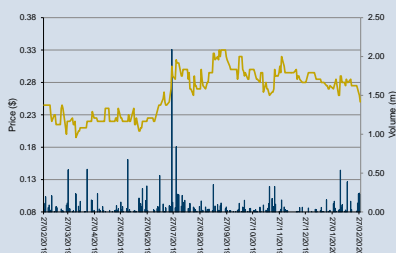


BUY

Current Price \$0.25
Valuation \$0.42

Ticker:	VMX.ASX		
Sector:	Engineering & Contracting		
Shares on Issue (m):	125.7		
Market Cap (\$m):	31.4		
Net Debt / (Cash) (\$m):	-0.2		
Enterprise Value (\$m):	31.2		
52 wk High/Low:	0.33	0.20	
12m Av Daily Vol (m):	0.09		
Key Metrics			
	20F	21F	
EV/EBITDA (x)	3.1	2.8	
EV/EBIT (x)	4.1	3.7	
P/E (x)	6.7	6.0	
Ratios			
	19A	20F	21F
ND / Equity	3.4%	-7.2%	-17.6%
EBITDA Mgn	7.3%	7.3%	7.6%
RoA	12.1%	12.5%	12.7%
RoE	13.4%	14.7%	14.3%
Financials:			
<i>Normalised*:</i>	19A	20F	21F
Revenue (\$m)	110.2	139.0	144.0
EBITDA (\$m)	8.1	10.2	11.0
NPAT (\$m)	4.1	4.7	5.2
<i>* Adj. for one-offs & amortisation</i>			
Net Assets (\$m)	29.9	34.1	39.3
Op CF (\$m)	0.2	4.3	6.0
Per Share Data:			
	19A	20F	21F
Norm. EPS (cps)	3.3	3.8	4.2
DPS (cps)	0.00	0.00	0.00
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	21.4	25.1	29.3
CFPS (cps)	0.1	3.4	4.8

Share Price Graph



Please refer to important disclosures at end of the report (from page 3)

Friday, 28 February 2020

Valmec (VMX)

Looks to extend solid half

Analyst | Ian Christie, CFA

Quick Read

VMX's interims delivered record revenue of \$70.1m and EBITDA of \$5.4m. With executed work being replaced in the order book, it puts retained guidance (\$9.1-10.1m EBITDA) comfortably within range. A large pipeline, greater revenue diversity, and opportunities to increase exposure to recurring revenue service streams positively underpins the medium term outlook. VMX trades on undemanding multiples in our view underpinning a BUY call. Our valuation climbs to \$0.42 (prior \$0.40).

View | Growth envisaged

Interims: VMX recently announced record 1H20 revenue and EBITDA of \$70.1m (up 47% on pcp) and \$5.4m (up 65%) respectively. EBITDA benefited from the reclassification of operating lease expense under AASB 16, but was still up at least 50% on a like for like basis on our calculations. The Company started 2H20 with a strong \$80m order book (similar to prior as work executed was replaced during the period). The Company indicates the 1H gross margin of 16.2% is expected to be maintained into the 2H and it is "strongly positioned" to deliver against guidance.

Adjustments: Given the 1H performance our forecasts at the revenue and EBITDA lines are near the top end of the FY20 guidance range (which is for \$130-140m revenue and \$9.1-10.1m EBITDA). However, as the depreciation charge is higher to take into account operating lease payments, our EBIT line is little changed on prior. This is also true for our forecasts beyond FY20. The Company comments that the opportunity pipeline suggests FY21 is shaping up to be a year of further revenue growth with a more recurring revenue sales mix.

Cash flow: An additional \$2.2m was tied up in working capital during the period, most of which went into inventory in support of increased service activity toward the back end of the half. VMX ended the period with cash of \$3.0m and debt of \$2.8m.

Recurring revenue: Although 1H20 saw a large contribution from the Energy Construction segment (68% of revenue), VMX aims to grow recurring Services segment revenue over time. As the Company points out, this also reflects the industry moving from investment phase to production and is resulting in larger integrated services opportunities.

Recommendation

While our forecasts are little changed on prior, recognition of anticipated FY21 earnings in our blended valuation sees it rise to \$0.42 (prior \$0.40). The Company is trading on undemanding multiples in our view and we upgrade to BUY (prior SPEC BUY) on steady earnings improvement, a healthy order book, and the potential for growth in recurring revenue streams.

Valmec

Equity Research

Ian Christie

Recommendation	BUY
Current Price (\$)	0.250
Valuation (\$)	0.42

Sector	Engineering & Contracting
Market Cap (\$m)	31.4
Date	28 February 2020

Trading Metrics	FY18A	FY19A	FY20F	FY21F
EV / EBITDA (x)	6.4	3.9	3.1	2.8
EV / EBIT (x)	8.9	4.8	4.1	3.7
P/E (x)	9.6	7.6	6.7	6.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY18A	FY19A	FY20F	FY21F
Reported EPS (cps)	3.71	2.82	3.36	4.17
Adjusted EPS (cps)	2.59	3.28	3.75	4.17
Div. per share (cps)	0.00	0.00	0.00	0.00
NTA per share (cps)	27.60	21.44	25.09	29.26
CF per share (cps)	-2.71	0.14	3.44	4.78

Underlying P&L (\$m)*	FY18A	FY19A	FY20F	FY21F
Revenue	103.2	110.2	139.0	144.0
EBITDA	4.9	8.1	10.2	11.0
Depreciation	(1.4)	(1.5)	(2.6)	(2.5)
EBIT	3.5	6.6	7.6	8.5
PBT	2.6	5.4	6.5	7.5
NPAT	2.6	4.1	4.7	5.2
Reported NPAT	3.8	3.5	4.2	5.2

* Normalised for one-off items & amortisation

Cash Flow (\$m)	FY18A	FY19A	FY20F	FY21F
Receipts	93.5	99.2	135.3	142.7
Payments	(95.3)	(97.9)	(128.1)	(133.5)
Other / Prepayments	(1.0)	(1.1)	(2.9)	(3.2)
Cash from Operations	(2.8)	0.2	4.3	6.0
Property, Plant & Equip	(0.5)	(1.4)	(0.9)	(1.6)
Payment for Subsidiary	(2.6)	-	-	-
Other	0.2	0.1	-	-
Cash From Investing	(2.9)	(1.3)	(0.9)	(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)	2.5	4.0
Ending Cash	2.7	1.1	3.6	7.7

Balance Sheet (\$m)	FY18A	FY19A	FY20F	FY21F
Cash (incl. overdraft)	2.7	3.8	5.1	9.2
Receivables	29.0	32.5	36.2	37.5
Inventory / Other	7.7	7.7	9.4	9.7
Current Assets	39.5	44.0	50.7	56.3
Property, Plant & Equip	10.6	10.4	9.7	9.7
Other NC Assets	5.1	5.7	10.7	10.7
Non-Current Assets	15.8	16.0	20.3	20.4
Total Assets	55.2	60.0	71.0	76.7
Payables	19.0	23.0	26.5	27.3
Borrowings	2.9	4.8	2.7	2.3
Provisions / Other	1.9	2.3	7.8	7.8
Total Liabilities	23.8	30.2	36.9	37.4
Net Assets	31.5	29.9	34.1	39.3
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	16.9	22.1
Total Equity	31.5	29.9	34.1	39.3

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.6%		
PV Free Cash Flow (\$m)		55.2	
Less Net Debt / Plus Cash (\$m)		0.2	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		55.4	0.44

Earnings Capitalisation Valuation:			
FY21 EBITDA multiple	4.5	49.5	0.39
FY21 PE multiple	10.0	52.4	0.42
Valuation (\$/share) - blend of DCF & earnings cap			0.42

Underlying P&L (\$m)*	1H19A	2H19A	1H20A	2H20F
Revenue	47.5	62.7	70.2	68.8
EBITDA	3.3	4.8	5.4	4.8
Depreciation	(0.8)	(0.7)	(1.2)	(1.3)
EBIT	2.5	4.1	4.2	3.5
PBT	1.9	3.6	3.6	2.9
NPAT	1.3	2.8	2.5	2.2
Reported NPAT	1.3	2.2	2.3	2.0

* Normalised for one-off items & amortisation

Cash Flow (\$m)	1H19A	2H19A	1H20A	2H20F
Receipts	46.5	52.7	69.8	65.5
Payments	(49.7)	(48.2)	(67.4)	(60.7)
Other / Prepayments	(0.6)	(0.5)	(0.6)	(2.3)
Cash from Operations	(3.8)	4.0	1.8	2.5
Property, Plant & Equip	(1.1)	(0.4)	(0.2)	(0.6)
Payment for Subsidiary	-	-	-	-
Other	0.0	0.1	0.1	(0.1)
Cash From Investing	(1.0)	(0.3)	(0.2)	(0.7)
Issue of Shares	0.3	-	-	-
Net Borrowing	0.1	(0.9)	(0.2)	(0.7)
Dividends / Other	-	-	-	-
Cash From Financing	0.4	(0.9)	(0.2)	(0.7)
Net Cash Flow	(4.4)	2.8	1.4	1.1
Ending Cash	(1.7)	1.1	2.5	3.6

Financial Ratios	FY18A	FY19A	FY20F	FY21F
Growth				
Revenue growth (%)	41.6%	6.7%	26.2%	3.6%
Norm. EPS growth (%)	36.9%	26.3%	14.6%	11.0%
Profitability Ratios				
GP Margin (%)	14.0%	18.2%	16.2%	16.6%
EBITDA Margin (%)	4.7%	7.3%	7.3%	7.6%
Return on Assets (%)	7.7%	12.1%	12.5%	12.7%
Return on Equity (%)	10.8%	13.4%	14.7%	14.3%
ROIC (%)	12.3%	19.7%	14.7%	14.9%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	0.4%	3.4%	-7.2%	-17.6%
ND / ND + Equity (%)	0.4%	3.3%	-7.8%	-21.3%
Current Ratio (x)	1.8	1.5	1.6	1.7
Net Interest Cover (x)	5.7	5.4	6.4	8.7
Cash Flow Ratios				
Free Cash Flow Yield (%)	-23.1%	-3.7%	11.0%	14.2%
Cash Conversion (x)	(0.6)	0.0	0.4	0.5

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