

2 Sep 2010

SWICK MINING SERVICES LTD

Two years of struggle. Is FY11 SWK's year?

Swick Mining Services Ltd ("Swick", "SWK", "Company") reported a FY10 normalised net profit before tax \$0.2m and no dividend (none expected). The reported NPAT loss of \$10.1m was due to goodwill impairments.

Net debt fell to \$26.7m from \$49m at December (remember the Company raised ~\$17m in equity during that time). Capex in 2H was slightly higher than net operating cash flow (capex of \$12.7m, net operating cash flow of \$11.9m). Most of the positive operating cash flow was generated in the final two months of the year. EBITDA margins in 2H deteriorated significantly (from 25.6% in 1H to 17.6% in 2H) due to higher labour costs and working capital costs (recruitment, training, mobilisation, delays due to weather) early in the half. We assume that margins will return to economic levels in FY11 due to fixed cost leverage.

Hartleys expects FY11 NPAT of \$7.9m before profit from "discontinued businesses"

Our margin estimates basically assume the operating performance of last two months of FY10 continue into FY11. Our model is based on the audited accounts, which assume that ~\$10m of "discontinued businesses" assets are sold (reducing revenue and earnings). We understand that the sale of these assets is not finalised, and should still contribute earnings into FY11. We have lowered our FY11 normalised NPAT estimate by 28% to \$7.9m and our reported estimate (which assumes the businesses for sale contribute ~\$1.5m in NPAT) by 13.8% to \$9.4m. We don't include any profit on sale in our forecasts, but do assume net cash of ~\$4m is realised in FY11 from the sale. For FY12, we expect NPAT of \$13.0m, before any profit from discontinued operations, and don't assume margin increase (price increases) although it seems likely if industry utilisation stays high.

Maintain Speculative Buy recommendation

We retain our Speculative Buy recommendation. In FY09 SWK was hurt by a decline in utilisation. In FY10 SWK, cash flow was hurt by working capital requirements when rig utilisation rose (significant fixed debt repayments were also a burden). We have said for some time we need to see evidence of free cash flow before we can upgrade to a Buy, and this result, while showing improvement in 2H (and better in the last two months), is yet to do so. The Company has indicated that it will provide quarterly updates, and so we would hope to see evidence of sustained improving cash flow when the first one is released that can give us the confidence to upgrade our recommendation. Given the prospect of drilling rates increasing to levels where the industry can earn economic returns, we believe SWK represents a very good Speculative Buy at these levels. On our estimates, SWK is trading on a reported FY11 P/E of 9.5x, although p/e understates the free cash flow generation capability of SWK. SWK trades on an market cap free cash flow yield (including HP capex, but before debt repayments) of ~16% in FY11, so if our cash flow forecasts prove correct, the Company appears cheap (reflected by our DCF valuation). We have a \$0.45 twelve month price target.

| | |
|----------------------------|---------|
| Share Price: | \$0.380 |
| Valuation: | \$0.55 |
| 12mth price target: | \$0.45 |

Brief Business Description:

Mineral drilling servicing predominantly the Australian mining industry

Hartleys Brief Investment Conclusion

High industry rig utilisation leading to higher rates is good for profitability.

Chairman & CEO:

Andrew Simpson (Chairman)
Kent Swick (Managing Director)

Top Shareholders:

Kent Swick (CEO) (12.9%)
Rosanne Swick (8.7%)
Perpetual Limited (8.5%)

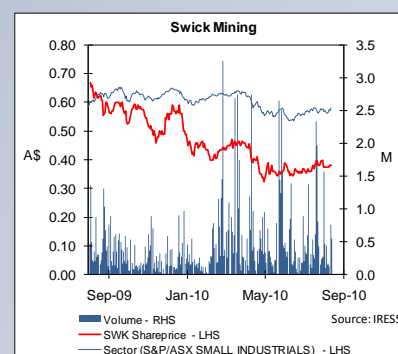
Company Address:

64 Great Eastern Highway
South Guildford, WA 6935

| | |
|--------------------------------|---------|
| Issued Capital: | 236.7m |
| - fully diluted | 237.0m |
| Market Cap: | \$90.0m |
| - fully diluted | \$90.1m |
| Net Debt (30 Jun '10a): | \$26.7m |

| | FY10a | FY11e | FY12e |
|---------------------|-------------|------------|-------------|
| Op Cash Flw | 12.9 | 24.6 | 26.9 |
| Free Cash Flw | -6.2 | 19.6 | 19.9 |
| NPAT* (A\$m) | -0.8 | 7.9 | 13.0 |
| EPS (\$, bas) | -4.9 | 4.0 | 5.5 |
| P/E (basic) | -7.7x | 9.5x | 6.9x |
| P/E (diluted) | -19.1x | 9.5x | 6.9x |
| EV / EBITDA | 6.2x | 3.9x | 3.2x |
| DPS (cps) | - | - | - |
| Franking | 100% | 100% | 100% |
| Dividend Yield | 0.0% | 0.0% | 0.0% |
| N.D. / equity | 32% | 8% | -4% |

Source: Hartleys Research. * normalised



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SUMMARY MODEL

| Swick Mining Services Limited (SWK) | | | | | Recommendation: Speculative Buy | | | | |
|--|----------------------------|--------------------------|------------|------------|--|--------------|--------------|--------------|--------------|
| Company Information | | | | | Profit & Loss (\$m) | | | | |
| Date | 2 Sep 2010 | 64 Great Eastern Highway | | | 6/09A | 6/10A | 6/11F | 6/12F | |
| Share Price | \$0.38 | South Guildford, WA 6935 | | | Australia Revenue | 71.6 | 79.8 | 114.3 | 116.8 |
| 52 Week High-Low | \$0.69 - \$0.32 | Ph: (08) 9277 8800 | | | Gross Profit | 19.0 | 21.0 | 30.9 | 32.4 |
| Market Cap (\$m) | \$90.0 | Fax: (08) 9277 8844 | | | - margin | 26.6% | 26.4% | 27.0% | 27.7% |
| Enterprise Value (\$m) | \$116.6 | www.swickmining.com.au | | | EBITDA | 16.6 | 18.3 | 28.0 | 29.2 |
| Ordinary Shares | 236.7 | | | | - margin | 23.2% | 22.9% | 24.5% | 25.0% |
| Fully Diluted Shares | 237.0 | | | | Nth Amer Revenue | 0.0 | 6.0 | 11.5 | 28.2 |
| Valuation | | | | | Gross Profit | 0.0 | 1.8 | 3.4 | 8.2 |
| Spot DCF (WACC 12.4%, Terminal growth 4.00%) | | | | | - margin | | 29.2% | 29.2% | 29.2% |
| 12mth fwd DCF (WACC 12.4%, Terminal growth 4.00%) | | | | | EBITDA | -1.0 | 0.6 | 2.1 | 6.9 |
| 12mth forward P/E (diluted) of 8x (micro cap) | | | | | - margin | | 10.1% | 18.6% | 24.5% |
| Jun10a Price / NTA (1x \$0.39) | | | | | Group Revenue (ex discontin'd) | 71.8 | 86.0 | 125.9 | 145.2 |
| 12mth fwd Div Yield of 4.4% (Gross yield=6.3%) | | | | | growth | 19.6% | 46.5% | 15.3% | |
| 12 Months Price Target (wgted avg above 4 avg) | \$0.45 | | | | EBITDA - Group | 15.3 | 18.8 | 30.1 | 36.5 |
| P / E (6/11F) at price target | 13.4x | | | | growth | 22.6% | 60.4% | 21.0% | |
| P / E (6/12F) at price target | 8.2x | | | | EBITDA / Sales | 21.3% | 21.9% | 23.9% | 25.1% |
| EV/EBITDA (6/11F) at price target | 4.4x | | | | Depreciation/Amortisation | -11.8 | -16.8 | -17.1 | -17.0 |
| EV/EBIT (6/11F) at price target | 10.2x | | | | EBIT | 3.5 | 2.0 | 13.1 | 19.5 |
| Multiples (\$/price at \$0.38) | | | | | EBIT / Sales | 4.9% | 2.3% | 10.4% | 13.4% |
| P / E (reported, basic weighted) | 27.6x | -7.7x | 9.5x | 6.9x | Net Interest | -3.3 | -3.2 | -1.7 | -0.9 |
| P / E (normalised, dil. weighted) | 27.6x | -19.1x | 9.5x | 6.9x | Pretax Profit inc abnormals | 0.3 | -10.3 | 11.3 | 18.6 |
| P / E (mkt cap / norm. NPAT) | -371.9x | -108.3x | 11.4x | 6.9x | Tax | -0.5 | 3.4 | -3.4 | -5.6 |
| Dividend Yield | 0.0% | 0.0% | 0.0% | 0.0% | Effective Tax Rate | nm | nm | 30.0% | 30.0% |
| Group Free Cash Flow (f.c.f) / EV | -33.9% | -5.3% | 16.8% | 17.0% | NPAT Pre Minorities | -0.2 | -0.8 | 7.9 | 13.0 |
| Equity f.c.f. / Mkt Cap | | -25.8% | 5.7% | 4.3% | Minorities | 0.0 | 0.0 | 0.0 | 0.0 |
| Norm f.c.f. / Mkt cap | | -28.0% | 0.1% | -3.5% | Normalised NPAT to equity | -0.2 | -0.8 | 7.9 | 13.0 |
| Mkt cap / operating cash flow | 6.8x | 7.0x | 3.7x | 3.3x | Norm. Net Profit / Sales | -0.3% | -1.0% | 6.3% | 9.0% |
| EV/EBITDA multiple | 7.6x | 6.2x | 3.9x | 3.2x | Abnormals / discontinued | 2.3 | -9.2 | 1.5 | 0.0 |
| EV/EBIT multiple | 33.2x | 59.7x | 8.9x | 6.0x | Reported Profit to equity | 2.1 | -10.1 | 9.4 | 13.0 |
| Price / Book Value | 0.8x | 1.0x | 0.9x | 0.8x | Reported EPS (basic, weighted) | | | | |
| Price / NTA | 0.8x | 1.0x | 0.9x | 0.8x | 1.4 | | | | |
| Ratios | | | | | Normalised EPS (dil, wgted) | | | | |
| Return on Average Equity | -0.3% | -1.0% | 8.1% | 11.9% | 1.4 | | | | |
| Return on Assets | -0.1% | -0.5% | 5.1% | 8.3% | DPS (cps) | | | | |
| ND / ND + Equity | 38.2% | 24.5% | 7.0% | -4.5% | 0.00 | | | | |
| ND / Equity | 61.8% | 32.5% | 7.6% | -4.3% | Franking | | | | |
| Net Interest Cover (EBIT) | 1.1 | 0.6 | 7.5 | 21.4 | 100% | | | | |
| Free Cash Flow Analysis | | | | | Payout Ratio | | | | |
| Net Operating Cash Flow | 13.2 | 12.9 | 24.6 | 26.9 | 0.0% | | | | |
| Capex (Reported) | -52.8 | -19.1 | -5.0 | -7.1 | Cashflow Statement (\$m) | | | | |
| Group Free Cash Flow (rep'ted) | -39.6 | -6.2 | 19.6 | 19.9 | 6/09A | | | | |
| Fixed Debt Repayments | -17.0 | -17.1 | -14.5 | -16.0 | 6/10A | | | | |
| Equity Free Cash Flow (rep'ted) | -56.6 | -23.2 | 5.1 | 3.9 | 6/11F | | | | |
| HP Lease Capex (non-cash) | -10.0 | -2.0 | -5.0 | -7.1 | 6/12F | | | | |
| Free Cash Flow (normalised) | -66.6 | -25.2 | 0.1 | -3.2 | EBITDA (inc assets "for sale") | | | | |
| Capex (inc HP) / depreciation | 531% | 125% | 58% | 83% | 20.1 | | | | |
| Share Data | | | | | Working Capital Change | | | | |
| Ord Issued shares (m) | 175.4 | 236.7 | 236.7 | 236.7 | -2.9 | | | | |
| growth | | 34.9% | 0.0% | 0.0% | Cash from Operations | | | | |
| Weighted ave shares (m) | 152.6 | 203.4 | 236.7 | 236.7 | 17.2 | | | | |
| growth | | 33.3% | 16.4% | 0.0% | Net interest Paid | | | | |
| Fully diluted shares wgted (m) | 152.6 | 203.4 | 236.7 | 236.7 | -3.9 | | | | |
| growth | | 33.3% | 16.4% | 0.0% | Tax Paid | | | | |
| Unpaid Capital | | | | | Net Operating Cash Flow | | | | |
| Year Expires | Number | % ord | Avg Price | \$m unpaid | 13.2 | | | | |
| 30-Jun-11 | 75,000 | 0.0% | \$ 0.00 | \$ 0.1 | Capital Expenditure | | | | |
| 30-Jun-12 | 200,000 | 0.1% | \$ 0.00 | \$ 0.3 | -52.8 | | | | |
| 30-Jun-13 | - | - | \$ - | \$ - | Asset Sales | | | | |
| 30-Jun-14 | - | - | \$ - | \$ - | 0.7 | | | | |
| TOTAL | 275,000 | 0.1% | \$ 0.00 | \$ 0.4 | Other (inc Investments) | | | | |
| Directors & Senior Management | | | | | Net Investing Cash Flow | | | | |
| Substantial Shareholders | | | | | -54.1 | | | | |
| Andrew Simpson (Chairman) | Kent Swick (CEO) | | | 12.9% | Proceeds from Equity Issues | | | | |
| Kent Swick (Managing Director) | Rosanne Swick | | | 8.7% | 8.4 | | | | |
| John David Nixon | Perpetual Limited | | | 8.5% | Net Change in Debt & Leases | | | | |
| Giuseppe Ariti | Entrust Private Wealth Mgt | | | 9.0% | 15.7 | | | | |
| Phillip Lockyer | UBS AG | | | 7.7% | Dividends Paid | | | | |
| Ian McCubbing | Northcape | | | 7.4% | 0.0 | | | | |
| CFO - Bryan Wesley | | | | | Net Financing Cash Flow | | | | |
| Company Secretary - Ian Hobson | | | | | 24.2 | | | | |
| Analyst: Trent Barnett | | | | | Movement in Cash | | | | |
| Phone: +61 8 9268 3052 | | | | | -16.8 | | | | |
| Sources: IRESS, Company Information, Hartleys Research | | | | | HP Lease Capex (non-cash) | | | | |
| | | | | | -10.0 | | | | |
| | | | | | Balance Sheet (\$m) | | | | |
| | | | | | 6/09A | | | | |
| | | | | | 6/10A | | | | |
| | | | | | 6/11F | | | | |
| | | | | | 6/12F | | | | |
| | | | | | Cash | | | | |
| | | | | | 8.5 | | | | |
| | | | | | Receivables | | | | |
| | | | | | 12.1 | | | | |
| | | | | | Inventories | | | | |
| | | | | | 18.3 | | | | |
| | | | | | Other | | | | |
| | | | | | 2.0 | | | | |
| | | | | | Total Current Assets | | | | |
| | | | | | 41.0 | | | | |
| | | | | | Property, Plant & Equipment | | | | |
| | | | | | 114.2 | | | | |
| | | | | | Intangibles | | | | |
| | | | | | 0.0 | | | | |
| | | | | | Other | | | | |
| | | | | | 11.4 | | | | |
| | | | | | Total Non Current Assets | | | | |
| | | | | | 125.7 | | | | |
| | | | | | Total Assets | | | | |
| | | | | | 166.6 | | | | |
| | | | | | Accounts Payable | | | | |
| | | | | | 13.6 | | | | |
| | | | | | Interest Bearing Liabilities | | | | |
| | | | | | 17.1 | | | | |
| | | | | | Other | | | | |
| | | | | | 1.4 | | | | |
| | | | | | Total Current Liabilities | | | | |
| | | | | | 32.1 | | | | |
| | | | | | Accounts Payable | | | | |
| | | | | | 0.0 | | | | |
| | | | | | Interest Bearing Liabilities | | | | |
| | | | | | 40.7 | | | | |
| | | | | | Other | | | | |
| | | | | | 14.2 | | | | |
| | | | | | Total Non Current Liabilities | | | | |
| | | | | | 54.9 | | | | |
| | | | | | Total Liabilities | | | | |
| | | | | | 87.0 | | | | |
| | | | | | Net Assets | | | | |
| | | | | | 79.6 | | | | |
| | | | | | Net Asset Value / Share (\$) | | | | |
| | | | | | 0.45 | | | | |
| | | | | | NTA / Share (\$) | | | | |
| | | | | | 0.45 | | | | |
| | | | | | Net Debt (net cash) | | | | |
| | | | | | 49.2 | | | | |
| | | | | | Last Earnings Estimate Changes: | | | | |
| | | | | | 1 September 2010 | | | | |

Fig. 1: Half year P & L and Balance Sheet

| Profit & Loss (\$m) | Dec-08a | Jun-09a | Dec-09a | Jun-10a | FY11e |
|--------------------------------------|----------------|----------------|----------------|----------------|--------------|
| Australia Revenue | 47.8 | 23.8 | 44.6 | 35.2 | 114.3 |
| Gross Profit | 18.5 | 0.5 | 16.2 | 4.9 | 30.9 |
| - margin | 38.7% | 2.2% | 36.3% | 13.8% | 27.0% |
| EBITDA | 10.0 | 6.6 | 11.9 | 6.4 | 28.0 |
| - margin | 21.0% | 27.9% | 26.7% | 18.2% | 24.5% |
| Nth Amer Revenue | 0.0 | 0.0 | 1.6 | 4.5 | 11.5 |
| Gross Profit | 0.0 | 0.0 | 0.5 | 1.3 | 3.4 |
| - margin | nm | nm | 30.3% | 28.8% | 29.2% |
| EBITDA | 0.0 | -1.0 | -0.1 | 0.7 | 2.1 |
| - margin | nm | nm | -5.7% | 15.5% | 18.6% |
| Group Revenue | 48.1 | 23.8 | 46.1 | 39.8 | 125.9 |
| sequential growth | | -50.5% | 94.0% | -13.7% | 46.5% |
| EBITDA - Group | 10.0 | 5.3 | 11.8 | 7.0 | 30.1 |
| sequential growth | 0.0% | -46.8% | 121.6% | -40.7% | 60.4% |
| EBITDA / Sales | 20.8% | 22.4% | 25.6% | 17.6% | 23.9% |
| Depreciation/Amortisation | -6.2 | -5.7 | -7.6 | -9.3 | -17.1 |
| EBIT | 3.8 | -0.3 | 4.2 | -2.3 | 13.1 |
| EBIT / Sales | 8.0% | -1.4% | 9.1% | -5.7% | 10.4% |
| Net Interest | -1.6 | -1.6 | -2.1 | -1.1 | -1.7 |
| Pretax Profit inc abnormals | 2.2 | -2.0 | 2.1 | -12.4 | 11.3 |
| Tax | 0.1 | -0.6 | -0.6 | 4.1 | -3.4 |
| Effective Tax Rate | -4.6% | -30.3% | 30.7% | 32.8% | 30.0% |
| NPAT Pre Minorities | 2.3 | -2.6 | 1.5 | -2.3 | 7.9 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Normalised NPAT to equity | 2.3 | -2.6 | 1.5 | -2.3 | 7.9 |
| Norm. Net Profit / Sales | 4.9% | -10.8% | 3.2% | -5.8% | 6.3% |
| Abnormals / discontinued | 1.2 | 1.2 | -1.6 | -7.6 | 1.5 |
| Reported Profit to equity | 3.5 | -1.4 | -0.1 | -9.9 | 9.4 |
| DPS (cps) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Franking | 100% | 100% | 100% | 100% | 100% |
| Payout Ratio | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Balance Sheet (\$m) | Dec-08a | Jun-09a | Dec-09a | Jun-10a | FY11e |
| Cash | | 8.5 | 0.7 | 8.8 | 8.8 |
| Receivables | | 12.1 | 12.9 | 18.0 | 22.4 |
| Inventories | | 18.3 | 21.8 | 16.4 | 20.9 |
| Other | | 2.0 | 0.6 | 1.7 | 1.7 |
| Total Current Assets | | 41.0 | 36.0 | 44.9 | 53.8 |
| Property, Plant & Equipment | | 114.2 | 113.9 | 97.1 | 90.0 |
| Intangibles | | 0.0 | 3.7 | 0.0 | 0.0 |
| Other | | 11.4 | 5.0 | 5.7 | 5.7 |
| Total Non Current Assets | | 125.7 | 122.6 | 102.8 | 95.7 |
| Total Assets | | 166.6 | 158.5 | 147.6 | 149.5 |
| Accounts Payable | | 13.6 | 8.9 | 15.6 | 22.6 |
| Interest Bearing Liabilities | | 17.1 | 16.6 | 14.5 | 16.0 |
| Other | | 1.4 | 1.6 | 8.6 | 2.0 |
| Total Current Liabilities | | 32.1 | 27.1 | 38.7 | 40.6 |
| Accounts Payable | | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Bearing Liabilities | | 40.7 | 33.1 | 21.0 | 0.6 |
| Other | | 14.2 | 10.7 | 5.8 | 5.8 |
| Total Non Current Liabilities | | 54.9 | 43.8 | 26.8 | 6.4 |
| Total Liabilities | | 87.0 | 70.8 | 65.5 | 47.0 |
| Net Assets | | 79.6 | 87.7 | 82.1 | 102.6 |
| Net Asset Value / Share (\$) | | 0.45 | 0.37 | 0.39 | 0.43 |
| NTA / Share (\$) | | 0.45 | 0.36 | 0.39 | 0.43 |
| Net Debt (net cash) | | 49.2 | 49.0 | 26.7 | 7.8 |

Margins deteriorated in Australia in the 2H due to higher labour costs, working capital costs (recruitment, training, mobilisation).

Fixed cost leverage plus the potential for some price increases should mean that if SWK can hold utilisation at current levels for a full twelve months then profitability should be strong.

Net debt was \$26m at the end of June. Swick has had to manage high fixed debt repayments (~\$16m)

Fig. 1: Free Cash Flow

We are waiting for demonstrated free cash flow before we can upgrade to a Buy

| Cashflow Statement (\$m) | Dec-08a | Jun-09a | Dec-09a | Jun-10a | FY11e |
|--|--------------|--------------|--------------|--------------|--------------|
| EBITDA | 10.0 | 5.3 | 11.8 | 7.0 | 30.1 |
| Working Capital Change | -3.0 | 4.9 | -8.7 | 6.8 | -0.4 |
| Cash from Operations | 7.0 | 10.3 | 3.1 | 13.8 | 29.7 |
| Net interest Paid | -1.9 | -2.0 | -1.8 | -2.1 | -1.7 |
| Tax Paid | -0.7 | 0.6 | -0.2 | 0.2 | -3.4 |
| Net Operating Cash Flow | 4.4 | 8.8 | 1.0 | 11.9 | 24.6 |
| Capital Expenditure | -40.0 | -12.8 | -6.4 | -12.7 | -5.0 |
| Asset Sales | 0.3 | 0.3 | 0.1 | 1.6 | 4.4 |
| Other (inc Investments) | 0.3 | -0.3 | 0.0 | 0.0 | 0.0 |
| Net Investing Cash Flow | -39.4 | -14.7 | -7.1 | -13.4 | -0.7 |
| Proceeds from Equity Issues | -9.3 | 17.7 | 6.7 | 16.9 | 0.0 |
| Net Change in Debt & Leases | 23.3 | -7.6 | -8.1 | -7.6 | -23.9 |
| Dividends Paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Financing Cash Flow | 14.0 | 10.1 | -1.5 | 9.3 | -23.9 |
| Movement in Cash | -21.0 | 4.2 | -7.6 | 7.8 | 0.0 |
| HP Lease Capex (non-cash) | -8.0 | -2.0 | -0.8 | -1.2 | -5.0 |
| Free Cash Flow Analysis | Dec-08a | Jun-09a | Dec-09a | Jun-10a | FY11e |
| Net Operating Cash Flow | 4.4 | 8.8 | 1.0 | 11.9 | 24.6 |
| Capex (Reported) | -40.0 | -12.8 | -6.4 | -12.7 | -5.0 |
| Group Free Cash Flow (rep'ted) | -35.6 | -3.9 | -5.4 | -0.7 | 19.6 |
| Fixed Debt Repayments | -4.0 | -8.0 | -8.0 | -8.0 | -14.5 |
| Equity Free Cash Flow (rep'ted) | -39.6 | -11.9 | -13.4 | -8.7 | 5.1 |
| HP Lease Capex (non-cash) | -8.0 | -2.0 | -0.8 | -1.2 | -5.0 |
| Free Cash Flow (normalised) | -47.6 | -13.9 | -14.2 | -9.9 | 0.1 |
| Capex (inc HP) / depreciation | 778% | 261% | 95% | 150% | 58% |

Source: Various

Fig. 2: Earnings Changes

| Profit & Loss (\$m) | 6/10A | | | 6/11F | | |
|------------------------------------|-------------|--------------|----------------|--------------|--------------|----------------|
| | f'cast | actual | % diff | Old | New | % diff |
| Revenue | 98.5 | 86.0 | -12.7% | 132.6 | 125.9 | -5.0% |
| EBITDA | 23.8 | 18.8 | -21.1% | 34.8 | 30.1 | -13.3% |
| - margin | 24.2% | 21.9% | -9.6% | 26.2% | 23.9% | -8.7% |
| Depreciation/Amortisation | -15.4 | -16.8 | 9.6% | -16.5 | -17.1 | 3.6% |
| EBIT | 8.5 | 2.0 | -76.9% | 18.3 | 13.1 | -28.5% |
| - margin | 8.6% | 2.3% | -73.6% | 13.8% | 10.4% | -24.7% |
| Net Interest | -4.0 | -3.2 | -20.3% | -2.4 | -1.7 | -27.9% |
| Pretax Profit | 4.5 | -10.3 | -330.7% | 15.8 | 11.3 | -28.6% |
| Tax | -1.4 | 3.4 | -347.5% | -4.9 | -3.4 | -30.9% |
| NPAT Pre Minorities | 3.1 | -0.8 | -127.0% | 10.9 | 7.9 | -27.5% |
| Minorities | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Norm. Net Profit After Tax* | 3.1 | -0.8 | -127.0% | 10.9 | 7.9 | -27.5% |
| - margin | 307.1% | -1.0% | | 1093.6% | 6.3% | |
| Abnormals (net of tax) | 0.0 | -6.0 | | 0.0 | 1.5 | |
| Reported Profit | 3.1 | -6.9 | -323.2% | 10.9 | 9.4 | -13.8% |
| Net Debt | 22.4 | 26.7 | 19.1% | -1.6 | 7.8 | -585.9% |
| DPS | 0.0 | 0.0 | 0.0% | 0.0 | 0.0 | 0.0% |

Source: Hartleys Estimates

PRICE TARGET METHODOLOGY

Our price target is the average of four components. The assumption is there is a chance of each of the following happening.

Fundamental Valuation (DCF)

Assumes our base case cash flow estimates for SWK are correct and share price trades to our fundamental valuation.

Market Put (Dividend yield)

Assumes company delivers our earnings estimates, but the equity market falls significantly so that dividend yield becomes the support level for the stock.

Earnings Disappointment (NTA)

Net Tangible Asset (NTA) Value – assumes the company misses profit estimates and market is only prepared to pay book value.

Positive Market Momentum (P/E multiple)

Attempts to capture market momentum (i.e. assumes that comparison company P/E's converge when markets are moving).

PRICE TARGET

Our 12 month risk weighted price target is \$0.45 (previously \$0.38). We put a high weighting on p/e until we see demonstrated free cash flow.

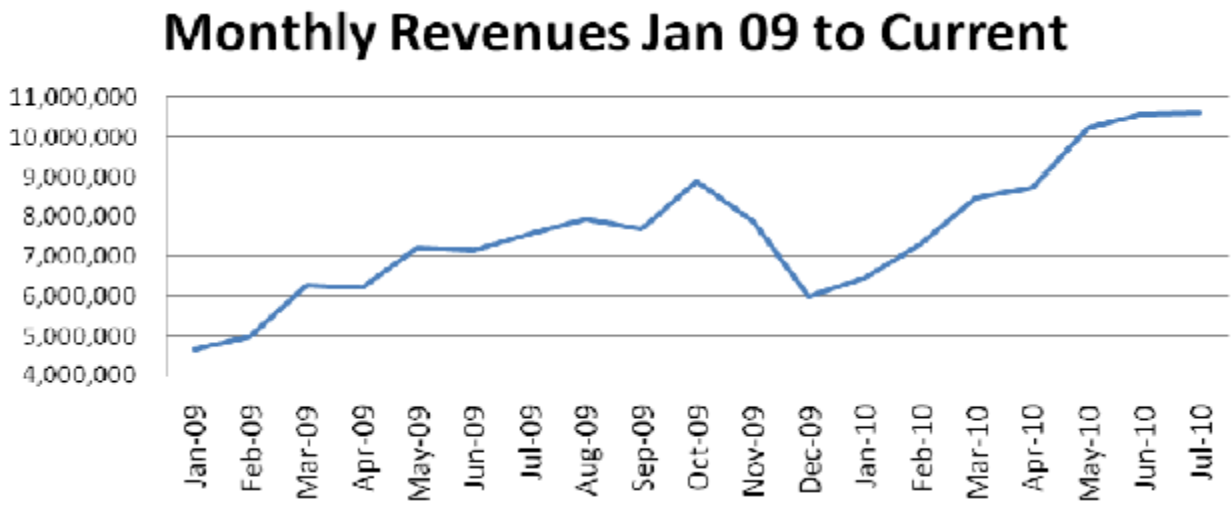
| SWK Price Target Methodology | Weighting | Spot | 12 mth out |
|---|-----------|---------------|---------------|
| DCF (WACC 12.4%, Terminal growth 4.00%) | 15% | \$0.55 | \$0.61 |
| 12mth forward P/E (diluted) of 8x (micro cap) | 75% | \$0.34 | \$0.44 |
| Jun10a Price / NTA (1x \$0.39) | 6% | \$0.39 | \$0.39 |
| 12mth fwd Div Yield of 4.4% (Gross yield=6.3%) | 4% | \$0.00 | \$0.00 |
| Risk weighted composite | | \$0.36 | \$0.45 |
| 12 Months Price Target | | \$0.45 | |
| Shareprice - Last | | \$0.380 | |
| 12 mth total return (% to 12mth target + dividend) | | 18% | |

Source: Hartleys Estimate

RISKS

The key risks for SWK (like most industrial companies) is earnings disappointments given the industry is volatile and earnings can disappoint due to cost overruns, project delays, loss of contracts or slower than anticipated new project wins. Although some earnings disappointments can be short term and just a timing issue, other disappointments can be materially value destructive and can sometimes overhang stocks for a long period of time (for example contract disputes). Such disappointments can be very difficult to predict and share price reactions can be severe and immediate upon disclosure by the company. High financial leverage can add to the problem. Working capital funding could also be a risk for small companies in the current environment

Fig. 3: SWK Monthly Revenues



Source: SWK 1 September Announcement

HARTLEYS RESEARCH COVERAGE LIST

| Hartleys Research Coverage | | | | | Hartleys | |
|---------------------------------------|--------|-------------|--------------|----------|-------------------------|--------------------------------------|
| Name | Ticker | Last Price* | M. CAP (\$m) | EV (\$m) | Research Recommendation | Industry |
| Oil & Gas | | | | | | |
| 1. Woodside Petroleum Ltd | WPL | 42.03 | 32,789 | 36,967 | Buy | Major |
| 2. Nexus Energy Ltd | NXS | 0.375 | 359 | 637 | Speculative Buy | Developer / Explorer |
| 3. Aurora Oil and Gas Ltd | AUT | 0.960 | 266 | 221 | Buy | Producer / Developer |
| 4. Carnarvon Petroleum Ltd | CVN | 0.340 | 233 | 203 | Buy | Producer / Explorer |
| 5. Tap Oil Ltd | TAP | 0.910 | 142 | 81 | Buy | Producer / Explorer |
| 6. Cooper Energy Ltd | COE | 0.385 | 112 | 16 | Buy | Producer / Explorer |
| 7. Otto Energy Ltd | OEL | 0.088 | 94 | 71 | Buy | Explorer / Producer |
| 8. Red Fork Energy Ltd | RFE | 0.530 | 73 | 45 | Buy | Explorer / Producer |
| 9. Adelphi Energy Ltd | ADI | 0.410 | 69 | 59 | Buy | Producer / Developer |
| 10. Amadeus Energy Ltd | AMU | 0.220 | 67 | 110 | Buy | Producer / Explorer |
| 11. Strike Energy Ltd | STX | 0.185 | 61 | 58 | Buy | Explorer / Producer |
| 12. European Gas Ltd | EPG | 0.250 | 50 | 114 | Speculative Buy | Producer / Explorer |
| 13. Entek Energy Ltd | ETE | 0.155 | 35 | 26 | Speculative Buy | Producer / Explorer |
| 14. FAR Ltd | FAR | 0.049 | 32 | 17 | Speculative Buy | Explorer / Producer |
| 15. Oilex Ltd | OEX | 0.135 | 30 | 13 | Speculative Buy | Explorer / Producer |
| 16. Sun Resources NL | SUR | 0.059 | 20 | 17 | Speculative Buy | Explorer / Producer |
| | | Sub-Total | 34,433 | 38,658 | | |
| Resources | | | | | | |
| 1. Riversdale Mining Limited | RIV | 9.11 | 1,716 | 1,449 | Speculative Buy | Coal |
| 2. Atlas Iron Limited | AGO | 2.070 | 1,118 | 939 | Buy | Iron Ore |
| 3. Western Areas NL | WSA | 5.15 | 922 | 1,101 | No Rating | Nickel |
| 4. Silver Lake Resources Limited | SLR | 2.120 | 379 | 348 | Buy | Gold |
| 5. Intrepid Mines Limited | IAU | 0.770 | 329 | 282 | Speculative Buy | Gold |
| 6. Integra Mining Limited | IGR | 0.430 | 325 | 310 | Speculative Buy | Gold |
| 7. Catalpa Resources Limited | CAH | 1.590 | 259 | 235 | Buy | Gold Producer |
| 8. Dominion Mining Limited | DOM | 2.250 | 232 | 251 | Speculative Buy | Gold |
| 9. Gold One International Limited | GDO | 0.255 | 206 | 280 | Neutral | Gold |
| 10. Jabiru Metals Limited | JML | 0.335 | 185 | 155 | Buy | Zinc-Copper |
| 11. Tanami Gold NL | TAM | 0.670 | 174 | 166 | Speculative Buy | Gold Producer |
| 12. Focus Minerals Ltd | FML | 0.042 | 120 | 127 | Speculative Buy | Gold Producer |
| 13. Magma Metals Limited | MMW | 0.450 | 73 | 53 | Speculative Buy | PGM-Cu-Ni |
| 14. Peninsula Minerals Ltd | PEN | 0.035 | 57 | 48 | Buy | Uranium Developer / Explorer |
| 15. Centaurus Metals Ltd | CTM | 0.082 | 50 | 43 | Speculative Buy | Iron Ore Developer |
| 16. YTC Resources Limited | YTC | 0.230 | 38 | 29 | Buy | Junior Explorer |
| 17. Hazelwood Resources Ltd | HAZ | 0.180 | 34 | 29 | Speculative Buy | Junior Developer |
| 18. Emmerson Resources Limited | ERM | 0.165 | 34 | 21 | Speculative Buy | Junior Explorer |
| 19. Cortona Resources Limited | CRC | 0.175 | 30 | 24 | Speculative Buy | Developer/Explorer |
| 20. Shaw River Resources Limited | SRR | 0.140 | 28 | 21 | Speculative Buy | Junior Explorer |
| 21. Ausquest Limited | AQD | 0.120 | 27 | 1 | Speculative Buy | Junior Explorer |
| 22. Ferrum Crescent Limited | FCR | 0.150 | 24 | 22 | Speculative Buy | Iron Ore |
| 23. Avalon Minerals Limited | AVI | 0.165 | 22 | 19 | Speculative Buy | Developer/Explorer |
| 24. Geopacific Resources NL | GPR | 0.445 | 17 | 11 | Speculative Buy | Gold Explorer |
| 25. Orion Gold NL | ORN | 0.019 | 14 | 10 | Speculative Buy | Gold |
| 26. Impact Minerals Limited | IPT | 0.100 | 12 | 8 | Speculative Buy | Junior Explorer |
| 27. Southern Gold Limited | SAU | 0.075 | 11 | 7 | Speculative Buy | Junior Explorer |
| | | Sub-Total | 6,251 | 5,864 | | |
| Industrials | | | | | | |
| 1. West Australia News Hdgs Ltd | WAN | 6.75 | 1,564 | 1,839 | Buy | Media |
| 2. Monadelphous Group Limited | MND | 15.000 | 1,291 | 1,158 | Buy | Mining Services |
| 3. Clough Limited | CLO | 0.815 | 554 | 614 | No Rating | Oil & Gas Services (Construction) |
| 4. Fleetwood Corporation | FWD | 10.03 | 541 | 535 | Neutral | Consumer & Mining Services |
| 5. Ausdrill Limited | ASL | 1.780 | 466 | 565 | Buy | Mining Services (Drilling & Contract |
| 6. Mermaid Marine Australia Ltd | MRM | 2.50 | 465 | 599 | Buy | Oil & Gas Services |
| 7. Macmahon Holdings Limited | MAH | 0.595 | 437 | 393 | Buy | Mining & Civil Construction |
| 8. Austal Limited | ASB | 2.270 | 427 | 438 | Speculative Buy | Capital Goods |
| 9. NRW Holdings Ltd | NWH | 1.36 | 340 | 380 | Buy | Mining & Civil Construction |
| 10. Cash Converters Internat. Limited | CCV | 0.600 | 228 | 212 | Buy | Retail & Consumer Finance |
| 11. Decmil Group Limited | DCG | 1.71 | 200 | 153 | Buy | Mining & Civil Construction |
| 12. Imdex Ltd | IMD | 0.830 | 161 | 184 | Buy | Oil & Gas / Mining Drilling Supplies |
| 13. Lycopodium Limited | LYL | 3.750 | 145 | 130 | Buy | Mining & Industrial Services |
| 14. RCR Tomlinson Ltd | RCR | 1.020 | 134 | 158 | Buy | Mining & Industrial Services |
| 15. Neptune Marine Ltd | NMS | 0.215 | 103 | 136 | Speculative Buy | Oil & Gas Services |
| 16. VDM Group Limited | VMG | 0.400 | 95 | 112 | Buy | Mining & Civil Construction |
| 17. Swick Mining Services Ltd | SWK | 0.380 | 90 | 139 | Speculative Buy | Mining Services (Drilling) |
| 18. LogiCamms Limited | LCM | 0.900 | 54 | 47 | Buy | Resource Services |
| 19. Pacific Energy Ltd | PEA | 0.250 | 47 | 95 | Buy | Mining Services / Power |
| | | Sub-Total | 7,342 | 7,887 | | |
| | | GRAND TOTAL | 48,026 | 52,408 | | |

Source: IRESS, Hartleys Research. * 1 Sep 2010

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Hartleys Recommendation Categories

| | |
|-----------------------|--|
| No Rating | No recommendation. |
| Buy | Share price appreciation anticipated |
| Speculative Buy | Share price appreciation anticipated but it is higher risk than a "Buy". For the share price to rise it may be contingent on the outcome of an uncertain or distant event. |
| Neutral | Take no action. Stock is already trading near the share price target and there are no foreseeable near term catalysts. |
| Reduce / Take profits | Stock is trading above the share price target and there is a near term negative catalyst that could cause temporary weakness. |
| Sell | Significant price depreciation anticipated |

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