	6.0	22.7	19.8	22.9	26.0
Net interest expense	197	404	799	1,092	1,397	Price/CF (x)	67	18	20	17	15
Pre-tax profit	3,540	8,628	11,423	13,689	15,755	DPS (c)	2.3	4.0	10.0	12.0	14.0
Tax	720	-2,492	-3,386	-4,107	-4,727	Yield (%)	1%	1%	3%	3%	4%
Outside equity interests	0	0	0	0	0	Payout (%)	21%	29%	28%	52%	53%
Net profit	4,260	6,136	8,036	9,582	11,029	Franking (%)	0%	100%	100%	100%	100%
Goodwill	0	0	0	0	0	PROFITABILITY RATIOS					
SCEQ adj profit	4,875	6,136	8,036	9,582	11,029	Y/e June 30	2005a	2006a	2007f	2008f	2009f
One-off items	615	0	0	0	0	EBITDA/sales (%)	20%	32%	37%	37%	37%
Goodwill	0	0	0	0	0	EBIT/sales (%)	14%	29%	34%	35%	35%
Reported net profit	4,260	6,136	8,036	9,582	11,029	Return on assets (%)	84%	81%	67%	61%	56%
CASHFLOW						Return on equity (%)	123%	60%	51%	47%	43%
Y/e June 30 (\$'000)	2005a	2006a	2007f	2008f	2009f	Return on funds empl'd (%)	529%	520%	325%	361%	415%
EBITDA	4,854	9,047	11,645	13,322	15,054	Dividend cover (x)	4.2	3.5	1.8	1.8	1.8
Working capital	178	-1,701	-360	-257	-226	Effective tax rate (%)	-20.3%	28.9%	30.0%	30.0%	30.0%
Provisions	-283	226	87	211	186	LIQUIDITY AND LEVERAGE RATIOS					
Net interest	-11	363	799	1,092	1,397	Y/e June 30	2005a	2006a	2007f	2008f	2009f
Tax paid	0	-343	-3,386	-4,107	-4,727	Net debt/(cash) (\$m)	-6,668	-10,518	-14,724	-19,472	-24,624
Other	-2,097	2,373	0	0	0	Net debt/equity (%)	-98%	-78%	-81%	-85%	-88%
Operating cashflow	2,642	9,964	8,784	10,261	11,684	Net interest cover (x)	-17	-20	-13	-12	-10
SIB Capex	-559	-562	-423	-578	-699	Inventory/sales (%)	0%	0%	0%	0%	0%
Growth Capex & Inv.	-31	-5,948	0	0	0	Net debt/EBITDA (x)	-137%	-116%	-126%	-146%	-164%
Asset sales	27	11	29	0	0	Current ratio (x)	2.6	2.0	2.7	3.3	3.9
Other	-17	30	0	0	0	EV/EBITDA (x)	35	18	14	12	10
Investing cashflow	-580	-6,468	-394	-578	-699	INTERIMS					
Equity raised	1,177	0	0	0	0	Y/e June 30	1H06a	2H06a	1H07a	2H07f	1H08f
Dividends paid	-2,109	0	-3,980	-4,936	-5,833	Sales revenue	13,176	15,066	14,846	16,502	17,642
Other	1,267	239	0	0	0	EBITDA	3,825	5,222	5,484	6,161	6,325
Financing cashflow	334	239	-3,980	-4,936	-5,833	EBIT	3,517	4,707	5,013	5,611	5,998
Net change in cash	2,396	3,735	4,410	4,748	5,152	Pre tax profit	3,704	4,924	5,372	6,051	6,507
Cash at end of period	6,883	10,618	15,028	19,776	24,928	Net Profit	2,631	3,505	3,801	4,236	4,555
BALANCE SHEET						SCEQ adj profit	2,631	3,505	3,801	4,236	4,555
Y/e June 30 (\$'000)	2005a	2006a	2007f	2008f	2009f	W/A fully diluted (m)					
Cash	6,883	10,618	15,028	19,776	24,928	44	45	44	45	45	
Receivables	2,264	3,224	3,762	4,379	4,923	Source: Company data and Southern Cross Equities estimates					
Inventories	62	3	0	0	0						
Other financial assets	127	0	0	0	0						
Other	242	280	192	192	192						
Current assets	9,579	14,125	18,982	24,347	30,043						
PPE	1,111	1,157	1,088	1,044	1,045						
Investments	0	0	0	0	0						
Intangibles (ex goodwill)	86	2,382	2,539	2,435	2,437						
Goodwill	0	3,350	3,350	3,350	3,350						
Deferred tax asset	1,002	1,052	960	960	960						
Other	64	68	49	49	49						
Non-current assets	2,264	8,009	7,986	7,838	7,841						
Total assets	11,842	22,134	26,967	32,185	37,884						
Payables	2,844	2,030	2,194	2,555	2,872						
Debt	215	100	304	304	304						
Provisions	972	1,198	1,285	1,496	1,682						
Other	979	5,289	4,917	4,917	4,917						
Total liabilities	5,010	8,617	8,700	9,272	9,775						
Shareholders' equity	6,832	13,517	18,267	22,913	28,109						
Minorities	0	3	6	9	12						
Total shareholders funds	6,832	13,520	18,273	22,922	28,121						
Total funds employed	164	3,002	3,549	3,450	3,497						

Source: Company data and Southern Cross Equities 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
www.sceq.com.au

Research Team

Robert Bishop	Resources Analyst	Mid Caps/Commodities	612 8224 2859	rbishop@sceq.com.au
Peter Chapman	Senior Resources Analyst	Energy/Gold	612 8224 2847	pchapman@sceq.com.au
TS Lim	Financials Analyst	Banks/Regionals	612 8224 2810	tslim@sceq.com.au
Alexandra McPhee	Industrial Analyst	Consumer/Rural	612 8224 2894	amcphee@sceq.com.au
Tim Mann	Industrial Analyst	Contractors/Services	612 8224 2880	tmann@sceq.com.au
Andrew Peros	Analyst	Consumer/Rural	612 8224 2838	aperos@sceq.com.au
Dinesh Pillutla	Real Estate Analyst	Developers/Trusts	612 8224 2833	dpillutla@sceq.com.au
David Radclyffe	Head of Resources	Diversifieds/Metals	612 8224 2829	dradclyffe@sceq.com.au
Stuart Roberts	Industrial Analyst	Healthcare/Biotech	612 8224 2871	sroberts@sceq.com.au
Lafitani Sotiriou	Analyst	Financials/Industrials	612 8224 2813	lsotiriou@sceq.com.au
Joel Weiss	Assistant Analyst	Database/Client Services	612 9231 0880	jweiss@sceq.com.au
David Whittaker	Head of Research	Diversified Industrials/Materials	612 8224 2886	dwhittaker@sceq.com.au

Lafitani Sotiriou & TS Lim
Analysts

Authorisation

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 876,715 shares in GBST Holdings (GBT) as at the date of this report. This position is subject to change without notice.