

# Active research delivers results: Clough Limited



## About the stock

Clough is an Australian based engineering and project services firm whose main focus is projects in Australia and Papua New Guinea for the energy sector. Established in 1919 as a building company, the business has undergone significant change and expansion during its 94 year history to evolve into the company it is today. Clough's core businesses are now engineering, capital projects, and, commissioning and asset support.

While the business and its operations have undergone significant change, Clough has maintained a commitment to: investing in a strong and talented management team and workforce; providing quality, cost effective services and solutions; developing and expanding relationships/partnerships with industry leaders in the mining and energy sectors such as Santos, BHP Billiton and Woodside; first class project lifecycle management; and, a relentless focus on safety. The company's reputation across these areas, its focus on productivity and the success of its core businesses, are demonstrated by its involvement in every LNG project in Australia and Papua New Guinea.



Source: Clough Limited, 2013 Annual Report

## Clough in brief

- ▶ Established: 1919.
- ▶ Listed on the ASX: March 1998.
- ▶ Market capitalisation: ~\$1130 million.
- ▶ Sector: Capital goods.
- ▶ Head Office: Perth, WA

Clough (\$1.45)	Clough FY14	Ex 100 FY14	Premium/ (Discount)
P/E	13.7x	15.1x	(9%)
P/FCF	13.7x	13.8x	(1%)

Source: Perennial Value, as at 31 August 2013.

## Adding Clough to the Trust: Our fundamental research approach

Clough is one of the oldest and largest positions in the Perennial Value Smaller Companies Trust. We established a position in the stock in mid-2009 at an average price of \$0.69 per share off the back of the strength of their balance sheet and the strong outlook for LNG construction in Australia. At that time, three brokers were covering the stock and we identified the company through our regular company visit program to Perth after research on another stock, Mermaid Marine (also added to the Trust at that time), which was similarly exposed to LNG spend.

Following our analysis, we determined that the level of net cash on the balance sheet, the strength of the forward orders and Clough's exposure to long-term LNG projects, positioned the company to achieve its strategic growth objectives.

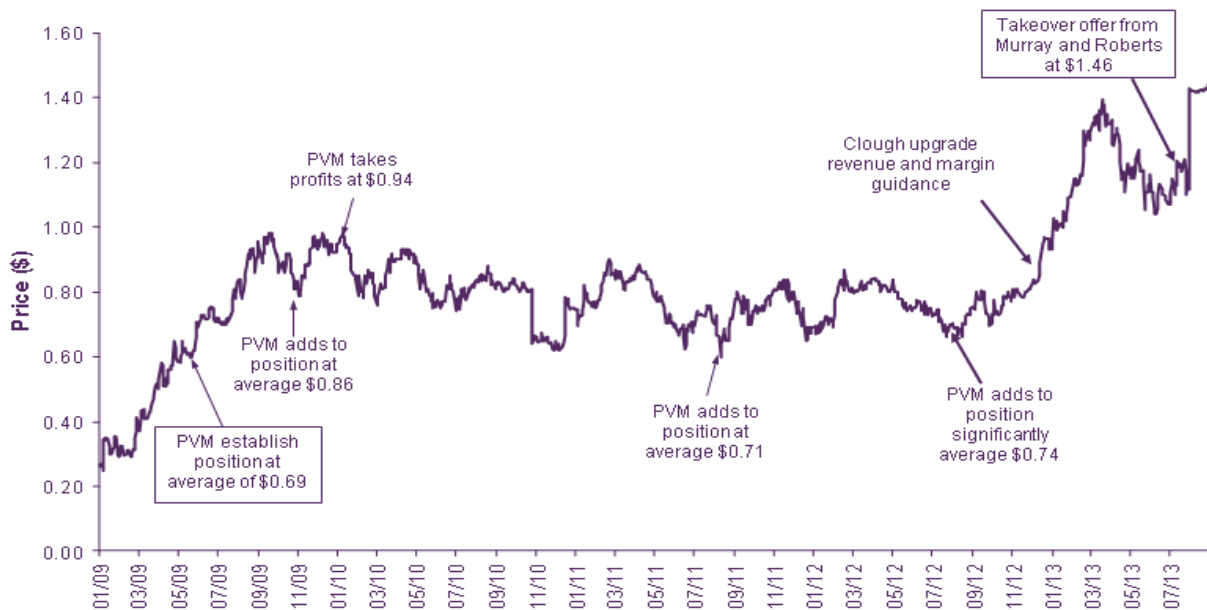
## Why we took and held a position in Clough

- ▶ The level of net cash on the balance sheet.
- ▶ The potential for further growth in the order book given the number of approved LNG projects.
- ▶ The commitment of management to improve margins and its focus on core business.

From 2009 to September 2012, as management delivered on its commitment to improve margins and refocus on the core business, initially under Managing Director John Smith who divested non-core assets and then under the most recent Managing Director Kevin Gallagher who focused on margins, we added to the position as well as opportunistically locking in profits on moments of share price strength. In September 2012, we significantly increased our position at an average of \$0.74 per share as the margin initiatives of Managing Director Kevin Gallagher gained traction and the prospects for continued growth of the order book improved.

As at 31 July 2013, the stock was the top holding in the portfolio at 5.4%. Murray and Roberts, its South African parent company with a 61% stake in Clough, announced its conditional proposal to acquire the remaining 39% stake in Clough at \$1.46 per share. This premium cash bid delivered significant value to the portfolio and provides a good exit point for the fund.

### Portfolio Managers Grant Oshry and Andrew Smith



Source: Perennial, Iress. As at 31 August 2013

For all other enquiries please contact us on  
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