TAYLOR COLLISON

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Duratec Limited (DUR)

7 November 2024

Initiation - Sector Tailwinds for Remediation Contractor

Our View

Investing in contractors is inherently risky, whether it is fixed cost contract blow-outs, lower capex budgets for customers or competitors taking on projects at low margins to generate cash flows – good long-term performance in the contracting industry is rare. It is therefore important for contractors to have a point of difference. In our view, DUR has a unique offering compared with many other contractors.

DUR has two main points of difference. The first is its positioning operating as predominantly a remediation contractor. This helps insulate DUR from capex budgets being cut, with work more exposed to wear and tear on equipment and the aging of structures.

The second is MEnD Consulting. MEnD is a DUR-owned boutique consultancy providing durability engineering services. Having the combination of an engineering firm and a contractor helps with cross-selling opportunities and provides a one-stop solution for asset owners.

DUR is run by an experienced management team with a long-term track record of managing risk. While DUR is susceptible to revenue lumpiness due to timing of large projects, its long-term ability to grow revenues at solid returns on equity with minimal loss-making projects make it an attractive investment.

DUR currently trades at 14.6x FY26e PE, which we think represents an opportunity. We expect DUR's point of difference and the current attractive industry fundamentals to continue. We initiate with an **Outperform** recommendation.

Key Points

Industries – DUR operates in multiple industries which are currently experiencing tailwinds.

Defence has made up ~40% of DUR revenue over the past 5 years. The attractiveness in working for defence projects include:

- Cost is not the main consideration of defence. Instead, it is a "best value" consideration which includes quality and previous experience
- It is difficult to become a defence contractor which helps to lessen competition
- Defence requires contractors to meet with them at the 30%, 50% and 80% completion mark helping to lessen the risk of cost blow outs
- Short payment terms and a low counter-party risk

DUR also works in the mining and oil and gas industries. Both are attractive industries with our research indicating plenty of work available for all industry participants and pricing pressure therefore lower than in previous years.

Current Projects – DUR is currently working on six major projects. Based on our research all projects are currently progressing to schedule.

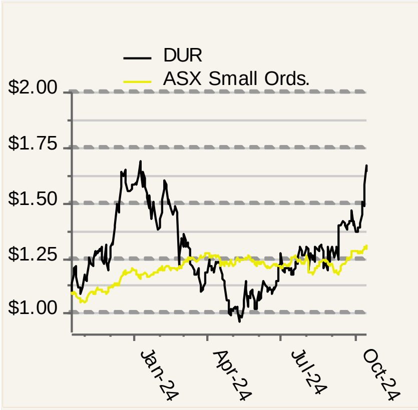
ECI – Early Contractor Involvement is a way for asset owners to gain an understanding of the amount of work required to rectify the issues with its asset. It also benefits the contractor as it acts as paid due diligence. ECI allows DUR to decrease the risk of incorrectly on pricing remediation works. Whilst still a contractor, there is a degree of de-risking afforded by DUR's business model.

Recommendation: Outperform

Summary (AUD)

Market Capitalisation	**$385.6M**
Share price	**$1.58**
52 week low	$0.96
52 week high	$1.72

Share price graph (AUD)



Key Financials (AUD)

	FY24A	FY25E	FY26E
Revenue ($m)	555.8	615.0	690.0
EBITDA ($m)	46.2	53.7	57.5
NPAT	21.4	24.0	26.3
EPS (c)	8.8	9.8	10.8
Growth (pcp)	11.6%	12.1%	9.6%
PE Ratio (x)	**18.0**	**16.0**	**14.6**
DPS (c)	4.1	6.1	8.2
Div Yield	**2.6%**	**3.9%**	**5.2%**
Franking	100.0%	100.0%	100.0%
EV ($M)	294.8	271.6	257.5
EV/EBITDA (x)	6.4	5.1	4.5
EV/EBIT (x)	9.4	7.7	6.7

DUR - Summary of Forecasts — DUR $1.58

PROFIT & LOSS SUMMARY

Year end June	FY24A	FY25E	FY26E	FY27E
Total Revenue	**555.8**	**615.0**	**690.0**	**735.0**
EBITDA	46.2	53.7	57.5	63.5
Dep'n/Other Amort'n	(14.7)	(18.3)	(18.9)	(19.2)
EBIT	31.5	35.4	38.6	44.3
Interest	(2.4)	(2.0)	(2.0)	(2.0)
Pre-Tax Profit	29.1	33.4	36.6	42.2
Tax Expense	(7.7)	(9.3)	(10.2)	(11.8)
NPAT	**21.4**	**24.0**	**26.3**	**30.4**
NPAT Adj	**21.4**	**24.0**	**26.3**	**30.4**
Margins on Sales Revenue				
EBITDA	8.3%	8.7%	8.3%	8.6%
EBIT	5.7%	5.8%	5.6%	6.0%
NPAT	3.9%	3.9%	3.8%	4.1%
Change on pcp				
Total Revenue	13.0%	10.7%	12.2%	6.5%
EBITDA	21.1%	16.3%	7.0%	10.5%
EBIT	10.3%	12.5%	9.0%	14.6%
NPAT	11.6%	12.1%	9.6%	15.4%

PER SHARE DATA

Year end June	FY24A	FY25E	FY26E	FY27E
EPS Adj (c)	**8.8**	**9.8**	**10.8**	**12.5**
Growth (pcp)	11.6%	12.1%	9.6%	15.4%
Dividend (c)	4.1	6.1	8.2	9.8
Franking	100%	100%	100%	100%
Gross CF per Share (c)	11.2	22.6	20.8	21.1
NTA per Share (c)	16.2	19.4	21.7	24.1

KEY RATIOS

Year end June	FY24A	FY25E	FY26E	FY27E
Net Debt : Equity (%)	-67.2%	-92.4%	-103.4%	-108.5%
EBIT Interest Cover (x)	13.3	17.4	18.9	21.7
Oper CF/EBITDA	59.1%	102.5%	88.5%	81.2%
Current Ratio (x)	1.3	1.3	1.3	1.3
ROE (%)	36.2%	35.3%	35.4%	37.6%
Dividend Payout Ratio (%)	46.4%	62.4%	76.0%	79.0%

VALUATION MULTIPLES

Year end June	FY24A	FY25E	FY26E	FY27E
NPAT (x)	**18.0**	**16.0**	**14.6**	**12.7**
Dividend Yield (%)	**2.6%**	**3.9%**	**5.2%**	**6.2%**
FCF per Share (c)	0.01	0.16	0.15	0.15
EV/EBITDA (x)	6.4	5.1	4.5	3.9
EV/EBIT (x)	9.4	7.7	6.7	5.6

Source: Company Financials & Taylor Collison Estimates

BALANCE SHEET

Year end June	FY24A	FY25E	FY26E	FY27E
Cash	65.2	88.5	102.5	113.3
Receivables	79.0	87.3	97.4	103.4
Contract Assets	18.8	33.7	37.8	40.3
Other	3.6	3.3	3.4	3.4
Total Current Assets	166.6	212.8	241.1	260.4
Property Plant & Equip	33.4	33.9	34.2	34.5
Intangibles	13.9	13.9	13.9	13.9
Right of Use	5.7	7.0	7.8	8.3
Other	5.7	6.8	7.9	9.0
Total Non-Current Assets	58.8	61.6	63.8	65.7
TOTAL ASSETS	**225.4**	**274.3**	**304.9**	**326.1**
Accounts Payable	(78.8)	(103.7)	(117.5)	(124.4)
Contingent Payable	(0.2)	(0.2)	(0.2)	(0.2)
Contract Liability	(39.3)	(48.4)	(54.9)	(58.0)
Lease Liability	(6.1)	(9.3)	(12.5)	(15.7)
Total Current Liabilities	(124.5)	(161.7)	(185.1)	(198.3)
Provisions	(13.1)	(15.8)	(16.6)	(18.1)
Borrowings	(25.5)	(25.5)	(25.5)	(25.5)
Other	(3.3)	(3.3)	(3.3)	(3.3)
Total Non-Current Liabilities	(41.8)	(44.5)	(45.3)	(46.9)
TOTAL LIABILITIES	**(166.3)**	**(206.2)**	**(230.4)**	**(245.2)**
TOTAL EQUITY	**59.1**	**68.1**	**74.5**	**80.9**

CASH FLOW STATEMENT

Year end June	FY24A	FY25E	FY26E	FY27E
Net Earnings	**21.4**	**24.0**	**26.3**	**30.4**
Add: Depreciation	14.7	18.3	18.9	19.2
Other	(1.1)	(1.1)	(1.1)	(1.1)
Net Working Capital	(7.7)	13.8	6.8	3.0
Gross Cash Flow	27.3	55.0	50.9	51.6
Capex/Acquistion	(24.5)	(15.0)	(15.0)	(15.0)
Free Cash Flows	2.8	40.0	35.9	36.6
Dividends Paid	(10.0)	(15.0)	(20.0)	(24.0)
Lease Payments	(4.0)	(1.8)	(1.8)	(1.8)
Other	10.2	0.0	0.0	0.0
Net Cash Flows	**(1.0)**	**23.2**	**14.1**	**10.8**

Company Overview

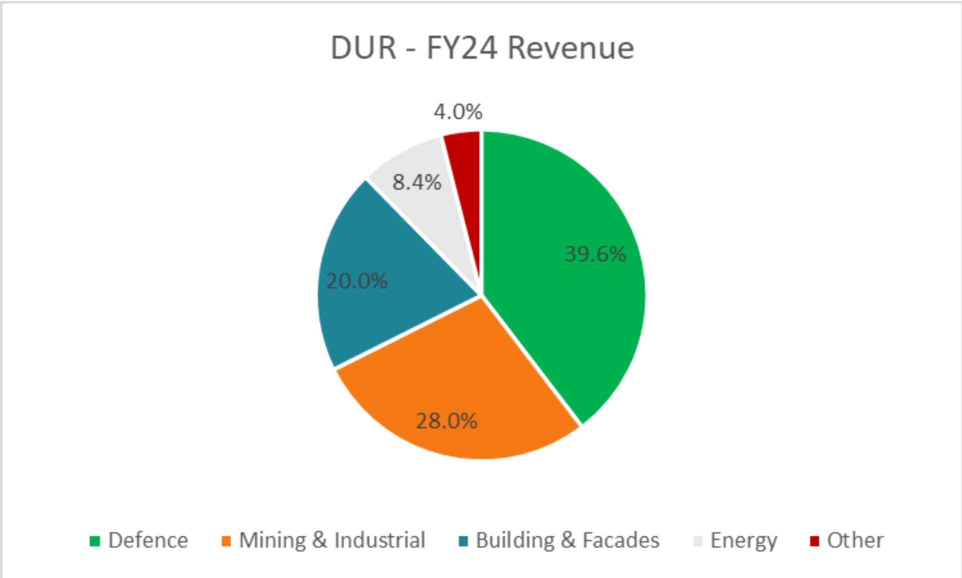
DUR is a leading engineering and remediation contractor specialising in the protecting and extending of life of a range of assets. As a contractor primarily focused on remediation rather than construction, DUR provides assessment, remediation and refurbishment to structures including:

- Buildings
- Bridges
- Wharfs
- Process Infrastructure

DUR was founded in 2010 by Phil Harcourt, Chris Oates and Deane Diprose. Prior to founding DUR, the three had worked together for over 15 years at Savcor, filling management positions within its remediation and contracting division. Due to a differing approach to the strategic direction of the Savcor business, Chris, Phil and Deane left to found DUR.

With an Australia-wide footprint, DUR operates predominantly in:

1) Defence
2) Mining and Industrial
3) Building and Facades
4) Energy



Source: DUR company accounts

DUR employs 1,132 people across 19 offices.

1) Defence

DUR has historically generated ~40% of its revenue from the Department of Defence (Defence). Revenue is generated by completing remediation and construction work on defence bases across Australia. Any change in defence spend by the Australian Government is important to DUR.

Government Spend on Defence

In 2024, the Australian Government released its most recent National Defence Strategy and the 2024 Integrated Investment Program (IIP). As part of the IIP, the government has allocated $14Bn - $18Bn over the next decade to bolster Australia's Northern bases to help contribute to collective security in the Indo-Pacific region.

As part of the announcement, the Government called out spend on redevelopment of the Larrakeyah Defence Precinct in Darwin including new berthing capabilities for major surface combatants and submarines at HMAS Coonawarra, more live-in accommodation at Robertson Barracks in Darwin and accelerated upgrades at RAAF Base Tindal. DUR at each of these bases, has performed major works in the past few years. We expect DUR to be a beneficiary of this redevelopment spend.

In Western Australia, HMAS Stirling (located just off the coast of Rockingham on Garden Island) is currently the base of Australia's Anzac Class frigates and Collins Class submarines. In March 2023, it was confirmed HMAS Stirling would continue as the home of Australia's submarine force. The importance of this confirmation was amplified by the announcement of the acquisition of Australia's first nuclear-powered submarines from 2027. As part of this acquisition, the government has committed to spending up to $8Bn over the next decade to expand HMAS Stirling including wharf upgrades, operational maintenance and other infrastructure to allow these submarines to berth. Over the past five years DUR has been engaged on multiple projects on Garden Island, WA (location of HMAS Stirling) including the Armament Wharf Extension and the Oxley Wharf Extension. As the incumbent group on Garden Island, we see DUR as well placed to continue to win large projects as part of this spending.

Whilst we acknowledge government spend on individual projects can move from period to period, due to the current perceived geopolitical risks, we expect spend on these facilities to receive bipartisan support.

Becoming a Defence Contractor

Being established in the defence industry, DUR benefits from:

- The exclusion of foreign owned groups
- A preference for groups with previous defence operating history
- Tough and lengthy certification requirements

As a result, jobs with defence tend to see less price competition, meaning longer term margin protection due to the regulations and requirements.

To become a defence contractor applicants must apply for the Defence Industry Security Program (DISP). As part of application the applicant must:

- Be registered in Australia
- Have a senior executive obtain an Australian personnel security clearance and hold the role of the Chief Security Officer
- Submit a form relating to the entity's risk of foreign ownership

The requirements can be challenging for groups without sufficient resources due to the time and higher employee numbers needed. This helps to remove some competitors which may otherwise tender for work.

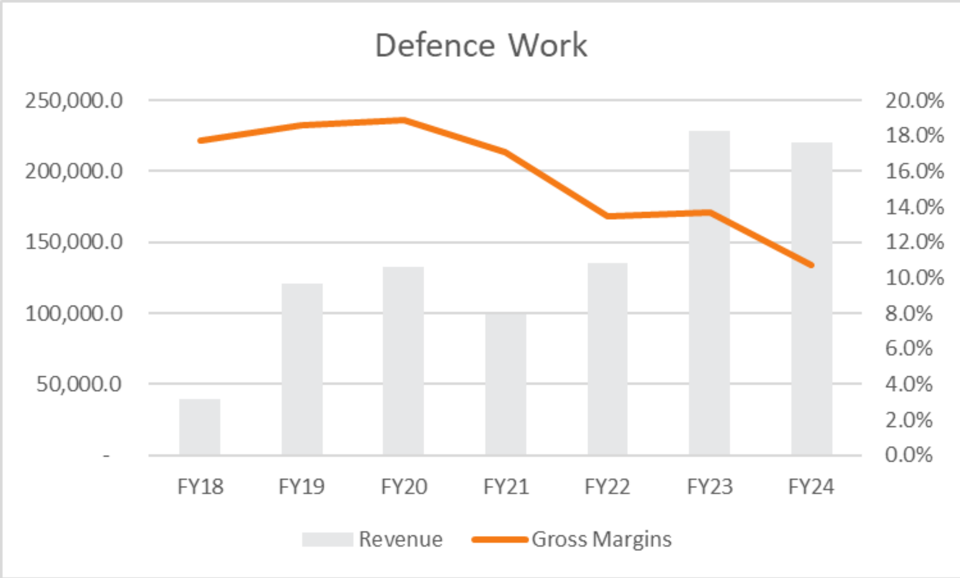
In 2011, DUR received Federal Safety Accreditation. This enabled the Company to tender for projects funded by the Australian Government with a value of $4m or more. It took until 2015 for DUR to secure its first Department of Defence contract for the full refurbishment of a low-level bridge at Garden Island. The four-year period is indicative of the challenge of working with defence, where those with previous experience are favoured.

Other challenges of working in Defence include the unique procurement process, which is generally lengthier and more time consuming than other industries, and associated handover obligations such as the use of HOTO engineers. The HOTO policy aims to ensure expected Defence estate projects are delivered in a structured manner and Defence is kept up to date with all construction activity. These obligations are more strenuous on company resources than a standard construction contract.

Financials

When speaking with industry participants, it was clear the Department of Defence is receiving quality of work at fair prices, meaning cost is only one part of the consideration. This means DUR can achieve adequate margins and returns for the work completed.

The Early Contractor Involvement (a form of paid due diligence) and the high touch management style of Defence helps mitigate large cost blow-outs which occur at contractors. It is our understanding that DUR meets with Defence at the 30%, 50% and 80% completion points, which allows for up to date information on project progression and the identification of potential problems.



Source: DUR company accounts

As per the above, revenue has continued to trend upwards over time. As part of its offering, DUR completes both large and small jobs on defence sites. As DUR has continued to expand, they have been able to tender and win larger jobs, helping grow revenues. Recently, many of the larger contracts have been at lower-than-historic margins. We expect margins to move back towards the longer-term average of 17% as DUR continues to invest in its internal capabilities and uses fewer subcontractors and lower margin contracts roll off.

Capabilities

Our research indicates the defence portion of DUR's business has ~85% of its work outsourced to subcontractors. This is in contrast with most of DUR's other sectors, where the percentage of self-performed work is much higher. It is a stated aim for DUR to expand its internal construct capabilities to generate improved margins through the use of fewer subcontractors.

Major Contracts

Currently in the defence sector, DUR are completing two major contracts. They are:

- RAAF Base Tindal Fuel Facility ($110m) – Estimated completion: 2HFY25
- HMAS Coonawarra Harbor Works ($100m) - Estimated completion: FY26

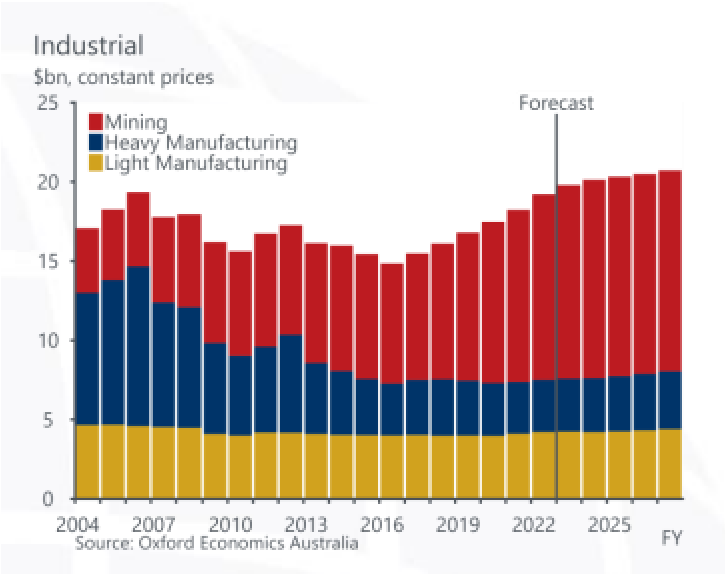
Direct feedback on project progression is challenging to obtain due to the counter party being a non-public entity. However, management and other involved entities indicate the projects are progressing to schedule and budget.

Recently, DUR has been awarded ECI contracts for two critical infrastructure projects on Garden Island. Currently, the projects which DUR is engaged in ECI's have the potential to generate ~$300m in revenue over the next three years.

2) Mining & Industrial

Outlook

DUR is unique in the resources industry due to its positioning as a pure remediation contractor. This means whilst DUR is affected by commodity prices the current lack of funding for new mine development projects is not an issue. Instead, DUR is exposed to miners production levels and general wear and tear on production facilities.

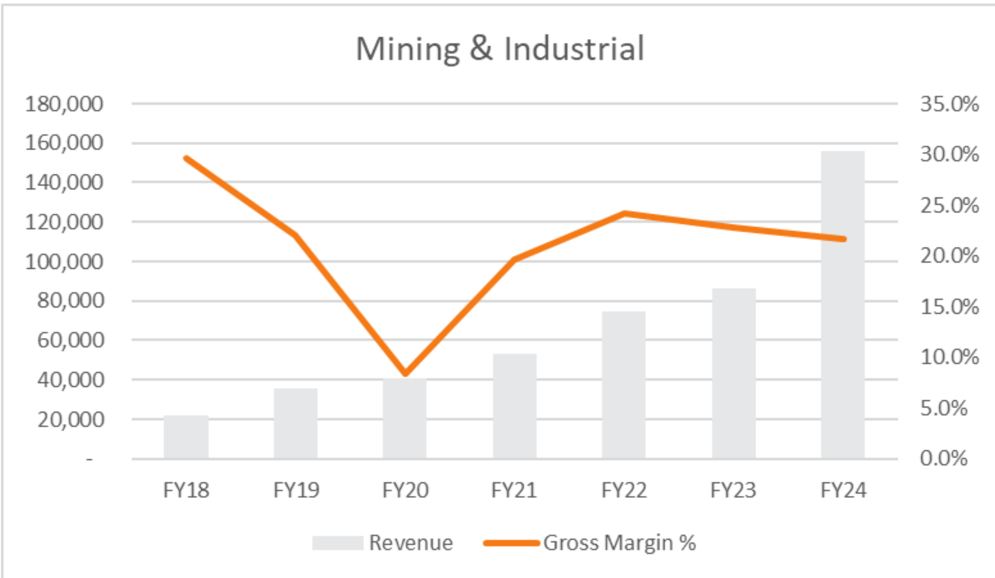


Source: Oxford Economics, Maintenance in Australia, 2023 Edition

As can be seen from the above chart, mining maintenance spend is not anticipated to slow in the short to medium term. This is driven by supportive commodity prices in iron ore and gold and low-cost producers located in Australia.

Many of DUR's competitors or close contemporaries in the mining space continue to hold positive outlooks for mining spend over the medium term.

Financials



Source: DUR company accounts

DUR has continued to grow its mining and industrials division at consistent margins, except for during the COVID period. The large uptick in revenue in FY24 is due to the Berths C & D Project which DUR is performing for BHP (as discussed below).

With a supportive backdrop and a differentiated offering through its remediation focus, we see no reason why DUR cannot continue to win work at similar margins to those previously experienced.

Capabilities

DUR has MSA's with Newmont at its Boddington gold mine and with Rio Tinto. In its mining division, DUR has the highest proportion of Master Services Agreements (MSA). DUR has been able to grow its MSA business, which is more consistent in nature (due to the ongoing wear and tear on structures) from $52.2m in FY21 to $145.8m in FY24.

Positively, DUR has a presence with large low-cost mines meaning mine closures are unlikely at most commodity prices. DUR has worked multiple Rio Tinto sites including at West Angelas, Tom Price and Gove. While it has also performed work in the past 12 months for global miners including BHP, Northern Star, and Fortescue Metals Group.

Our channel checks indicate most mining construction and maintenance groups have enough work and remain excited at the level of work in the iron ore and gold sectors. Further comments from competitors around selective tendering show most players are not being overly aggressive on pricing work to generate revenue.

Major Projects

Currently, DUR is undertaking a major project with BHP at its Berth C & D Remediation Project at Port Hedland. This is the first major project DUR has performed for BHP and comes on the back of work which MEnD Consulting (a DUR consulting division) performed as part of its remediation engineering work discussed below.

Additionally, DUR recently announced the winning of a $44m structural integrity project for Rio Tinto at its Tom Price High Grade Screen House.

MEnD Consulting

MEnD Consulting is DUR's internal remediation and structural integrity division. The division provides a differentiated offering compared with other contractors.

The high esteem held for MEnD in the remediation industry was shown in the Asset Management Council Award for Excellence for the BHP Berths C & D project.

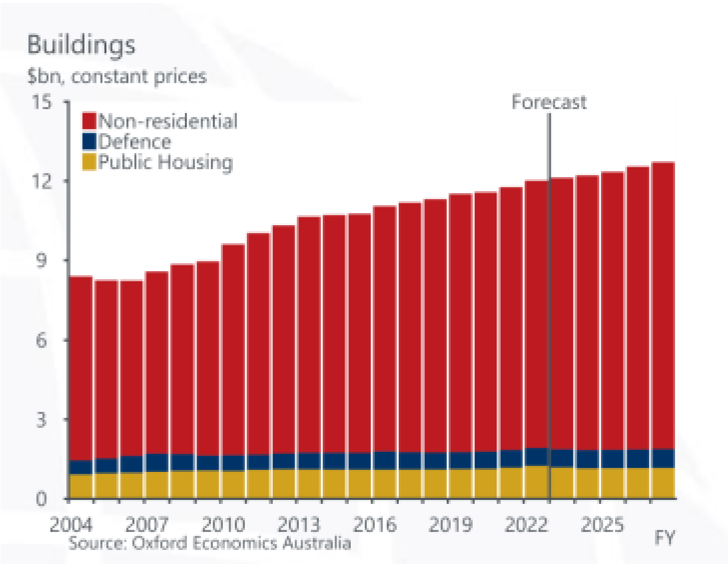
The project involved generating a 3D reality model for a 1.2km wharf. As part of the project the DUR team took over 60,000 images using a combination of drones, ground photography and photography from boats. This resulted in over 1 Terabyte of data which was then used by engineers to identify and tag all structural integrity issues. There are no other contracting groups which can perform this level of detailed work. Leveraging these insights, DUR won the remediation contract. Successful completion of this is likely to spawn more opportunities in this space.

We note that MEnD has been performing more work for Rio Tinto for Cape Lambert A Jetty.

3) Building & Facades

Outlook

Whereas most of DUR competitors provide construction and fittings of buildings and facades, DUR exclusively performs remediation. As part of its work, DUR provides condition assessments often through the MEnD consulting division. As well as this DUR offers material selection, cathodic protection and recladding.



Remediation spend on buildings in Australia is forecasted to grow. Reasons include the natural ageing and degradation of buildings as well as the upgrade of building codes requiring asset owners to make improvements.

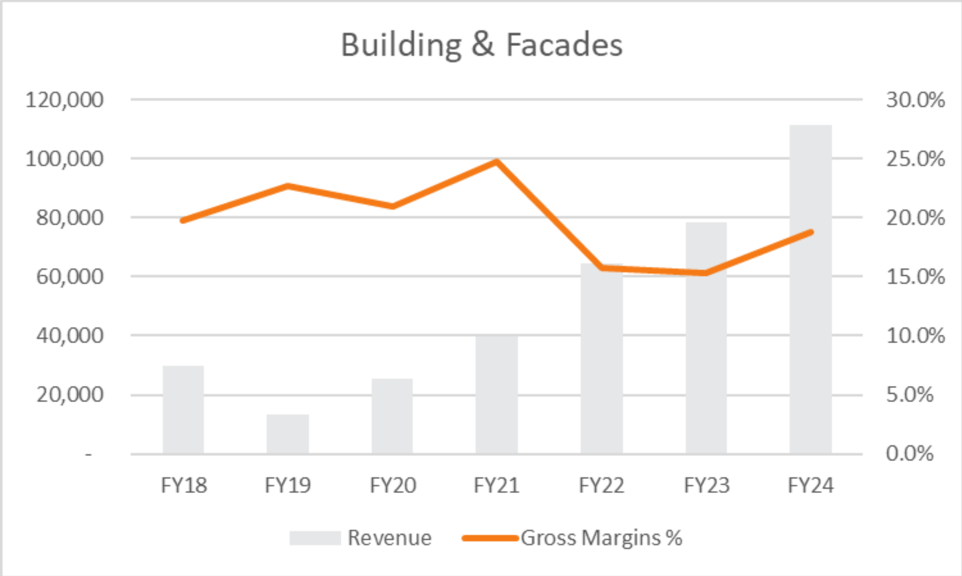
A tailwind in this division in recent years was the requirement to remove combustible cladding. The global issue of combustible cladding came to the forefront after the Grenfell Tower Fire in London. Whilst additive to DUR, it is not the primary driver of work.

DUR's niche in the heritage building sector. An example of this work is with the City of Adelaide on the Adelaide Town Hall conservation project.

In September 2024, MEnD Consulting was invited to present its work on the Adelaide Town Hall to the Australian International Council on Monuments and Sites which shows the esteem in which DUR and MEnD are held within the industry.

In addition to the above, DUR has also completed work on the Perth Library Façade and Market City in Sydney.

Financials



Source: DUR company accounts

DUR has continued to grow buildings and facades at consistent gross profit margins. Whilst our research indicates that cladding removal will continue to occur, we understand the quantum of opportunities with combustible cladding has passed its peak.

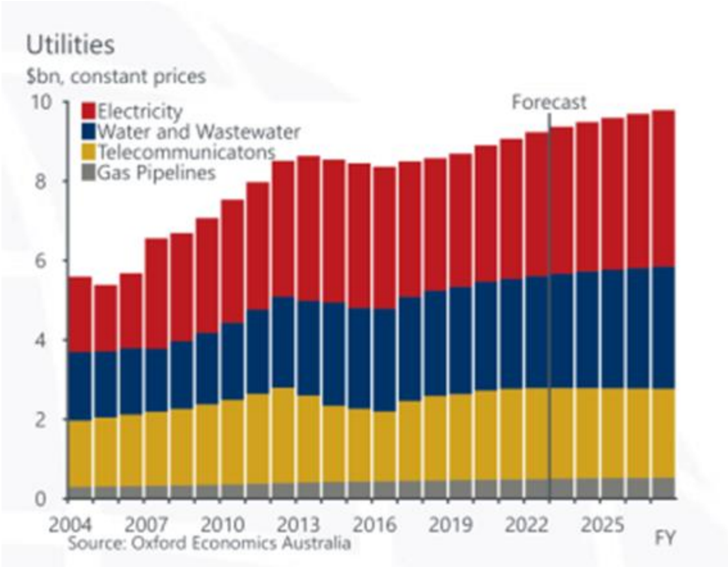
Major Projects

In 2021, DUR was awarded the refurbishment of the Central Park building in Perth. DUR was required to remove 26,000 sqm of façade panels from the spandrel, columns and lift overrun zone. Recently the Central Park Building was completed on time.

4) Energy

Outlook

Similar to the mining sector, DUR operates as a remediation contractor in the Oil and Gas space. The Oil and Gas industry is expected to grow spend in maintenance and remediation. This is driven, in part, by gas being viewed as a transition fuel source and oil continuing to have use cases further into the future than previously anticipated.



Areas in which DUR operates, including electricity generation, will continue to see growing maintenance spend over the next few years.

WPF

DUR's history in the Oil and Gas space can be split into two periods – pre-WPF acquisition and post WPF acquisition.

WPF is a manufacturing and fabrication provider with the capacity to install, service and repair equipment both on and offshore.

Pre-WPF, DUR's energy business was an offshoot of work performed on defence bases around Australia. The major project at the time of the IPO was the aviation fuel infrastructure for the new Western Sydney International Airport. This type of work is ad-hoc and opportunities are comparatively limited.

Larger opportunities exist in groups like Woodside and Santos with the maintenance work associated with its oil and gas fields. However, achieving this growth organically is difficult and time consuming as explained by DUR as part of the acquisition rationale for WPF in 2022.

The WPF business model is driven by onshore, offshore and workshop fabrication activities. It also has contracts with original equipment manufacturers to repair and service their equipment. Site services make up approximately 65% of revenue with fabrication making up 35%.

Customers

At acquisition, WPF's main customers were Santos, Vermilion Energy and Jadestone Energy. Working with these large groups has helped to validate DUR and introduce cross-selling opportunities.

Recently, the acquisition helped DUR's placement on the preferred contractor list for Woodside. The benefits of which were quickly felt through the award of a $21.8m onshore services contract relating to the King Bay Supply Base Wharf.

DUR has also been awarded a contract with Inpex (MOF wharf refurbishment project in the Northern Territory). We understand DUR is in the process of being approved for vendor lists with Chevron and BP, which should open more opportunities.

Major Projects

In November 2021, DUR was awarded a contract for $50m to deliver the first stage of the Aviation Fuel reticulation network at Western Sydney Airport. The project was for Multiplex Construction (a large construction group). The contract was an extension of the work which DUR had performed on defence bases in Australia.

DUR has also won the WSA cargo contract for $20m. Our channel checks indicate the project is performing to initial estimates.

MEnD Consulting

What do they do?

MEnD Consulting is a boutique consultancy providing solutions in the durability engineering, spatial integration, digitisation, laboratory services and asset management sectors.

MEnD provides 3D geospatial modeling of assets by using drones to capture images of the assets which are then uploaded to DUR's in-house defect management platform, AnnoView. In AnnoView, MEnD's employees can analyse and identify defects in the asset.

MEnD's value is as a driver or work for DUR with 80% of MEnD's follow-on remediation work being completed by DUR. Our research indicates the combination of remediation engineering, and a contractor is unique and provides a point of difference.

We believe that in sectors where DUR performs large amounts of remediation work (mining, industrial and building and facades) having MEnD in house is a significant advantage.

Petrography

In addition to the 3D geospatial modelling, MEnD has a laboratory petrography service which it provides to clients. Petrography is the study of rock and mineral samples which helps engineers conclude whether a crack is a structural issue or more benign. The value of the petrography lab is in the lead generation through the identification of groups who are looking at assets which potentially may need work and to have a source of potential future leads.

Competitors

Currently, all of MEnD's competitors are standalone consultancy firms. An example provided to us was when an asset owner engages a remediation engineer, they are generally already aware there is an issue or potential issue with their asset. Other standalone consultancy groups can identify the issues – however the ability to identify, provide accurate costings to fix and undertake the work is an advantage.

DUR's combination offering helps avoid duplication and time lags associated with using separate engineers and contractors.

DDR

What do they do?

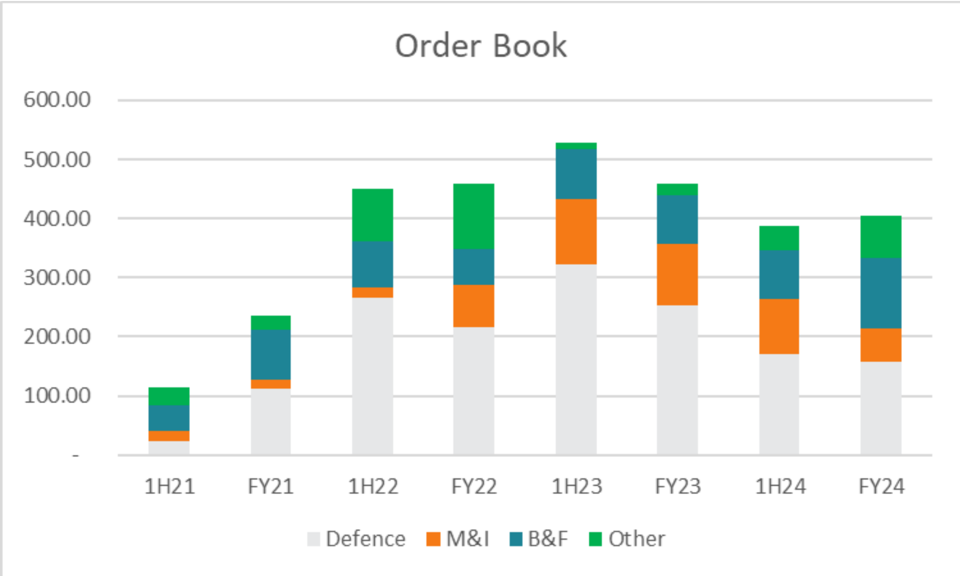
In 2017, DUR established a JV with Dundee Rock Pty Ltd. The purpose of the JV (trading as DDR Indigenous Contractors) is for the engagement of indigenous personnel and creating an environment for training and provisioning of meaningful work. DDR is a contractor and project manager delivering engineering, building and maintenance projects across Australia. DDR has a Supply Nation certification making it eligible to tender work requiring this certification.

In December 2023, DDR announced the acquisition of RC Construction WA Pty Ltd (RCC) for $5.5m. RCC is a WA-based specialist civil and structural construction contractor servicing the resources, infrastructure and energy sectors. Recently, DDR was awarded a $54.7m contract from a variety of services including civil works relating to Project Phoenix. This is a project which relates to long range high frequency communications for defence.

Supply Nation provides a database of verified Indigenous businesses. Work for indigenous owned businesses continues to be priority for many large miners in Australia including BHP – who have advised they are seeking to have $1.5Bn of capex spend by mid-2027. This tailwind should continue into the foreseeable future.

Financials

- Order Book



Source: DUR company accounts

DUR provides information on its backlog. Since 1H23, the backlog has fallen. The main driver of the decline is defence. Part of the reason for the slowdown was the release of the new National Defence Strategy. In spite of this slowdown we believe the opportunities in defence are large. Whilst noisy, the backlog changes are not indicative of the longer-term outlook for DUR. There are also multiple opportunities in the defence sector including Diamantina Wharf which if awarded to DUR would provide a large boost to the backlog.

MSA's do not form part of the backlog. MSA's have grown meaingfully from $52.2m in FY21 to $145.8m in FY24.

- Revenue Growth Ratios

Revenue Driver	FY19	FY20	FY21	FY22	FY23	FY24
Revenue	200.4	247.3	235.7	310.0	491.8	555.8
Fixed Assets	7.9	10.3	16.8	18.8	26.0	33.4
Fixed Assets / Revenue	3.9%	4.1%	7.1%	6.1%	5.3%	6.0%
Headcount			725	857	1173	1132
Revenue per person ($m)			**0.33**	**0.36**	**0.42**	**0.49**

Source: DUR company accounts

Due to DUR's capital light business model, the amount of fixed assets required to operate the business is ~6% of revenue. Even with substantial growth in the revenue figure over the past five years, this only equates to a $26m increase in fixed assets. We expect this ratio to remain the same moving forward and do not see it as an impediment to growth for DUR.

The more important metric for DUR is headcount growth and revenue per employee. In order to grow revenue and complete more projects, DUR requires more employees. From FY21 to FY24, DUR grew headcount from 725 to 1,132. We anticipate the slight FY24 decline in headcount to be an anomaly.

- Working Capital

Working Capital	FY19	FY20	FY21	FY22	FY23	FY24
Trade Receivables	29.9	19.6	29.1	30.0	59.8	74.0
Contract Assets	5.6	6.2	7.6	16.7	25.2	18.8
Inventories	0.2	0.3	0.4	0.3	0.3	1.0
Trade Payables	-38.0	-34.9	-39.0	-39.4	-82.1	-75.5
Contract Liabilities	-17.9	-15.7	-19.4	-42.0	-35.7	-39.3
WC in Business	**-20.1**	**-24.5**	**-21.3**	**-34.4**	**-32.5**	**-21.0**

Source: DUR company accounts

Due to the nature of contracting, trade receivables, contract assets, trade payables and contract liabilities fluctuate from period to period. Contract liabilities is money received up front for work to be performed in the future. This lowers DUR's working capital outlay and partially insulates DUR from bad debts.

Financial security of a contractor is important from the asset owner's perspective. As a publicly listed company with the ability to raise capital and with net cash of $40m, asset owners are given confidence in DUR's financial stability which helps when tendering for work.

We also watch contract assets closely. Any build up may warn of an underperforming contract. In FY22 a build (which is currently lowering) was due to a pontoon paid for by DUR but not yet billed for the Coonawarra base as it was yet to arrive on site. This has now been delivered and we expect the contract liabilities number to remain at current levels.

- Return on Equity

Return on Capital Employed	FY19	FY20	FY21	FY22	FY23	FY24
Revenue	200	247	236	310	492	556
NPAT	9.7	18.0	7.1	10.2	19.2	21.4
NPAT Margin	5%	7%	3%	3%	4%	4%
Equity	18	20.8	25.9	31.0	46.1	59.1
ROE	54%	86%	28%	33%	42%	36%
EPS	n.a.	n.a.	3.1	3.1	7.6	8.3
Dividend per Share	n.a.	n.a.	1.5	2.0	4.0	4.0

Source: DUR company accounts

Since listing, DUR has shown an ability to generate attractive returns on equity. In our view, this is evidence of disciplined capital and risk allocation. As can be seen from the above DUR tends to pay out ~50% of its profit in dividends.

It is also worth noting that from the founding of the business until listing, DUR only raised $500k in capital resulting in the generation of over $20m in retained earnings at the time of listing.

- EBITDA vs Cash Flow

EBITDA vs Operating Cash Flow	FY19	FY20	FY21	FY22	FY23	FY24
EBITDA	16.3	22.4	16.2	17.8	38.1	46.2
Operating Cash Flow	26.7	20.5	10.8	26.5	34.8	27.3
Difference	10.4	-1.9	-5.5	8.8	-3.3	-18.9

Source: DUR company accounts

Working capital movements help to explain the changes in operating cash flow vs EBITDA due to upfront cash payments received from customers. As a result, cash flows can be lumpy from period to period.

We expect over a three-year period operating cash flow and EBITDA to be approximately equal.

Peer Comparison & Valuation

- Peer Comparison – As shown below, DUR trades at similar multiples to its competitors and contemporaries.

Peer Comparison - EPC Contractors Australia	Mkt Cap	PE		EV EBITDA		EV EBIT	
	(AU$m)	FY25	FY26	FY25	FY26	FY25	FY26
MND-AU	1265.6	18.3	17.1	8.2	7.7	11.7	10.9
SRG-AU	694.5	11.3	10.7	5.7	5.2	8.6	7.9
GNG-AU	340.7	12.0	11.1	6.2	5.9	7.1	6.6
CVL-AU	685.2	10.4	9.9	5.9	5.6	7.2	6.7
Average	746.5	13.0	12.2	6.5	6.1	8.7	8.0
DUR	386	16.0	14.6	5.1	4.5	7.7	6.7
DUR (Disc)/ Prem		23%	20%	-22%	-27%	-11%	-17%

We believe MND trades at a premium due to its size and liquidity. As DUR grows we would expect it to trade more in line with MND than the other companies mentioned due to the more recurring nature and less capex sensitivity of the DUR business.

- Valuation

Our DCF provides a valuation of $1.87 per share

	2024	2025	2026	2027	2028	2029
Revenue	555,792.00	615,000.00	690,000.00	735,000.00	793,800.00	857,304.00
EBIT	31,481.00	35,413.15	38,611.86	44,260.27	55,566.00	60,011.28
Amortisation	1,122.00	-	-	-	-	-
EBITA	32,603.00	35,413.15	38,611.86	44,260.27	55,566.00	60,011.28
Tax Rate	- 9,780.90	- 10,623.95	- 11,583.56	- 13,278.08	- 16,669.80	- 18,003.38
NOPAT	22,822.10	24,789.21	27,028.30	30,982.19	38,896.20	42,007.90
Investment in WC	- 7,680.00	13,822.68	6,763.46	3,023.94	6,000.00	6,000.00
Investment in PPE	- 16,255.00	- 15,000.00	- 15,000.00	- 15,000.00	- 15,000.00	- 15,000.00
FCFF	**- 1,112.90**	**23,611.89**	**18,791.76**	**19,006.13**	**29,896.20**	**33,007.90**

Terminal Value	507,813.78
PV of Terminal Value	330,044.12
PV FCF next 5 years	94,787.24
Value of Operating Assets	424,831.36
Less: Debt	- 25,495.00
Plus: Cash	65,218.00
Value of Equity	464,554.36
Diluted Shares	248,871.61
Intrinsic Value of Shares	**1.87**

Assumptions

Discount Rate	9.0%
Residual Growth Rate	2.5%

Risks

DUR is exposed to the following risks in the ordinary course of business:

- Reliance on key clients – DUR performs a significant portion of its work on sites owned or operated by the Department of Defence. Any substantial breach of specifications or requirements by the Department of Defence would have a significant impact on the company's current and future financial performance.
- Inability to retain and attract key personnel – As a company engaged in the pricing, construction and remediation using fixed price agreements, DUR depends on the expertise, experience and network of its personnel. In order to complete works the company is also required to retain and attract people to the business. Any loss of current employees could have a negative impact on the business's ability to win and complete work.
- Safety – DUR operations involve risk to both the people involved in the project and to property as often work is completed at heights and in close proximity to operation equipment. In addition, the operating environment may involve work with asbestos. In the event of an accident, claims may be brought against the company.
- Increased competition from new and existing groups – DUR operates in industries which are competitive and has numerous alternative groups. Excess competition may result in challenges in maintaining revenue growth rates, retaining employees and correctly pricing works.
- Litigation – Disputes can arise during the execution of a project including with payment disputes which may impact the profitability of the project or disputes with employees in relation to workers compensation or unfair dismissals.
- Termination for convenience – Due to the industry DUR operates in, many of its contracts contain a provision entitling the counter party to terminate the contract at its convenience or for a change of control. There is a risk that counterparties could decide to terminate a contract for any reason.

Share Register

Top 20 Shareholders - as at 30/6/24	Shares	% Held
Ertech Holdings Pty Ltd	47,348,514	19.14%
Dencort Pty Ltd	23,953,389	9.68%
Kent Colony Ventures Pty Ltd	23,853,389	9.64%
Mr Chris Oates & Mrs Pamela Oates	23,853,389	9.64%
HSBC Custody Nominees (Aust) Ltd	17,564,476	7.10%
Citicorp Nominees Pty Ltd	11,755,826	4.75%
HSBC Custody Nominees (Aust) Ltd	7,980,946	3.23%
BNP Paribas Nominees Pty Ltd	7,475,425	3.02%
JP Morgan Nominees Australia Pty Ltd	5,707,027	2.31%
BNP Paribas Noms Pty Ltd	5,330,559	2.16%
JAWP Investments Pty Ltd	4,575,000	1.85%
Mr Oliver McKeon	4,316,120	1.74%
HSBC Custody Nominees (Aust) Ltd (A/C 2)	2,415,046	0.98%
UBS Nominees Pty Ltd	2,212,458	0.89%
Mr Michael John Wilson	2,200,000	0.89%
Fort Baramba Pty Ltd	1,715,674	0.69%
BNP Paribas Noms (NZ) Ltd	1,590,759	0.64%
National Nominees Limited	1,569,547	0.63%
Exldata Pty Ltd	1,438,919	0.58%
HSBC Custody Nominees (Aust) Ltd	1,224,670	0.50%
Others	49,269,928	19.92%
Total	**247,351,061**	**100.00%**

Board of Directors & Key Management Personnel

Mr Martin Brydon
Chairman

Mr. Brydon has more than 30 years of experience in the Australian construction materials and building product industries. Mr. Brydon commenced as an electrical engineer at Cockburn Cement Limited (CCL) in WA before ultimately becoming the Chief Executive Office prior to its merger with Adelaide Brighton Limited in 1999. Post merger, Mr. Brydon continued working in the business, ultimately becoming Chief Executive Officer in 2014 and Managing Director in 2015.

Mr. Brydon is a Non-Executive Director of Fletcher Building Limited.

Mr Christopher Oates
Managing Director

Mr. Oates holds a Bachelor of Science in Construction Management and Economics and has 25 plus years of experience in the construction and remediation industry. Prior to becoming Managing Director, Mr. Oates was the General Manager and Executive Director of Duratec. Mr Oates founded Duratec in 2010 and currently leads the business as Managing Director.

Mr Robert (Phil) Harcourt
Non-Executive Director

Mr. Harcourt has over 45 years' experience in the civil and structural engineering industry. Mr. Harcourt was previously the CEO of Savcor Finn Pty Ltd and Chief Operations Officer for the publicly listed Savcor Group.

Mr. Harcourt founded Duratec in 2010 and led the company as Managing Director before resigning in November 2023, to become a Non-Executive Director.

Mr Gavin Miller
Non-Executive Director

Mr. Miller is a Certified Practicing Accountant, Chartered Secretary and graduate of the Australian Institute of Company Directors. Mr. Miller has over 30 years' experience in financial and commercial management in various industries.

Ms Krista Bates
Non-Executive Director

Ms. Bates has over 25 years' experience as a lawyer advising a diverse base of clients including private and listed companies, private equity funds and governments in relation to mergers, acquisitions, joint ventures and corporate governance issues. Ms. Bates heads up her own firm, KB Corporate Advisors, which provides a range of advisory services. Ms. Bates is a Director of AusCann Group Holdings and Neurotech International Ltd.

Disclaimer continued

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