

## Duratec Ltd

Industrials Construction & Engineering  
27 November 2023

BUY

## Guidance issued at AGM

## EVENT

At its recent AGM, DUR provided a trading update, issued maiden FY24 guidance, and announced leadership transition with the retirement of the Managing Director, Mr Phil Harcourt.

**FY24 guidance implies continued growth:** Management issues maiden FY24 guidance for revenue \$570-610m (MAe: \$555m) and EBITDA \$45-52m (MAe: \$45m). Implied FY24e revenue growth 16-24% YoY and 16-34% YoY EBITDA growth. Guidance midpoint of \$590m revenue and \$48.5m EBITDA implies 8.2% EBITDA margin (+10bps vs MAe).

**Tenders and pipeline grow strongly:** Tenders of \$1.02b (+21% on prior \$845m at Jul'23 end) and pipeline \$3.28b (+37% on prior \$2.4b at Jul'23 end) have grown significantly since the last update at the FY23 result. Even though the updated order book totalled \$411m (-10% on prior \$458m), we are encouraged by historical tender win rates and enlarged tender book, while noting precise order book replenishment is a function of timing.

**Leadership transition:** Phil Harcourt, who co-founded the business in 2010 with Chris Oates and Deane Diprose, announced his retirement as Managing Director; he will remain involved in the business as a NED. Chris Oates has been appointed as Managing Director effective 1 December 2023.

## IMPACT

We adjust our FY24 EPS estimates +9% to 10.5cps to reflect maiden FY24 guidance. FY25-26e EPS estimates are unchanged at 11.6cps and 12.4cps.

## INVESTMENT VIEW

We retain our Buy rating with an increased \$1.62 TP (prior \$1.50). Maiden FY24 guidance and positive outlook commentary are encouraging updates for the business. We maintain our view that the operating environment will continue to support the stock, with expanding asset base, sunk capex, and ageing infrastructure driving growth in demand for asset maintenance. Key catalysts include: 1) ongoing contract wins especially in specialist Defence asset maintenance work; 2) continued growth in MSA and recurring revenue work; 3) execution on rapidly growing Energy segment, supported by WPF. DUR trades at 11.3 FY25e P/E with 31% FY24-26e EPS CAGR and 8.1% FY24 FCF yield.

## COMPANY UPDATE

Ticker	DUR
Stock Price	\$1.32
Target Price	\$1.62
Forecast Capital Return	23.2%
Forecast Dividend Yield	4.0%
Estimated Total Return - 12Mth	27.2%

## COMPANY MARKET DATA

Market Cap	\$326.1m
Free Float (%)	25.6%
Enterprise Value	\$277.0m
Shares on issue	248.0m
52-wk Range	\$0.50 - \$1.48

## ESTIMATE CHANGES 2023a 2024e 2025e 2026e

NPAT - new	19.8	25.8	28.9	30.9
NPAT - old	19.8	23.7	28.8	30.9
% Change	0.0%	8.6%	0.1%	(0.1)%
EPS (Dil.) (¢) - new	7.8	10.5	11.6	12.4
EPS (Dil.) (¢) - old	7.8	9.6	11.6	12.5
% Change	0.0%	8.7%	0.1%	(0.1)%
DPS (¢) - new	4.0	5.2	5.8	5.8
DPS (¢) - old	4.0	4.8	5.8	5.8
% Change	0.0%	8.3%	0.0%	0.0%

All figures are in AUD unless otherwise specified.

## SHARE PRICE PERFORMANCE

## ANALYST

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Y/E JUN 30	2023a	2024e	2025e	2026e
EBITDA	38.1	48.1	52.8	56.0
EV/EBITDA	7.3x	5.8x	5.2x	4.9x
NPAT	19.8	25.8	28.9	30.9
EPS (Diluted) (¢)	7.8	10.5	11.6	12.4
P/E	16.9x	12.6x	11.3x	10.6x
EPS growth	169.5%	34.3%	11.1%	6.9%
DPS (¢)	4.0	5.2	5.8	5.8
Yield	3.0%	4.0%	4.4%	4.4%
DPS growth	100.0%	30.4%	11.6%	0.0%
Dividend payout ratio (%)	51.3%	49.8%	50.0%	46.8%

All figures are in AUD.

**Table 1 - Estimate changes**

\$m unless indicated otherwise	FY23a	1H24e	2H24e	FY24e	FY25e	FY26e	Estimate changes		
							FY24e	FY25e	FY26e
<b>Key earnings</b>									
Sales revenue	492.0	284.5	303.7	588.2	607.8	634.7	+6%	+0%	-0%
EBITDA	38.1	22.8	25.3	48.1	52.8	56.0	+8%	+0%	-0%
EBITDA margin	7.7%	8.0%	8.3%	8.2%	8.7%	8.8%	+13 bps	+0 bps	-0 bps
D&A	(9.6)	(5.1)	(5.5)	(10.6)	(10.9)	(11.4)	+6%	+0%	-0%
EBIT	28.5	17.7	19.9	37.5	41.9	44.6	+8%	+0%	-0%
EBIT margin	5.8%	6.2%	6.5%	6.4%	6.9%	7.0%	+13 bps	+0 bps	-0 bps
Net interest	(0.2)	(0.3)	(0.4)	(0.7)	(0.7)	(0.5)	-3%	-6%	-4%
PBT	28.3	17.3	19.5	36.8	41.2	44.1	+9%	+0%	-0%
Tax rate	30%	30%	30%	30%	30%	30%	-	+0 bps	-0 bps
Normalised tax expense	(8.5)	(5.2)	(5.8)	(11.0)	(12.4)	(13.2)	+9%	+0%	-0%
Underlying NPAT	19.8	12.1	13.6	25.8	28.9	30.9	+9%	+0%	-0%
Underlying NPAT (%)	4.0%	4.3%	4.5%	4.4%	4.7%	4.9%	+10 bps	+1 bps	-0 bps
EPS - underlying, basic (\$)	0.082	0.049	0.055	0.105	0.116	0.124	+9%	+0%	-0%
EPS - underlying, diluted (\$)	0.078	0.049	0.055	0.105	0.116	0.124	+9%	+0%	-0%
DPS (\$)	0.040	0.025	0.027	0.052	0.058	0.058	+9%	+0%	+0%

**Duratec Ltd (DUR)** Market Cap: \$326.1m Stock Price: \$1.32 Target Price: \$1.62 Buy

Y/E JUN 30

PROFIT & LOSS (\$)	2022A	2023A	2024E	2025E	2026E
<b>Revenue</b>	<b>310.0</b>	<b>492.0</b>	<b>588.2</b>	<b>607.8</b>	<b>634.7</b>
<i>Growth</i>	31.5%	58.7%	19.6%	3.3%	4.4%
<b>EBITDA</b>	<b>17.8</b>	<b>38.1</b>	<b>48.1</b>	<b>52.8</b>	<b>56.0</b>
<i>Growth</i>	11.6%	114.5%	26.3%	9.8%	6.0%
Dep'n & Amort.	(6.8)	(8.8)	(10.6)	(10.9)	(11.4)
<b>EBIT</b>	<b>11.0</b>	<b>28.5</b>	<b>37.5</b>	<b>41.9</b>	<b>44.6</b>
<i>Growth</i>	2.8%	159.7%	31.5%	11.6%	6.5%
Net interest Expense	(0.7)	(0.2)	(0.7)	(0.7)	(0.5)
Interest Expense	(0.8)	(1.0)	(1.7)	(1.8)	(1.8)
<b>Profit Before Tax</b>	<b>10.3</b>	<b>28.3</b>	<b>36.8</b>	<b>41.2</b>	<b>44.1</b>
Tax	(3.1)	(8.5)	(11.0)	(12.4)	(13.2)
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
<b>NPAT (Underlying)</b>	<b>7.2</b>	<b>19.8</b>	<b>25.8</b>	<b>28.9</b>	<b>30.9</b>
<i>Growth</i>	1.5%	175.1%	29.9%	12.0%	6.9%
One-Off Items	0.6	0.1	0.0	0.0	0.0
<b>NPAT (Reported)</b>	<b>7.9</b>	<b>19.9</b>	<b>25.8</b>	<b>28.9</b>	<b>30.9</b>
<b>EPS Underlying (Diluted) (¢)</b>	<b>2.9</b>	<b>7.8</b>	<b>10.5</b>	<b>11.6</b>	<b>12.4</b>
<i>Growth</i>	(6.3)%	169.5%	34.3%	11.1%	6.9%

BALANCE SHEET (\$)	2022A	2023A	2024E	2025E	2026E
Cash	58.3	66.2	78.7	87.5	99.9
Inventory	0.3	0.3	0.4	0.4	0.4
Current Receivable	30.0	59.8	72.1	67.4	68.6
PPE	21.3	28.7	40.3	48.8	57.8
Intangibles	0.0	10.3	10.3	10.3	10.3
Other	27.7	47.1	47.1	47.1	47.1
<b>Total Assets</b>	<b>137.6</b>	<b>212.4</b>	<b>248.9</b>	<b>261.4</b>	<b>284.0</b>
Current Payables	39.4	82.1	99.6	97.9	103.5
ST Debt	5.1	6.8	0.0	0.0	0.0
LT Debt	9.7	11.5	22.8	22.8	22.8
Provisions	7.6	11.8	13.9	13.7	14.3
Other	44.9	54.2	53.6	53.7	53.7
<b>Total Liabilities</b>	<b>106.7</b>	<b>166.4</b>	<b>189.9</b>	<b>188.1</b>	<b>194.3</b>
<b>Net Assets</b>	<b>31.0</b>	<b>46.1</b>	<b>58.9</b>	<b>73.4</b>	<b>89.8</b>
Equity & Reserves	27.1	29.1	29.1	29.1	29.1
Retained Profits	3.8	17.0	29.8	44.2	60.7
<b>Shareholders' Equity</b>	<b>31.0</b>	<b>46.1</b>	<b>58.9</b>	<b>73.3</b>	<b>89.8</b>
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	31.0	46.1	58.9	73.3	89.8

CASHFLOW (\$)	2022A	2023A	2024E	2025E	2026E
EBITDA	17.8	38.1	48.1	52.8	56.0
Net Interest	(0.5)	(0.0)	(0.7)	(0.7)	(0.5)
Tax	(1.3)	(6.5)	(11.0)	(12.4)	(13.2)
Δ in Working Capital	1.7	16.5	7.3	2.8	5.0
Other	8.9	(13.2)	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>26.5</b>	<b>34.8</b>	<b>43.7</b>	<b>42.6</b>	<b>47.2</b>
<i>Growth</i>	146.8%	31.4%	25.3%	(2.4)%	10.9%
Capex	(7.4)	(13.0)	(15.0)	(17.0)	(18.0)
Acquisitions	0.0	(10.0)	0.0	0.0	0.0
Divestments	0.8	0.4	0.0	0.0	0.0
Other	1.5	0.4	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(5.1)</b>	<b>(22.2)</b>	<b>(15.0)</b>	<b>(17.0)</b>	<b>(18.0)</b>
Equity Raised	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(4.5)	(5.5)	(13.4)	(14.4)	(14.4)
Net Borrowings	0.1	0.8	(2.7)	(2.4)	(2.4)
Other	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>(4.4)</b>	<b>(4.7)</b>	<b>(16.1)</b>	<b>(16.8)</b>	<b>(16.9)</b>
FX / Non Cash items	0.0	0.0	0.0	0.0	0.0
<b>Change in Cash</b>	<b>17.0</b>	<b>7.9</b>	<b>12.5</b>	<b>8.8</b>	<b>12.4</b>
<b>Free Cash Flow</b>	<b>18.1</b>	<b>19.8</b>	<b>26.2</b>	<b>23.2</b>	<b>26.8</b>

VALUATION SUMMARY						
Market Cap						\$326.1m
Shares on issue						248.0m
Stock Price						\$1.32
Target Price						\$1.62
Estimated Total Return - 12 Mth						27.2%
12 Mth Fwd Dividend Yield						4.0%

PERFORMANCE RATIOS	2022A	2023A	2024E	2025E	2026E
ROA	5.9%	11.3%	11.2%	11.3%	11.3%
ROE	25.3%	51.5%	49.1%	43.7%	37.8%
ROIC	(106.8)%	(279.3)%	4,427.3%	505.4%	293.4%
ROCE	0.3%	0.5%	0.5%	0.4%	0.4%
Net Debt (Cash) (\$m)	(43.5)	(47.9)	(55.9)	(64.7)	(77.1)
Net Debt/EBITDA (x)	(2.4)x	(1.3)x	(1.2)x	(1.2)x	(1.4)x
ND/(ND + Equity) (%)	347.7%	2,659.1%	1,871.8%	(750.9)%	(608.6)%
Interest Cover (x)	15.9x	131.5x	51.4x	63.1x	86.0x
Working Capital	(39.4)	(51.9)	(58.7)	(61.6)	(66.5)
Working Capital/Sales (%)	(12.7)%	(10.5)%	(10.0)%	(10.1)%	(10.5)%

VALUATION RATIOS	2022A	2023A	2024E	2025E	2026E
<b>EPS Underlying (Diluted) (¢)</b>	<b>2.9</b>	<b>7.8</b>	<b>10.5</b>	<b>11.6</b>	<b>12.4</b>
<i>Growth</i>	(6.3)%	169.5%	34.3%	11.1%	6.9%
<b>P/E (x)</b>	<b>45.4x</b>	<b>16.9x</b>	<b>12.6x</b>	<b>11.3x</b>	<b>10.6x</b>
Small industrials (ex Fin's)	0.0x	0.0x	21.2x	18.8x	17.2x
Premium / (Discount)	--	--	40.8%	39.9%	38.6%
<b>EV/EBITDA (x)</b>	<b>15.6x</b>	<b>7.3x</b>	<b>5.8x</b>	<b>5.2x</b>	<b>4.9x</b>
Small industrials (ex Fin's)	0.0x	0.0x	11.3x	10.4x	9.4x
Premium / (Discount)	--	--	49%	50%	47%
<b>DPS (¢)</b>	<b>2.0</b>	<b>4.0</b>	<b>5.2</b>	<b>5.8</b>	<b>5.8</b>
<i>Growth</i>	33.3%	100.0%	30.4%	11.6%	0.0%
Yield	1.5%	3.0%	4.0%	4.4%	4.4%
Dividend Payout Ratio (%)	69.1%	51.3%	49.8%	50.0%	46.8%
Franking (%)	100.0%	100.0%	100.0%	100.0%	100.0%
NTA	31.0	31.4	44.2	58.6	75.0
NTA/Share (\$)	0.12	0.12	0.18	0.24	0.30

CASH FLOW METRICS	2022A	2023A	2024E	2025E	2026E
<b>FCF/Share (\$)</b>	<b>0.08</b>	<b>0.08</b>	<b>0.11</b>	<b>0.09</b>	<b>0.11</b>
Price/FCPS (x)	17.4x	16.2x	12.3x	14.1x	12.2x
Gross Cash Conversion (%)	159.6%	108.6%	115.2%	105.3%	108.9%
Capex/Sales (%)	2.4%	2.6%	2.6%	2.8%	2.8%
Capex/Depreciation (x)	1.1x	1.4x	1.4x	1.6x	1.6x

MARGINS	2022A	2023A	2024E	2025E	2026E
EBITDA	5.7%	7.7%	8.2%	8.7%	8.8%
EBIT	3.5%	5.8%	6.4%	6.9%	7.0%
NPAT	2.3%	4.0%	4.4%	4.7%	4.9%

VALUATION METHODOLOGY	
WACC	10.69%
Sum-of-the-Parts Valuation/Share	\$1.48
Average Valuation/Share	\$1.48
Target Price	\$1.62

## RESEARCH & SALES RESPONSIBILITIES

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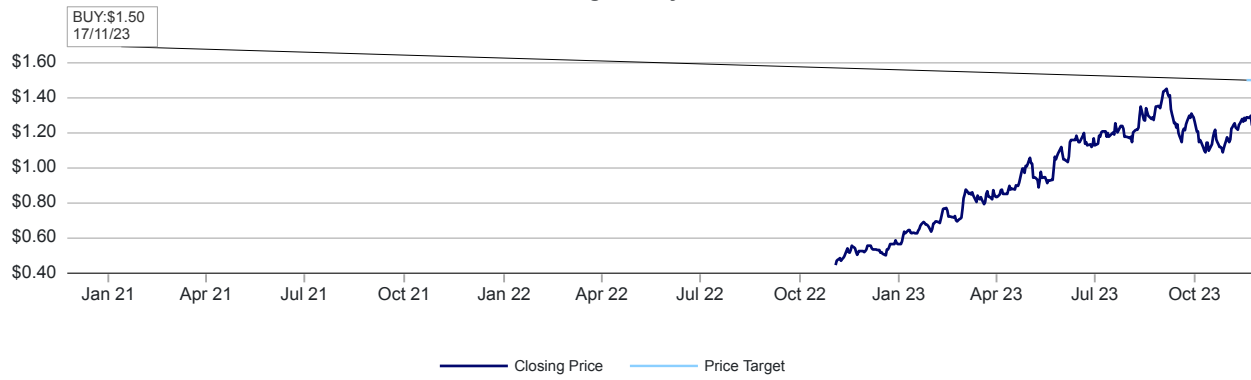
**Buy:** >15% **Hold:** 5% to 15% **Sell:** <5%.

### RATINGS DISTRIBUTION TABLE

Distribution of Ratings as at 27 November 2023

SELL	HOLD	BUY
0.00%	21.52%	78.48%

**Duratec Ltd Rating History as of 11-23-2023**



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