

The Environmental Group Ltd

Industrials Environmental & Facilities Services
1 April 2025

BUY

Acquisition of Advanced Boilers & Combustion

EVENT

EGL has announced the acquisition of industrial boiler service and manufacturing business Advanced Boilers & Combustion Pty Ltd for \$5.5m. Advanced Boilers is a leading domestic industrial boiler service and manufacturing business, established in 2006. In FY24, Advanced Boilers generated revenue of \$16m and normalised EBITDA of \$1.6m. Advanced owns the exclusive rights in Australia to manufacture and sell Maxitherm boilers. Service revenue represents approximately 60% of Advanced Boiler's revenue.

Strategic rationale for the acquisition includes major expansion in EGL's sales and service offering to the industrial boiler industry, complementing EGL Energy's existing business. Advanced has expertise in fabrication, boiler fit out, economisers, pipe welding, skid manufacture and control panels.

Transaction funding is to come from existing cash resources, with expected completion on 5 April. Cash at Dec-24 end was \$8m, while EGL has also recently obtained a temporary \$3m increase in its overdraft facility and a \$1.5m increase in its bond facility.

IMPACT

We revise our FY25-27e EPS estimates +1%/+6%/+6% to 1.3/2.0/2.2 cps incorporating the recent acquisition. We view the consolidation of market share of a highly cash generative business through a significant market participant, as well as growing service revenue as an attractive proposition.

INVESTMENT VIEW

Maintain Buy, increased TP of \$0.36. The acquisition is expected to deliver consolidated market share of the highly cash generative boiler business and provides a pathway to continued growth in this segment. Across the group, revenue growth, return to margin, and attractive near term tender opportunities across the Baltec, waste, and water segments position the company for a vastly improved second half and a platform for continued growth trajectory into FY26. We continue to see strong industry tailwinds coupled with mandated demand in regulated industries for cash generative core industrial segments with significant embedded waste and water treatment options.

COMPANY UPDATE

Ticker	EGL
Stock Price	\$0.26
Target Price	\$0.36
Forecast Capital Return	41.2%
Forecast Dividend Yield	0.0%
Estimated Total Return - 12Mth	41.2%

COMPANY MARKET DATA

Market Cap	\$97.0m
Free Float (%)	46.0%
Enterprise Value	\$92.4m
Shares on issue	380.5m
52-wk Range	\$0.19 - \$0.42

ESTIMATE CHANGES 2024a 2025e 2026e 2027e

NPAT - new	4.7	5.0	7.7	8.4
NPAT - old	4.7	5.0	7.2	7.9
% Change	0.0%	0.9%	7.2%	6.3%
EPS (Dil.) (¢) - new	1.2	1.3	2.0	2.2
EPS (Dil.) (¢) - old	1.2	1.3	1.9	2.1
% Change	0.0%	0.5%	6.4%	5.6%
DPS (¢) - new	0.0	0.0	0.0	0.0
DPS (¢) - old	0.0	0.0	0.0	0.0
% Change	0.0%	0.0%	0.0%	0.0%

All figures are in AUD unless otherwise specified.

SHARE PRICE PERFORMANCE



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Y/E JUN 30	2024a	2025e	2026e	2027e
EBITDA	9.7	10.8	15.1	16.0
EV/EBITDA	9.6x	8.5x	6.1x	5.8x
NPAT	4.7	5.0	7.7	8.4
EPS (Diluted) (¢)	1.2	1.3	2.0	2.2
P/E	20.6x	19.1x	12.5x	11.6x
EPS growth	25.8%	7.9%	52.1%	8.4%
Yield	0.0%	0.0%	0.0%	0.0%

All figures are in AUD.

The Environmental Group Ltd (EGL)	Market Cap: \$97.0m	Stock Price: \$0.26	Target Price: \$0.36	Buy
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Y/E JUN 30

PROFIT & LOSS (\$)	2023A	2024A	2025E	2026E	2027E
Revenue	82.7	98.4	115.5	132.0	136.9
Growth	44.9%	19.0%	17.4%	14.3%	3.7%
EBITDA	6.6	9.7	10.8	15.1	16.0
Growth	53.3%	45.6%	12.3%	39.2%	5.9%
Dep'n & Amort.	(1.7)	(2.5)	(3.2)	(3.8)	(3.9)
EBIT	4.9	7.1	7.7	11.3	12.1
Growth	67.1%	44.7%	7.9%	47.5%	6.6%
Net interest Expense	(0.3)	(0.4)	(0.5)	(0.3)	(0.1)
Interest Expense	(0.3)	(0.4)	(0.5)	(0.4)	(0.4)
Profit Before Tax	4.6	6.7	7.2	11.0	12.0
Tax	(1.4)	(2.0)	(2.2)	(3.3)	(3.6)
Tax Rate (%)	(30.0)%	(30.0)%	(30.0)%	(30.0)%	(30.0)%
Minorities / Abnormal items	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	3.2	4.7	5.0	7.7	8.4
Growth	69.0%	45.3%	6.7%	53.6%	8.4%
One-Off Items	(0.6)	(0.3)	(0.7)	0.7	0.0
NPAT (Reported)	2.6	4.4	4.3	8.4	8.4
EPS Underlying (Diluted) (¢)	1.0	1.2	1.3	2.0	2.2
Growth	51.8%	25.8%	7.9%	52.1%	8.4%

BALANCE SHEET (\$)	2023A	2024A	2025E	2026E	2027E
Cash	9.4	10.1	3.9	10.4	17.8
Inventory	5.1	5.1	8.4	9.1	9.4
Current Receivable	12.9	15.3	17.2	19.4	19.7
PPE	5.1	7.0	10.6	12.0	13.4
Intangibles	1.3	1.8	1.8	1.7	1.7
Other	32.9	35.3	37.1	37.1	37.1
Total Assets	66.7	74.7	78.9	89.8	99.1
Current Payables	16.5	18.6	21.8	23.9	24.8
ST Debt	2.1	1.9	0.0	0.0	0.0
LT Debt	2.4	3.6	3.0	3.0	3.0
Provisions	4.2	3.6	4.0	4.3	4.5
Other	5.1	6.0	4.7	4.7	4.7
Total Liabilities	30.3	33.8	33.6	36.0	37.0
Net Assets	36.4	40.9	45.3	53.7	62.1
Equity & Reserves	38.3	38.4	38.5	38.5	38.5
Retained Profits	(1.9)	2.5	6.8	15.2	23.6
Shareholders' Equity	36.4	40.9	45.3	53.7	62.1
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	36.4	40.9	45.3	53.7	62.1

CASHFLOW (\$)	2023A	2024A	2025E	2026E	2027E
EBITDA	6.6	9.7	10.8	15.1	16.0
Net Interest	0.0	(0.4)	(0.5)	(0.3)	(0.1)
Tax	(0.3)	0.0	(2.2)	(2.7)	(3.6)
Δ in Working Capital	1.7	(0.0)	(1.5)	(0.5)	0.3
Other	(2.8)	(5.0)	(3.7)	0.0	0.0
Operating Cash Flow	5.2	4.2	3.0	11.7	12.6
Growth	514.8%	(19.7)%	(29.3)%	292.9%	7.6%
Capex	(0.4)	(0.5)	(0.2)	(1.0)	(1.0)
Acquisitions	(3.4)	(0.1)	(5.5)	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	(0.3)	(0.5)	(0.2)	(0.3)	(0.3)
Investing Cash Flow	(4.1)	(1.1)	(5.9)	(1.3)	(1.3)
Equity Raised	8.3	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	(1.9)	(2.4)	(3.3)	(3.9)	(3.9)
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	6.5	(2.4)	(3.3)	(3.9)	(3.9)
FX / Non Cash items	0.0	0.0	0.0	0.0	0.0
Change in Cash	7.6	0.8	(6.2)	6.5	7.4
Free Cash Flow	3.3	1.4	(0.4)	6.5	7.4

VALUATION SUMMARY	
Market Cap	\$97.0m
Shares on issue	380.5m
Stock Price	\$0.26
Target Price	\$0.36
Estimated Total Return - 12 Mth	41.2%
12 Mth Fwd Dividend Yield	0.0%

VALUATION RATIOS	2023A	2024A	2025E	2026E	2027E
EPS Underlying (Diluted) (¢)	1.0	1.2	1.3	2.0	2.2
Growth	51.8%	25.8%	7.9%	52.1%	8.4%
P/E (x)	25.9x	20.6x	19.1x	12.5x	11.6x
Small industrials (ex Fin's)	0.0x	0.0x	29.7x	26.0x	24.6x
Premium / (Discount)	--	--	35.7%	51.8%	53.0%
EV/EBITDA (x)	13.9x	9.6x	8.5x	6.1x	5.8x
Small industrials (ex Fin's)	0.0x	0.0x	15.3x	14.0x	12.7x
Premium / (Discount)	--	--	44%	56%	54%
DPS (¢)	0.0	0.0	0.0	0.0	0.0
Growth	--	--	--	--	--
Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0.0%	0.0%	0.0%	0.0%	0.0%
NTA	16.1	21.1	25.5	33.9	42.3
NTA/Share (\$)	0.05	0.06	0.07	0.09	0.11

PERFORMANCE RATIOS	2023A	2024A	2025E	2026E	2027E
ROA	9.7%	6.7%	6.6%	9.2%	8.9%
ROE	17.9%	12.2%	11.7%	15.6%	14.5%
ROIC	21.9%	14.7%	13.6%	18.0%	18.5%
ROCE	23.9%	16.2%	16.1%	21.3%	19.7%
Net Debt (Cash) (\$m)	(5.0)	(4.6)	(0.9)	(7.4)	(14.7)
Net Debt/EBITDA (x)	(0.7)x	(0.5)x	(0.1)x	(0.5)x	(0.9)x
ND/(ND + Equity) (%)	(15.8)%	(12.7)%	(2.0)%	(16.0)%	(31.1)%
Interest Cover (x)	18.1x	19.6x	16.4x	44.0x	143.9x
Working Capital	5.0	8.2	12.6	13.1	12.8
Working Capital/Sales (%)	6.0%	8.3%	10.9%	9.9%	9.3%

CASH FLOW METRICS	2023A	2024A	2025E	2026E	2027E
FCF/Share (\$)	0.01	0.00	(0.00)	0.02	0.02
Price/FCPS (x)	25.1x	69.0x	(238.0)x	14.9x	13.2x
Gross Cash Conversion (%)	83.2%	47.4%	51.8%	97.0%	101.9%
Capex/Sales (%)	0.4%	0.5%	0.2%	0.8%	0.8%
Capex/Depreciation (x)	0.2x	0.2x	0.1x	0.2x	0.2x

MARGINS	2023A	2024A	2025E	2026E	2027E
EBITDA	8.0%	9.8%	9.4%	11.4%	11.7%
EBIT	5.9%	7.2%	6.6%	8.6%	8.8%
NPAT	3.9%	4.8%	4.4%	5.9%	6.1%

VALUATION METHODOLOGY	
WACC	10.69%
Discounted Cash Flow Valuation/Share	\$0.34
Sum-of-the-Parts Valuation/Share	\$0.29
Average Valuation/Share	\$0.32
Target Price	\$0.36

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Key Risks to the Investment Thesis

Upside risks to the Target Price: 1) continued growth in Energy and Baltec segments, return to growth in Air; 2) conversion of strong pipeline for waste plants; 3) successful commercialisation of PFAS treatment plants.

Downside risks to the Target Price: 1) downturn in industrial, construction, and resources end markets; 2) slower than anticipated adoption of waste treatment and/or PFAS treatment plants; 3) regulatory / licencing risk.

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Distribution of Ratings as at 1 April 2025

SELL	HOLD	BUY
1.08%	24.73%	74.19%

The Environmental Group Ltd Rating History as of 03-28-2025



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