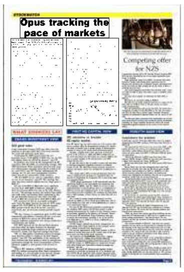
MEDIA MONITORS



Headliner
Thursday 19/8/2010
Page: 3
Section: General News
Region: National Circulation: 4,000
Type: Magazines Business
Size: 248.00 sq.cms.
Frequency: Fortnightly

Brief: OPUS_MENT

Opus tracking the pace of markets

Analysts' opinion of international engineering consultancy business Opus' (NZX: OIC) 1H result and outlook are mixed, although all agree the business sits in a strong market position.

It's the inconsistency of the company's international operations that has some analysts cautious about the outlook for FY10 and further out.

OIC recorded a weak 1H09 and a strong 2H09 and 1H10 was always expected to be better than the prior comparable period (pcp: 1H09). The question was, could the company sustain the recovery seen in the prior half year?

Well the answer is almost; but not quite. The stock has partly mirrored turns in the economic cycle in each market.

1H10 NPAT of $10.4m, while a significant improvement from the $5.1m recorded for 1H09, came in below the forecasts of the analysts from Craigs International Consultants ($11.3m), Forsyth Barr ($11.3m) and First NZ Capital ($12.1m).

This has lead to the downward revision of earnings forecasts and valuations by analysts (see the broker views on OIC).

An effective tax rate of 36% and lower than expected EBITDA margins impacted the result.

Chairman Kerry McDonald said the positive 1H result was achieved despite the tight economic conditions in many of OIC's markets "which has constrained revenue growth".

"In New Zealand we have performed strongly and in Australia business has shown good improvement. We are still experiencing difficult market conditions in the UK, but our business there continues to improve and the loss we experienced last year in this market has been turned around to a profit for the first half of this year. In Canada revenue and profit are down on expectations.

"For the first half-year ended 30.06.10 we have achieved EBIT of $15.5m, compared to $7.4m for the same period last year. Our Australian business reported an EBIT of $1.4m, Canada $0.2m, New Zealand $13.6m and in the UK $0.2m."

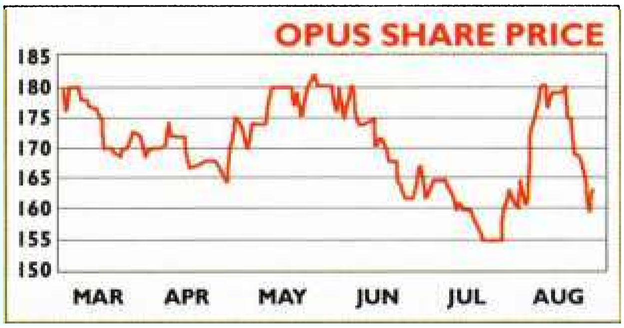
The strong turnaround in OIC's UK operations compared to the pcp's loss of $6.7m was the highlight of the result. UK operations were also the only region to record a stronger 1H10 result compared to 2H09 EBIT, with NZ EBIT down 1.7% half-on-half, Australian EBIT down 40.6% hoh and Canadian EBIT down 62.8% hoh.

Group revenues of $185.7m for 1H10 were down 0.7% on the pcp, but up 2.8% hoh.

OIC has announced the appointment of Dr David Prentice, effective 1.10.10, to replace retiring CEO Dr Kevin Thompson. Thompson has been responsible for the turnaround of OIC's UK operations, since his appointment as director of Opus UK in February 09. The move to promote Prentice is seen as a positive move by the market, one which will provide continuity.

McDonald said Opus is strongly focused on business improvement and market conditions.

"This has included increased collaboration and work sharing amongst locations, which has often expanded capacity and capability. The company has maintained a strong base of long-term contracts in addition to acquiring new work. As we move into the second half of the year we will continue to closely monitor the economic climate and focus on opportunities."



MEDIA MONITORS

Headliner
Thursday 19/8/2010
Page: 3
Section: General News
Region: National Circulation: 4,000
Type: Magazines Business
Size: 146.71 sq.cms.
Frequency: Fortnightly

Brief: OPUS_MENT

WHAT BROKERS SAY

CRAIGS INVESTMENT VIEW

Still good value

Craigs Investment Partners (CIP) says there were few surprises in the Opus (NZX: OIC) 1H10 result and that the stock still represents good value.

"Continuing the 2H09 recovery from UK and Australian losses, 1H10 EBITDA of NZ$17.6m was up 69% and slightly below our NZ$18.2m forecast," says CIP.

No guidance was issued by OIC management say NZ operations (87% OIC EBIT) are performing strongly. "May 2009 Government Policy Statement forecasts land transport infrastructure spending increasing by around 3.5% p.a. until 2019," says CIP. "Further underpinning OIC earnings are 3-5 year asset management contracts, which account for around 50% of OIC revenues.

"OIC has NZ$39.3m net cash for acquisitions, which are not in our forecasts," says CIP. "Our earnings forecasts have been reduced slightly and our target price is NZ$2.41."

CIP says 1H10 NPAT of NZ$10.4m was a significant recovery from 1H09 NPAT of NZ$5.1m, although less than their forecast NZ$11.3m, due to the 36% effective tax rate. "The earnings recovery was mainly from significant staff, salary and working hours reductions in the UK and Australian businesses, with their total EBIT losses of NZ$7.4m converted to 1H10 EBIT of NZ$1.6m."

CIP's forecasts for OIC are essentially unchanged apart from the higher forecast tax rate for FY10, which reduced CIP's FY10 NPAT by 4.3%. "We have forecast NPAT growth of 8.4% and 4.9% for FY11 and FY12 respectively, but our forecasts exclude possible acquisitions.

"OIC has a history of acquisitions back to FY03, both domestically and offshore. Currently OIC has a net cash position of NZ$39.3m and at the 2010 AGM the company indicated acquisitions were being considered in both Australia and Canada.

CIP's EBIT forecasts for the UK and North America have been offset by higher forecasts for Australia, reflecting continuing tough conditions in the UK, weak demand in Canada and improved trading in Australia.

"OIC is a high quality consultancy and asset management business, which is a leader in the New Zealand market," says CIP. "The profitability of the existing offshore business has been patchy to date by management performance though the recent international economic downturn suggests a much greater level of focus in future.

"With a DCF valuation of NZ$2.41 (reduced from NZ$2.53), without forecasting likely future acquisitions and trading at a 15% discount to our forecast average New Zealand market FY10 PE. we rate OIC a BUY."

Ref: 76380011

MEDIA MONITORS


Opus tracking the pace of markets

Headliner
Thursday 19/8/2010
Page: 3
Section: General News
Region: National Circulation: 4,000
Type: Magazines Business
Size: 149.25 sq.cms.
Frequency: Fortnightly

Brief: OPUS_MENT

FORSYTH BARR VIEW

Consistency the problem

Forsyth Barr says the 1H10 Opus (NZX: OIC) result was slightly disappointing with NPAT coming in 7.9% below their forecast at NZ$10.4m.

"We expected the 1H10 result to be worse than 2H09 as OIC pulled back from the extreme cost-cutting measures of 2009," says Forbar analyst Andrew Harvey-Green. "However, the end result was worse again, with NAPT of NZ$10.4m, NZ$0.9m below our expectation.

"Half of the difference in NPAT came from lower than expected EBITDA margins (-NZ$0.4m). The other half came from a higher than expected tax charge (-NZ$0.6m)."

Forbar have pulled back their FY10 NPAT forecast NZ$1.3m to NZ$21.3m.

Harvey-Green says the main disappointments came from Australia and Canada, with only the UK able to grow its EBIT contribution, from breakeven in 2H09 to +NZ$0.2m in 1H10. "Both territories (Australia and Canada) saw revenue and margins fall, highlighting the difficulty that OIC has in generating consistent results from its overseas businesses.

"The Australian EBIT margin fell from 7.9% to 4.7% and the Canadian margin from 8.9% to a poor 3.3%. NZ performed relatively well with revenue holding up well, but higher costs saw the EBIT margin fall to 9.5%, its lowest level in two years."

Harvey-Green says that while the fall in NZ was not unexpected as OIC cut discretionary spending to the bone, "it is disappointing that the contribution fell in light of a 3.7% increase in revenue vs. 2H09".

He says Forbar are somewhat puzzled by OIC's comments that Australia 'has shown good improvement' when compared to 2H09 revenue was down 0.1% and the EBIT contribution down a significant 40.6%. "Yes, Australia did better than the pcp, but that was expected.

"Canada was probably the biggest disappointment as it appeared that OIC was achieving some consistency in margins from that business. OIC noted that the Canadian business performed below expectations.

"While we accept that current operating conditions are less than ideal, OIC demonstrated in 2H09 that it is capable of producing strong performances," says Harvey-Green. "We are, however, left with the question of whether OIC can sustain those performances.

"Our revised valuation is NZ$1.95, -5cps form our previous valuation. The key driver of the pull back in valuation has been the lowering of our long-term EBIT margin from 8.3% to 7.8%. The relatively poor performances from the territories outside NZ continue to be a drag on OIC, and until OIC is able to demonstrate it can get consistent performance from those assets, it will be hard to get OIC's value up."

Harvey-Green says that relative to its comparable companies, OIC is a touch expensive, but not excessively so. "The bigger issue is that OIC is coming off a very strong 2H09 performance that is not sustainable, hence OIC earnings growth is likely to be more muted than its comparators."

He says OIC's share price has rallied strongly over July and is up 13%. With earnings momentum turning and the discount to value closing significantly over the past month to 10%, we have decided to downgrade our recommendation from accumulate to HOLD."