



WorleyParsons (WOR) added to the portfolio

In this quarterly's introductory comments, we spoke about how the investment landscape was now producing attractive business opportunities at knock down prices. It is our view that some time down the track, investors will look back on this period as having provided some outstanding investment opportunities to buy top shelf products selling at bargain basement prices. Into this basket we would now include WorleyParsons - a business that was added to the portfolio with a 5% weighting and an average entry price of \$14.87 per share.

WorleyParsons is a business that we missed when it floated back in November 2002 at the then issue price of \$2.00 per share. That we missed it was perhaps more to do with the fact that we were in the midst of establishing the Selector business itself.

More important, however, is the fact that the company chose to float at a time of weak share market conditions. No boom time valuations to underwrite big payoffs for the founders but an internal desire to bring to the public arena a business with aspirations to grow.

At this point we introduce the group's founder and current chief executive officer, John Grill. The business was founded by Grill in 1971, operating a small engineering consulting practice called Wholahan Grill and Partners. Growing steadily over the ensuing years, the big move came in 1986 when it acquired the local and Asian interest of Worley, an American based engineering firm with a strong reputation in the offshore oil and gas industry.

While a name change to Worley followed soon thereafter, the basis on which business was conducted had stood the test of time and remained unchanged. Specifically, Grill and his team were and remain firm believers in the principles of partnering both in respect to individual customers and regions in which operations are undertaken. In short, the value of building alliances based on mutual respect for each party has allowed the group to enjoy long standing relationships stretching over decades with companies like Woodside Petroleum (20 years) and Shell (14 years). As their success and demand for new oil and gas projects has grown, so too has the need for reliable technical expertise from their suppliers.

In 2004, Worley acquired the business of US based Parsons E&C, a business of similar pedigree to its own. With a history dating back to 1944, Parsons' has an excellent reputation in designing, constructing and managing major infrastructure projects. These include power plants, chemical facilities and gas processing plants. It provided an excellent fit for Worley, symbolised with a name change to WorleyParsons.



Further bolt on acquisitions followed, including the 2007 buy-out of Canada's largest engineering group, the privately held Colt Companies, for more \$A1.1 billion.

Today WorleyParsons' operations span 34 countries and 118 offices with over 31,000 employees. The group's service offering encompasses the entire project lifecycle from identification to actual operation of large scale infrastructure projects.

While the Hydrocarbons division (oil & gas) still dominates, providing the group with over 70% of total revenue and earnings contributions, WorleyParsons' evolution has seen its involvement grow in the areas of Minerals & Metals (base metals), Power (including nuclear plants) and Infrastructure & Environment (including desalination plants).

Since listing the group has maintained an impressive earnings track record combined with an equally impressive share price performance. With the assistance of CFO David Housego since 1999, CEO Grill has diligently and conservatively guided the group forward. While net debt has risen on the back of the two major acquisitions undertaken during the past five years, gearing remains conservatively set, with current interest cover of 12.7x and a gearing coverage ratio, that includes operating lease expenses, of 6.4x. Just as important, issued capital has remained tight, rising only 62% at a time when net earnings have jumped thirteen-fold. Return on capital employed remains impressive, hovering above 20%.

All in all, while we acknowledge the dangers of management that looks to acquire growth, to date, they have done so only where the price, culture and opportunity justified the move.

At the end of the day it is also reassuring to know that the majority of the board and management have significant stakes in the business. Grill himself retains a 13.6% share interest in the group, valued at \$627 million.

Having missed the opportunity to invest in WorleyParsons the first time around, along with a share price that hit a record high of \$54.19 in December 2007, the global events since have allowed investors to re-examine a whole host of excellent businesses at more realistic valuations. While the business is not immune to contract cancellations and earnings impacts, the 2009 interim result highlighted the group's defensive earnings qualities and management's confidence in sustaining growth, culminating in a number of significant contract alliance wins.

While buying into WorleyParsons when valuations were stretched was not a recipe for success, we suspect that on a current earnings yield of 13.0%, investors are being more than compensated for the inherent risk that now exists.



More importantly, management as stewards of capital, have charted an appropriate and commendable course. When combined with other important financial metrics discussed in our earlier piece, the decision to invest was a much easier call and makes far more sense, than the considerable energy investors expend on trying to predict a market bottom.

Table 5: WorleyParsons Financial Snapshot

\$'M	2003	2004	2005	2006	2007	2008	2009 (e)
Revenue	377	374	1249	2417	3513	4652	6000
Operating Margin %	11.0	13.1	9.7	9.1	10.2	12.7	11.6
EBITDA	41.4	49.0	117.0	219.9	353.4	587.0	694.0
EBITA	35.6	43.8	107.6	201.4	336.4	544.5	647.0
NPAT	25.9	30.7	66.5	139.1	224.8	343.9	396.4
Net Debt / (net cash)	(30.9)	(13.0)	6.0	53.7	398.2	629.2	615.0
Market Capitalisation	303	430	1604	4090	8177	9154	4370
Enterprise Value	272	417	1610	4144	8575	9783	4985
Earnings Yield %	11.8	9.7	6.7	5.0	3.8	3.5	13.0
ROCE %	34.9	30.3	23.0	38.0	17.8	23.6	24
Cover ratio	5.0	6.6	28.5	5.2	5.4	6.1	6.4
GOCF / EBITDA %	87	38	99	80	73	56	90
Earnings per share ¢	17.3	20.6	32.4	67.9	93.6	142.1	163.3
Dividends per share ¢	5.0	12.0	20.0	41.0	60.5	85.5	76.0
PER	11.7	13.9	24.2	29.4	36.3	26.7	11.0
Dividend Yield %	2.5	4.2	2.6	2.1	1.8	2.3	4.2
Share Price 30 June \$	2.03	2.88	7.83	19.96	34.00	37.86	18.00*
Issued Capital	149.3	149.3	204.9	204.9	240.5	242.1	242.8

* Price at time of writing Apr 2009

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