

Mader Group Ltd

(MAD \$2.56) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Gavin Allen	11 th May 2022	\$3.00/sh ▲ from \$2.45/sh

Updating numbers post buoyant 3Q update

Event

Recent 3Q update depicts significant pcp growth, featuring very strong North American growth, an investment highlight.

Impact

- We are increasing our numbers as follows:

	2022		2023		variance	variance
	old	new	old	new		
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Revenue	382.7	389.8	445.0	465.9	2%	5%
EBITDA	45.4	47.0	55.1	57.7	3%	5%
NPAT	24.5	25.6	31.1	32.4	5%	4%

- The third quarter numbers were all well up on pcp, with Australia up 20%, US up 146% and rest of world up 17%.
- Compared to Q2 2022 (under the hood)
 - Australia was up modestly, however strong demand and a more mobile workforce was a feature, in particular, in our view, in March, suggesting strong 4Q run-rate.
 - The US was up 30% on 2Q driven by both expanded service offering into the existing client base and further client expansion.
 - Organic start ups in Canada and Energy gained traction.
- Guidance was maintained for 2022 of at least \$370m in revenue and at least \$24m in NPAT.
- While perhaps trading fairly on 2022 numbers, investors are looking longer term at the prospect of North American (US and Canada), replicating the Australian operation, much of which can take place organically.

Action

Buy, PT increased to \$3.00; while recognising investors are taking a longer term view, the replication of the Australian operations into the US and Canada supports earnings and a share price significantly above our forecasts and Price Target.

Key Catalysts

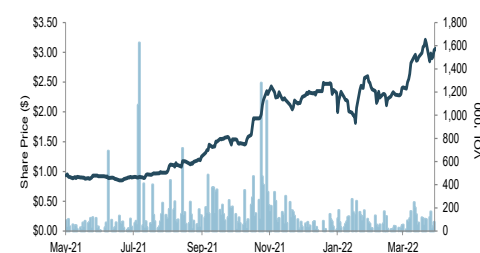
- Deliver 2022 results, depicting further growth as forecast.
- We might expect these results to reflect improving operating conditions as borders open.
- Further runs on the board in Canada and in Energy.
- Further growth in the US.

Mader Group Ltd	Year End 30 June	
Share Price	2.56	A\$/sh
Price Target	3.00	A\$/sh
Valuation (DCF)	3.51	A\$/sh
WACC	8.9%	
Terminal Growth	3.0%	
Shares on issue	200	m
Market Capitalisation	512.0	A\$m
Enterprise Value	537.8	A\$m
Cash (1H)	6.0	A\$m
Debt (inc leases) (1H)	31.8	A\$m
Net debt excluding leases (3Q)	17.4	A\$m

Key Financials	2021F	2022F	2023F
Revenue (A\$m)	304.3	389.8	465.9
EBITDA (A\$m)	35.7	47.0	57.7
EBIT (A\$m)	28.2	38.0	47.7
Reported NPAT (A\$m)	19.3	25.6	32.4
Normalised NPAT (A\$m)	19.3	25.6	32.4
Gross Cashflow (A\$m)	24.5	34.2	42.0
Capex (A\$m)	-11.3	-30.2	-11.2
Op. Free Cashflow (A\$m)	5.1	5.5	26.5
Revenue Growth (%)	11%	28%	20%
EBITDA Growth (%)	9%	31%	23%
Norm. NPAT Growth (%)	6%	7%	7%
Normalised EPS (Ac)	9.67	12.82	15.43
Norm. EPS growth (%)	na	0.33	0.20
PER (x)	26.47	19.98	16.59
EV:EBITDA (x)	15.05	11.45	9.33
EV:EBIT (x)	19.07	14.14	11.27
DPS (Ac)	3.00	4.00	4.50
Dividend Yield (%)	0.01	0.02	0.02
Net Cash (A\$m)*	-27.63	-28.47	-10.36
Net Debt:Equity (%)	-0.46	-0.35	-0.10

*includes deferred consideration

Share Price Chart



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Analysis

We build earnings as follows:

	2019	2020	2021	1H 2022	2h 2022	2022	2023
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Revenue	228.6	273.5	304.3	185.0	204.8	389.8	465.9
COGS	-180.7	-218.8	-245.9	-145.0	-159.1	-304.1	-362.9
Gross Profit	47.9	54.7	58.4	40.0	45.8	85.8	103.0
Operating expenses	-22.6	-22.1	-22.7	-18.9	-19.9	-38.8	-45.3
EBITDA	25.3	32.7	35.7	21.1	25.9	47.0	57.7
Depreciation	-3.8	-6.6	-7.5	-4.0	-4.9	-8.9	-10.0
EBIT	21.5	26.0	28.2	17.1	20.9	38.0	47.7
Interest	-1.1	-1.1	-1.4	-0.7	-0.7	-1.4	-1.4
EBT	20.4	24.9	26.8	16.4	20.2	36.6	46.3
Tax	-5.5	-7.4	-7.4	-4.3	-6.7	-11.0	-13.9
NPAT	14.9	17.5	19.3	12.1	13.5	25.6	32.4
ROIC	26%	25%	22%			24%	25%
ROA	17%	17%	16%			16%	17%
ROE	44%	36%	32%			32%	31%
GP margin	21.0%	20.0%	19.2%	21.6%	22.3%	22.0%	22.1%
EBITDA margin	11.1%	11.9%	11.7%	11.4%	12.6%	12.0%	12.4%

Investment Case

We build our 12 month PT as follows; reflecting our medium term and longer term ambitions:

	PE target	F EPS 2023	Target
Price earnings multiple (\$/sh)	16	15.4	2.47
DCF (\$/sh)			3.51
Average (\$/sh)			3.00

MAD has traded back with the market; at the same time as operating conditions, particularly in relation to accessing people, begins to improve.

Buy

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Financial Statements	2020A	2021F	2022F	2023F	Performance Ratios	2020A	2021F	2022F	2023F
Income Statement					Growth & Margins				
Revenue	273.5	304.3	389.8	465.9	Revenue Growth	20%	11%	28%	20%
COGS	-218.8	-245.9	-304.1	-362.9	EBITDA Growth	29%	9%	31%	23%
Gross Profit	54.7	58.4	85.8	103.0	EBIT Growth	21%	8%	35%	25%
OPEX	-22.1	-22.7	-38.8	-45.3	Normalized Net Profit Growth	17%	11%	33%	26%
EBITDA	32.7	35.7	47.0	57.7	EBITDA margin	12%	12%	12.0%	12.4%
Depreciation & amortisation	-6.6	-7.5	-8.9	-10.0	EBIT margin	10%	9%	9.8%	10.2%
Impairment	0.0	0.0	0.0	0.0	Normalized net profit margin	6%	6%	6.6%	7.0%
EBIT	26.0	28.2	38.0	47.7	Effective tax rate	30%	28%	30%	30%
Borrowing Costs	-1.7	-1.4	-1.4	-1.4	Liquidity				
Interest Income	0.0	0.0	0.0	0.0	Capex/depreciation (x)	1.9	1.5	3.4	1.1
FX	0.0	0.0	0.0	0.0	Current ratio (x)	1.7	1.5	1.4	1.7
Other income/(expense)	0.6	0.0	0.0	0.0	Quick ratio (x)	3.3	3.3	2.7	3.0
EBT	24.9	26.8	36.6	46.3	Receivable days	74	81	75	71
Tax expense	-7.4	-7.4	-11.0	-13.9	Payable days	29	29	33	33
Reported Earnings	17.5	19.3	25.6	32.4	Risk Measures				
Abnormal Expenses / (Incomes)	0.0	0.0	0.0	0.0	Dividend Cover (x)	2.9	3.2	3.2	3.4
Normalized Net Profit	17.5	19.3	25.6	32.4	Payout ratio (%)	34%	31%	31%	29%
Cash flow (\$m)					Net interest cover (x)	15.0	19.8	26.7	33.4
Profit before Tax	24.9	26.8	36.6	46.3	Net debt/equity (%)	-23%	-46%	-35%	-10%
(+) D&A	6.6	7.5	8.9	10.0	Returns				
(-) Lease Expense	-0.4	-0.4	-0.4	-0.4	ROIC(%)	24.6%	21.9%	24.2%	24.9%
(+/-) write-downs/revals	0.0	0.0	0.0	0.0	Return on assets (%)	17.4%	15.8%	16.5%	17.4%
(+/-) Other	0.0	-1.5	0.0	0.0	Return on average equity (%)	36.4%	31.9%	31.9%	30.9%
(-) Tax Paid	-6.4	-7.9	-11.0	-13.9	Share Data/Valuation				
Gross Cashflow	24.8	24.5	34.2	42.0	Share Data				
(-) Capital Expenditure	-12.9	-11.3	-30.2	-11.2	Issued shares (m)	200	200	200	210
(-) Change in WC	-5.7	-8.1	1.5	-4.3	Weighted ave shares (m)	100	200	200	210
Operating Free cashflow	6.2	5.1	5.5	26.5	Fully diluted shares (m)	200	200	200	210
(+) Other	-4.3	-4.5	0.0	0.0	Basic EPS (c)	8.8	9.7	12.8	15.4
(-) Dividends Paid	0.0	-6.0	-6.0	-8.0	YoY change (%)	na	na	33%	20%
(+) Equity issued	0.0	0.0	0.0	0.0	Fully diluted EPS (c)	8.8	9.7	12.8	15.4
Net Cashflow	2.7	-5.4	-0.5	18.5	YoY change (%)	na	na	33%	20%
Bop Net Cash*	-21.2	-21.0	-27.6	-28.5	Fully diluted normalised EPS (c)	8.8	9.7	12.8	15.4
(+/-) Net Cashflow	2.7	-5.4	-0.5	18.5	YoY change (%)	na	na	33%	20%
(-) AASB 16 Adjustment	-2.6	-1.2	-0.3	-0.3	Dividend/share (c)	3.0	3.0	4.0	4.5
EOp Net Cash (debt)	-21.0	-27.6	-28.5	-10.4	Franking (%)	na	na	na	na
Balance Sheet (\$m)					Gross cashflow/share (c)	12.4	12.3	17.1	20.0
Cash	6.5	3.2	2.4	20.5	NBV/share (c)	24.1	30.3	40.2	49.9
Receivables	55.5	67.9	79.9	90.8	NTA/Share (c)	23.9	27.9	37.7	47.5
Other assets	1.2	1.0	1.0	1.0	Valuation				
Total Current Assets	63.2	72.0	83.2	112.3	PER (Basic) (x)	29.3	26.5	20.0	16.6
Property/plant/equipment	32.5	36.9	58.9	60.9	PER (Fully diluted) (x)	29.3	26.5	20.0	16.6
Other	0.4	5.0	5.0	5.0	PER (Fully diluted, normalized) (x)	29.3	26.5	20.0	16.6
DTA	2.0	5.1	5.1	5.1	P/CFPS (x)	20.7	20.9	15.0	12.8
Right of Use	2.6	3.5	3.5	3.5	Price/NBV (x)	10.6	8.4	6.4	5.1
Total Non-Current Assets	37.5	50.5	72.5	74.4	Price/NTA (x)	10.7	9.2	6.8	5.4
Total Assets	100.7	122.5	155.7	186.7	Dividend Yield (%)	0.0	1.2%	2%	2%
Payables	18.9	21.5	30.9	36.7	EV/EBITDA (x)	16.5	15.1	11.5	9.3
Provisions	1.3	1.7	1.7	1.7	EV/EBIT (x)	20.6	19.1	14.1	11.3
Interest Bearing liabilities	13.8	19.0	19.0	19.0	EV/Revenue (x)	2.0	1.8	1.4	1.2
Lease Liability	0.5	0.5	0.6	0.6	Other Information				
Current income tax liability	3.2	4.5	8.7	9.5	ASX Code	MAD			
Total Current Liabilities	37.7	47.3	60.9	67.5	Company Description				
Deferred Tax Liability	1.1	2.4	2.4	2.4	MAD is a leading, global equipment maintenance provider dedicated to assisting clients achieving machine availability and productivity targets.				
Lease Liabilities	2.1	3.1	3.1	3.1					
Provisions	0.6	0.9	0.9	0.9					
Borrowings	11.1	8.1	8.1	8.1					
Total Non-Current Liabilities	14.9	14.5	14.6	14.6					
Total Liabilities	52.6	61.8	75.4	82.0					
Net Assets	48.1	60.7	80.3	104.7					
Issued capital	0.0	0.0	0.0	0.0					
Reserves	-0.4	-1.2	-1.2	-1.2					
Retained profits	48.5	61.9	81.5	105.9					
Total Equity	48.1	60.7	80.3	104.7					

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