StockVal INFORMER

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"Great works are performed not by strength, but perseverance." - Samuel Johnson

Wide Bay Australia Limited

By Guy Carson - Senior StockVal Analyst

Last week, Commonwealth Bank of Australia (ASX:CBA) provided profit guidance to the market. CBA expect first half net profit after tax to be circa. $2.9 billion and this is approximately $200 million ahead of market expectations. This result benefited from improving equity markets which provided strong investment returns. However, CBA also noted in the press release that there was a decline in impairment expenses relative to the prior corresponding period. The better than expected Australian employment statistics reported last week has meant that the Banks have started this calendar year without the threat of a rise in consumer bad debts.

Whilst most of the investment flows have focused on the big four banks and pushed their share prices higher, the regionals have lagged behind. This is with good reason; the big four have used that balance sheet and access to capital over the last few years to improve their market position. Meanwhile , the regionals have struggled with poorer quality loan books, impairments and higher cost ratios. As a result their Return on Equity and capital positions has weakened over the last 18 months.

One exception to this is Wide Bay Australia Limited (ASX:WBB). The Return on Equity for WBB fell to 17.2% in FY09, but this was well above the other peer group regionals and was actually better than two of the big four (NAB and ANZ).

The Company

WBB is one of Australia's largest building societies. Established in Bundaberg in 1966, it is the product of five mergers. WBB offers a variety of products and services. These include banking, financial planning, margin loans and insurance products to individuals and business. Services are mainly related to residential housing loans in Queensland where the majority of the customers are located (74% of customers). New South Wales and Victoria represent the

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balance. Residential lending and retail deposits therefore make up the vast majority of the business which has 42 branches, 17 agencies and 230 staff. WBB endeavours to make their differentiation point superior customer service. This is in order to uphold their strong brand name and customer loyalty.

Financial Metrics

There are 5 financial metrics that we use to analyse banks:

1. Return on Equity

As a fund manager and long-term value investor, StockVal has a basic rule of thumb – a bank should achieve a return on tangible equity of about 20% for its shareholders. In a good year this should be exceeded (but not greatly), and in an economic downturn they will fall short. The StockVal calculated return on equity includes the franking benefit paid to shareholders.

Last year, WBB had return on equity of 17.2%. This was an outstanding result given the state of the economy and compares favourably against all banks apart from Westpac and CBA. Management last week upgraded their guidance for FY10 saying they expect profit to increase 30% from the previous year.

Assuming that WBB will maintain its payout ratio of 90%, this then gives a return to the equity holders of 20.3% in FY10.

2. Return on Assets

Another rule of thumb is that a bank should have a net return on gross assets of about 1%. Given a bank will gear its equity 20 times a 20% return on equity produces a 1% return on assets.

Last year, WBB had a return on assets of 75bp, well below the 1% mark but still a good result considering the economic environment. Current guidance has this increasing to 89bp in FY10, back towards the level we like to see.

3. Expense Ratio

In the 1980s, the major banks had "cost to income ratios" of about 70%. Progressively over 20 years, this has been managed down to 50% and below. CBA's last result came in at 46.0%. WBB on the other hand has been sitting around 55.5% for the past 2 years. The first six months of FY10 has seen this come down to 53.2%. This trend is positive and is indicative of a business with greater scale and one that is performing at greater efficiency.

4. Net Interest Margin

The banks' interest margins have been under pressure for many years. The major banks have margins that slightly exceed 2%. This margin however, is whittled away by higher costs of wholesale and retail funding for the smaller banks with lower credit ratings. To its credit WBB has managed to match the majors in recent years with margins around 2%.

WBB however, may struggle to maintain this as it is at a competitive disadvantage to the major banks due to its lower credit rating of BBB. The decline of the Residential Mortgage Backed securitisation market may also effect the funding available to WBB and therefore affect interest margins.

5. Asset Growth, Impaired Loans and Provisions

Unlike the other regional banks Wide Bay actually grew their assets last year. They had asset growth of 9.3%. This is outstanding result and was achieved through having a strong balance sheet at the right time. Tier 1 capital current stands at 9.5%.

Impairments and provisioning has been a major issue facing all banks over the last 18 months, Wide Bay has been no exception. They expensed $4.9 million of bad and doubtful debts for the 2009 financial year and impaired assets currently sit at 0.49% of total assets, this compares favourably to the majors. This is because Wide Bay is essentially a retail and consumer bank. In this last downturn the Australian consumer and mortgagee had not fallen behind on loan repayments. The key economic indicator to watch for Wide Bay going forward is unemployment. If unemployment continues to fall and the Australian consumer manages to avoid hard times, then Wide Bay's provisioning will remain low.

WIDE BAY AUSTRALIA LIMITED		
Stock Code	WBB Currency	AUD
Sector		Financials
Last Equity Date	30/06/2009	Millions
Intangibles		42.1
Total Liabilities		2,327.1
Cash Equivalents		73.2
Interest Bearing Debt		0.0
Average Funds Employed		146.4
Total Shareholders Equity		151.4
Less Minorities		0.0
Less Non Ordinary Equity		0.0
Net Ordinary Share Equity		151.4

Performance and Valuation		
NROE for last year of review		17.2%
IRR		27.2%
Other	20.0 %	
Adopted Profitability Forecast		20.0%
Distributed		18.7%
Reinvested		1.3%
Investment Value at Required Return	14.1 %	$7.07
Value/Price Margin at adopted Required Return		-30.4%
'Required Return' to justify market price		10.1%
'Assumed Return On Equity' to justify market price		27.8%

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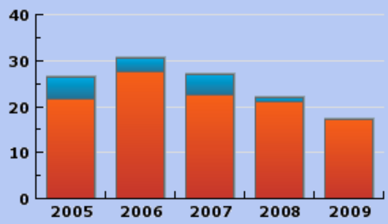
Performance Chart



Dist.	21.7%	27.5%	22.6%	21.1%	18.4%
Reinv.	4.7%	3.1%	4.4%	0.9%	-1.2%
NROE	26.4%	30.6%	26.9%	21.9%	17.2%

	2004	2005A	2006A	2007A	2008A	2009A	Totals
Amortisation of Goodwill		0.0	0.0	0.0	0.0	0.0	0.0
Abnormal Gains (Loss)		-0.8	4.1	-0.3	0.5	0.9	4.4
Net Profit inc. Abnormals less Pref Divs		9.7	11.8	14.8	18.2	17.1	71.6
Dividends on Ordinary Shares Only		7.4	9.8	11.6	17.1	18.9	64.8
% of Dividends Franked		100%	100%	100%	100%	100%	
Grossed up Dividends		10.6	14.0	16.6	24.4	27.0	92.6
Opening Equity		48.5	50.6	57.1	92.7	140.5	48.5
Retained Profits		2.3	2.0	3.2	1.1	-1.8	6.8
Change in Reserves		-0.8	3.7	-0.3	0.4	0.9	3.9
New Ordinary Share Capital		0.6	0.8	32.7	46.3	11.8	92.2
Ordinary Capital Buybacks		0.0	0.0	0.0	0.0	0.0	0.0
Closing Ord. Equity Ex Minorities	48.5	50.6	57.1	92.7	140.5	151.4	151.4
Normalised IRR Cash Flows	**-48.5**	**10.0**	**13.2**	**-16.1**	**-21.9**	**162.2**	**98.9**
Normalised Earnings		**12.9**	**15.6**	**19.8**	**25.4**	**25.2**	**98.9**
Normalised ROE		**26.4%**	**30.6%**	**26.9%**	**21.9%**	**17.2%**	**24.6%**

Vital Statistics	
No. Ordinary Shares (m)	31.2
Market Price at 29/01/2010	$10.15
Equity per Ordinary Share	$4.85
Year High - Market Price	$10.61
Year Low - Market Price	$5.55
NTA per share	$3.50
Intangibles	$1.35
Liabilities	$74.59
Borrowings per share	$0.00
Net Debt to Equity Ratio	0.0%
Normalised Earnings	$0.81
Normalised ROFE	17.2%
Dividend per share	$0.61
Dividend Yield	6.0%
Grossed Up Dividend Yield	8.5%
Equity Ratio	6.1%

Figure 1. StockVal Valuation - Wide Bay Australia Limited (ASX:WBB)

Source: www.stockval.com.au

In terms of valuation we have a return on equity based on company guidance of 20%. This gives a valuation of just over $7 given our assessed required return of 14.1%. Our required return for this bank is much higher than the large banks because of its small size. Another factor that we consider is the history of the bank to continually raise equity. This factor does lead to an increase our required return due to the possible dilutionary affects of future capital raisings.

The market price is currently assuming a return on equity of 28.6%. This is close to the peak of the last cycle in FY06 when the ROE peaked at 30.6%. The market is effectively pricing the company for perfection. Even if the company was to achieve 28.6% over the next few years we doubt that this would be sustainable and that eventually it will head down towards the long run average for banks of 20%.

Whilst the valuation doesn't appear attractive there is an attractive yield on offer of 5.8% or 8.2% grossed up. This yield is based on a high payout ratio which may need to be reviewed as the bank grows.

Conclusion

Wide Bay has been one of the better performing banks over the last 12 months despite its size. The business has performed well and grown significantly in a difficult economic environment. Unfortunately for investors, the market is currently pricing the company for perfection and it is unlikely that we will see a good entry point any time soon.

Cabcharge Australia Limited

By Leo Sek – StockVal Analyst

Cabcharge Australia Limited (ASX: CAB) was established in 1976 to service taxi operators and drivers to manage non-cash fares. Today, CAB covers 96% of Australian taxis, limousines and water taxis, and is also available in some fleets around the world.

Taxis Combined Services, the largest taxi company in Australia, is a wholly owned subsidiary of CAB. CAB also owns Combined Communications Network, an Australian transport logistics company that operates the country's largest fleet of taxis and provides associated specialist services to support owners, operators and drivers.

Business Model

CAB derives most of its revenue from two main sources:

1. Cabcharge taxi charge system; and
2. Taxi related services.

CAB taxi charge system accounted for 54% of FY09 revenue and is the core business of CAB. CAB provides electronic transaction services for the use of debit, credit and Cabcharge cards in taxis in return for a fee of 10% of the total fare including tolls. Cabcharge cards predominately caters to corporate and government accounts.

Taxi related services generated 46% of FY09 revenue. The main revenue contributors are subscription fees paid by taxi operators for radio dispatch services and leasing of plates on behalf of taxi owners. Other services include insurance broking, vehicle financing, smash repair and taxi fit outs.

CAB also participates in two joint ventures with ComfortDelGro Corporation Ltd (Singapore). These are ComfortDelGro Cabcharge Pty Ltd ("CDC") and CityFleet UK Pte Ltd ("CityFleet UK"). CDC operates Westbus, Hillsbus and Hunter Valley Buses and acquired a bus building business in July 2008. CityFleet UK provides taxi and hire care services in London, Aberdeen, Birmingham and Edinburgh.

The CDC joint venture had a fleet of 1,255 buses at the end of FY09. Another 124 buses will be added by the end of calendar 2009.

Key Issues

CAB is highly leveraged to the economic cycle as reflected in the 2% fall in taxi fares processed during FY09. The extent of the fall was significant; the second half of FY09 experienced a fall of 8.7% on the prior corresponding period, compared to a 4.7% increase in the first half. The fall was predominantly due to reductions in corporate expenditure partly offset by a 10% increase in the volume of bank issued card fares processed.

CAB has a near monopoly in the taxi payment system industry having terminals in 96% of taxis in Australia. However, in recent years several competitors have surfaced, the largest being GM Cabs and Live Payments/ Taxi Epay.

The attractiveness of competitors' terminals lies in the payment of commissions of 1-3% of fares direct to taxi drivers. This contrasts with CAB who pays a 2.5% commission to the taxi network. Hence, taxi drivers are encouraged to use an alternative EFTPOS machine to the CAB machine. Although CAB does not provide market share data, external research suggests that CAB may be losing market share.

The threat from competitors may be mitigated by CAB's incumbency in almost all taxis in Australia, national acceptance and CAB's large share of corporate accounts. Also, to some extent a taxi driver may find it inconvenient to have two credit card machines in their cab.

The taxi industry is regulated as fare increases are controlled by the Independent Pricing and Regulatory Tribunal ("IPART"). In June 2009, IPART recommended a 4.2% taxi fare increase for urban taxis in New South Wales. This is positive for CAB as it increases the fare revenue base.

However, of some concern, is that in June 2009, the ACCC brought legal action against CAB alleging anti competitive conduct.

ACCC Action

The ACCC has alleged CAB of three breaches of the Trade Practices Act:

1. CAB's refusal to allow Cabcharge cards to be processed through non Cabcharge terminals
2. CAB supplied a significant number of taxi meters and fare schedule updates either free of charge or below cost to eliminate or prevent competition
3. CAB acquired the charge account business of Townsville Taxis and replaced them with Cabcharge terminals to eliminate competition

The first allegation has the most impact on CAB's core business. If the ACCC is successful in its claim, CAB would be required to allow other EFTPOS terminals to process Cabcharge cards. This may lead to a decline in margins as Cabcharge may have to pay the terminal owner a processing fee.

Of more importance though is the potential loss of market share as taxi drivers will be less motivated to have a Cabcharge terminal in their taxis. If Cabcharge cards can be processed on competitor terminals, why would taxi drivers use a Cabcharge terminal where they receive no commission versus competitor terminals paying 1-3% commissions directly to the driver?

Valuation

The performance of CAB has been strong, with profit more than doubling from $27 million in FY05 to $61.3 million in FY09. Profitability, as measured by ROE, increased slightly from 27.6% to 29.9%.

The slower pace of ROE growth is due to CAB's decline in returns on incremental equity as shown by the following observations:

- profit rose by $34.3 million from FY05 to FY09;
- $88.3 million of profit was retained and $72.2 million of new equity was raised;
- this produced a return on incremental equity of 21%

This declining return appears to be due to CAB's diversification into bus construction and operation as well as UK taxi services. Between FY06 and FY09, CAB invested $163.6 million into these joint ventures. CAB's share of profit was $31.4 million and $4.5 million of dividends was received. This equates to a ROE of 21.9%, lower than the ROE achieved prior to the establishment of the joint ventures in FY06.

As the economic recovery gathers momentum and corporations and consumers increase their spending, the volume of taxi fares processed and profit should recover. In the longer term, further acquisitions of Australian bus and UK taxi operators may be undertaken but based on history these will erode the ROE further.

We have adopted a required return of 13.6% which is appropriate given the risk of losing market share to rival EFTPOS terminals and the uncertainty posed by the ACCC case. We note that the market average market required return used by StockVal is 12% and so we have placed a margin for the risks identified with CAB.

The adopted profitability forecast of 28% is conservative given the resilience of the Australian economy and strong employment numbers. The current market price requires CAB to generate 26.9% profitability or ROE and thus suggests that investors should consider an investment in CAB at present.

At present however, StockVal recommends investors to wait until there is greater certainty around the ACCC case before allocating capital to the stock.

CABCHARGE AUSTRALIA LIMITED		
Stock Code	CAB Currency	AUD
Sector		Industrials
Last Equity Date	30/06/2009	Millions
Intangibles		23.8
Total Liabilities		139.2
Cash Equivalents		28.6
Interest Bearing Debt		107.3
Average Funds Employed		370.7
Total Shareholders Equity		279.7
Less Minorities		0.0
Less Non Ordinary Equity		0.0
Net Ordinary Share Equity		279.7

Performance and Valuation		
NROE for last year of review		29.9%
IRR		33.3%
Other	28.0	%
Adopted Profitability Forecast		28.0%
Distributed		19.9%
Reinvested		8.1%
Investment Value at Required Return	13.6 %	$6.25
Value/Price Margin at adopted Required Return		13.0%
'Required Return' to justify market price		14.8%
'Assumed Return On Equity' to justify market price		25.7%

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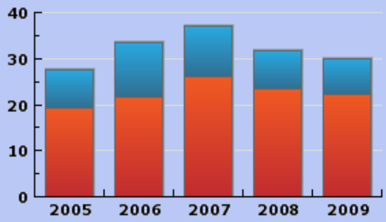
Performance Chart



	2005	2006	2007	2008	2009
Dist.	19.2%	21.7%	26.0%	23.3%	22.2%
Reinv.	8.3%	11.9%	11.1%	8.5%	7.7%
NROE	27.6%	33.6%	37.0%	31.8%	29.9%

	2004	2005A	2006A	2007A	2008A	2009A	Totals
Amortisation of Goodwill		0.5	0.0	0.0	0.0	0.0	**0.5**
Abnormal Gains (Loss)		2.7	0.0	0.6	0.9	-4.1	**0.1**
Net Profit inc. Abnormals less Pref Divs		27.2	38.0	51.8	59.0	61.3	**237.3**
Dividends on Ordinary Shares Only		17.1	21.3	32.2	37.5	40.9	**149.0**
% of Dividends Franked		100%	100%	100%	100%	100%	
Grossed up Dividends		24.4	30.4	46.0	53.6	58.4	**212.9**
Opening Equity		126.7	140.1	156.8	217.6	263.4	**126.7**
Retained Profits		10.1	16.7	19.6	21.5	20.4	**88.3**
Change in Reserves		2.7	0.0	0.6	-1.0	-4.1	**-1.8**
New Ordinary Share Capital		6.3	0.0	40.6	25.3	0.0	**72.2**
Ordinary Capital Buybacks		5.7	0.0	0.0	0.0	0.0	**5.7**
Closing Ord. Equity Ex Minorities	126.7	140.1	156.8	217.6	263.4	279.7	**279.7**
Normalised IRR Cash Flows	**-126.7**	**23.8**	**30.4**	**5.4**	**28.3**	**338.5**	**299.8**
Normalised Earnings		**35.0**	**47.1**	**65.6**	**73.2**	**78.8**	**299.8**
Normalised ROE		**27.6%**	**33.6%**	**37.0%**	**31.8%**	**29.9%**	**32.0%**

Vital Statistics	
No. Ordinary Shares (m)	120.4
Market Price at 01/02/2010	$5.53
Equity per Ordinary Share	$2.32
Year High - Market Price	$7.09
Year Low - Market Price	$4.71
NTA per share	$2.13
Intangibles	$0.20
Liabilities	$1.16
Borrowings per share	$0.89
Net Debt to Equity Ratio	28.1%
Normalised Earnings	$0.65
Normalised ROFE	23.6%
Dividend per share	$0.34
Dividend Yield	6.1%
Grossed Up Dividend Yield	8.8%
Equity Ratio	66.8%

Figure 2. StockVal Valuation - Cabcharge Australia Limited (ASX:CAB)

Source: www.stockval.com.au

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2010 StockVal Investment Seminar Dates				
CITY	**DATE**	**VENUE**	**TIME**	**SPEAKER**
Melbourne	Tuesday 2 February	Vibe Savoy Hotel	6pm – 8pm	Al Thomson
Sydney	Wednesday 10 February	Sir Stamford Circular Quay	6pm – 8pm	John Abernethy
Adelaide	Tuesday 16 February	Hotel Grand Chancellor Adelaide	6pm – 8pm	Al Thomson
Perth	Thursday 18 February	Holiday Inn City Centre Perth	6pm – 8pm	Al Thomson
Gold Coast	Tuesday 9 March	Crown Plaza Surfers Paradise	6pm – 8pm	Al Thomson
Brisbane	Wednesday 10 March	Holiday Inn Brisbane	6pm – 8pm	Al Thomson
Noosa	Thursday 11 March	Ivory Palms Conference Centre	6pm – 8pm	Al Thomson
Townsville	Wednesday 24 March	Holiday Inn Townsville	6pm – 8pm	Al Thomson
Darwin	Thursday 25 March	Holiday Inn Esplanade Darwin	6pm – 8pm	Al Thomson
Melbourne	Tuesday 30 March	Vibe Savoy Hotel	6pm – 8pm	Al Thomson
Hobart	Thursday 31 March	Hotel Grand Chancellor	6pm – 8pm	Al Thomson

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