

Lycopodium Ltd

(LYL \$5.20) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Harry Stevenson	March 2021	\$6.62/sh

Half Year Results

Investment case

Lycopodium has recently released half year results which were inline with expectations. With completion of Yaoure in December margins remained strong with NPAT at 8.8%. With full year guidance of “approximately \$160m in revenue and NPAT in the order of \$12m” our focus is increasingly shifting towards FY’22. We are looking towards an emerging EPCM/EPC boom with the with roll out of covid-19 vaccines globally, we expect projects which were previously delayed to be greenlit. This outlook is supported by strong gold prices and record iron ore demand which we expect to continue through FY’22. In the background Lycopodium’s JV with Monadelphous – Mondium looks set for a further growth through FY’22 with completion of the Western Turner Syncline; which should drive stronger margins. Our price target reflects our growing confidence in the EPCM outlook.

Key points

Lycopodium recently reported half year results, key highlights were as follows

- Revenue of \$71m, EBITDA of \$10.6m and NPAT of \$6.3m (EHSL \$5.7m).
- Margins were healthy 8.9% at the NPAT level and towards the top end of historical rates between 5%-10%.
- Balance sheet remains strong; cash of \$84.4m and net assets of \$82.1m.
- Negative operating cash flows of \$15.7m – expected given build-up of working capital at 30 June, we look for cash balance to normalise to -\$67m at full year.
- A fully franked Dividend of 10c per share declared (ESHL 9.3c); we now look for 20c full year distribution.
- Contribution from Mondium (LYL’s 40% JV with Monadelphous) up 15% HonH and 155% on PCP, we expect this contribution to become more meaningful through FY’22 (\$4.2m).
- Management have provided full year earnings guidance of “approximately \$160m in revenue and NPAT in the order of \$12m” – in line with our previous FY’21 forecasts of \$160m Revenue and NPAT of \$11.7m.

Outlook

- Demand for EPC/EPCM contractors through FY’21 and into FY’22 is expected to strengthen with the resources sector set to continue to benefit from both the Gold and Iron Ore prices.
- 12 month Price Target of \$6.62 is a 9x multiple on FY’22 EBIT forecasts.

Lycopodium Ltd	Year End 30 June	
Share Price	5.20	A\$/sh
Price Target	6.62	A\$/sh
Valuation (DCF)	6.62	A\$/sh
WACC	9.0%	
Terminal Growth	3.0%	
Shares on issue	40 m, diluted	
Market Capitalisation	206.6	A\$m
Enterprise Value	137.6	A\$m
Cash	84.5	A\$m
Debt	15.5	A\$m

Key Financials	2020a	2021f	2022f
Revenue (A\$m)	209.6	160.0	200.0
EBITDA (A\$m)	25.6	21.6	26.3
EBIT (A\$m)	17.5	16.9	21.7
Reported NPAT (A\$m)	11.7	12.0	15.2
Normalised NPAT (A\$m)	12.9	12.0	15.2

Gross Cashflow (A\$m)	11.8	13.4	16.4
Capex (A\$m)*	-0.6	-1.0	-0.9
Op. Free Cashflow (A\$m)	54.2	-27.8	22.2

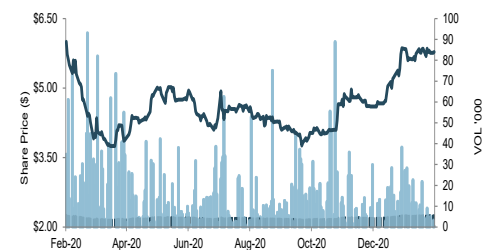
Revenue Growth (%)	38%	-24%	25%
EBITDA Growth (%)	10%	-15%	22%
Norm. NPAT margin (%)	6%	8%	8%

Normalised EPS (Ac)	29.22	30.03	37.99
Norm. EPS growth (%)	-29%	3%	26%
PER (x)	17.7	17.2	13.6
EV:EBITDA (x)	4.2	5.0	4.1
EV:EBIT (x)	6.1	6.4	5.0

DPS (Ac)	20.0	19.9	24.8
Dividend Yield (%)	3.8%	3.8%	4.8%

Net cash (A\$m)*	99.2	55.1	67.3
Net Debt:Equity (%)	Net cash	Net cash	Net cash
Interest Cover (x)	NA	NA	NA

Share Price Chart



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Lycododium Ltd

(LYL \$5.20) Buy

Financial Statements	2019a	2020a	2021f	2022f	Performance Ratios	2019a	2020a	2021f	2022f
Income Statement					Growth & Margins				
Revenue	152.2	209.6	160.0	200.0	Revenue Growth	-21%	38%	-24%	25%
OPEX	-129.0	-184.0	-138.4	-173.7	EBITDA Growth	-8%	10%	-15%	22%
EBITDA	23.3	25.6	21.6	26.3	EBITDA margin	15%	12%	14%	13%
Depreciation & amortisation	-1.5	-8.0	-4.8	-4.6	EBIT margin	14%	8%	11%	11%
EBIT	21.8	17.5	16.9	21.7	EBIT Growth	-9%	-20%	-4%	29%
Net finance income	1.7	0.9	0.3	0.0	Normalized net profit margin	11%	6%	8%	8%
EBT	23.5	18.5	17.1	21.7	Effective tax rate	30%	30%	30%	30%
Tax expense	-7.1	-6.8	-5.1	-6.5	Liquidity				
Reported Earnings	16.4	11.7	12.0	15.2	Capex/depreciation (x)	1.1	0.1	0.2	0.2
Abnormal Expenses / (Incomes)	0.2	1.2	0.0	0.0	Current ratio (x)	2.6	1.8	2.6	2.4
Normalized Net Profit	16.6	12.9	12.0	15.2	Quick ratio (x)	226.2	426.8	298.9	346.0
Cash flow (A\$m)					Receivable days	82	47	54	47
Profit before Tax	16.4	11.7	12.0	15.2	Payable days	70	62	42	17
(+) D&A	1.5	8.0	4.8	4.6	Risk Measures				
(-) Lease Expense	0.0	-5.6	-3.4	-3.4	Dividend Cover (x)	1.3	1.0	1.5	1.5
(+/-) Impairments, Non-cash	0.0	0.0	0.0	0.0	Payout ratio (%)	73%	68%	66%	65%
(+/-) FX	-13.4	-0.7	0.0	0.0	Net interest cover (x)	na	na	na	na
(+/-) Other	0.0	-1.6	0.0	0.0	Net debt/equity (%)	net cash	net cash	net cash	net cash
Gross Cashflow	4.5	11.8	13.4	16.4	Returns				
(-) Capital Expenditure	-1.6	-0.6	-1.0	-0.9	ROIC (%)	19%	15%	12%	15%
(-) Change in WC	-18.4	43.0	-40.2	6.6	Return on assets (%)	14%	8%	10%	11%
Operating Free cashflow	-15.5	54.2	-27.8	22.2	Return on average equity (%)	21%	15%	15%	17%
(-) Dividend Paid	-13.1	-11.9	-7.9	-9.9	Share Data/Valuation				
(-/+) Proceeds from Disposals	0.0	0.0	0.0	0.0	Share Data				
(-) Investments	-3.4	0.0	0.0	0.0	Issued shares (m)	39.7	39.7	39.7	39.7
(+/-) Other	18.7	0.4	0.0	0.0	Weighted ave shares (m)	39.7	39.7	39.7	39.7
Net Cashflow	-13.3	42.7	-35.7	12.3	Fully diluted shares (m)	39.7	40.0	40.0	40.0
Bop Net Cash	73.0	59.7	99.2	55.1	Basic EPS (c)	41.3	29.4	30.2	38.2
(+/-) Net Cashflow	-13.3	42.7	-35.7	12.3	YoY change (%)	-12%	-29%	3%	26%
(+/-) Lease Adjustment	0.0	-3.2	-8.4	0.0	Fully diluted EPS (c)	41.3	29.2	30.0	38.0
EOp Net Cash	59.7	99.2	55.1	67.3	YoY change (%)	-12%	-29%	3%	26%
Balance Sheet (\$m)					Fully diluted normalised EPS (c)	41.3	29.2	30.0	38.0
Cash	60.5	102.9	67.3	79.6	YoY change (%)	-12%	-29%	3%	26%
Receivables	34.4	26.9	23.6	25.7	Dividend/share (c)	30.0	20.0	19.9	24.8
Contract and other assets	1.5	0.0	0.0	0.0	Franking (%)	100%	100%	100%	100%
Inventories	0.9	1.1	1.0	1.4	Gross cashflow/share (c)	11.3	29.7	33.7	41.3
Current Tax Receivables	1.8	0.9	0.7	0.8	NBV/share (c)	199.9	195.9	206.2	219.8
Other Current Assets	3.8	2.5	2.5	2.5	NTA/Share (c)	182.9	177.7	188.0	201.7
Derivative Financial Assets	0.0	0.0	0.0	0.0	Valuation				
Total Current Assets	102.8	134.3	95.1	110.0	PER (Basic) (x)	12.6	17.7	17.2	13.6
Equity Accnted Investments	1.4	3.5	3.5	3.5	PER (Fully diluted) (x)	12.6	17.8	17.3	13.7
Investments in listed equities	0.8	0.9	0.9	0.9	PER (Fully diluted, normalized) (x)	12.6	17.7	17.2	13.6
Financial Assets avail for Sale	0.0	0.0	0.0	0.0	P/CFPS (x)	46.0	17.5	15.4	12.6
PP&E	3.8	3.2	2.9	2.8	Price/NBV (x)	2.6	2.7	2.5	2.4
Right of Use Asset	0.0	3.0	11.3	11.3	Price/NTA (x)	2.8	2.9	2.8	2.6
Intangible Assets	6.7	6.8	6.8	6.7	market Cap (EOFY)	206.6	206.6	206.6	206.6
Other receivables	0.2	0.1	0.1	0.1	EV	146.9	107.4	107.4	107.4
Deferred tax assets	4.1	3.8	3.8	3.8	EV/EBITDA (x)	15.8	4.2	5.0	4.1
Total Non-Current Assets	17.0	21.4	29.4	29.1	EV/EBIT (x)	27.7	6.1	6.4	5.0
Total Assets	119.9	155.7	124.4	139.1	EV/Revenue (x)	0.4	0.1	0.2	0.2
Payables	21.9	23.2	14.4	6.8	Other Information				
Contract and other liabilities	13.8	47.7	13.4	29.6	Estimated free float				29%
Borrowing	0.4	0.3	0.3	0.3	12-mth High/Low (A\$/sh)			6.40/3.70	
Lease Liabilities	0.0	1.6	6.5	6.5	Average daily volume (A\$'000s)				83
Derivative financial liabilities	0.2	0.0	0.0	0.0	ASX Code				LYL
Current tax liabilities	0.5	0.8	0.6	0.8	Next result				Aug-21
Provisions	3.0	2.3	1.7	2.2	Company Description				
Total Current Liabilities	39.8	75.9	37.0	46.2	Lycododium Limited (LYL) provides integrated engineering, construction and asset management solutions to global resource markets. Established in 1992 and listed on the ASX in 2004 the company has a 25-year track record of delivering EPCM/EPC contracting and engineering to services to a diverse range of industries.				
Borrowings	0.3	0.2	0.2	0.2					
Provisions	0.3	0.1	0.1	0.1					
Lease Liabilities	0.0	1.6	5.2	5.2					
Total Non-Current Liabilities	0.6	1.9	5.5	5.5					
Total Liabilities	40.4	77.8	42.5	51.8					
Net Assets	79.4	77.8	81.9	87.2					
Issued capital	20.8	20.8	20.8	20.8					
Reserves	-0.6	-1.8	-1.8	-1.8					
Retained profits	59.6	59.5	63.6	68.9					
NCI	-0.4	-0.7	-0.7	-0.7					
Total Equity	79.4	77.8	81.9	87.2					

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