

Share Price:	\$0.28
Valuation:	\$0.48
12mth price target:	\$0.48

VALMEC LIMITED (VMX)

Strong FY18 & FY19 outlook is for more of the same

Valmec Limited ("Valmec", "VMX", "Company") have recently released their FY18 result. FY18 revenue of \$103m compares to \$72.9m in FY17 and Hartleys estimate of \$99.8m. Reported FY18 EBITDA of \$7.5m, compared to \$4.1m in FY17. FY18 reported EBITDA included a gain of \$2.6m (on re-measurement of equity investment due to business combination) and an undisclosed provision in relation to a legacy civil project. VMX has commenced proceedings against its client regarding this project, the summons is for \$11.6m, plus interest and costs. We calculate a clean EBITDA in FY18 of 'at least' \$7m, which compares to the Hartleys estimate of \$6.6m. Operating cashflow in FY18 was impacted by the increase in receivables (to \$29m from \$19.5m at end of FY17). This amount includes \$12.97m due from customers for construction contracts, up from \$8.84m previously. None of this \$29m is categorised as impaired and only \$4.2m is past due (the vast majority less than 30 days). As a result, based on our underlying assumptions for FY19, we expect a significant increase in cash flow from operations over the coming 12 months.

So FY18 overall turned out to be a very strong year. The outlook for FY19 looks to be at the least equally as strong. A 'strengthening gas thematic' has improved the work pipeline compared to a year ago. With a significant increase in tender volumes and expressions of interest highlighted. VMX enters FY19 with over \$48m of contracts and \$13m in expected extensions (majority of which are to be completed in FY19, this compares to \$53m and \$30m at year end 2017 respectively) and is well positioned on over \$120m of Gas Infrastructure and Services works in their tender submission phase, which comprises only a part of the 'total' construction and services tender pipeline valued at over \$400m (circa \$300m of which is in Oil & Gas). We have marginally downgraded our FY19 revenue to reflect our assumption on the timing of key contract awards. However, an increase in margins (higher service contribution expected in 2H19) has resulted in a very small uplift to our profit forecasts for the year ahead.

Key Chart: Earnings Changes

Profit & Loss (\$m)	FY17				FY18A			FY19F		
	Actual	Old	New	% diff	Old	New	% diff	Old	New	% diff
Revenue	72.9	99.8	103.2	3.5%	116.6	106.6	-8.6%			
EBITDA	4.1	6.6	7.0	5.6%	7.0	7.2	2.6%			
EBIT	3.0	5.9	5.8	-1.0%	5.8	5.9	1.8%			
NPAT	1.6	3.6	4.2	16.0%	3.8	3.9	2.7%			
Net Debt (net cash)	4.9	-4.5	0.1	102.7%	-8.9	-8.8	-0.7%			
EPS	1.8	3.4	3.9	16.0%	3.0	3.1	2.7%			
DPS	0.0	0.0	0.0	0.0%	0.0	0.0	0.0%			

Source: VMX and Hartleys Forecasts

Retain Speculative Buy

We have downgraded our 12-month target price to 48c (from 50c). This is the result of the very modest changes to our forecasts and the current multiples for the ASX Small Cap Industrials sector (we continue to believe that VMX should (at least) trade at parity with the multiples of this sector). Consequently, we maintain our Speculative Buy Recommendation.

Brief Business Description:

Australian Energy Services Group focused on Gas Compression and Processing.

Hartleys Brief Investment Conclusion

VMX is exposed to the rapidly growing East Coast Australian Gas Market through its Gas Compression and EPC Services.

Chairman & CEO:

Mr Stephen Zurhaar (Non-Exec Chairman)
Mr Steve Dropulich (MD)

Top Shareholders:

Stephen Zurhaar	11.7%
Stephen Lazarakis	10.8%
Vincent Goss	11.0%
Annash Pty Ltd	8.2%
Troy Harry	5.7%
Steve Dropulich	4.6%

Company Address:

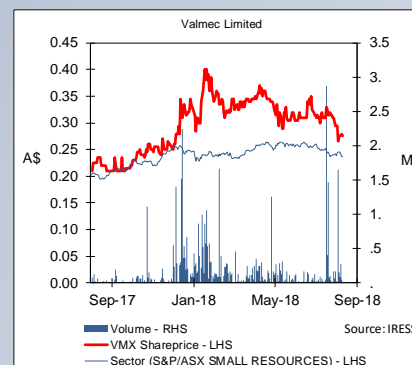
17 Ballantyne Rd.
Kewdale WA 6105, Australia

Issued Cap.:	81.8m
- fully diluted	84.7m
M'ket Cap:	\$34.3m
- fully diluted	\$35.1m
Net Cash (FY18A):	-\$0.1m

	FY17a	FY18a	FY19e
Op Cash Flw	0.8	-2.8	9.7
Free Cash Flw	-5.7	8.9	7.2
NPAT (A\$m)	1.6	4.2	3.9
NPAT (A\$m)*	1.6	4.2	3.9
EPS (\$, bas)	1.8	3.9	3.1
EV / EBITDA	8.4x	4.9x	4.8x
DPS (\$)	-	-	-
Franking	100%	100%	100%
Dividend Yield	0.0%	0.0%	0.0%
N.D. / equity	28%	0%	-25%

Source: Hartleys Research

*Normalised



Authors:

Aiden Bradley
Energy & Industrials Analyst
Ph: +61 8 9268 2876
E: aiden.bradley@hartleys.com.au

Hartleys has completed a capital raising in the past 12 months for Valmec Limited ("VMX"), for which it has earned gross fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Valmec for which it has earned fees and continues to earn fees.

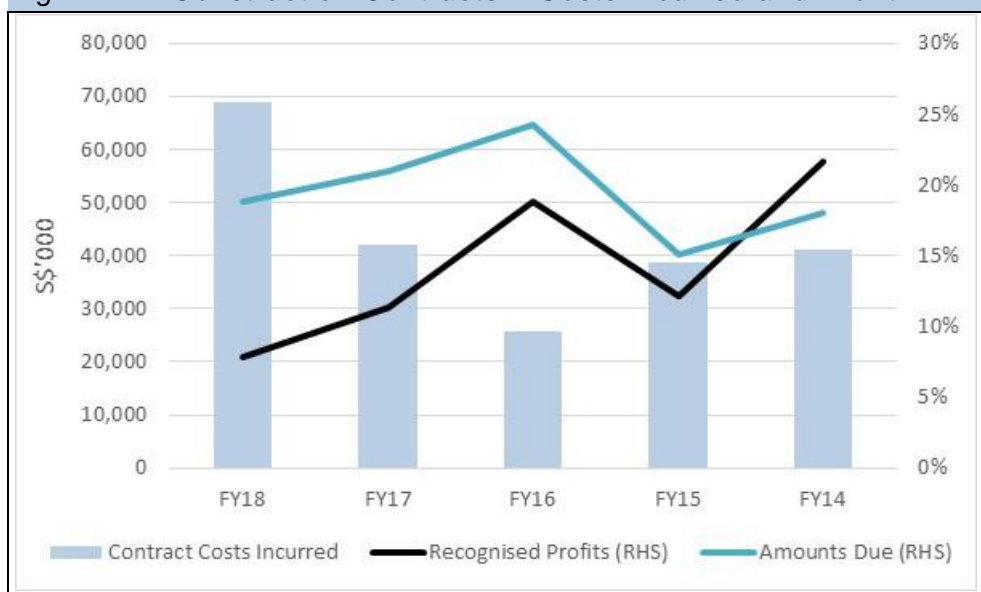
SUMMARY MODEL

Valmec Ltd. (VMX)						
Company Information						
Date	4 Sep 2018		17 Ballantyne Rd.			
Share Price	\$0.275		Kewdale WA 6105, Australia			
52 Week High-Low	\$0.41 - \$0.20		Ph: +61 (08) 9266 8888			
Market Cap (\$m)	\$34.3		Fax: +61 (08) 9226 8890			
Enterprise Val (\$m)	\$34.4		www.valmec.com.au			
Ordinary Shares	124.6					
Fully Diluted Shares	127.5					
Valuation						
ASX Small Industrials	Target Multiple	Weight	Value			
1yr forward P/E	16.5x	35%	\$0.51			
1yr forward EV/EBITDA	9.6x	30%	\$0.54			
DCF	12%	35%	\$0.40			
12 Months Price Target						
						\$0.48
Fully diluted P / E (6/18A) at price target 14.7x						
Fully diluted P / E (6/19F) at price target 15.6x						
EV/EBITDA (6/19F) at price target 9.1x						
EV/EBIT (6/19F) at price target 11.1x						
Multiples (\$/price at \$0.28)						
P / E (basic, weighted)	6/15A	6/16A	6/17A	6/18A	6/19F	6/20F
	2.1x	121.0x	14.5x	7.5x	8.7x	6.5x
P / E (diluted, weighted, norm NPAT)	20.0x	121.0x	15.0x	7.0x	8.9x	6.7x
P / E (full dil mkt cap / norm. NPAT)	56.8x	188.5x	22.6x	8.4x	8.9x	6.7x
Dividend Yield	10.9%	0.0%	0.0x	0.0x	0.0%	0.0%
Group Free Cash Flow (f.c.f.) / EV	-0.5%	-5.7%	0.0x	-0.2x	26.0%	20.8%
Equity f.c.f. / Mkt Cap	-3.1%	-5.6%	0.0x	-0.3x	26.1%	20.9%
Norm f.c.f. / Mkt cap	-3.1%	-5.6%	0.0x	-0.3x	26.1%	20.9%
Mkt cap / operating cash flow	15.6x	-37.7x	40.5x	-12.4x	3.5x	4.3x
EV/EBITDA multiple	26.6x	12.0x	8.4x	4.9x	4.8x	3.8x
EV/EBIT multiple	471.1x	20.6x	11.5x	5.9x	5.8x	4.5x
Price / Book Value	0.8x	1.4x	1.3x	0.7x	1.0x	0.8x
Price / NTA	1.3x	1.7x	1.5x	1.0x	1.1x	0.9x
Ratios						
Return on Average Equity	6/15A	6/16A	6/17A	6/18A	6/19F	6/20F
	5.1%	1.2%	9.5%	17.2%	11.8%	13.8%
Return on Assets	2.1%	0.6%	4.1%	8.6%	6.9%	8.4%
ND / ND + Equity	25.5%	40.4%	28.2%	0.4%	-24.9%	-39.3%
Net Interest Cover (EBIT)	0.1	1.7	3.8	6.1	22.6	92.5
Free Cash Flow Analysis						
Net Operating Cash Flow	6/15A	6/16A	6/17A	6/18A	6/19F	6/20F
	2.2	-0.9	0.8	-2.8	9.7	7.9
Capex (Reported)	-2.4	-1.0	-0.4	-3.1	-0.8	-0.8
Group Free Cash Flow (rep'ted)	-0.2	-1.9	0.4	-5.9	8.9	7.2
Fixed Debt Repayments	-0.9	0.0	0.3	-2.7	0.0	0.0
Equity Free Cash Flow (rep'ted)	-1.1	-1.9	0.7	-8.6	8.9	7.2
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-1.1	-1.9	0.7	-8.6	8.9	7.2
Capex (inc HP) / depreciation	174%	77%	41%	230%	58%	50%
Unpaid Capital (options)						
Year Expires	Number (m)	\$m unpaid				
Unlisted Performance	0.59					
31-Dec-18	0.25	\$ 0.1				
30-Sep-19	1.41	\$ 0.4				
30-Nov-20	0.66	\$ 0.2				
Directors & Senior Management						
	S'holders	(m)		%		
Mr Stephen Zurhaar (Non-Exec Chairman)	Stephen Zurhaar	14.58	11.7%			
Mr Steve Droupulich (MD)	Stephen Lazarakis	13.50	10.8%			
Mr Harry Singh (CFO & CS)	Vincent Goss	13.75	11.0%			
Mr Vincent Goss (NED)	Annash Pty Ltd	10.26	8.2%			
Mr Stephen Lazarakis (NED)	Troy Harry	7.09	5.7%			
Mr Peter Iancov (NED)	Steve Droupulich	5.74	4.6%			
Speculative Buy						
Profit & Loss (\$m)	6/15A	6/16A	6/17A	6/18A	6/19F	6/20F
Backlog (year-end)		62.3	72.0	61.0	71.0	76.0
Revenue Summary						
Revenue	50.5	50.8	72.9	103.2	106.6	134.7
EBITDA	1.3	2.9	4.1	7.0	7.2	9.1
Margin %	2.6%	5.7%	5.6%	6.7%	6.7%	6.7%
Group Revenue	50.5	50.8	72.9	103.2	106.6	134.7
growth	0.7%	0.7%	43.5%	41.6%	3.3%	26.4%
Adj. EBITDA - Group	1.3	2.9	4.1	7.0	7.2	9.1
- growth	-59.7%	122.4%	42.7%	69.4%	3.3%	26.4%
EBITDA / Sales	2.6%	5.7%	5.6%	6.7%	6.7%	6.7%
Depreciation	-1.4	-1.3	-1.1	-1.4	-1.3	-1.5
Adj. EBIT	0.1	1.7	3.0	5.8	5.9	7.6
EBIT / Sales	0.1%	3.3%	4.1%	5.7%	5.5%	5.6%
Net interest	-0.8	-1.0	-0.8	-1.0	-0.3	-0.1
Normalised Pretax Profit	-0.8	0.7	2.2	4.9	5.6	7.5
Pre tax abnormalities	7.3	0.0	0.0	-0.6	0.0	0.0
Reported Pretax Profit	6.6	0.7	2.2	4.3	5.6	7.5
Reported Tax	1.4	-0.5	-0.7	-0.7	-1.7	-2.2
tax rate	-20.9%	72.2%	30.0%	16.2%	30.0%	30.0%
Reported Profit to equity	5.8	0.2	1.6	3.8	3.9	5.2
abnormal	5.1	0.0	0.0	-0.4	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	1.0
Normalised NPAT to equity	0.6	0.2	1.6	4.2	3.9	5.2
Norm. Net Profit / Sales	1.2%	0.4%	2.1%	4.1%	3.7%	3.9%
Reported EPS (basic, weighted)	12.8	0.2	1.9	3.7	3.2	4.2
- growth	-96%	-98%	734%	93%	-14%	33%
Normalised EPS (dil, wghtd)	1.4	0.2	1.8	3.9	3.1	4.1
- growth	-100%	-83%	705%	115%	-22%	33%
DPS (cps)	3.0	0.0	0.0	0.0	0.0	0.0
Franking	100%	100%	100%	100%	100%	200%
Payout Ratio	217.9%	0.0%	0.0%	0.0%	0.0%	0.0%
Cashflow Statement (\$m)						
EBITDA	6/15A	6/16A	6/17A	6/18A	6/19F	6/20F
	1.3	2.9	4.1	7.0	7.2	9.1
Working Capital Change	-1.5	-3.2	-3.2	-6.4	4.5	1.2
Cash from Operations	1.8	0.1	2.3	-1.1	11.6	10.2
Net interest Paid	-0.8	-1.0	-0.8	-1.0	-0.3	-0.1
Tax Paid	1.2	0.0	-0.7	-0.7	-1.7	-2.2
Net Operating Cash Flow	2.2	-0.9	0.8	-2.8	9.7	7.9
Capital Expenditure	-2.4	-1.0	-0.4	-3.1	-0.8	-0.8
Asset Sales	0.3	0.0	1.0	0.2	0.0	0.0
Other (inc Investments)	0.0	0.0	0.0	0.0	0.0	0.0
Net Investing Cash Flow	-2.1	-1.0	0.6	-2.9	-0.8	-0.8
Proceeds from Equity Issues	0.0	0.0	0.0	10.4	0.0	0.0
Net Change in Debt & Leases	-0.3	-2.1	-0.9	-1.0	0.0	0.0
Dividends Paid	-0.4	-0.4	0.0	0.0	0.0	0.0
Net Financing Cash Flow	-0.7	-2.5	-0.9	9.4	0.0	0.0
Movement in Cash	-0.6	-4.4	0.5	3.7	8.9	7.2
Balance Sheet (\$m)						
Cash	6/15A	6/16A	6/17A	6/18A	6/19F	6/20F
	2.9	0.6	2.3	2.7	11.7	18.8
Receivables	11.4	13.3	19.4	29.0	26.1	25.4
Inventories	2.9	4.8	7.0	7.1	6.2	6.2
Other	0.7	3.4	0.3	0.6	0.6	0.6
Total Current Assets	17.9	22.0	29.1	39.5	44.6	51.0
Property, Plant & Equipment	9.0	5.9	7.0	10.6	10.1	9.3
Intangibles	1.9	1.9	1.9	3.5	3.5	3.5
Other	4.9	4.2	3.5	1.6	1.6	1.6
Total Non Current Assets	15.8	11.9	12.4	15.8	15.2	14.5
Total Assets	33.7	33.9	41.5	55.2	59.8	65.5
Accounts Payable	9.9	10.5	15.7	19.0	19.6	20.1
Interest Bearing Liabilities	5.4	5.9	4.4	1.1	1.1	1.1
Other	1.3	1.0	1.4	1.6	1.6	1.6
Total Current Liabilities	16.6	17.4	21.5	21.8	22.4	22.8
Accounts Payable	0.0	0.0	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	1.5	1.0	2.7	1.8	1.8	1.8
Other	0.0	0.0	0.0	0.0	0.0	0.0
Total Non Current Liabilities	1.5	1.0	2.7	2.0	2.0	2.0
Total Liabilities	18.1	18.4	24.3	23.8	24.4	24.8
Net Assets	15.6	15.5	17.2	31.5	35.4	40.7
Net Asset Value / Share (\$)	0.35	0.19	0.21	0.38	0.28	0.33
NTA / Share (\$)	0.22	0.16	0.18	0.26	0.25	0.29
Net Debt (net cash)	4.0	6.3	4.9	0.1	-8.8	-16.0
Analyst: Aiden Bradley						
Phone: +61 8 9268 2876						
Sources: IRESS, Company Information, Hartleys Research						
Last Updated 4 September 2018						

HIGHLIGHTS

VMX have recently released their FY18 result. FY18 revenue of \$103m compares to \$72.9m in FY17 and Hartleys estimate of \$99.8m. Reported FY18 EBITDA of \$7.5m, compared to \$4.1m in FY17. FY18 reported EBITDA included a gain of \$2.6m (on re-measurement of equity investment due to business combination) and an undisclosed provision in relation to a legacy civil project. VMX has commenced proceedings against its client regarding this project, the summons is for \$11.6m, plus interest and costs. We calculate a clean EBITDA in FY18 of 'at least' \$7m, which compares to the Hartleys estimate of \$6.6m.

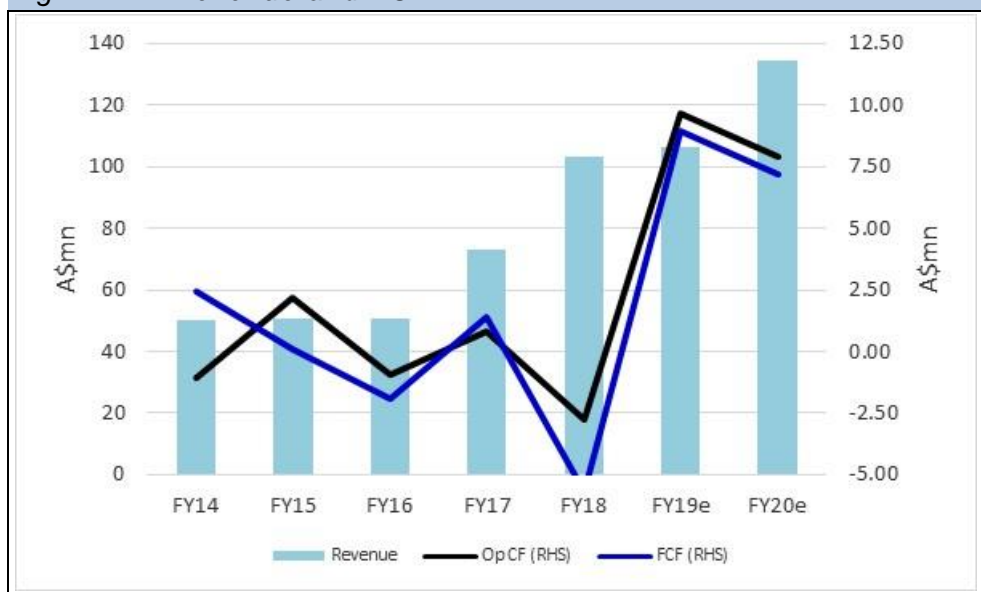
Fig. 1: Construction Contracts – Costs Incurred and Profit



Source: VMX and Hartleys Estimates

Operating cashflow in FY18 was impacted by the increase in receivables (to \$29m from \$19.5m at end of FY17).

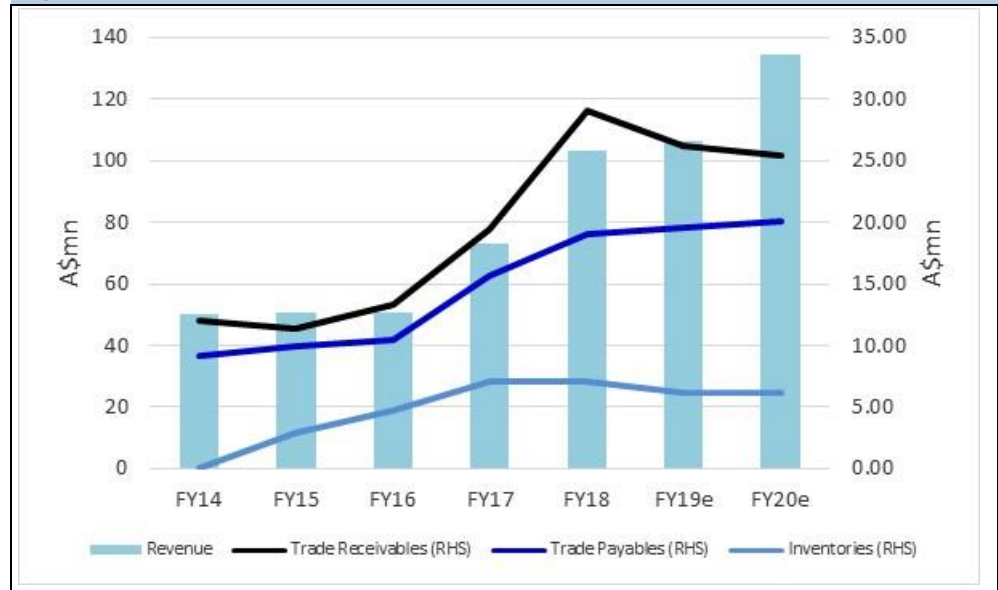
Fig. 2: Revenue and FCF



Source: VMX and Hartleys Estimates

This amount includes \$12.97m due from customers for construction contracts, up from \$8.84m previously.

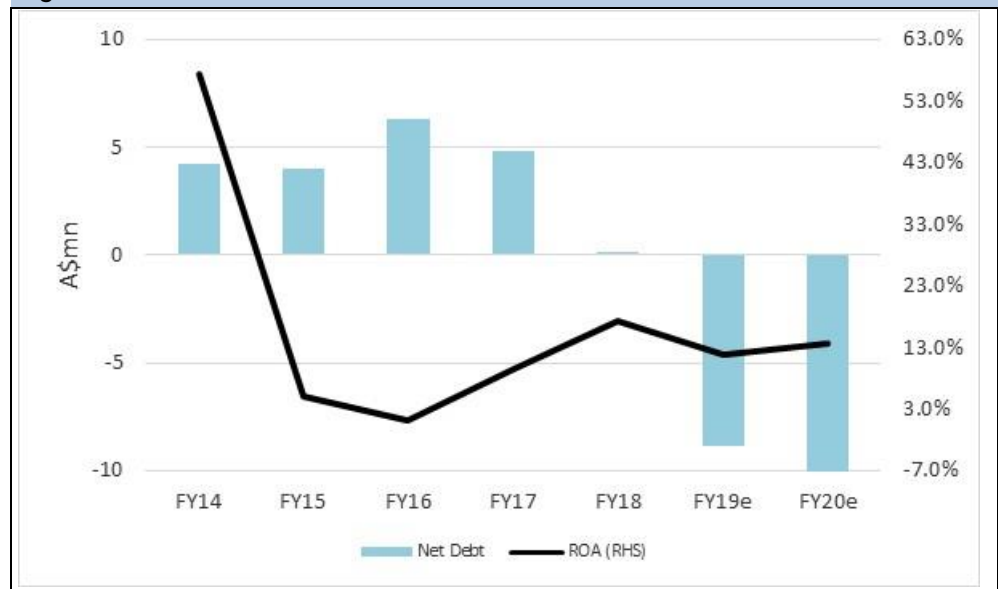
Fig. 3: Trade Receivables and Payables



Source: VMX and Hartleys Estimates

None of this \$29m is categorised as impaired and only \$4.2m is past due (the vast majority less than 30 days). As a result, based on our underlying assumptions for FY19, we expect a significant increase in cash flow from operations over the coming 12 months.

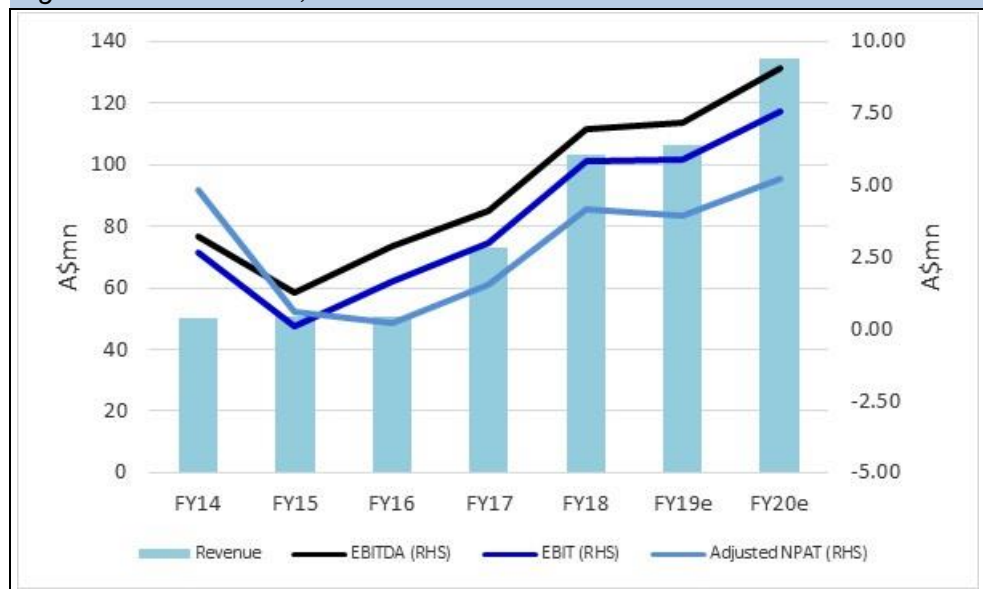
Fig. 4: Net Debt and ROA



Source: VMX and Hartleys Estimates

So FY18 overall turned out to be a very strong year. The outlook for FY19 looks to be at the least equally as strong.

Fig. 5: Revenue, EBITDA and NPAT



Source: VMX and Hartleys Estimates

A 'strengthening gas thematic' has improved the work pipeline compared to a year ago. With a significant increase in tender volumes and expressions of interest highlighted. VMX enters FY19 with over \$48m of contracts and \$13m in expected extensions (majority of which are to be completed in FY19, this compares to \$53m and \$30m at year end 2017 respectively) and is well positioned on over \$120m of Gas Infrastructure and Services works in their tender submission phase, which comprises only a part of the 'total' construction and services tender pipeline valued at over \$400m (circa \$300m of which is in Oil & Gas).

We have marginally downgraded our FY19 revenue to reflect our assumption on the timing of key contract awards. However, an increase in margins (higher service contribution expected in 2H19) has resulted in a very small uplift to our profit forecasts for the year ahead.

Fig. 6: Earnings Changes

Profit & Loss (\$m)	FY17	FY18A			FY19F		
	Actual	Old	New	% diff	Old	New	% diff
Revenue	72.9	99.8	103.2	3.5%	116.6	106.6	-8.6%
EBITDA	4.1	6.6	7.0	5.6%	7.0	7.2	2.6%
EBIT	3.0	5.9	5.8	-1.0%	5.8	5.9	1.8%
NPAT	1.6	3.6	4.2	16.0%	3.8	3.9	2.7%
Net Debt (net cash)	4.9	-4.5	0.1	102.7%	-8.9	-8.8	-0.7%
EPS	1.8	3.4	3.9	16.0%	3.0	3.1	2.7%
DPS	0.0	0.0	0.0	0.0%	0.0	0.0	0.0%

Source: VMX and Hartleys Estimates

RECOMMENDATION & RISKS

We have downgraded our 12-month target price to 48c (from 50c). This is the result of the very modest changes to our forecasts and the current multiples for the ASX Small Cap Industrials sector (we continue to believe that VMX should (at least) trade at parity with the multiples of this sector). Consequently, we maintain our Speculative Buy Recommendation.

VMX offers investors a somewhat unique investment proposition. A small listed company with high leverage to developing Australian wide gas sector, without the risk associated with an explorer and/or developer.

Fig. 1: Valuation and Price Target

Valuation			
ASX Small Industrials	Target Multiple	Weight	Value
1yr forward P/E	16.5x	35%	\$0.51
1yr forward EV/EBITDA	9.6x	30%	\$0.54
DCF	12%	35%	\$0.40
12 Months Price Target			\$0.48

Source: VMX and Hartleys Forecasts

INVESTMENT THESIS & RECOMMENDATION

VMX offers investors highly leveraged exposure to the developing Australian gas sector. Demand for its products and services by the gas sector will be driven by a multitude of factors including;

1. Continued growth overall in Gas Demand.
2. Further depletion in current sources of supply and need to replace this production.
3. Increased demand for compression as sources of gas increasingly are more remote from demand centres.
4. Increased demand for compression as new sources of supply are increasingly from unconventional reservoirs.
5. A new wave of LNG developments as existing contracts expire.

VMX's revenue outlook will also be boosted by a substantive increase in its more reliable recurring revenue from servicing and maintaining existing installed equipment and facilities.

A natural progression for VMX as it increases in scale is to shift to become an owner/operator of the gas equipment it installs. This presents a very large opportunity for VMX to not only develop another revenue stream (BOOM, BOOT, Contract Compression) but leverage of this model to win further EPC work. This build, own, operate, (lease) and maintain model has become the standard industry structure in North America, driven by customer demand to shift infrastructure of their balance sheets while also improving the efficiency of the plant. We believe capital constrained gas producers in Australia would be equally keen to further shift the midstream cost of gas production and supply away from front capital towards ongoing operating expenditure (i.e. moving their cost from Capex to Opex).

While VMX is now increasingly focused on the gas sector and compression particularly, it has retained exposure to increasing infrastructure spending in Australia through its experience in a broad range of civil and multidiscipline construction scopes. VMX offers civil, earthworks, underground services, concrete and building works in the residential, commercial and industrial market sectors.

Successful Small Caps: VMX a model case

We believe successful small-cap companies have a combination of a focused, well thought out strategy combined with the competitive advantages to pursue it and the right management (with incentives aligned with shareholders) in place to implement it.

Strategy

VMX is increasingly focused on the growing opportunities in the Australian energy sector. With proven experience and a background in design and construction of gas compression and gas processing projects and brownfields contracting, the VMX team can now also offer a technologically diverse and competitive range of energy packaging, transport and processing solutions. The acquisition of Exterran (Australia) Pty Ltd in January 2015, provides access to proven engineered solutions in production facilities including oil and gas processing and treatment and natural gas compression that complete their “one stop shop” customer option delivery model, including financing, BOOM and BOOT offerings.

Competitive Advantage

VMX have an experienced senior team of management and staff has more than 25 years of Civil / Earthworks, Structural, Mechanical, Piping (SMP) and Electrical and Instrumentation (E&I) project and construction experience, carried out in remote, regional and metropolitan greenfield and brownfield locations. Exterran are one of the leading gas compression companies globally and VMX are the exclusive agent for Exterran gas compression products in Australia (although it should be noted that this does not restrict VMX from supplying other 3rd party products and services).

Management & Alignment

Highly experienced Director and management group each with over 25 years of experience. The Executive Directors previously founded HVAC/HPS Group of Companies (Oil & Gas Services) which was ultimately sold for circa \$55m in 2005 to another leading Global gas compression company, Enerflex Ltd and ANZ Private Equity.

In 2011, the same team took control of a civil construction business, Marcon Pty Ltd. and set about building a substantial oil and gas services capacity into the business. Marcon was then acquired by Core Services Group in 2013 and listed on the ASX and subsequently renamed Valmec.

In late 2014, Valmec announced the acquisition of the Australian subsidiary of NYSE listed Exterran. Enerflex (who the team sold their original business to) and Exterran are among the leading firms in Australia specialising in gas compression equipment, production and processing equipment and operations. The local Exterran subsidiary had 50 staff in five offices across Australia. The acquisition of Exterran, allowed the

team greater leverage to the gas sector and complimented their existing compression and related services business in Australia.

Importantly for other shareholders the management and employees also have a material equity stake in the business with a number of Senior staff having large shareholdings in the Company.

Fig. 2: Board and Management

Directors & Senior Management	S'holders	(m)	%
Mr Stephen Zurhaar (Non-Exec Chairman)	Stephen Zurhaar	14.58	11.7%
Mr Steve Dropulich (MD)	Stephen Lazarakis	13.50	10.8%
Mr Harry Singh (CFO & CS)	Vincent Goss	13.75	11.0%
Mr Vincent Goss (NED)	Annash Pty Ltd	10.26	8.2%
Mr Stephen Lazarakis (NED)	Troy Harry	7.09	5.7%
Mr Peter Iancov (NED)	Steve Dropulich	5.74	4.6%

Source: VMX and IRESS

RISKS

Given VMX's increasing exposure to the Australian Gas Market, it is reliant on continued growth in gas demand and new sources of supplies being developed.

Given the nature of its business, VMX has modest balance sheet risk and working capital risks that need managing. These risks may increase further as VMX further develops its BOOM and contract compression business models.

There are a number of (mainly North American and Chinese) providers of compression products and services globally, who may pose a future competitive threat to current Australian leaders (Valmec and Enerflex) if they deem the Australian market prospective enough to enter.

There is a high level of competition in the provision of general EPC services in the Oil & Gas and Infrastructure sectors.

SIMPLE S.W.O.T. TABLE

Strengths	Experienced management team. Strong industry track record in gas sector and compression.
Weaknesses	Exclusive supplier of Exterran products in Australia. Still a relatively small player. Concentrated customer base.
Opportunities	Balance Sheet and Working Capital requirements. Growing demand for Gas Compression in Australia. Infrastructure spending looks like it will continue to grow strongly. Opportunity to own and operate more equipment for customers and develop as a contract compression company.
Threats	Weakening of gas demand and hence demand for VMX's products and services in Australia. Poor execution of contracts. Potential new entrants in gas compression. High levels of competition in Australia in general EPC.

Source: Hartleys Research

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
John Macdonald	Resources Analyst	+61 8 9268 3020
Paul Howard	Resources Analyst	+61 8 9268 3045
Aiden Bradley	Research Analyst	+61 8 9268 2876
Oliver Stevens	Research Analyst	+61 8 9268 2879
Michael Scantlebury	Junior Analyst	+61 8 9268 2837
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Dale Bryan	Director & Head of Corp Fin.	+61 8 9268 2829
Richard Simpson	Director	+61 8 9268 2824
Ben Crossing	Director	+61 8 9268 3047
Ben Wale	Director	+61 8 9268 3055
Stephen Kite	Director	+61 8 9268 3050
Scott Weir	Director	+61 8 9268 2821
Scott Stephens	Associate Director	+61 8 9268 2819
Rhys Simpson	Associate Director	+61 8 9268 2851

Registered Office

Level 6, 141 St Georges Tce Postal Address:

Perth WA 6000	GPO Box 2777
Australia	Perth WA 6001
PH:+61 8 9268 2888	FX: +61 8 9268 2800
www.hartleys.com.au	info@hartleys.com.au

Note: personal email addresses of company employees are structured in the following manner: firstname.lastname@hartleys.com.au

Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Digby Gilmour	+61 8 9268 2814
Jayne Walsh	+61 8 9268 2828
Veronika Tkacova	+61 8 9268 3053

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Murray Jacob	+61 8 9268 2892
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Matthew Parker	+61 8 9268 2826
Charlie Ransom	+61 8 9268 2868
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Samuel Williams	+61 8 9268 3041

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Hartleys has completed a capital raising in the past 12 months for Valmec Limited ("VMX"), for which it has earned gross fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Valmec Limited for which it has earned fees and continues to earn fees.

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