



MACQUARIE  
ACN 002 574 923

# Macquarie Private Wealth



## Bradken

### Business Description

Bradken Limited (BKN) is a supplier of differentiated consumable products to the resources and freight rail industries. BKN's product range includes consumable parts, capital equipment and associated maintenance and refurbishment services. BKN operates five divisions: Mining, Mineral Processing, Rail, Industrial and Power & Cement, supported by a network of 20 manufacturing facilities across Australia, New Zealand and the United Kingdom.

### Strategy Analysis

BKN provides a range of products for the resources industry, encouraging repeat sales through developing direct client relationships. Customer requirements are often specific for each mine or rail operation requiring that manufacturing facilities are flexible enough to deliver small batches. Around 80% of BKN's revenues are recurring being consumable or maintenance service based. BKN has excelled in differentiating and customising its products over many years through its design, metallurgy, steel casting and fabrication know-how and long term focus on the resources and freight rail industries. Capital products like rail freight wagons, bogies and dragline buckets provide 20% of revenues. BKN's production process is highly capital intensive. To support the differentiation strategy, the company runs manufacturing facilities across Australia and New Zealand, the United Kingdom and China. USA has been added through the AmeriCast acquisition, while Canada is a new addition through Almac. Maintenance and upgrade expenditure requirements are significant. Exports have been the focus until now for extending sales to key international mining regions, but expansion is planned soon for sales offices in South Africa and Chile and new offices are planned for Indonesia and Brazil. Bradken reported NPAT up 10.8% to \$64.27m for the year ended 30 June 2009. Revenues from ordinary activities were \$1.22bn, up 60.4% from last year. The impact of the acquisition of AmeriCast and CMS represented \$371.3m of this increase. Rail showed the strongest sales growth increasing 19% from FY08, Mining increased by 14%, Industrial (including acquisitions) was up 3%, while Power & Cement sales were 6% below last year. Diluted EPS was 52.1 cents compared to 54.2 cents last year. Net operating cash flow was \$110.06m compared to \$48.81m last year. The final dividend declared was 13 cents, taking the full year dividend to 23 cents compared with 37 cents last year. The Company reported that its underlying business strategies remain unchanged with long term global expansion focused on its key strengths.

Segment Performance			Annual Shareholders' Return		
Results by Industry	Revenue (%)	Return on Sales (%)	Return on Assets (%)	1 year	54.0%
Mining Products	33.6	47.7	34.2	3 year	-3.0%
Engineered Products	30.1	34.7	27.6	5 year	29.0%
Rail	22.3	47.9	16.3	10 year	0.0%
Industrial	9.4	32.3	32.1	Dividend Reinvestment Plan	Yes
Power & Cement	4.7	45.5	32.2	Shareholder Discounts	No
<b>Total</b>	<b>100.1</b>	<b>208.1</b>	<b>142.4</b>		
Results by Geography					
Australia	54.7	0.0	0.0		
US	29.0	0.0	0.0		
Other countries	13.9	0.0	0.0		
UK	2.5	0.0	0.0		
China	0.0	0.0	0.0		
<b>Total</b>	<b>100.1</b>				

28 July 2010

### Recommendation

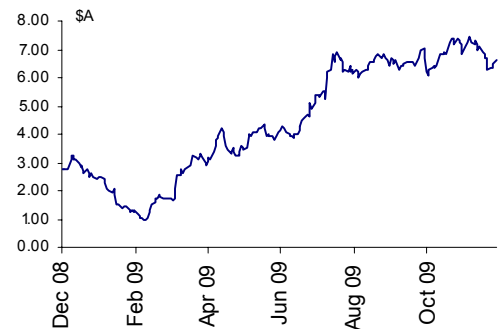
Recommendation: Outperform  
Relative to: All Ind (ex Fins)

### Investment Fundamentals

ASX code: BKN  
Stock price: \$7.83  
Market cap: \$1,086m

Y/E	30/06/2010	2010e	2011e	2012e	2013e
Reported e	\$m	70.8	97.7	105.0	109.4
Adjusted e	\$m	77.8	104.7	112.0	116.4
EPS adjusted	¢	59.7	73.1	77.1	79.1
EPS growth	%	12.0	22.5	5.4	2.7
PE	x	13.1	10.7	10.2	9.9
PE relative	x	0.7	0.8	1.0	1.0
DPS	¢	33.0	41.0	43.0	45.0
Yield	%	4.2	5.2	5.5	5.7
Franking	%	100.0	100.0	100.0	100.0

### Share Price



Source: ASX and Company accounts

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