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FIRST NZ CAPITAL'S 2010 STOCKS

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Opus holds promise

Improved trading conditions and anticipated cost savings to come through in 2H09 saw international infrastructure, maintenance and design consultancy Opus International receive an OUTPERFORM rating from brokerage First NZ Capital.

Since then the stock price has moved strongly and is currently trading close to FNZC's DCF valuation of $1.71.

FNZC analyst Kar Yue Yeo says that based on analysis of the trading conditions and Opus' (OIC) cost savings that are to come through in the 2H FY09F, FNZC thinks the company could beat the market estimate by as much as 20% when it next reports its result. This could lead to potentially a 25% upgrade to FY10F consensus earnings.

Yeo says OIC's operations are beginning to look promising again. "We expect OIC's New Zealand operation to further enhance its margin due to a combination of tighter cost control and better work force utilisation.

"Our best estimate suggests benefit of up to $4m (pre-tax) of annualised cost savings for OIC's New Zealand operation alone. Our assumption is that this should deliver up to $2m of benefit in 2H09F."

Additionally, Yeo says a pickup in central and local authority work after a slightly lacklustre 1H09 has seen OIC enjoying a strong level of workforce utilisation rate in 2H09F in New Zealand.

"The consulting industry should begin to see the benefit from New Zealand Government stimulus projects in roads and schools in 1H 2010," says Yeo. "While this may not materially add to the existing pool of work, at the least, it should help maintain the present level of work available in the market."

After bearing much of the earnings

pain and restructuring the Australian and UK businesses Yeo says OIC should begin to benefit from a turnaround in earnings in 2H09F and FY10F. "OIC Australia is now delivering positive EBIT and the UK business is on target to break even or deliver positive EBIT in 4Q FY10F.

"The UK residential market has been staging a recovery over the past six months. Various statistics published by housing UK authorities and bodies suggest an increase in the number of applications to build new homes."

Yeo says further upside exists if management can further scale up OIC's international businesses over time.

FNZC have raised its NPAT forecast by $2.6m (16%) to $18.8m for FY09F. They have also raised NPAT forecasts by 12% in each of FY10F and FY11F to reflect a steady contribution from OIC's New Zealand operation.

Yeo says that for now, however, FNZC have broadly maintained their FY10F and FY11F estimates for OIC's UK and Australian businesses, "acknowledging that this could prove conservative given the likely current earnings run rate the company may be enjoying due to tighter cost control and an improvement in the trading environment".

Trading at $1.40 at the start of December 09 Yeo says OIC looked cheap relative to its peers and on an absolute basis. "We have raised our DCF valuation to $1.71 (previously $1.64) with a 12-month rolled forward target price of $1.90 (previously $1.77)."

At $1.40, OIC was trading on the lowest PE and EV/EBITDA multiple among its peers in Australia and NZ. OIC is currently trading at around $1.70.