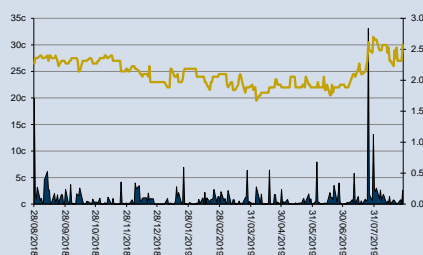


SPEC BUY

Current Price \$0.30
Valuation \$0.40

Ticker:	VMX.ASX		
Sector:	Engineering & Contracting		
Shares on Issue (m):	125.7		
Market Cap (\$m):	37.7		
Net Debt / (Cash) (\$m):	1.0		
Enterprise Value (\$m):	38.7		
52 wk High/Low:	0.32	0.20	
12m Av Daily Vol (m):	0.08		
Key Metrics			
	20F	21F	
EV/EBITDA (x)	4.2	3.5	
EV/EBIT (x)	5.0	4.1	
P/E (x)	8.0	6.3	
Ratios			
	19A	20F	21F
ND / Equity	3.4%	-9.7%	-18.9%
EBITDA Mgn	7.3%	7.3%	7.9%
RoA	12.1%	13.4%	15.5%
RoE	13.4%	14.8%	16.3%
Financials:			
<i>Normalised*:</i>	19A	20F	21F
Revenue (\$m)	110.2	127.5	140.0
EBITDA (\$m)	8.1	9.3	11.0
NPAT (\$m)	4.1	4.7	6.0
<i>* Adj. for one-offs & amortisation</i>			
Net Assets (\$m)	29.9	34.1	39.5
Op CF (\$m)	0.2	5.8	5.8
Per Share Data:			
	19A	20F	21F
Norm. EPS (cps)	3.3	3.8	4.8
DPS (cps)	0.00	0.00	0.00
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	21.4	25.1	29.9
CFPS (cps)	0.1	4.6	4.6

Share Price Graph



Please refer to important disclosures at end of the report (from page 4)

Thursday, 29 August 2019

Valmec (VMX)

FY19 results

Analyst | Ian Christie, CFA

Quick Read

VMX's FY19 EBITDA of \$8.1m was up strongly on FY18's \$4.9m, driven by the solid, high margin contribution from the Services business, and sharp growth in Construction work in the 2H. The Company is upbeat on the outlook for both segments and entered FY20 with ~\$80m work in hand and a \$595m+ pipeline. We anticipate top line growth and operating leverage to deliver EBITDA margins at least at FY19's levels in forecast periods. Our valuation increases to \$0.40 (prior \$0.32) and we maintain a SPEC BUY call.

View | Sector tailwinds

Service segment delivers: VMX's Service segment delivered ~50% of group earnings from 42% of group revenue in FY19, and we expect this segment to provide a growing and consistent contribution in forecast periods. While Services provides better visibility and a higher GP margin, the Construction segment can potentially provide significant uplift. We also expect growth here given favourable sector tailwinds; it was already evident in 2H19, where Construction revenues jumped nearly 80% on the interim period.

Company outlook upbeat: VMX entered FY20 with an order book of ~\$80m and a pipeline worth over \$595m. The strong gas thematic remains intact, with well-known east coast gas issues supporting the expansion of distribution capacity. Resource infrastructure, LNG, renewables, and water also provides opportunities. We forecast ~15% revenue growth in FY20 and a further ~10% in FY21 on the back of these tailwinds, and assume the contributions are split 60/40 between Construction and Services.

Margins improving: The EBITDA margin grew strongly from 4.7% in FY18 to 7.3% in FY19. This was due to a higher GP margin of 18.2% (up from 14.0% in FY18), which more than offset growth in other expenses / overheads. Based on our anticipated mix of revenue, we anticipate GP margins of 17.5% in forecast periods and expect to see some operating leverage as fixed costs fall as a percent of increasing revenue. VMX expects EBITDA to strengthen in FY20 on the back of construction opportunities and development of its asset services initiatives. This is reflected in our \$9.3m FY20 EBITDA forecast, up 15% on FY18.

Cash flow: VMX expects cash reserves to strengthen (VMX had \$3.8m cash and \$4.8m debt at year end). The ongoing proceedings against John Holland (to recover ~\$11.6m in relation to the NorthLink project) are worth noting; it is written off in VMX's books, so any settlement would result in a one off boost to VMX's earnings and cash flow.

Recommendation

Using a lower 13% discount rate, and higher EBITDA and NPAT capitalisation multiples of 4.5x and 9.0x respectively, we obtain a revised blended valuation of \$0.40 (prior \$0.32). This, together with a positive view on the Company's medium term growth prospects, underpins our maintained SPEC BUY call.

Valmec

Equity Research

Ian Christie

Recommendation	SPEC BUY
Current Price (\$)	0.30
Valuation (\$)	0.40

Sector	Engineering & Contracting
Market Cap (\$m)	37.7
Date	28 August 2019

Trading Metrics	FY18A	FY19A	FY20F	FY21F
EV / EBITDA (x)	7.9	4.8	4.2	3.5
EV / EBIT (x)	11.0	5.9	5.0	4.1
P/E (x)	11.6	9.2	8.0	6.3
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY18A	FY19A	FY20F	FY21F
Reported EPS (cps)	3.71	2.82	3.34	4.34
Adjusted EPS (cps)	2.59	3.28	3.77	4.77
Div. per share (cps)	0.00	0.00	0.00	0.00
NTA per share (cps)	27.60	21.44	25.11	29.88
CF per share (cps)	-2.71	0.14	4.61	4.59

Underlying P&L (\$m)*	FY18A	FY19A	FY20F	FY21F
Revenue	103.2	110.2	127.5	140.0
EBITDA	4.9	8.1	9.3	11.0
Depreciation	(1.4)	(1.5)	(1.6)	(1.6)
EBIT	3.5	6.6	7.7	9.4
PBT	2.6	5.4	6.5	8.3
NPAT	2.6	4.1	4.7	6.0
Reported NPAT	3.8	3.5	4.2	5.5

*Normalised for one-off items & amortisation

Cash Flow (\$m)	FY18A	FY19A	FY20F	FY21F
Receipts	93.5	99.2	125.1	136.6
Payments	(95.3)	(97.9)	(116.3)	(127.4)
Other / Prepayments	(1.0)	(1.1)	(3.0)	(3.4)
Cash from Operations	(2.8)	0.2	5.8	5.8
Property, Plant & Equip	(0.5)	(1.4)	(1.5)	(1.6)
Payment for Subsidiary	(2.6)	-	-	-
Other	0.2	0.1	-	-
Cash From Investing	(2.9)	(1.3)	(1.5)	(1.6)
Issue of Shares	10.4	0.3	-	-
Net Borrowing	(1.0)	(0.8)	(0.9)	(0.4)
Dividends / Other	-	-	-	-
Cash From Financing	9.4	(0.5)	(0.9)	(0.4)
Net Cash Flow	3.7	(1.7)	3.4	3.8
Ending Cash	2.7	1.1	4.5	8.2

Balance Sheet (\$m)	FY18A	FY19A	FY20F	FY21F
Cash (incl. overdraft)	2.7	3.8	7.2	10.9
Receivables	29.0	32.5	34.9	38.4
Inventory / Other	7.7	7.7	8.7	9.4
Current Assets	39.5	44.0	50.8	58.7
Property, Plant & Equip	10.6	10.4	10.3	10.3
Other NC Assets	5.1	5.7	5.1	4.6
Non-Current Assets	15.8	16.0	15.4	14.8
Total Assets	55.2	60.0	66.1	73.6
Payables	19.0	23.0	25.9	28.3
Borrowings	2.9	4.8	3.9	3.5
Provisions / Other	1.9	2.3	2.3	2.3
Total Liabilities	23.8	30.2	32.1	34.0
Net Assets	31.5	29.9	34.1	39.5
Ordinary Equity	16.6	16.9	16.9	16.9
Reserves	0.4	0.3	0.3	0.3
Retained Earnings	14.5	12.6	16.8	22.3
Total Equity	31.5	29.9	34.1	39.5

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	13.0%		
PV Free Cash Flow (\$m)		57.5	
Less Net Debt / Plus Cash (\$m)		(1.0)	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		56.5	0.45

Earnings Capitalisation Valuation:			
FY20 EBITDA multiple	4.5	40.9	0.33
FY20 PE multiple	9.0	42.7	0.34
Valuation (\$/share) - blend of DCF & earnings cap			0.40

Underlying P&L (\$m)*	1H18A	2H18A	1H19A	2H19A
Revenue	49.8	53.4	47.5	62.7
EBITDA	3.4	1.5	3.3	4.8
Depreciation	(0.6)	(0.8)	(0.8)	(0.7)
EBIT	2.8	0.7	2.5	4.1
PBT	2.3	0.3	1.9	3.6
NPAT	1.6	1.0	1.3	2.8
Reported NPAT	1.6	2.2	1.3	2.2

*Normalised for one-off items & amortisation

Cash Flow (\$m)	1H18A	2H18A	1H19A	2H19A
Receipts	46.1	47.4	46.5	52.7
Payments	(45.4)	(49.9)	(49.7)	(48.2)
Other / Prepayments	(0.5)	(0.4)	(0.6)	(0.5)
Cash from Operations	0.2	(2.9)	(3.8)	4.0
Property, Plant & Equip	(0.3)	(0.2)	(1.1)	(0.4)
Payment for Subsidiary	-	(2.6)	-	-
Other	0.2	0.0	0.0	0.1
Cash From Investing	(0.1)	(2.8)	(1.0)	(0.3)
Issue of Shares	-	10.4	0.3	-
Net Borrowing	(0.3)	(0.7)	0.1	(0.9)
Dividends / Other	-	-	-	-
Cash From Financing	(0.3)	9.7	0.4	(0.9)
Net Cash Flow	(0.3)	4.0	(4.4)	2.8
Ending Cash	(1.2)	2.7	(1.7)	1.1

Financial Ratios	FY18A	FY19A	FY20F	FY21F
Growth				
Revenue growth (%)	41.6%	6.7%	15.7%	9.8%
Norm. EPS growth (%)	36.9%	26.3%	15.2%	26.4%
Profitability Ratios				
GP Margin (%)	14.0%	18.2%	17.5%	17.5%
EBITDA Margin (%)	4.7%	7.3%	7.3%	7.9%
Return on Assets (%)	7.7%	12.1%	13.4%	15.5%
Return on Equity (%)	10.8%	13.4%	14.8%	16.3%
ROIC (%)	12.3%	19.7%	16.3%	19.6%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	0.4%	3.4%	-9.7%	-18.9%
ND / ND + Equity (%)	0.4%	3.3%	-10.7%	-23.3%
Current Ratio (x)	1.8	1.5	1.6	1.7
Net Interest Cover (x)	5.7	5.4	6.1	8.1
Cash Flow Ratios				
Free Cash Flow Yield (%)	-19.3%	-3.1%	11.4%	11.1%
Cash Conversion (x)	(0.6)	0.0	0.6	0.5

Adjustments to forecasts

Figure 1: Adjustments to forecasts

Normalised*	FY17	FY18	FY19	FY20F			FY21F		
	Actual	Actual	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	72.9	103.2	110.2	126.6	127.5	1%	132.9	140.0	5%
Gross Profit (\$m)	11.8	14.4	20.0	20.9	22.3	7%	21.9	24.5	12%
GP Margin	16.1%	14.0%	18.2%	16.5%	17.5%		16.5%	17.5%	
EBITDA (\$m)	4.1	4.9	8.1	9.2	9.3	1%	10.0	11.0	10%
EBITDA margin	5.6%	4.7%	7.3%	7.3%	7.3%		7.5%	7.9%	
PBT(A) (\$m)	2.2	2.6	5.4	7.4	6.5	-11%	8.2	8.3	2%
NPAT(A) (\$m)	1.6	2.6	4.1	5.4	4.7	-11%	5.8	6.0	3%
Rep. NPAT (\$m)	1.6	3.8	3.5	4.7	4.2	-11%	5.5	5.5	-1%

* Normalised numbers adjust for one-offs and amortisation

Source: Argonaut forecasts

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