

INDUSTRIALS

Table with columns: Last Move, Buy, Sell, 12 month High, Low, Sales 100, Div P/E, Yield. Lists various industrial stocks like 21stCofax, AACL, AAViatnsrv, etc.

THE SHORT CUT

Successful value investors have a clear focus: buy exceptional companies at bargain prices.

Monadelphous Group has performed superbly for the best part of a decade, and after slumping 40 per cent from the \$28.50 peak in February 2013 on fears of a fading resources boom, it may look cheap.

Seasoned value investors know the best time to buy is when everyone is selling and excessive market noise is driving selected stocks below their intrinsic value.

Monadelphous is its sector's highest-quality company, firmly in the sights of short-sellers and bearish broking analysts, and battling a perfect storm for its industry.

Signs that Monadelphous is weathering the resources storm would provide much-needed relief, and possibly a share-price bounce, when full-year profits are reported.

The mining services sector has been a sea of profit downgrades and smashed share prices this year. Mining activity has slowed sharply because falling commodity prices have forced billions of dollars of projects to be cancelled.

In turn, competition among mining service firms has intensified and led to greater price discounting and lower profit margins.

The result is poor earnings visibility for most mining services stocks. Service providers, of course, point to their pipeline of work to reassure the market.

But the pipeline can dry up quickly for companies at the mercy of projects being completed, deferred or cancelled.

This is no market for companies with even a sniff of earnings uncertainty. Fund managers have shown they will pay higher multiples for large and even small-cap companies with 'annuity style' recurring earnings and predictable growth.

The big problem is nobody knows where the resource sector malaise will end. And trying to second-guess China's economic strength and short-term commodity price movements is a mug's game.

Key headwinds for the sector, notably high wages and input costs, are starting to ease with lower demand growth.

But these trends will take time to help resource projects. Perhaps in a few years the smart money might recognise the seeds have been planted for the next boom in resource stocks.

Better to let the fog clear a little more and perhaps sacrifice the earliest part of a potential share price recovery, knowing Monadelphous has a long way to recover when the worst for the resource sector is finally over and the sector starts to turn.

Overall, the macro outlook for Monadelphous and other service providers suggests more profit downgrades, a pick-up in mergers, and even a few companies going into administration in F'14 and F'15.

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with Roger Montgomery

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