

Smart Investor

Contractors find rich lode in mining boom

Small caps

James Hall

Perth is a good place to be now. As the west enjoys the fruits of the largest mining boom in a generation — not to mention billions of dollars of spending on road and rail infrastructure to support its growth — companies that supply products and services to miners and builders have been raking in the cash.

These companies can offer a very attractive investment, Prime Value Asset Management chief investment officer and managing director Han Lee says.

Lee says that as economic powers such as China and India emerge, two things will happen: industries such as manufacturing that are exposed to import competition will continue to struggle, while resources companies that export the things other countries need to grow will continue to enjoy higher prices and demand.

But Lee says it is wiser and often cheaper to invest in small companies that sell products and services to miners rather than smaller miners themselves, as they often have less project risk, a greater diversity of income and generate less of the speculative interest that can drive

WESTERN FORCE



The company's shares have almost doubled this year, partly thanks to a 4-for-1 share split.

miners' share prices sky high.

By virtue of their distance from the investment centres of Sydney and Melbourne and their proximity to many of the projects and people driving Perth's growth, Monadelphous Group and Macmahon Holdings look particularly interesting.

The two companies have won



Development in roads and mines in WA has helped work in hand top \$1 billion.

several big contracts recently.

In late July, Monadelphous announced a deal worth \$65 million over 12 months to carry out structural and mechanical work at the Nelson Point and Finucane Island iron-ore facilities owned by BHP Billiton in the Port Hedland region.

Monadelphous had a record interim net profit of \$8 million to



The lesser-known scaffolding and mining services group is enjoying bumper sales growth.

December and expects sales to have doubled to \$300 million when it reports full-year results next month.

The company expects favourable conditions in mining to continue for the next two to three years.

"I have been looking at Monadelphous for 10 years," Lee says. "I saw it as a grossly overlooked company on investment fundamentals

because it was trading at a very low price-earnings multiple and paying a high fully franked dividend. I thought to myself, what else do you want?"

Macmahon announced last week that its work in hand had risen above \$1 billion for the first time after it secured an \$84 million contract to extend underground works at BHP Billiton's massive Olympic Dam mine in South Australia.

The company secured in late July \$50 million of preliminary earthmoving works for phase five of Woodside Petroleum's North-West Shelf liquefied natural gas venture.

It is on course for sales growth of a scale similar to Monadelphous's.

Lee says even though the success of firms such as Macmahon and Monadelphous this year has produced share price runs, reducing their dividend yields and inflating their P/E ratios, they remain attractive.

"I know some people say that its shares have run so much, why shouldn't you take some profit?" he says. "Yet it all depends on your time horizon."

He has also been looking closely at another Perth-based contractor to the mining and construction industries, PCH Group, and says it could have the same growth trajectory as Monadelphous.

Source: Bloomberg