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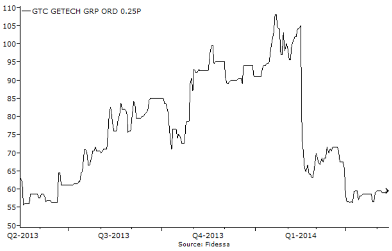
Oil Equipment & Services



Market Data

Price (p)	60
12m High (p)	110
12m Low (p)	52
Mkt Cap (£m)	18.2
Shares (m)	30.3
Market	London AIM
Website	www.getech.com

Description

Getech provides gravity and magnetic data to petroleum and mining industries to assist exploration. It analyses data sets for certain clients.

Next Events

Trading update:	Jul-14
Final results:	Oct-14

Team

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Getech (GTC.L)

Recovering strong former momentum

Getech uses data and geoscience expertise to assist a wide range of oil, gas and a number of larger mining companies with their exploration programmes. It recently reported a difficult half year after three in a row which had seen growth significantly above trend. Long of cash, with robust high gross margins and a strong pipeline, Getech remains strongly placed.

Growth proposition: Getech is a geoscience services business. Since its inception in 1986 it claims it has built the largest commercially available library of global gravity and magnetic data. It launched Globe nearly three years ago and has ten clients who committed to the first stage of the Globe programme, which runs over the three years to July 2014.

Gross margins rise: The latest (1H14) results reported 63.3%. There has been a rise in administrative costs, reflecting investment in the business and R&D, so Getech is more operationally geared than previously. FY11 gross margins of 49.7% were achieved.

1H14 profit fall: R&D is strong and the roll out of Globe since FY12 has raised costs, thus a 22% fall in 1H14 vs 1H13 revenue led to a squeeze on PBT: down to £0.23m vs £1.4m. This is still a small business, winning large individual contracts (many over £0.5m, some over £1m). The pipeline remains as strong as ever.

Risks: 1H14 was a disappointment but the outlook statement reassured. For a small company where sales had grown CAGR 22% in prior two years, there was a risk of a slowdown so it is important to regain momentum. The net cash position (built organically in those two years) is supportive, so Getech is robust.

Valuation: EV/ sales 2.2x (even giving no benefit for cash held) appears low for a 60%+ gross margin business. Note that shareholders include IP Group at 25% and University of Leeds 3% (a 'spin out' from the university). 21% held by two former directors. Freehold property without mortgage and net cash are held.

July Year end	FY11	FY12	FY13	FY14E
Sales (£m)	5.3	6.4	8.0	-
EBITA (£m)	0.7	1.3	2.2	-
PBT (£m)	0.7	1.3	2.3	2.4
EPS (p)	1.8	3.0	5.3	6.1
DPS (p)	0.2	0.8	1.6	2.1
Net cash (£m)	0.6	2.6	4.2	-
P/E (x)	33.3	20.0	11.3	9.8
EV/Sales (x)	3.3	2.4	1.7	-
EV/EBITA (x)	25.9	12.5	6.4	-
Dividend Yield (%)	0.3%	1.3%	2.7%	-

Service Suite Summary

Getech's team comprises geophysicists and a wide range of geologists, including structural geologists, plate modellers, petroleum geologists and geochemists. The ability to deliver leading edge solutions is enhanced by working with the highly regarded climate modelling group at Bristol University and tide modelling group at Imperial. Clients are oil, gas and (to a lesser extent) mining companies which license data and studies to help evaluate new and existing exploration areas.

1. Exploration and Production (E&P) companies aim to minimise exploration risks. The use of Getech's gravity and magnetic data and reports improves their understanding of the geology and prospectivity risks prior to spending much greater amounts on the next stage of their workflow – which almost always involves obtaining seismic data. The sales of gravity and magnetic data are highly profitable and cash generative as the marginal cost of delivery is very small. While the interpretation reports require significant investment, once finished again the marginal cost of each new delivery is minimal. Getech has a global and long-standing reputation for its gravity and magnetic data and its ability to interpret the data. In the years since 2005 it has also established itself with a much wider range of capabilities, with the build-up of the geological side of the business.

2. Getech's Globe programme is an initial three year programme of which the first period ends in mid-2014. Ten clients have signed up to the first three years and this provided significantly increased forward visibility for the company. They expect most of the existing Globe clients to sign up to renewal for a further three year period starting July 2014. Globe provides a comprehensive geological insight into the geological evolution of the globe and is now extended to include earth systems modelling. This provides climate and tide models leading to predictions of rock types of interest to oil and gas exploration companies.

3. With its wide range of geosciences skills and experienced staff, Getech took the decision to increase the proprietary work in its mix. A new Division was set up in 2013 to build this business stream and demand for such proprietary projects has, as a result, been increasing. The types of services they might provide include interpretation projects on gravity and magnetic data, structural interpretations, basin and block scale evaluations. (This consultancy service was partly aimed at expanding the client base, which had historically been primarily the major and supermajor oil companies and a number of major national oil companies). Getech is now increasingly working for smaller companies and at smaller geographical scales.

Getech's focus is on the technical and scientific quality of its work. The reputation of its own staff is critical. In addition to this it has established relationships with a number of universities which have global reputations in key areas. Close associations with Imperial (tide modelling) and Bristol (climate modelling) have enabled the company to develop leading earth systems and predictive models. Its head office and main site is in the UK but it has had a wholly-owned subsidiary in Houston since 1996.

Profit progression: sales and margins

This is high gross margin work. Key is the roll out of the Globe operation to the second period of three years, starting in July 2014, raising forward visibility. Getech regards Globe as its "ecosystem", which is constantly evolving. In the second phase the resolution will be increased making it more widely usable within existing clients and more attractive to a broader range and size of client.

1H13 saw an unusually high gross margin at 78%. In that period, in January 2013, Getech announced two significant sales of global gravity and magnetic data-sets worth in aggregate $2m. Individual sales of services are high margin. That was a strong period, running above trend. The model does expose Getech to fluctuations in revenue as individual contracts are relatively large vs size of Getech. The largest individual licence of US$1.2m on gravity data (a US client) was signed in 2012, with two other large successes 16 months ago. There is a pipeline of work but the time taken within the buying pattern is variable. FY13 sales rose 24%. This very strong three year run has come to a pause. The pipeline remains strong.

Whilst there is an element of linkage to oil prices (which would encourage E&P companies), client expenditure patterns are linked to a range of factors including oil price, geology and general sector confidence. Buying patterns did change in later 2013 such that the pipeline has not weakened but 1H14 sales fell to levels of two years prior. This does seem to have been an industry-wide phenomenon.

As to Getech specifically, it is balanced across the three broad areas outlined and it is important to look at how far it has come even in the last three years. (See Financials table below). Gross margins have risen; the new business line of Globe successfully launched; turnover trend is well up. Although 1H14 sales were disappointing to the market, they were still well above both halves of FY11, were within 5% of both halves of FY12 but were short of FY13. FY13 saw three very significant sales and strong profits. "The main reason for this was the growth in our multi-year Globe framework, where income grew by 71% year on year. This was well supported by continued growth in data sales from the record level we achieved in 2011/12." (Getech).

Business evolution

Each Globe programme has a series of deliverables over a three year period. Income is recognised when deliveries are made to clients so clients joining late in the three year programme immediately receive all deliverables to date, with significant impact on the revenue shown in the accounts.

What we have here is a scientifically driven data and data interpretation business with a clear strategy to grow (achieved); raise the margins (achieved at gross level); and adding to business lines with longer visibility (achieved). There is an ongoing journey to balance the costs of R & D and the rather lumpy nature of the larger contracts.

Key Financials

Year end July £m	1H11	FY11	1H12	FY12	1H13	FY13	1H14	FY14E
Revenue								
Sales	2.65	5.33	3.19	6.44	3.97	8.01	3.11	-
Gross profit	1.18	2.65	1.54	3.75	3.10	5.49	1.97	-
Gross margin %	44.5	49.7	48.3	58.2	78.1	68.5	63.3	-
EBITA	0.30	0.68	0.36	1.25	1.40	2.22	0.22	-
Net Finance costs	-0.01	-0.01	0.00	0.00	0.00	0.03	0.01	-
Profit before tax	0.29	0.67	0.36	1.25	1.40	2.25	0.23	2.40
EPS (p) Diluted reported	0.64	1.84	0.90	2.97	3.28	5.30	0.60	6.10
DPS (p)	0.00	0.20	0.20	0.80	0.40	1.60	0.44	2.10
Balance sheet								
Net current assets (incl cash)	-	1.55	-	2.05	-	3.54	-	-
Shareholders' funds	4.29	4.65	4.93	5.48	6.30	6.91	6.56	-
Net cash (debt)	0.19	0.64	1.32	2.60	5.32	4.24	3.60	-
Cash flow								
Cash from operations net tax	-	0.86	-	2.12	-	3.32	-	-
Capex	-	-0.05	-	-0.05	-	-0.19	-	-
Interest	-	-0.01	-	-0.01	-	0.03	-	-
Dividends	-	0.00	-	-0.12	-	-0.35	-	-

Source: Company data, Hardman & Co

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