

Computershare (CPU.AX)

More downgrades but could they be the last?

- **Trim to EPS, maintain Neutral but higher TP** — We lower EPS FY13E -2%. FY14E -6%. We publish our 1H13:2H13 split and FY15E numbers for the first time. This EPS downgrade partly reflects the deferral of the upswing in the corporate actions cycle in our forecasts. So the impact on our valuation - it falls from A\$9.00 to A\$8.70 - is more modest despite also including adverse currency moves. Given the removal of some downside risks, we also unwind some of the discount between our valuation and TP, lifting our TP from A\$8.00 to A\$8.50. We retain our Neutral call.
- **Downside risk to FY13E EPS likely limited** — With corporate actions revenue at its lowest level since 2004, risk of further downside seems limited in our view. The low end of CPU's 10% to 15% FY13E EPS guidance seems to imply flat organic/corporate actions income, if BSS and SLS/Serviceworks contribute as originally guided. If, however, the better than expected performance from these acquisitions in FY12 continues into FY13E, CPU could meet the low end of its guidance even if corporations/organic revenues further decline.
- **Some bright spots in FY12 bode well** — We highlight revenue bright spots, including SLS and UK share plans, and a tight outcome on 2H12 costs as aspects with likely positive implications for future periods.
- **M&A optimism but ECM gloom** — The first five weeks of the present quarter contain some very early signs of M&A volume strength, but this is offset by what appears to be a further step down in global ECM activity. With interest rates also looking unlikely to be helpful and some uncertainties over margin income in FY14E, the main potential upside drivers for the stock still look absent for now.
- **Big fall in EBITDA margins but BSS synergies key to improvement** — The 2H EBITDA margin was a very low 23.9%, well down on 27.1% in 1H12 and 29.6% in 2H11. BSS synergy realisation will be a key component of turning this around, with the eventual recovery in corporate actions income another likely key component.

- Company Update
- Target Price Change
- Estimate Change

Neutral	2
Price (08 Aug 12)	A\$8.00
Target price	A\$8.50
	from A\$8.00
Expected share price return	6.3%
Expected dividend yield	3.6%
Expected total return	9.9%
Market Cap	A\$4,445M
	US\$4,692M

Price Performance (RIC: CPU.AX, BB: CPU AU)



CPU.AU (Y/E Jun)	2012A	2013E	2014E	2015E
Reported Profit (US\$m)	156.5	224.1	273.5	300.5
Core Net Profit (US\$m)	272.7	310.0	359.4	373.3
Core EPS (US¢)	48.9	55.6	64.5	67.0
Core EPS Growth (%)	-11.7	13.7	15.9	3.9
PE Ratio (x)	17.3	15.2	13.1	12.6
DPS (US¢)	29.1	30.0	33.0	34.0
Dividend Yield (%)	3.5	3.6	3.9	4.0
Franking Rate (%)	60.0	60.0	44.8	45.0
P/Operating Cashflow (x)	14.1	12.7	12.8	12.2
ROE (%)	22.8	26.2	29.1	28.1

Source: Company Reports and dataCentral, Citi Research.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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CPU.AX: Fiscal year end 30-Jun						Price:\$8.00; TP:\$8.50; # Shares: 556m; Market Cap: A\$4445m; Recomm: Neutral					
Profit & Loss (US\$m)	2011	2012	2013E	2014E	2015E	Per share data	2011	2012	2013E	2014E	2015E
Sales revenue	1,599	1,803	2,053	2,200	2,319	Reported EPS (¢)	47.3	28.1	40.2	49.1	53.9
Cost of sales	-294	-329	-392	-420	-443	Core EPS (¢)	55.4	48.9	55.6	64.5	67.0
Gross profit	1,305	1,474	1,661	1,780	1,876	DPS (¢)	27.5	29.1	30.0	33.0	34.0
EBITDA (Adj)	463	361	492	564	612	CFPS (¢)	57.2	60.0	66.3	66.0	69.3
Depreciation	-35	-34	-40	-45	-52	BVPS (¢)	221.4	209.4	216.2	228.8	248.9
Amortisation	-34	-59	-81	-81	-81	Wtd avg ord shares (m)	556	556	556	556	556
EBIT (Adj)	431	442	397	463	468	Wtd avg diluted shares (m)	558	558	558	558	558
Net interest	-28	-44	-54	-49	-44						
Earnings before tax	378	305	325	396	424	Valuation ratios	2011	2012	2013E	2014E	2015E
Tax Recurring	-106	-92	-96	-117	-132	PE (x)	15.2	17.3	15.2	13.1	12.6
Non-op/Except/Extraord	-3	-53	-2	-2	11	EV/EBIT (x)	12.6	13.0	15.2	12.7	12.2
Minority interests	-5	-3	-4	-4	-4	EV/EBITDA (x)	11.7	15.9	12.3	10.4	9.3
Associates	0	0	0	0	0	FCF yield (%)	6.3	6.3	6.4	6.2	6.3
Reported net profit	264	156	224	274	300	Dividend yield (%)	3.3	3.5	3.6	3.9	4.0
Core NPAT	309	273	310	359	373	Payout ratio (%)	50	60	54	51	51
Half year data (US\$m)	1H12	2H12	1H13E	2H13E	1H14E	Growth rates	2011	2012	2013E	2014E	2015E
Sales revenue	772	1,031	994	1,059	1,058	Sales revenue (%)	0.0	12.7	13.9	7.2	5.4
EBIT (Adj)	179	263	194	203	226	EBIT (Adj) (%)	-2.1	2.6	-10.2	16.6	1.0
Core NPAT	128	144	152	158	176	Core NPAT (%)	-3.6	-11.9	13.7	15.9	3.9
Core EPS (¢)	23.0	25.9	27.3	28.3	31.6	Core EPS (%)	-3.0	-11.7	13.7	15.9	3.9
Balance Sheet (US\$m)	2011	2012	2013E	2014E	2015E	Operating performance	2011	2012	2013E	2014E	2015E
Cash & cash equiv.	347	441	441	441	441	Gross margin (%)	81.6	81.8	80.9	80.9	80.9
Accounts receivables	301	333	336	362	383	EBITDA margin (%)	29.6	24.5	24.3	26.0	25.9
Inventory	12	9	5	6	6	EBIT margin (%)	25.3	19.4	18.4	20.2	20.2
Net fixed & other tangibles	248	318	347	379	416						
Goodwill & intangibles	1,863	2,379	2,325	2,289	2,265	Operating ROA (%)	11.1	8.3	8.5	9.9	10.2
Financial & other assets	102	200	169	169	169	Operating ROE (%)	27.0	22.8	26.2	29.1	28.1
Total assets	2,873	3,682	3,623	3,646	3,679	Operating ROIC (%)	15.8	15.0	11.3	13.1	12.7
Accounts payable	341	384	372	435	492						
Short-term debt	129	69	69	69	69	Net debt to equity (%)	53.5	111.6	97.2	79.3	59.7
Long-term debt	885	1,685	1,552	1,391	1,205	Debt to total capital (%)	44.9	59.9	57.2	53.2	47.7
Provisions & other liab	274	367	417	467	517	Interest coverage (x)	17.1	10.0	9.3	11.6	13.8
Total liabilities	1,628	2,505	2,410	2,362	2,284						
Shareholders' equity	1,230	1,164	1,201	1,271	1,383	Segmental sales (US\$m)	2011	2012	2013E	2014E	2015E
Minority interests	15	13	13	13	13	Registry maintenance	698.5	774.8	869.7	891.8	906.7
Total equity	1,245	1,176	1,214	1,284	1,396	Corporate actions	179.5	156.1	182.0	222.2	253.5
Net debt	666	1,313	1,179	1,019	833	Stakeholder relationship	97.1	86.8	83.8	92.7	98.6
Cashflow (US\$m)	2011	2012	2013E	2014E	2015E	Employee share plans	157.6	197.3	217.1	237.0	254.5
EBITDA	474	443	499	571	601	Communication services	172.2	182.0	175.6	182.5	186.4
Working capital	300	14	-11	36	37	Business services	266.1	383.0	491.6	537.5	580.2
Net interest paid	-28	-44	-54	-49	-44	Technology & other	28.1	22.6	33.1	36.3	39.4
Tax paid	-87	-74	-82	-101	-113	Dividend and other income	19.7	16.1	15.8	15.8	15.8
Other	-339	-4	17	-90	-94	Sales - total segments	1,618.6	1,818.7	2,068.8	2,215.8	2,335.1
Operating cashflow	320	335	370	368	386						
Capex	-23	-40	-68	-78	-89	Segmental costs (US\$m)	2011	2012	2013E	2014E	2015E
Net acq/disposals	-58	-651	0	0	0	Personnel costs	549.5	656.3	714.3	745.4	794.0
Other	0	-3	0	0	0	Occupancy costs	68.5	81.2	92.1	94.8	97.5
Investing cashflow	-82	-695	-68	-78	-89	Other direct costs	53.5	81.3	99.1	101.9	104.2
Dividends paid	-152	-162	-167	-183	-189	Technology costs	160.0	212.5	256.1	266.6	279.7
Financing cashflow	-185	-186	-300	-344	-374	Cost of sales	293.8	328.8	392.0	420.1	442.9
Net change in cash	53	-546	2	-54	-77	Corporate costs	0.00	0.00	0.00	0.00	0.00
Free cashflow to s/holders	296	294	302	290	297	Total costs	1,125.3	1,360.1	1,553.6	1,628.7	1,718.3

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The simple story

The result in brief

Figure 1. CPU FY12 result summary

	2H11A US\$m	1H12A US\$m	2H12A US\$m	Change vs. pcg	Change vs. previous half	FY11A US\$m	FY12A US\$m	Change vs. previous year
Sales revenue	826.2	772.0	1,030.6	24.7%	33.5%	1,598.9	1,802.6	12.7%
Total operating revenue	837.6	781.4	1,037.3	23.8%	32.7%	1,618.6	1,818.7	12.4%
Cash operating expenses	-590.4	-569.9	-790.2	33.8%	38.7%	-1,125.4	-1,360.1	20.9%
EBITDA - management	247.6	211.5	247.3	-0.1%	16.9%	493.6	459.0	-7.0%
EBIT	227.0	191.5	225.1	-0.8%	17.5%	452.7	416.8	-7.9%
Core net profit	159.4	128.3	144.4	-9.5%	12.5%	309.3	272.8	-11.8%
Reported NPAT after one-offs	147.0	105.6	50.8	-65.5%	-51.9%	264.0	156.5	-40.7%
Core EPS (US¢)	28.6	23.0	25.9	-2.7	12.7%	55.4	48.9	-11.6%
DPS (A¢)	14.0	14.0	14.0	0.0	0.0%	28.0	28.0	0.0%
Effective tax rate (%)	23.2%	25.1%	25.2%	1.9%	0.1%	25.2%	25.1%	-0.1%
Cost to income (%)	70.5%	72.9%	76.2%	5.7%	3.2%	69.5%	74.8%	5.3%
EBITDA margin (%)	29.6%	27.1%	23.8%	-5.7%	-3.2%	30.5%	25.2%	-5.3%
Divisional revenue								
Registry maintenance	372.7	334.2	440.6	18.2%	31.8%	698.5	774.8	10.9%
Corporate actions	80.4	67.4	88.7	10.3%	31.6%	179.5	156.1	-13.0%
Stakeholder relationship management	57.6	34.6	52.2	-9.4%	50.9%	97.1	86.8	-10.6%
Employee share plans	83.6	85.0	112.3	34.4%	32.1%	157.6	197.3	25.2%
Communication services	87.5	90.3	91.7	4.9%	1.6%	172.2	182.0	5.7%
Business services - funds and government	135.5	148.3	234.7	73.2%	58.3%	266.1	383.0	44.0%
Technology & other sales revenue	9.0	12.2	10.4	15.8%	-14.8%	28.1	22.6	-19.4%
Total sales revenue	826.2	772.0	1,030.6	24.7%	33.5%	1,598.9	1,802.6	12.7%

Source: Company Reports

Computershare's FY12 reported NPAT of US\$156m was below our forecast of US\$169m, although core earnings were slightly above our expectations at US\$273m, ahead of our forecast of US\$270m by 1%. Core EPS of US49.1cps fell 12% vs. pcg, in line with prior company guidance of a 10-15% fall.

Outside of divisions impacted by the acquisitions of Shareowners Services, SLS and Serviceworks, Computershare saw revenue growth in Communications Services and Technology in 2H vs. pcg. Margin income in 2H12 was US\$117.4m, up 32% on 1H12, with average balances up 27% hoh, which included the contribution of Shareholder Services' balances in the second half.

Company guidance and our views thereon

CPU is guiding towards FY13E Management EPS yoy growth of 10% to 15% which implies (at the mid point) fully diluted core EPS of US55.1cps, US6.2cps above FY12 and back at around the same level as FY11 EPS.

CPU was reluctant to provide any breakdown or further commentary on the sources of EPS growth, and only stated that it expects "*continued strong contribution from recent acquisitions*". We analyse the potential breakdown of EPS growth in our scenario analyses shown in Figure 2 and Figure 3.

Figure 2. Actual FY12 and Citi estimated breakdown of FY13E fully diluted EPS based on original estimated contribution from acquisitions

	FY12	Low end FY13E	Mid-point FY13E	High end FY13E
	US¢	US¢	US¢	US¢
Serviceworks and SLS	3.6	5.1	5.1	5.1
BNY Shareholder Services (est FY12 contribution)	1.8	5.1	5.1	5.1
Corporate actions and organic growth	43.6	43.7	44.9	46.2
Total	49.0	53.9	55.1	56.4
<i>Implied corporate actions and organic growth</i>		0.2%	3.0%	5.8%

Source: Company Reports and Citi Research Estimates

Figure 3. Actual FY12 and Citi estimated breakdown of FY13E fully diluted EPS based on higher estimated contribution from acquisitions

	FY12	Low end FY13E	Mid-point FY13E	High end FY13E
	US¢	US¢	US¢	US¢
Serviceworks and SLS	3.6	5.5	5.5	5.5
BNY Shareholder Services (est FY12 contribution)	1.8	6.0	6.0	6.0
Corporate actions and organic growth	43.6	42.4	43.6	44.9
Total	49.0	53.9	55.1	56.4
<i>Implied corporate actions and organic growth</i>		-2.8%	0.1%	2.9%

Source: Company Reports and Citi Research Estimates

CPU originally anticipated an annualised contribution of 5cps to Management EPS from SLS and Serviceworks, which we have grown marginally. Under this scenario (Figure 2), to achieve the low end of its guidance range, Computershare would need only flat corporate actions and organic growth. It would need 5.8% growth in these areas to reach the top of its guidance. However, today Computershare flagged that these acquisitions are performing above expectations (7 months of SLS and 10 months of Serviceworks contributed 3.6cps, vs. our estimate of 2.9cps). As we show in (Figure 3), assuming higher contributions from these acquisitions in FY13E could mean that the low end of guidance implies further contraction in the amount of earnings coming from the legacy Computershare business.

We would now be surprised to see more earnings drag from corporate actions in FY13E and there now appears low chance of downside risk to FY13E earnings guidance even though published data on M&A activity and muted share market turnover still suggests tough conditions across all of CPU's key geographies.

What the result means for future stock performance

We believe today's guidance for FY13 EPS (at the midpoint) is 4% below prior IBES consensus estimates. Corporate activity is unlikely to improve significantly for some time and interest rates are still historically low. While Computershare will continue its strong focus on costs, the integration of recent acquisitions, especially Shareowner Services, means technology costs could remain high for some time. The expansion opportunities in SLS and in ServiceWorks are becoming apparent, with SLS establishing a new office and Serviceworks taking its offering to the US.

Issues considered in more depth below

In this note we cover the following key issues we believe are important for future performance:

- **BSS synergies should assist US margin weakness:** EBITDA margins in the US, which have been at the low end of group performance, fell further in FY12. However, we see this as a temporary weakness, with the large synergies expected to come through from the Shareowner Services acquisition, potentially lifting CPU's US EBITDA to ~28%.
- **Very strong SLS revenue growth likely to continue:** SLS's loans serviced by Unpaid Principal Balance (UPB) have nearly doubled over the last four years, while revenues appear to be growing at an even faster rate. With the US national mortgage settlement now another potential driver of growth in subservicing, we see potential for Computershare to continue to grow SLS at a high rate.
- **Balance sheet flexibility constrained until 1H14:** CPU's balance sheet remains constrained until earnings from its recent acquisitions flow through. Although we forecast CPU's net debt to EBITDA to reduce over time from its current ratio of 2.9x, in our view CPU would likely only be able to complete small bolt-on acquisitions without equity raisings in the near term.
- **Capital markets likely close to bottom:** We see very early signs of a turn in the capital markets cycle, and forecast a gradual pick up in activity from 1H13E. However, with recent acquisitions of annuity style businesses, CPU's sensitivity to the capital markets cycle has substantially reduced, to 12% in 1H13E.
- **Hedging policy under challenge as yield curve flattens:** CPU is now facing a significant run off in hedges in late 2013, and without further hedging before year end we estimate that its hedging levels would fall below its own minimum hedge policy levels. We think the most realistic forecast for margin income is to include a continued decline in yields.
- **Cost control an area of strength:** Despite the normal seasonal skew towards 2H costs, CPU's legacy costs increased just 8.6% 2H12 vs. 1H12, compared to 10.3% in 2H11 vs. 1H11. This implies a solid level of cost control which should also benefit future periods. We also continue to forecast higher than guided synergies from Shareowner Services (Citi US\$80m vs. CPU target of US\$74.3m).

Dividend

Computershare's final dividend of A14.0cps is in line with our forecast and flat vs. pcp, and represents a payout ratio of 57% on core earnings. Computershare's payout ratio has moved in the past due to currency movements, most notably when the A\$ appreciates against the US\$.

As in previous periods, Computershare's final dividend is 60% franked. Computershare's franking capacity is expected to run down as more earnings are sourced from overseas. We currently forecast 60% franking to be maintained in FY13E but decline thereafter.

EPS changes

We make the following changes to our earnings forecasts for Computershare:

Figure 4. Citi EPS estimates for Computershare

	FY13E			FY14E			FY15E		
	Old	New	Change	Old	New	Change	Old	New	Change
EPS (cents)	56.7	55.6	-1.9%	68.3	64.5	-5.7%	N/a	67.0	N/a

Source: Citi Research Estimates

These changes are principally due to:

- Factoring in a lower than previously EBITDA margin for FY13E and FY14E following CPU's base decline 2H12 vs.1H12; and
- Changes to spot and forward FX rates.

We are now using the following currency forecasts:

Figure 5. Citi FX currency forecasts (core countries)

	Dec-12	Jun-13	Dec-13	Jun-14	Dec-14	Jun-15
Period average	1H13E	2H13E	1H14E	2H14E	1H15E	2H15E
A\$ buys US\$	1.000	1.000	1.000	1.000	1.000	1.000
US\$ buys HK\$	7.752	7.758	7.757	7.752	7.751	7.750
US\$ buys CA\$	1.009	1.002	0.990	0.975	0.972	0.964
US\$ buys UK£	0.642	0.659	0.645	0.617	0.611	0.596

Source: dataCentral, Citi Research

Full details of our earnings forecasts in US\$ can be found in our detailed financial summary towards the back of this note.

Valuation and target price

We lift our target price to A\$8.50 (from A\$8.00), set at a discount to our spot DCF valuation of A\$8.70 (was A\$9.00). Given the removal of some downside risks, we unwind some of the discount between our valuation and target price. Our spot valuation is based upon a three-stage model, with forecasted earnings out to FY15E, a medium-term revenue growth rate of 4% fade out to FY21E, without any allowance for acquisition capacity, and a terminal growth rate of 3% pa. Typical of a lower-growth business with annuity-type income, 62% of the valuation derives from the PV of the terminal value.

Summary and recommendation

Computershare's FF12 result was 1% ahead of our estimates at the core EPS level, but with guidance for FY13E a little lower than we anticipated, we have nonetheless had to downgrade our FY13E earnings. With M&A and ECM activity also remaining subdued, albeit with a little bit of a pick up in M&A over recent weeks, we have also cut our FY14E earnings, in effect deferring the timing of the next corporate actions upswing.

We also retain our view that after registry revenues recover from what could potentially be a cyclical low short term, we estimate the underlying trend for registry revenues as a decline of around 2%, just slightly worse than the 1% decline CPU suffered on a proforma basis between 2004 and 2012. Furthermore, equity market turnover in all of CPU's key markets remains in a downwards trough, which is likely to result in continued near term weakness in registry maintenance revenues, albeit we have allowed for some cyclical rebound in FY14E.

This makes it clear that, in time, CPU will need to find another source of growth in our view. This result provided further optimism that this could be possible with both SLS and Serviceworks continuing to track ahead of expectations. However, it is early days in respect of these businesses.

We also lower our estimates of CPU's acquisition capacity, following a slightly higher debt to EBITDA ratio than anticipated at 30 June 2012. The interest rate outlook is also likely to remain unsupportive for a while yet and with transparency over Computershare's key margin income balance not that great and with a sizeable amount of hedges running off at the end of the calendar year, there remains some uncertainty about FY14E earnings.

So on the one hand we have the positive that this could be the end of the downgrade cycle with removal of some downside risk relating to BSS etc, and with some value still remaining but, on the other hand, we have the fact that neither of the two key reasons for buying Computershare, namely its leverage to corporate actions and rising interest rates, are currently in play. Indeed, for the most part, the market backdrop in which it operates continues to be challenging.

Reconciling the positives and negatives, we maintain our Neutral rating but with a higher target price of A\$8.50, as we cut the discount between our valuation and target price.

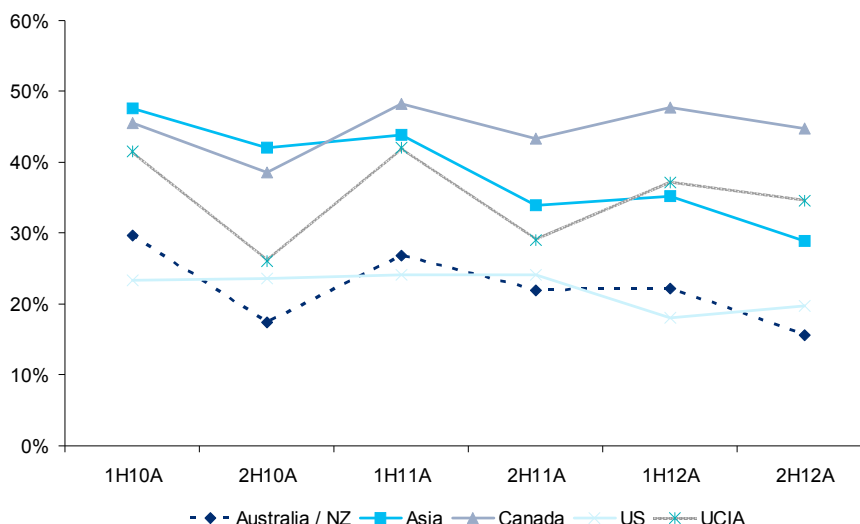
Issues affecting future performance

BSS synergies should assist US margin weakness

Together with Australia, EBITDA margins in the US have been at the low end of group performance.

Except in Canada, EBITDA margins in most regions have been falling, principally as the proportion of higher margin corporate actions revenues continues to fall

Figure 6. CPU EBITDA margins by region



Source: Company Reports

Given the company segment and acquisition impact disclosures, we estimate that the revenue streams from BSS and SLS have been brought on at around 17/18% EBITDA margins (Figure 7), well below group norms, but not greatly different from the pre acquisition EBITDA margin in the USA.

Figure 7. Dissection and roll forward of USA EBITDA margins

Component	Revenue US\$m	Margin %	EBITDA US\$m
1H12 starting base	209.3	18.0%	37.7
Gain from second half stronger revenue at 30% margin	48.3	30.0%	14.5
BSS at assumed margin	127.0	17.0%	21.6
SLS incremental at assumed margin	58.3	18.0%	10.5
Cost synergies realised in 2H12			3.0
Total 2H12 revenues	442.9	19.7%	87.3
Impact of synergies yet to be realised in BSS			38.5
Proforma EBITDA margin with synergies realised	442.9	28.4%	125.8

Source: Company Reports and Citi Research Estimates

We estimate (at Figure 7) that the large synergies expected in the BSS acquisition of themselves would lift CPU's USA EBITDA up to ~28%, closer to that in Asia, but still well short of the levels in the UK and the USA.

Very strong SLS revenue growth likely to continue

SLS's loans serviced, by Unpaid Principal Balance (UPB) have nearly doubled over the last four years, and its servicer evaluation ratings undertaken by the various rating agencies have been maintained or improved over that period.

As can be seen from Figure 8, the fastest growing segment of SLS's business is the higher yielding activity related to non performing loans. Also notable is the continuing run down in primary servicing loan balances, where SLS has purchased the servicing rights.

Figure 8. SLS – analysis of loans serviced by Unpaid Principal Balance, US\$bn

31 December	2007	2008	2009	2010	2011	% change 2011 vs 2010
Subprime	4.0	2.6	2.2	4.1	4.3	5%
2nd liens (closed-end seconds)	4.3	2.7	3.5	3.2	2.5	-21%
HELOC	0.9	0.9	2.5	2.6	2.7	4%
Nonperforming/reperforming	0.4	0.4	0.4	1.5	5.7	271%
Charge-off	0.8	1.7	3.5	4.3	4.6	5%
Total	10.4	8.4	12.1	15.8	19.8	
Of which						
Servicing rights purchased	5.2	4.8	6.6	3.4	3.1	

Source: Moodys Investor Services(December year end)

Between December 2011 and July 2012, SLS took on board the servicing of approximately 30,000 higher risk loans with a total unpaid principal balance of more than US\$5bn from a major money center bank, with the majority of the loans being transferred in December. According to Rating Agency returns, the transferred assets include many aged foreclosures, redefaulted loans, and 90-day-plus delinquent loans.

While the Unpaid Principal Balance (UPB) of loans managed by SLS has been growing in recent times at over 20% pa, revenue would appear to be growing at an even faster rate, as shown in Figure 9.

Figure 9. SLS reported revenues, US\$m

Owner	Shensei Bank	CPU	CPU
Period	CY2010	1H12	2H12
Duration	12 months	1 month	6 month
Revenue	84	8.5	66.8

Source: Company Reports

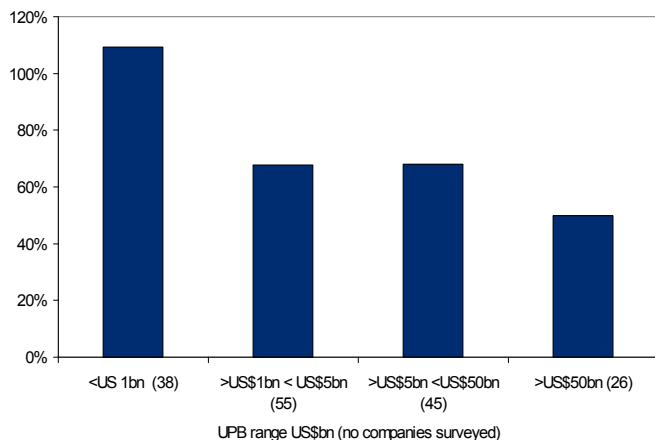
We expect this trend to continue, as the Federal Government has, as part of a National Mortgage Settlement with the larger banks, recently mandated much stricter standards for mortgage servicers, which is resulting in more intensive servicing requirements. This could, in time, mean that larger banks spin off to specialists such as SLS, problem portfolios which require higher levels of attention.

In our view, Computershare has both the incentive and potential to continue to grow this business at a high rate, commensurate of course with its ability to maintain servicing standards, in the light of:

- the clear economies of scale in this business where the cost to income ratios have traditionally been significantly lower at larger servicers (Figure 10),
- Computershare being only a relatively small firm in the subservicing arena (Figure 11), and
- where subservicing comprises only around 5% of the total residential mortgages outstanding.

Computershare's ability to fully take advantage of this market opportunity is, however, currently unclear.

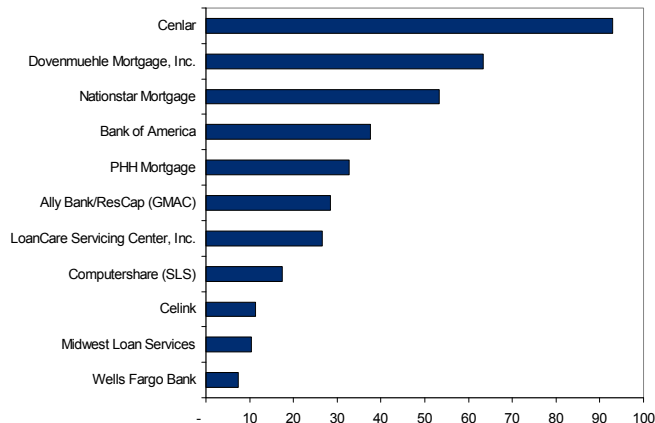
Figure 10. Cost to income ratio at mortgage servicers



* Includes subservicers

Source: Mortgage Bankers Association survey 2010

Figure 11. Residential servicers ranked by subservicing volume



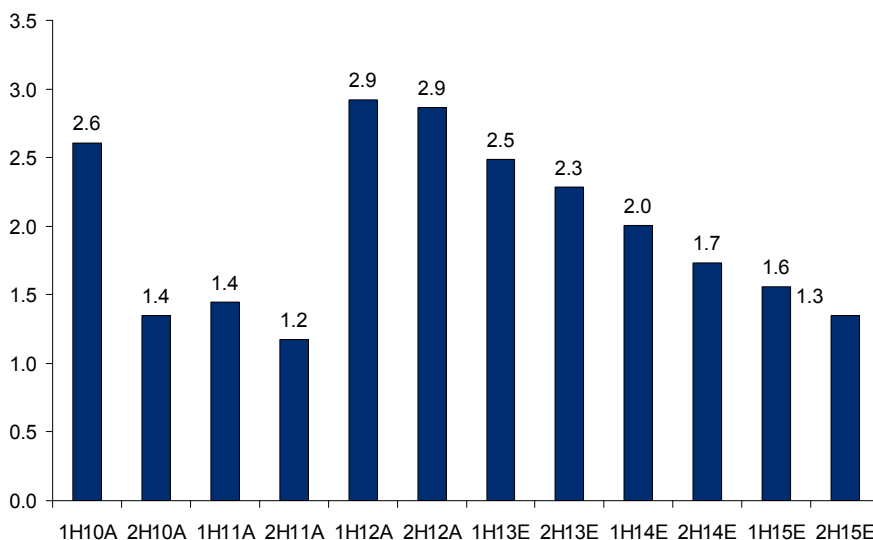
Source: Mortgage Bankers Association survey 2010

Balance sheet flexibility constrained until 1H14

Rising free cash flow generation should see net debt to EBITDA fall back to management's comfort ceiling of ~2.5x by June 2013

We estimate that CPU's net debt to EBITDA (CPU's key borrowing ratio covenant) will fall from 2.9x at 30 June 2012 to 2.5x at 30 June 2013, a little higher than our previous estimates. This is due to slightly higher than expected net debt and slightly lower than expected EBITDA at 30 June 2012. Given management's stated comfort level of around 2.5x, in our view, Computershare's balance sheet capacity limits it to small bolt-on acquisitions.

Figure 12. Computershare net debt to EBITDA



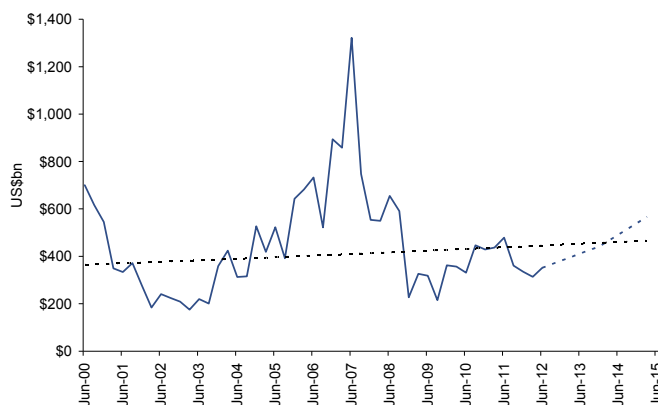
* EBITDA on half year annualised

Source: Company Reports and Citi Research Estimates

Management today noted that their appetite remained for bolt-on acquisitions, particularly in Europe. With a volatile regulatory environment and the financial services sector under pressure, management was optimistic of acquisitions opportunities arising from Europe. However, given Computershare's recent impairment charge to its Continental European business, we are more cautious on the potential acquisitions offering the right deal metrics.

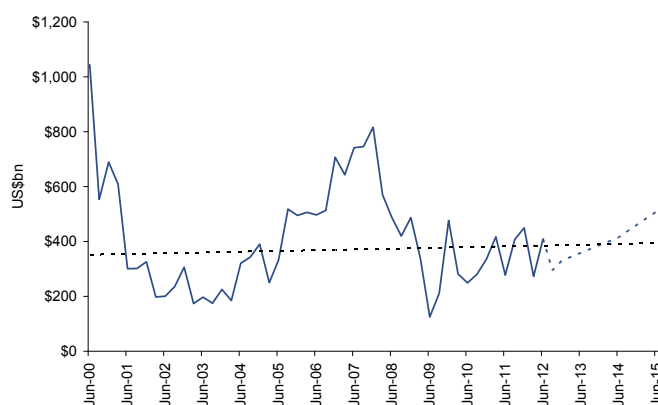
Capital markets likely close to bottom

Figure 13. Announced M&A in key CPU geographies



Source: Bloomberg

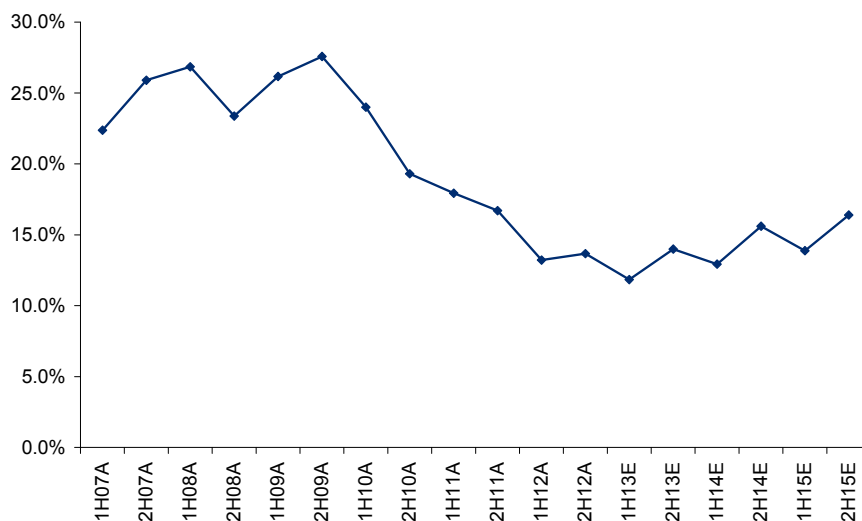
Figure 14. Completed M&A in key CPU geographies



Source: Bloomberg

Although capital markets activity is likely to remain relatively subdued in the short term, we see early signs of a turn in the cycle, with the first five weeks of announced M&A in the September quarter continuing the uptick seen in the June quarter. By contrast, ECM volumes to date in the September quarter, though less important to CPU's Corporate Actions revenues, are off a further ~25% from the already low levels in the two prior quarters.

Figure 15. Transactions related revenue as a proportion of sales revenue

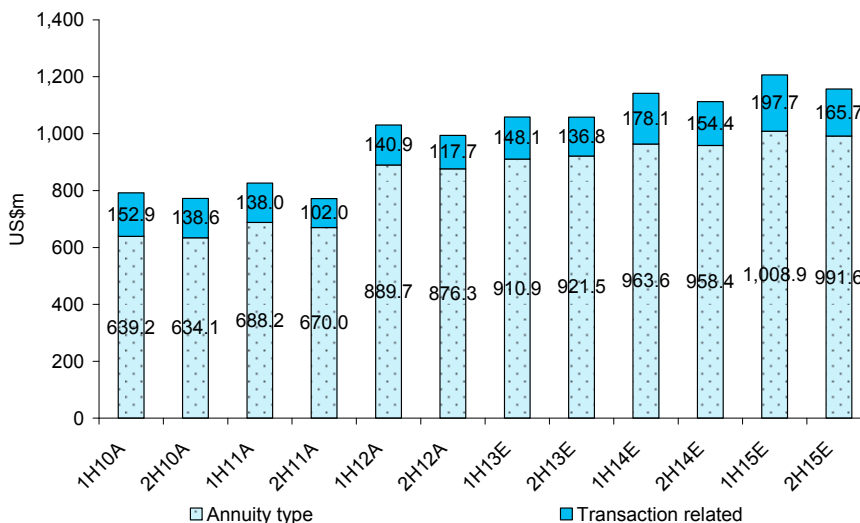


* Transactions related revenue includes corporate actions and stakeholder relationships management revenue

Source: Company Reports and Citi Research Estimates

However, in this next cycle the impact of capital markets activity on group revenues should be far less than in the 2006 to 2008 period. As a result of Computershare's recent revenue diversification through the acquisitions of annuity style businesses (Vouchers, SLS, Serviceworks), its earnings sensitivity to the capital markets cycle has reduced substantially. We expect transactions related revenues (corporate actions plus stakeholder relationship management) to represent 12% of group revenues in 1H13E, and gradually increasing to 16% by 2H15E.

Figure 16. Annuity type revenues vs. transaction related revenues



Notes:

1. Transactions related revenues include: corporate actions and stakeholder relationships management revenue
2. Annuity type revenues include: registry maintenance, employee share plans, communication services, business services, and technology and other

Source: Company Reports and Citi Research Estimates

Hedging policy under challenge as yield curve flattens

Of the US\$3.8bn added in balances in 2H12 (Figure 17) we estimate about US\$2bn in balances came from the acquisition of BSS, of which about US\$1.2bn is exposed to interest rate movements. Good balance gains were also seen in the UK as the ShareSave business continues to grow. The earning rate on balances firmed by 8bps to 1.54%, despite the run off of likely higher earning hedges.

Figure 17. Detail of fiduciary balances, income and yields

Fiduciary balance income and yields

	1H11A	2H11A	1H12A	2H12A	1H13E	2H13E
Fiduciary balance income (US\$m) - lhs	84.5	87.0	89.0	117.4	114.9	116.4
Fiduciary balances (US\$bn) - rhs	8.8	11.2	12.2	15.2	15.4	16.2
Proportion of balance not subject to interest rate moves	24.0%	34.0%	38.0%	33.0%		

Yields on balances

	1H11A	2H11A	1H12A	2H12A	1H13E	2H13E
Earning rate on balances (annualised)	1.92%	1.55%	1.46%	1.54%	1.49%	1.44%
Weighted average cash rate	0.86%	0.58%	0.60%	0.54%	0.54%	0.54%
Spread over cash rate	1.06%	0.97%	0.86%	1.01%	0.95%	0.90%
Period change in spread over cash rate	-0.12%	-0.09%	-0.11%	0.15%	-0.06%	-0.05%

Source: Company Reports and Citi Research Estimates

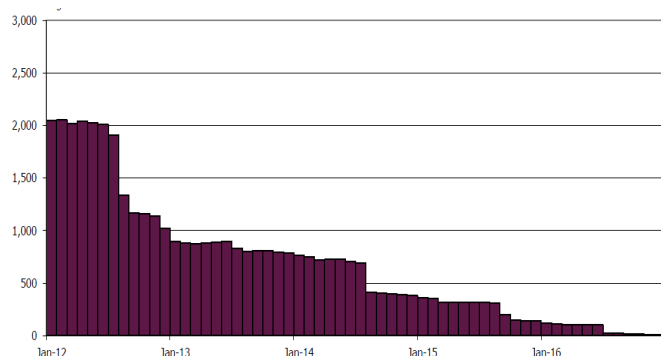
The spread earned over average cash rate firmed by 15bps, suggesting that the BSS balances were at least as income rich as those of CPU, if not slightly more so.

We have factored in continued though modest growth in balance levels, though we expect the earnings yield vs. cash rates to weaken slightly in FY13, due to yield curve flattening and hedge run off (our forecasts are shown at Figure 17 above).

With the acquisition of BSS, CPU added a further ~US\$1.5bn in hedges out to late 2013 (Figure 18 and Figure 19). We understand this was added around the time of the BSS acquisition, and that the USD interest rate curve has flattened since then, making further hedging difficult.

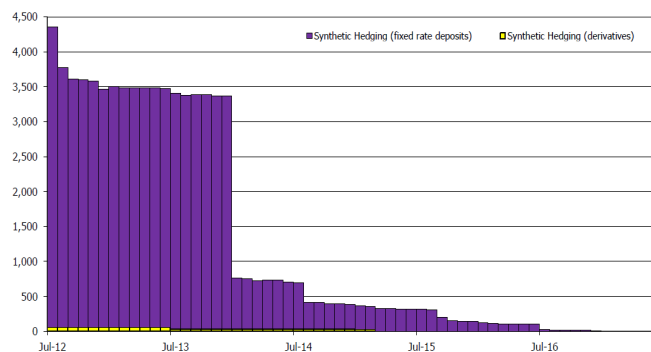
CPU is now facing a significant run off in hedges in late 2013, and without further hedging before year end we estimate that its hedging levels would fall below its own minimum hedge policy levels. CPU's present policy requires a minimum hedge rate of 25% for a minimum of one year. With currently ~US\$9bn in exposed funds, prior to any hedging, that implies at least US\$2.2bn in hedging out beyond one year.

Figure 18. Run off of hedges as at December 2011



Source: Company Reports

Figure 19. Run off of hedges as at June 30 2012



Source: Company Reports

CPU could of course revise its hedge policy, if it thought that extending hedges out in a flat yield environment with very low rates across the curve, was giving up a large potential upside for very minimal downside protection. Either way we think the most realistic forecast for margin income is for a continued decline in yields, in line with the continuing forward interest rate pronouncements by the US Federal Reserve Bank.

Cost control an area of strength

Despite the normal seasonal skew towards 2H costs, relating in particular to the taking on of casual staff in the Northern Hemisphere for the AGM season etc, CPU's legacy costs increased just US\$35.8m or 8.6% 2H12 vs. 1H12. This compared to the 10.3% or US\$40.8m increase 2H11 vs. 1H11. This compares to a legacy revenue increase of US\$54.6m 2H12 vs. 1H12 or US\$56.6m 2H11 vs. 1H11, suggesting an incremental cost to income ratio of 65.6% compared to 72.1% in pcp. This implies a solid level of cost control which should also benefit future periods. This will exclude the impact of BSS synergies which are also ahead of expectations with synergies delivered to date of US\$9.3m ahead of the expected US\$2.5m reflecting efficient rationalization of premises.

Moving forward, Computershare has upgraded its BSS synergies target from US\$72.5m to US\$74.3m. This is still shy of our estimate of US\$80.0m, with which we remain comfortable. According to CPU's guidance incremental synergies pre-tax will be US\$25m in FY13E, US\$35m in FY14E and US\$5m in FY15E.

Despite the overall cost control there has been a significant increase in technology costs with these rising from 9.5% of revenue in 2H11 to 11.8% of revenue in 2H12 with the actual spend up from US\$79.3m to US\$122.6m. So the key question is will these costs continue at this level or will they drop after the major acquisition related expenditure is concluded? Computershare suggested that this reflects continued reinvestment with a focus on acquisition integration. Hence much of this was deployment of infrastructure related, rather than pure development spend, which Computershare would hope to be able to shrink over time as it extracts synergies and migrates platforms. So in Computershare's view there is something of a bubble at the moment at it is bringing on acquisitions which may fall to around 10% of revenue in time. However, we have nonetheless elected to maintain expenditure at around the current proportion of revenue for some time to come.

Actual result compared to Citi forecasts

Figure 20. Citi forecasts vs. actual results

Year ended 30 June	Citi FY12E US\$m	Actual FY12A US\$m	Difference FY12 US\$m
Operating segment revenue	1,705	1,803	98
Other revenue	20	16	-4
Total operating revenue	1,725	1,819	94
Cash operating expenses	-1,264	-1,360	-96
Share of associates net profit or loss	0	0	0
EBITDA - management	461	459	-2
Depreciation	-37	-34	3
Amortisation of leased assets and leasehold improvements	-7	-8	-1
EBIT	417	417	0
Interest expense	-46	-48	-2
Pre-tax profit	371	369	-2
Tax expense (recurring)	-98	-92	6
Outside equity interests	-3	-3	0
Core net profit	270	273	3
Other intangibles amortisation net of tax	-29	-51	-22
Reported NPAT pre one-offs	240	222	-18
One-off items (after tax):			
(Loss)/profit on disposals	4	4	0
Acquisition related costs	-4	4	8
Derivatives marked to market	-7	0	7
Write down of European intangibles	-60	-64	-4
Provision for tax liability	0	-7	-7
Restructuring provisions for business combinations	-4	-2	1
Total one-off items (after tax)	-71	-65	6
Reported NPAT after one-offs	169	156	-12
Weighted average diluted shares	558.4	557.5	-0.9
Fully diluted EPS (¢)			
Based on reported profit	30.3	28.2	-7%
Based on core earnings after tax	48.3	49.1	2%
Final DPS (¢)	14.0	14.0	0.0
Franking (%)	60%	60%	0%
EBITDA margin	26.7%	25.2%	-1.5%

Source: Company Reports and Citi Research Estimates

Detailed financial summary

Financial Summary - Computershare (CPU.AX)										Nigel Pittaway (612) 8225 4860									
Year ended 30 June																			
Income statement (US\$m)										Divisional revenue (US\$m)									
FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E		FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E	
Operating segment revenue	1,599	772	1,031	1,803	994	1,059	2,053	2,200	2,319	Registry maintenance	699	334	441	775	428	442	870	892	907
Other revenue	20	9	7	16	9	7	16	16	16	Corporate actions	180	67	89	156	86	96	182	222	254
Total operating revenue	1,619	781	1,037	1,819	1,003	1,066	2,069	2,216	2,335	Stakeholder relationship management	97	35	52	87	32	52	84	93	99
Cash operating expenses	(1,125)	(570)	(790)	(1,360)	(750)	(804)	(1,554)	(1,629)	(1,718)	Employee share plans	158	85	112	197	103	114	217	237	255
Share of associates net profit or loss	0	0	0	0	0	0	0	(0)	(0)	Communication services	172	90	92	182	87	89	176	182	186
EBITDA - management	494	212	247	459	254	262	516	587	617	Business services - funds and government	266	148	235	383	240	252	492	538	580
Depreciation	(35)	(16)	(18)	(34)	(19)	(20)	(40)	(45)	(52)	Technology & other sales revenue	28	12	10	23	19	14	33	36	39
Amortisation of leased assets and leasehold improvem	(6)	(4)	(4)	(8)	(4)	(4)	(8)	(8)	(8)	Total sales revenue	1,599	772	1,031	1,803	994	1,059	2,053	2,200	2,319
EBIT	453	192	225	417	231	237	468	534	557	Growth (%)	0%	0%	25%	13%	29%	3%	14%	7%	5%
Interest expense	(33)	(18)	(30)	(48)	(30)	(29)	(58)	(54)	(48)	Revenue by geographic area									
Pre-tax profit	420	173	195	369	201	208	409	480	509	FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E	
Tax expense (recurring)	(106)	(43)	(49)	(92)	(47)	(49)	(96)	(117)	(132)	Australia & NZ	363	208	197	405	215	200	416	438	449
Outside equity interests	(5)	(1)	(2)	(3)	(2)	(2)	(4)	(4)	(4)	Asia	120	55	52	107	50	52	102	115	126
Core net profit	309	128	144	273	152	158	310	359	373	Canada	206	98	109	207	100	113	213	227	240
Other intangibles amortisation net of tax	(27)	(15)	(36)	(51)	(36)	(36)	(73)	(73)	(73)	USA	525	209	443	652	445	497	942	998	1053
Reported NPAT pre one-offs	282	114	108	222	116	121	237	287	300	UCIA	376	144	147	290	183	197	380	422	452
										Total	1,599	772	1,031	1,803	994	1,059	2,053	2,200	2,319
One-off items (after tax):										Cost analysis (US\$m)									
FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E		FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E	
(Loss)/profit on disposals	(21)	4	(0)	4	0	0	0	0	0	Personnel	550	290	366	656	346	369	714	745	794
Acquisition related costs	6	(4)	9	4	0	0	0	0	0	Occupancy	69	37	44	81	47	45	92	95	97
Provision for tax liability	0	(7)	(0)	(7)	0	0	0	0	0	Other direct	54	21	61	81	38	61	99	102	104
Write down of Continental European intangibles			(64)	(64)						Technology	160	90	123	213	129	127	256	267	280
Restructuring provisions	(3)	(0)	(2)	(2)	(7)	(7)	(13)	(13)	0	Cost of sales	294	132	197	329	190	202	392	420	443
Total one-off items (after tax)	(18)	(8)	(57)	(65)	(7)	(7)	(13)	(13)	0	Cash operating expenses	1,125	570	790	1,360	750	804	1,554	1,629	1,718
										Growth (%) on pcp	1%	7%	34%	21%	32%	2%	14%	5%	5%
Reported NPAT after one-offs	264	106	51	156	109	115	224	274	300	Intangibles and other amortisation	48	25	63	88	63	63	126	126	126
* EBITDA and EBIT do not match to pages 1 and 2 of the note due to differences in components										Interest and depreciation	67	35	48	83	49	49	98	99	100
Corporate balance sheet (US\$m)										Total expenses	1,241	630	901	1,531	862	916	1,778	1,854	1,944
FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E		Growth (%)	3%	6%	39%	23%	37%	2%	16%	4%	5%
Cash	347	433	441	441	441	441	441	441		Performance summary (US\$m)									
Receivables	301	320	333	333	315	336	336	362	383	FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E	
Investments	28	28	27	27	27	27	27	27	27	Based on reported profit after tax									
Property, plant & equipment	155	176	191	191	204	219	219	251	288	Basic EPS (¢)	47.5	19.0	9.1	28.2	19.7	20.7	40.3	49.2	54.1
Goodwill and Intangibles	1,863	2,432	2,379	2,379	2,350	2,325	2,325	2,289	2,265	PER (x)	16.8x	21.1x	43.8x	28.4x	20.3x	19.4x	19.8x	16.3x	14.8x
Other	179	286	310	310	275	275	275	275	276	Fully diluted EPS (¢)	47.3	18.9	9.1	28.1	19.6	20.6	40.2	49.1	53.9
Total assets	2,873	3,675	3,682	3,682	3,612	3,623	3,623	3,646	3,679	Growth over pcp (%)	-10%	-10%	-65%	-41%	4%	126%	43%	22%	10%
										PER (x)	16.9x	21.2x	44.0x	28.5x	20.4x	19.4x	19.9x	16.3x	14.8x
Creditors & other liabilities	525	1,159	656	656	666	748	897	1,029		Based on core earnings after tax									
Borrowings	885	1,096	1,685	1,685	1,620	1,552	1,391	1,205		Basic EPS (¢)	55.7	23.1	26.0	49.1	27.4	28.4	55.8	64.7	67.2
Provisions	218	217	164	164	134	110	74	49		PER (x)	14.4x	17.3x	15.4x	16.3x	14.6x	14.1x	14.3x	12.4x	11.9x
Total liabilities	1,628	2,472	2,505	2,505	2,420	2,410	2,362	2,284	2,284	Fully diluted EPS (US¢)	55.4	23.0	25.9	48.9	27.3	28.3	55.6	64.5	67.0
Net assets	1,245	1,203	1,176	1,176	1,192	1,214	1,214	1,284	1,396	Growth (%)	-3.1%	-14.3%	-9.3%	-11.6%	18.9%	9.3%	13.6%	15.9%	3.9%
Share capital	30	30	30	30	30	30	30	30	30	PER (x)	15.2x	19.5x	17.1x	17.2x	15.8x	15.3x	15.2x	13.1x	12.6x
Reserves	152	89	91	91	91	91	91	91	91	PE Rel (All Ords.) (x)	1.2x	1.5x	1.3x	1.3x	1.2x	1.2x	1.2x	1.0x	1.0x
Retained earnings	1,048	1,073	1,043	1,043	1,059	1,080	1,080	1,151	1,262	Fully diluted EPS (A¢)	58.5	24.3	27.3	51.7	28.8	29.9	58.7	68.1	70.7
Minorities	15	12	13	13	13	13	13	13	13	Growth over pcp (%)	-3.1%	-14.3%	-9.3%	-11.6%	18.9%	9.3%	13.6%	15.9%	3.9%
Total shareholders' funds	1,245	1,203	1,176	1,176	1,192	1,214	1,214	1,284	1,396										
Net tangible liabilities	(617)	(1,229)	(1,203)	(1,203)	(1,157)	(1,111)	(1,111)	(1,005)	(869)	Source: Company reports, Citi Research forecasts									
Gearing																			
FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E											
Gross debt/equity	71%	91%	143%	143%	136%	128%	128%	108%	86%										
Debt/(Market cap + debt)	17%	20%	27%	27%	27%	26%	24%	21%											

Financial Summary - Computershare (CPU) : continued										Nigel Pittaway (612) 8225 4860																		
<div>Stock information</div> <div>Recommendation</div> <div>Market cap. (A\$m)</div> <div>Market cap. (US\$m)</div> <div>Current price (A\$ per share)</div> <div>Average daily volume ('000 shares)</div> <div>Valuation data</div> <div>Citi spot valuation per share (A\$)</div> <div>Price: FY12A NAV</div> <div>Other valuation and performance data</div> <div>Price:revenue (x)</div> <div>Ent.Value/EBITDA (x)</div> <div>EBITDA/sales (%)</div> <div>EBIT/sales (%)</div> <div>Interest cover (x)</div> <div>Cash flow analysis (US\$m)</div> <div>EBITDA</div> <div>Net interest paid</div> <div>Income taxes paid</div> <div>Net movements in working capital</div> <div>Net operating cash flows</div> <div>Items outside operating profit</div> <div>Payments for property, plant & equipment</div> <div>Payments for acquisitions</div> <div>Other including sales/divestments</div> <div>Total cap ex & investment cash flows</div> <div>Proceeds from debt raisings</div> <div>Proceeds from issue of shares</div> <div>Dividends paid</div> <div>Other</div> <div>Net financing cash flows</div> <div>Total net cash flow</div> <div>Operating CF per share (US\$ps)</div> <div>Operating cash flow yield (%)</div> <div>Substantial shareholders (3 August 2012)</div> <div>Chris Morris (Chairman and former CEO)</div>										Performance measures										FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E
										Return on average assets										14.9%	9.9%	6.8%	8.8%	10.1%	10.5%	10.3%	12.1%	13.2%
										Core return on average equity										27.0%	20.0%	23.5%	22.8%	25.4%	25.9%	26.2%	29.1%	28.2%
										Reported return on equity										23.1%	16.3%	7.6%	13.1%	18.1%	18.7%	19.0%	22.2%	22.7%
										NTA/NAV (US\$ps)																		
										NAV per share (excl OEI)										2.21	2.14	2.09	2.09	2.12	2.16	2.16	2.29	2.49
										NTA per share (excl OEI)										-1.14	-2.23	-2.19	-2.19	-2.11	-2.02	-2.02	-1.83	-1.59
										Diluted NTA per share (excl OEI)										-1.13	-2.22	-2.18	-2.18	-2.10	-2.02	-2.02	-1.83	-1.58
										Price to book/NTA																		
										Price to book (x)										3.6x	3.7x	3.8x	3.8x	3.8x	3.7x	3.7x	3.5x	3.2x
Price to NTA (x)										Negative	Negative	Negative	Negative	Negative	Negative	Negative	Negative	Negative										
Price to diluted NTA (x)										Negative	Negative	Negative	Negative	Negative	Negative	Negative	Negative	Negative										
Capital structure										FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E										
No. shares on issue (m)																												
B/f no. of shares - fully paid										555.7	555.7	555.7	555.7	555.7	555.7	555.7	555.7	555.7										
- issues under DRP										0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0										
- issues under ESOP										0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0										
- buy back and other										0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0										
C/f no. of shares (incl. treasury shares)										555.7	555.7	555.7	555.7	555.7	555.7	555.7	555.7	555.7										
Dilution for partly paid shares/options										2.7	2.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8										
Diluted shares on issue										558.4	558.4	557.5	557.5	557.5	557.5	557.5	557.5	557.5										
Weighted ave. basic										555.7	555.7	555.7	555.7	555.7	555.7	555.7	555.7	555.7										
Weighted ave. diluted										558.4	558.4	557.5	557.5	557.5	557.5	557.5	557.5	557.5										
Dividend data										FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E										
DPS (A¢)										28.0	14.0	14.0	28.0	15.0	15.0	30.0	33.0	34.0										
DPS growth (%) over pcpr										0%	0%	0%	0%	7%	7%	7%	10%	3%										
Yield (%)										3.5%	3.5%	3.5%	3.5%	3.8%	3.8%	3.8%	4.1%	4.3%										
Franking (%)										60%	60%	60%	60%	60%	60%	60%	45%	45%										
Payout ratio on NPAT %										58%	86%	-613%	-264%	84%	80%	82%	72%	63%										
Payout ratio on core earnings (%)										51%	61%	54%	57%	55%	53%	54%	51%	51%										
Top 13 business units - sales in US\$m										FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E										
Registry maintenance - USA										262	113	215	328	215	224	439	437	429										
Shareholder relationship management - USA										61	19	34	54	21	38	59	61	68										
Communications services - Australia										131	71	66	137	68	64	132	132	132										
Registry maintenance - Australia										136	78	58	137	75	59	134	138	141										
Business services - USA										91	40	112	152	125	134	259	274	318										
Registry maintenance - UK										64	32	33	65	31	33	64	66	73										
Registry maintenance - Canada										85	38	47	85	38	48	86	88	92										
Business services - UK										64	33	30	63	32	29	61	64	69										
Business services - Canada										72	37	38	75	36	38	74	76	83										
Corporate actions - USA										46	18	45	63	39	50	89	97	127										
Corporate actions - Australia										45	18	17	35	15	18	33	37	47										
Employee share plans - UK										84	47	54	101	53	55	108	114	131										
Registry maintenance - Hong Kong										39	20	21	41	22	24	46	47	53										
Total										1,179	564	771	1,335	770	814	1,585	1,629	1,764										
% of group sales										FY11A	1H12A	2H12A	FY12A	1H13E	2H13E	FY13E	FY14E	FY15E										
Revenue shares by currency (as share of US\$ base)										74%	75%	77%	75%	78%	77%	77%	77%	76%										
US\$										33%	28%	44%	37%	45%	47%	46%	45%	45%										
A\$										22%	27%	19%	22%	21%	18%	20%	19%	19%										
UK£										15%	16%	13%	14%	13%	13%	13%	13%	13%										
C\$										13%	13%	11%	12%	10%	11%	10%	10%	10%										
Other										17%	16%	14%	15%	11%	11%	11%	12%	12%										

Source: Company reports, Citi Research forecasts

Computershare

Company description

Computershare is the only global integrated provider of shareholder registry services, employee equity plans, proxy solicitation and other governance and communication services. It services approximately 100 million shareholder, mutual fund holder and employee accounts as agent for approximately 14,000 corporations.

Investment strategy

We rate CPU Neutral. CPU is modestly leveraged to the Capital Markets cycle, principally to M&A activity in the Australia, USA, Hong Kong, Canada, and the UK. As the only globally integrated share registry provider, it has large scale and efficiency advantages over all of its direct competitors.

We believe CPU has capital and technical capacity to execute EPS-accretive acquisitions and it has a defined growth path with four recent acquisitions. It has the demonstrated skill in managing multiple concurrent acquisitions and should have the financial capacity within three years to again pursue significant scale acquisitions, absent any material compression in margins, which we think unlikely. However, the market backdrop creates a lack of near-term earnings momentum and presents risk of further downgrades.

Valuation

Our target price of A\$8.50 is set at a discount to our spot valuation of A\$8.70. Our spot valuation is based upon a three-stage model, with forecasted earnings out to FY15E, a medium-term revenue growth rate of 4% fade out to FY21E, without any allowance for acquisition capacity, and a terminal growth rate of 3% pa. Typical of a lower-growth business with annuity-type income, 62% of the valuation derives from the PV of the terminal value. We set our target price at a discount to our spot valuation to reflect current market conditions.

Risks

We highlight the following risks to our target price:

CPU has modest and declining exposures to the capital markets cycle. It has significant diversification of revenue across countries and across lines of business. It is at low risk of adverse regulatory changes, while having modest positive exposure to movements in interest rates.

While CPU has market leading positions in many of its businesses, these are vulnerable to attack if local competitors were to merge and build globally integrated platforms. We rate the risks of adverse technology developments as low because IT remains a core strength, and CPU maintains high levels of technology spend.

We view the risk of adverse regulatory changes as low, as we think it unlikely that countries which presently allow for competing registry providers would mandate a system involving a single industry owned registry provider. There are developments in equities settlement and custody across the world which are occurring in parallel with the globalisation and consolidation of equities trading. These could impact on the provision of registry services.

Some upside and downside risks have been removed with the successful acquisition of Shareowners Services.

Appendix A-1

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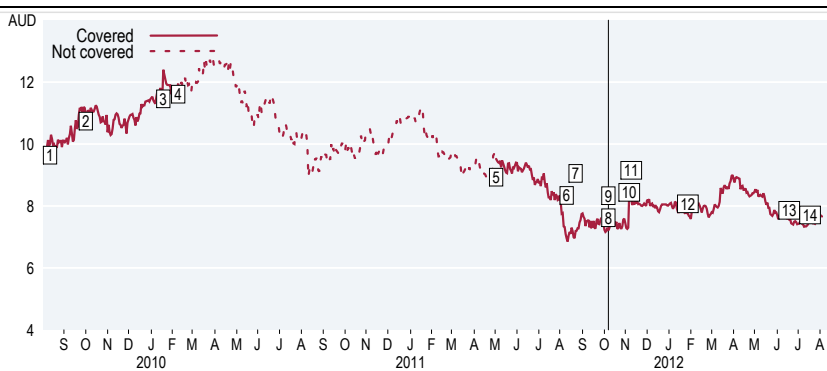
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Ratings and Target Price History Fundamental Research

Analyst: Nigel Pittaway
Covered since May 3 2011



	Date	Rating	Target Price	Closing Price
1	12-Aug-09	*2M	*9.96	10.00
2	1-Oct-09	2M	*11.29	10.90
3	19-Jan-10	2M	*12.55	12.40
4	9-Feb-10	Coverage terminated		
5	3-May-11	2M	*10.30	9.52

* Indicates change

	Date	Rating	Target Price	Closing Price
6	10-Aug-11	2M	*7.50	6.95
7	23-Aug-11	2M	*7.80	7.19
8	7-Oct-11	Stock rating system changed		
9	7-Oct-11	*2	7.80	7.21
10	7-Nov-11	2	*9.30	8.44

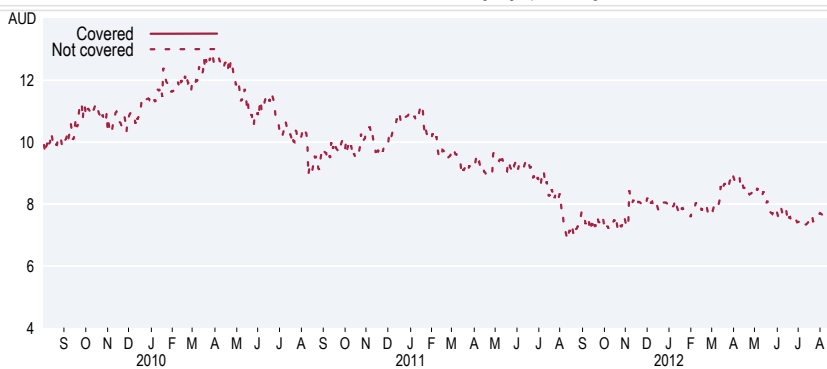
	Date	Rating	Target Price	Closing Price
11	9-Nov-11	2	*9.00	8.24
12	27-Jan-12	2	*8.50	7.75
13	19-Jun-12	2	*8.20	7.54
14	18-Jul-12	2	*8.00	7.57

Rating/target price changes above reflect Eastern Standard Time

Computershare (CPU.AX)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Nigel Pittaway
Covered since May 3 2011



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Rating/target price changes above reflect Eastern Standard Time

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% of companies in each rating category that are investment banking clients	44%	43%	40%	48%	43%	45%

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