GNG Deep Dive Part 2 - Contract Insights

A. HISTORICAL CONTRACT WIN TIMELINE

Engineering contractors like GNG are driven by **EPC contract awards**. A simplified timeline of major publicly announced contracts shows how the business moves with the mining cycle.

Major Contracts by Year (illustrative timeline)

Year	Major Project Wins	Commodity
2018	Gruyere gold plant	Gold
2018	Karlawinda gold project	Gold
2020	Bellevue gold study work	Gold
2021	Yangibana rare earths plant	Rare Earths
2022	Mungari gold expansion	Gold
2023	West Musgrave processing plant	Nickel
2024	Multiple gold plant upgrades	Gold

Two clear clusters:

Gold cycle
2018–2020
2022–2024

Year	Gold Price	What Happened
2020-2022	Strong	Studies + FIDs
2023–2026	Stable/high	**EPC contracts (your dataset)**

- Mining EPC contracts lag commodity prices by **~2–3 years**.
- **Gold → Dominant and Persistent, Gold is still the "volume engine" of EPC work**
- Despite all the hype around lithium and energy transition GNG is still primarily monetising **gold capex**

Battery metals cycle
2021–2023

Year	Lithium Price	What Happened
2021–2022	Spike	Project approvals
2023–2024	Crash	Delays / cancellations
2025+	Recovery	Selective EPC work

- That's why your dataset shows **only 1 lithium project** despite lithium being "hot"
- surprisingly **not dominant**

Copper cycle (very important)

- Copper is now entering supply deficit narrative and electrification demand
- Your dataset shows:
  - Northparkes upgrade
  - Eloise expansion
- Smaller number, but **recent and strategic** - these are **early-cycle signals**

Summary

- Your contract list is a **lagging reflection of past commodity strength**, not current headlines.
- This reinforces an important insight: GNG tends to win work **when commodity developers reach final investment decision (FID)**.

B. REVENUE EXPOSURE BY COMMODITY

GR Engineering doesn't disclose a precise commodity split every year, but we can infer exposure from **project backlog and contract awards**. From historical project mix and studies pipeline and because GNG builds processing plants, the **approximate commodity revenue exposure and sensitivity** looks like this:

Commodity	Approx Exposure	Sensitivity to Commodity Cycle	Drivers
Gold	~40–50%	High	Australia has many mid-tier gold producers
Lithium/Battery Metals	~15–25%	Medium	New spodumene processing plants
Base metals (copper, nickel, zinc)	~15–20%	Copper: Medium Nickel: Low-Medium	Concentrator upgrades
Rare Earths	~5–10%	Low, But Growing	Yangibana and similar projects
Oil & Gas/Energy	~10–20%		via GR Production Services

- Unlike many mining services companies, **GNG is not tied to one commodity cycle.**
- Instead it is leveraged to **global mining capex broadly**.
- Gold matters so much as Australia is the **second-largest gold producer globally.** This creates a **large domestic pipeline of plant builds and expansions**.
- GNG's revenue is driven by **global mining capital expenditure**, not commodity prices directly.
- That means the stock tends to follow **mining investment cycles**.

C. HOW THE ORDER BOOK CONVERTS INTO REVENUE, PROFIT, CASH

The **order book (backlog)** is the key forward indicator for GNG.

Stage	Timing
Engineering studies	6–18 months
EPC contract award	Year 0
Engineering & procurement	Year 0–1
Construction	Year 1–2
Commissioning	Year 2

Typical revenue recognition pattern for a mining EPC:

Year	% of Project Revenue
Year 1	~30%
Year 2	~50%
Year 3	~20%

- Meaning, a $200m plant might generate revenue across 3 financial years, based on the % of revenue recognition above.
- So when investors analyse the business they focus heavily on the **Order book coverage ratio:**
  - Order book coverage ratio = Order book ÷ annual revenue.
- Typical GNG range = *1.0–1.5x revenue coverage, which means 12–18 months of revenue visibility.*

TYPICAL SINGLE EPC CONTRACT LIFECYCLE

1. YEAR 0: Contract Win
- Example, EPC contract awarded: **$250m gold processing plant**
- This immediately increases **Order book (backlog)** → +$250m
- **No immediate earnings impact**

2. YEARS 1-3: Backlog Converts to Revenue and Profit
- Typical revenue recognition based on the pattern above - the $250m contract becomes $250m

revenue spread across ~3 years
- Assume: EBITDA margin ≈ 12% and Net margin ≈ 8–9%, Total NPAT: **~$21–22m from one contract**

Year	% Project Revenue	Revenue	NPAT (~8.5%)
Year 1	~30%	$75m	~$6.4m
Year 2	~50%	$125m	~$10.6m
Year 3	~20%	$50m	~$4.3m

3. Cash Conversion
- GNG is **highly cash generative** because of low capex, milestone-based payments, favourable working capital (often paid progressively)
- Typically: **80–100% of NPAT converts to cash,** so~$20m cash from the project

4. Dividends to Shareholders
- GNG payout ratio has been typically **60–80% of NPAT**
- So from this contract **$12m–$16m returned as dividends**

Margins
- Margins depend heavily on **project execution quality**.
- Example risk factors:
  - Steel price inflation
  - Labour shortages
  - Construction delays
  - Engineering design changes
  - Logistics disruptions
- This is why **engineering contractors can show sudden profit volatility** even when revenue looks stable.
- However, GNG historically mitigates this by:
  - avoiding mega-projects
  - focusing on **$50m–$300m plants**
  - specialising in **mineral processing plants** (repeatable designs)
- This is one reason its margins have been **more stable than most contractors**.

D. REPEAT CUSTOMERS

Clear repeat clients in your dataset.

Evolution Mining
- 2023: Mungari Future Growth Project (~$155m)
- 2026: Northparkes flotation upgrade (~$68m)

Vault Minerals / Greenstone
- 2025: Stage 1 King of the Hills (~$75m)
- 2025: Stage 2 upgrade (~$79m variation)

Santos
- 2023: O&M contract (~$10m p.a.)
- 2024: Extension (~$15m p.a.)

- This strongly validates the earlier point: **GNG is an installed-base, repeat-customer business — not a one-off contractor.**
- ~30–40% of contracts here are **repeat clients -** these are often **multi-stage engagements.**
- This supports: (1) **earnings durability (2) lower customer acquisition cost (3) higher margins (less competitive tendering)**
- This is a **key reason GNG deserves > market multiple vs generic contractors**

E. REPEAT CONTRACTS→ MULTI-PHASE PROJECT FLYWHEEL

You're seeing a very important structural pattern:

Example: King of the Hills
- Stage 1 EPC (~$75m)
- Stage 2 EPC variation (~$79m)

Example: Northparkes / Mungari linkage
- Mungari completed → leads to follow-on Northparkes work

- GNG doesn't just win projects — it **expands them over time**.
- This aligns perfectly with the earlier "earnings flywheel": **Studies** (low revenue) → **EPC** (large revenue) → **Installed base** → **Repeat work** → **expansion** → **upgrade** → **optimisation.**
- This creates a **multi-decade revenue stream**.
- Initial contract value **understates lifetime value -** backlog has **embedded growth optionality**
- This is a *hidden earnings lever* most investors miss

F. MIX OF CONTRACTS → HEAVILY SKEWED TO EPC

From your dataset (~16 contracts), by type (approx):
- EPC: **~10 contracts (~65%)**
- EPC Variations: 1
- Engineering Study: 1
- Design & Construct: 1
- O&M: 3

GNG is clearly **Primarily an EPC contractor with selective recurring revenue overlays**

- EPC = large, lumpy revenue
- O&M = small but stable and recurring

This creates a hybrid model:

Revenue Type	Characteristics
EPC	Cyclical, High Margin
O&M	Stable, Lower Margin

This confirms earlier thesis that GNG is
- Not fully recurring (like SaaS or services)
- But **less cyclical than pure EPC**

G. TYPE OF CONTRACTS → BROWNFIELD DOMINANCE EMERGING

- This is one of the most important insights in your dataset - new builds vs upgrades
- A **large proportion (~50%+) are brownfield upgrades**
- Brownfield work is (1) lower risk (2) higher margin (3) faster execution (4) more repeatable

New Builds
- Tower Hill gold (~$225m)
- Laverton plant (~$115m)
- Yangibana rare earths (~$210m)
- Kainantu (~US$81m)

Upgrades/Expansions
- Mungari expansion
- King of the Hills Stage 1 & 2
- Eloise copper upgrade

- Northparkes flotation upgrade
- Woodlawn restart

This supports the idea that GNG's margins are structurally higher because it avoids mega greenfield risk. This is a **core part of its moat**.

H. EMERGING TRENDS

Trend 1 — Gold is still dominant

Rough split:
- Gold: ~8 contracts (~50%)
- Copper: ~2
- Lithium: 1
- Rare earths: 2
- Oil & gas: 3

Gold remains the **core earnings engine.** This aligns with earlier analysis where the mid-tier gold miners = GNG's sweet spot

Trend 2 — Increasing Upgrade Intensity

- The market is shifting from **new builds → optimisation**
- Recent contracts (2025–2026) skew toward:
    - Plant Expansions
    - Throughput Upgrades
    - Efficiency Improvements

Examples:
- Northparkes flotation (efficiency)
- Eloise expansion
- King of the Hills upgrades

Trend 3 — Battery metals optionality (but not dominant)

- Lithium: Kathleen Valley
- Rare earths: Yangibana, Musgrave

But these are **episodic, not core yet**

Trend 4 — Long-duration O&M quietly compounding

- Santos + Inpex contracts are (1) multi-year (2) extensions and (3) long relationships (since 2008!)
- GRPS is a **quiet stabiliser of earnings**

I. OTHER CRITICAL OBSERVATIONS

1. Contract Size Sweet Spot is Clear
- Most EPC contracts are **$70m – $225m**
- This perfectly matches GNG's niche = **mid-scale processing plants**

2. Geographic Concentration
- Heavy WA exposure (gold + lithium), some NSW / QLD, limited international (PNG)
- Strong domestic positioning but limited geographic diversification

3. Very Low Mega-Project Exposure
- Only one truly large contract: West Musgrave (~$312m)

GNG

- GNG is deliberately avoiding “blow-up risk” projects
- This is **strategic discipline**, not a limitation.

J. LEADING INDICATORS TO WATCH OUT FOR

1. The most predictive metric for GNG’s share price historically has been **New EPC contract awards per year, b**ecause (1) Contract wins → backlog (2) Backlog → revenue (3) Revenue → earnings. The typical lag is **12–24 months**

2. Order book size

3. Engineering Study Pipeline - studies today = EPC contracts in 1–3 years. If the study backlog is rising, revenue growth usually follows.

4. **Repeat customer wins**
    - If this weakens → moat weakening

5. **Upgrade vs greenfield mix**
    - More upgrades = higher quality earnings

6. **Average contract size**
    - Moving above $300m = rising risk

7. **Commodity mix**
    - Too much lithium = volatility
    - Gold = stability

K. INVESTMENT CASE

The market sometimes treats GNG like a **generic mining contractor**. But structurally it is closer to **a specialised mineral processing engineering firm -** higher margins, more repeat business, better capital efficiency.

The attraction of GNG is that is that it behaves like **a cyclical company with quality-compounder economics.**

Feature	**Impact**
High ROE	Strong Capital Efficiency
Net cash balance sheet	Low risk
Engineering niche	Pricing Power
Mining Capex Leverage	Cyclical Upside
Dividend Yield	Income Appeal

This combination is **rare on the ASX**.

BULL CASE

- Mining capex boom - **Mining capex cycle turning up**
- Massive capex investments in lithium, rare earths, copper - a big tailwind in GNG’s sweet spot
- Battery metals plant construction
- Strong order book visibility
- Quality of earnings is improving - more brownfield work, more repeat clients, less mega-project risk
- Cyclicality is moderating - not reliant on new mine builds, installed base generating repeat work
- High ROE engineering model - ~30–40% historically
- Net cash balance sheet, strong cash generation
- Dividend yield ~6–7%
- Upside remains intact as copper cycle is just starting and energy transition metals still coming

BEAR CASE

- Revenue lumpiness and volatility
- Highly cyclical revenue
- Fixed-price EPC contracts → risk of cost overruns
- Mining capex cycles
- Dependence on contract wins

L. RISKS

Risk	Impact	Probability	Comments
Loss of Repeat Customer Wins To a Competitor	High	Low	Would signifiy customer loss of confidence
Contract Wins Slow	High	Low	Will cause a dent to backlog, which will impact revenue 1-2 years later
EPC Contract Values Rise above $300m	High	Medium	This will likely be a sign that GNG is taking on increased complexity and hence, project risk
EPC Project Execution Issues - Cost Issues, Safety Issues, Plant Performance Issues	High	Medium	Cost overuns, margin compression, loss of customer confidence, impacting future contracts
Slowing of New Engineering Study Wins	High	Low	This will likely be another sign of market loss of confidence in GNG's capability - will have adverse downstream impact on revenue and GNG's moat, given the 12-24M lead time to convert into an EPC
Catastrophic Safety Incident in a GNG built plant	High	Low	Good long track record and repeat customer wins suggests that the probability of this occurring is low
Mining Capex Downturn	High	Medium	Fewer FIDs, fewer EPC contracts

M. SUMMARY

1. A Repeat-Customer Engineering Franchise- high customer retention, multi-phase project expansion, installed-base driven
2. A Brownfield Specialist - Focus on upgrades & expansions , Lower risk than greenfield EPC, Higher margin consistency
3. A Gold-Leveraged Business (with optionality) - Core = gold, Upside = lithium / rare earths
4. A Backlog-Driven Earnings Machine - Contract wins → 2–3 year revenue stream, Variations add upside, Repeat work extends lifecycle

- GNG is not just winning contracts — it is **embedding itself into mining operations over time**. That is the difference between a long-term engineering partner and a "contractor"
- The stock behaves like a **leveraged play on mining capital expenditure** with high ROE, strong balance sheet, niche engineering expertise.
- GNG is transitioning from a **cycle-driven EPC contractor** → into a **repeat-work, installed-base engineering business with cyclical upside**
- That combination is why many investors view GNG as a **high-quality cyclical**.
- **GNG is worth buying when contract wins are accelerating, not when earnings are peaking -** contract wins → earnings (12–24 months later) and earnings → share price