Small Caps

Opportunities abound at the smaller end of the stockmarket

More than lip service

Three companies delivering services to other businesses are busy taking on the rest of the world, **Trevor Hoey** writes.

Dexion

One of Australia's leading manufacturers of storage and related equipment, Dexion (DEX) appears to have overridden the issues that have cast a shadow across the manufacturing sector, such as high fuel and material costs, shortages of skilled labour, interest rate rises and soft consumer spending.

Yet despite having an excellent interim result for the six months to June 2006, the company has gone largely unnoticed.

Sales growth of 29 per cent, accompanied by a profit increase of 24 per cent, is a strong result by any measure but particularly in a sector that is not known for high growth returns.

Dexion has a low level of debt and gearing of only 20 per cent, leaving plenty of room for acquisitions.

In February 2006, it acquired Spacemaster Office Systems, a Sydney-based provider of commercial storage and filing equipment. The acquisition has been successfully integrated and management is assessing other opportunities that have the potential to strengthen Dexion's position in its core markets.

In an effort to improve the company's geographical coverage, Dexion acquired New Zealand-based Capital Racking Systems. The purchase broadens the presence of Dexion's logistics division in the Asia-Pacific region.

Management plans to open an office in the fast-growing Dubai market towards the end of 2006.

Dexion's order book as at June 30, 2006 was $75 million and managing director, Brent Fuller, expects full-year earnings to be up 20 per cent on the company's 2004-05 result. Dexion's price-earnings ratio of 10 relative to forecasts for the year ending December 2006 is extremely attractive.

The company is also expected to pay a full-year dividend of 8¢, representing a yield of nearly 6 per cent.

Hastie Group

Since 2000, Hastie Group (HST) has bought about 20 businesses, providing the company with the growth opportunities and competitive advantages that come with scale.

Hastie is Australia's leading climate control company. Since listing on the Australian Stock Exchange in March 2005, it has continued to grow by acquiring smaller businesses.

In a sector that was overdue for consolidation, Hastie Group's management demonstrated that it could identify businesses that were a good fit and buy them at the right price.

The benefits of this strategy are becoming evident. An impressive 2005-06 result highlighted the fact that recent acquisitions have been successfully integrated. The company's net profit of $18.7 million was 21 per cent ahead of prospectus forecasts and represented year-on-year growth of about 50 per cent in the underlying business.

Following the 2005-06 result, management went straight to market, raising $15.5 million through an institutional placement that was heavily oversubscribed at $1.85 per share, representing a premium of about 5 per cent to the company's share price before the release of its result. Since then, there has been strong retail support for the stock, propelling the share price past the $2 mark.

The capital raising helped fund the purchase of the Heyday Group. The strategy behind Hastie's addition of Heyday is slightly different to most of the group's previous acquisitions. Heyday is an electrical services business that provides communications, fire protection and security systems for commercial buildings.

The Heyday acquisition comes at a time when Hastie is establishing itself as a multidisciplined service provider in the Middle East. It has teamed with a large developer of commercial building projects in the United Arab Emirates. The joint venture is targeting the high-growth Dubai market, with Hastie handling the installation of air conditioning systems together with related mechanical, plumbing and electrical services.

Chief executive Jerry Maycock says Hastie would be more likely to build its UAE business from the ground up rather than make acquisitions, as has been the case in the growth of its Australian and New Zealand business. Maycock believes Hastie offers property developers a one-stop shop, reducing the number of contractors with whom they have to negotiate.

Regarding guidance for 2006-07, management has signalled expectations of a 50 per cent rise in earnings per share, reflecting a P/E of about 10 times. By this measure, the shares look cheap.

Wellcom Group

Shares in Wellcom Group (WLL) have doubled since listing on the ASX at $1 in July 2005.

The company provides print-

FAST FACTS

Market cap	$73m
Dividend yield	5.19pc
Hist. price-earnings ratio	10.6
Hist. earnings per share	12.75¢

6%

Storage equipment company Dexion expects to pay a full-year dividend of 8¢ a share, representing a yield of 6 per cent. Its price-earnings ratio for calendar 2006 is below 10 times, making it an attractive package.