

Investor Final Callers' Rights

Data star's numbers add up

If you could only make one call on the sharemarket, what would it be? For Rob Hopkins, head of Australian Small Company Investment Fund, it is Iress Market Technology

In just eight years, Iress Market Technology (IRE) has become the major provider of information systems to the professional equity and derivative markets in Australia and New Zealand. With the recent announcement by Reuters to close its Beacon system, IRE will have in excess of 90 per cent market share. Not only has IRE achieved Australian market domination against the world's largest players, but it has done it profitably. From 1998 to 2000 (the last published full-year results), return on equity has been in excess of 60 per cent and earnings per share (EPS) growth has been above 50 per cent annually.

Near monopoly: Robert Hopkins says IRE will achieve over 90 per cent market share

"The history of equity markets information systems in Australia is dominated by three people, who are closely linked with IRE – Peter Dunai, managing director of IRE, Neil Detering, chief operating officer, and Hung Do, former technical director and now a consultant to the company. These individuals helped establish the Equinet information system in the mid-1980s. When Equinet was sold in 1993, Dunai and his colleagues formed IRE and significantly re-engineered, updated and enhanced the market software.

"The Macquarie Equities forecast for IRE in the year to December 31 is for EPS growth of 25.9 per cent. This forecast is marginally ahead of the prospectus forecasts and will be a good result in a difficult year. Macquarie's 2002 year forecast has recently been upgraded for the Beacon acquisition and is for 18.8 per cent EPS growth. This assumes that the business is basically steady state with modest growth in subscriber numbers apart from the 15 per cent growth due to the ex-Beacon subscribers coming across. We would regard this as almost a 'worst case'

scenario and there is a good chance of profit expectations being upgraded again over the next 12 months.

"There are three areas where IRE can significantly increase profits and provide upside to the current share price: geographic expansion, product expansion and acquisitions. IRE management has indicated for some time it is keen to expand into Asia. However, given the current environment and management's determination that any expansion into Asia will be earnings positive almost immediately, the company has been cautious in this area. Given the time elapsed and the amount of work management has put into Asia, the probability of something happening in the current year is high.

"IRE dominates the trading side of the financial markets – the front office – with a simple-to-use straight-through system. However, the back offices of the brokers are not nearly as well automated and the production of contract notes, settlement and registration of shares often involves considerable re-keying of data due to systems not being fully integrated. IRE is in a strong position to improve efficiencies in this area, which may involve the acquisition of an existing business. Another potential area of product expansion/acquisition includes financial planning.

"At around \$2.40, IRE is priced on almost a 'worst case' scenario for this financial year. The current share price gives no value to a management team that has demonstrated historically it can think outside the square to grow its business quickly and very profitably."

Australian Small Company Investment Fund and Rob Hopkins own shares in IRE. The fund had a 26 per cent return in its first year.

