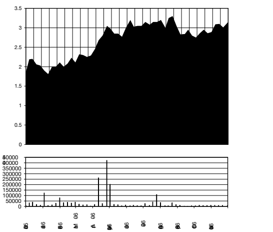
Jumping on the Acquisition Train

Global Railway Industries Ltd (GBI:TSX; $3.15)

(Buy | Price Target: N/A)

GLOBAL RAILWAY INDUSTRIES (GBI:TSX)



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Summary of Operations

Global Railway Industry is a leading provider of railway products and services equipment. Global Railway has three main subdivisions: Bach-Simpson Corporation, which supplies instrumentation and electronic control equipment; G&B Specialties Inc., which designs, manufactures, and markets railroad track and signal products; and Prime Railway Services, which designs and manufactures replacement parts for rail freight and transport market. Global Railway's customers include CN, CPR, Bombardier, and General Electric.

Quarterly Highlights and Key Areas of Growth

A significant portion of Global Railway's revenue is contributed by its G&B division. In 2005, this division contributed 72% of overall revenue. This segment provides the company with a base of reoccurring revenue that is stable and growing. From this base, the company is able to branch out through seeking accretive acquisitions. The company is going to focus on building its presence in segments of the market that have few competitors and are considered niche markets. Through focusing on this type of market, the company will be able to leverage its experience and existing operations in order to provide its customers with top-line products and service. Global Railway is also able to benefit from the increased capital spending of railway companies. This increased spending is needed to keep up with ever increasing demand and an aging rail fleet. In a report by the Associate of American Railroads, it is stated that 2005 was a record year for volume, inter-modal trafic, and revenue. With the rising cost of fuel and other factors making railway transport a more attractive shipping choice, the rising volumes should continue. On November 14, 2006, Global Railway released its Q3 2006 results for the period ending September 30, 2006. Revenue for the quarter increased to $7.8 million from $7.4 million in the same period of 2005. Gross margin totaled $2.9 million for Q3 2006 compared to $2.7 for Q3 2005. On a percentage basis, gross margin equaled 37% for Q3 2006 and 36% for Q3 2005. This is in line with a target margin of between 36-42%. Margins are slightly lower in the second half of the year due to a change in the product mix being sold as higher margin products experience an increase in sales in the spring due to railways performing maintenance throughout the summer. Net income from continuing operations was $603,867, an increase of 20% over Q3 2005. On a per share basis, net income from continuing operations was $0.04 and $0.03 for Q3 2006 and Q3 2005, respectively. A slight negative efect was caused by the strengthening of the Canadian dollar as well as a future income tax provision relating to the acquisition of G&B.

Conclusion

The divestiture of the lagging YSD division is largely complete. With the divestiture out of the way, management can now move on to aggressively targeting a new acquisition. With stable organic growth and a strong balance sheet, including a cash position of over $4.0 million, the company is in a great position to add to its growth through acquiring new business. With a strong market for its products, solid fundamentals, and a strong management team, Global Railways is well on its way to successfully growing its business, and as such we rate GBI a Buy. ■

Value	
EPS (TTM)	$0.18
P/E (TTM)	16.7
PEG Ratio (TTM)	2.83
P/S (TTM)	1.49
P/FCF (TTM)	7.69
EV/EBITDA (TTM)	7.25
B V/Share	2.02
Growth	
Revenues	10%
FCF	350%
EPS	6%
Risk/Liquidity	
D/E	0
Current Ratio	6.49
SGR	0.09