



CRITERION

with TIM BOREHAM

Traffic Technologies
(TTI, 8c)

AMONG the avalanche of Friday's last-gasp profit reports we noticed this doozy from our old friend, which unveiled an EBITDA loss of \$400,000, compared with the guided \$800,000 to \$900,000.

Goody! But reading on, it becomes apparent the consolidator of traffic-management businesses is operating with the grace of its banker, Westpac.

Traffic posted a net loss of \$7.9 million compared with the previous \$1.1 million profit, dragged down by \$2.4 million of financing costs on \$39.5 million of debt.

As at December balance date, Traffic was net current asset deficient to the tune of \$26.8 million and operating on a gearing ratio of 138 per cent.

Management is relying on a profit enhancement program (PEP) to deliver forecast full-year EBITDA of \$5.1 million to \$5.3 million. "The PEP is on schedule to meet 2008 guidance," Traffic chief Con Liosatos told *Criterion*.

According to Traffic's auditor Ernst & Young, there's a "material uncertainty" over Traffic's ability to continue as a going concern. This hinges on generating sufficient funds to meet ongoing obligations "and its ability to renegotiate current financing facilities, including debt reductions".

According to Traffic, a \$33.7 million term facility and a \$5.5 million working capital facility are due to be repaid by October 31, 2008. The facilities are being renegotiated "and are not expected to be rescheduled for repayment until at least January 1, 2009". While scuttlebutt suggests Westpac demanded \$15 million by next month, Liosatos says there's been no demand for early payment.

Within a month, Liosatos expects to announce that the debt rescheduling has been formally signed and that gearing has reduced to "comfortable" levels.

As *Criterion* has reported previously, Traffic has been snarled by an unsavoury mix of management turmoil, mass departures and cost blowouts. Whether it becomes victim to the old foible of overgearing and overpaying for assets remains to be seen.

Your columnist rates Traffic an avoid: we're easily spooked by "material uncertainty" qualifications.

Others are happy to back the severely marked down stock as a turnaround prospect. Wilson HTM, which maintains a hold call, argues Traffic is making progress with its strategic review.

However, the firm warns the company might need to raise equity or sell assets, with some parts of the business flagged for disposal. *Criterion* understands that private equity is sniffing around, as private equity is wont to do.

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