

GR Engineering Ltd

(GNG \$1.30) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	March 2021	\$1.75/sh

Generating cash, paying dividends, growing, industry tailwinds, net cash

Investment case

With an emerging resources boom in construction imminent, the medium-term outlook for GNG is very strong. Meanwhile, industry rationalisation is occurring. This should be positive for growth and margins. We see potential for some very large revenue and profit years ahead. In FY22, there is potential that there is a significant shortage of EPC capability, coupled with urgency to get projects into production, and we see potential for both strong revenue and margins. We maintain our Buy.

Key points

- GNG reported 1H NPAT of \$8.4m (we expected \$6.9m). DPS was 5cps (we expected 4cps).
- EBITDA was \$14.2m (we expected \$12m), but that included \$2.6m gain on sale of equity investments. Normalised EBITDA was similar to our estimate.
- Operating cash flow was \$17.8m (we expected \$9m). Capex was \$1m, we expected \$1.3m.
- Reported net cash was \$50m (we expected \$35m), ex AASB16.
- The Company has re-affirmed FY21 revenue guidance of \$340-360m.
- We expect FY21 normalised EBITDA \$25.9m and final DPS of 5cps.
- We expect FY22 EBITDA of \$33.5m, and DPS of 10.5cps.
- We maintain our Buy recommendation.

Analysis

Although the 1H EBITDA was boosted by gain on sale of investments, we note that operating cash flow in 1H was very strong. Given there are several jobs finishing in 2H, the difference maybe provisioning. Hence, the 2H mining division is looking solid, in our view.

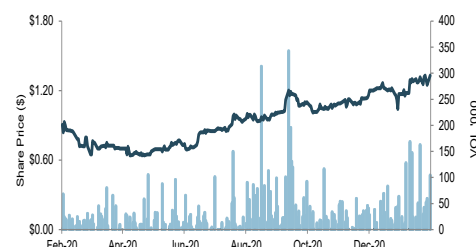
The oil & gas division had a good revenue and profit half, in part due to the Government contract for the Northern Endeavour (A\$130m for CY21). We assume the contract expires later this year, although it is possible that the contract extends for sometime until the vessel is able to be disposed. As a division, we assume \$170m of revenue in CY21, falling to ~\$100m in CY22.

We recently increased our earnings estimates meaningfully. The strong industry tailwinds suggest further upgrades are possible throughout the year.

GR Engineering Ltd	Year End 30 June	
Share Price	1.33	A\$/sh
Price Target	1.75	A\$/sh
Valuation (DCF)	2.02	A\$/sh
WACC	10.8%	
Terminal Growth	0.0%	
Shares on issue	155 m,	diluted
Market Capitalisation	206.4	A\$m
Enterprise Value	162.7	A\$m
Cash	52.8	A\$m
Debt (inc AASB16)	9.1	A\$m

Key Financials	2020A	2021F	2022F
Revenue (A\$m)	222.4	358.2	372.4
EBITDA (A\$m)	10.9	25.9	33.5
EBIT (A\$m)	8.1	23.0	30.7
Reported NPAT (A\$m)	-7.2	17.3	23.2
Normalised NPAT (A\$m)	5.6	15.3	23.2
Gross Cashflow (A\$m)	11.2	22.6	24.9
Capex (A\$m)*	-1.0	-2.6	-2.7
Op. Free Cashflow (A\$m)	10.2	20.0	22.2
Revenue Growth (%)	22%	61%	4%
EBITDA Growth (%)	-3%	138%	29%
Norm. NPAT Growth (%)	-20%	173%	52%
Normalised EPS (Ac)	3.6	9.9	15.1
Norm. EPS growth (%)	-19%	173%	52%
PER (x)	36.5	13.4	8.8
EV:EBITDA (x)	15.0	6.3	4.9
EV:EBIT (x)	19.8	7.0	5.3
DPS (Ac)	6.0	10.0	10.5
Dividend Yield (%)	4.5%	7.5%	7.9%
Net Debt (A\$m)	-34.1	-46.0	-52.8
Net Debt:Equity (%)	na	na	na
Interest Cover (x)	65.0	1220.0	nm

Share Price Chart



Disclaimer

This analyst declares that he has a beneficial interest in GNG.

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Financial Statements	6/19A	6/20A	6/21F	6/22F	Performance Ratios	6/19A	6/20A	6/21F	6/22F
Minerals Revenue	93.8	138.0	213.9	235.3	Growth & Margins				
- EBITDA	5.0	0.3	13.9	23.5	Revenue Growth	-36%	22%	61%	4%
- margin	5.3%	0.2%	6.5%	10.0%	EBITDA Growth	-55%	-3%	138%	29%
Oil & Gas Revenue	88	84	144	137	EBIT Growth	-59%	-17%	183%	33%
- EBITDA	5.1	7.3	13.0	11.0	Reported NPAT Growth	-44%	nm	nm	34%
- margin	5.8%	8.6%	9.0%	8.0%	Normalized Net Profit Growth	-58%	-20%	173%	52%
Total Revenue	182.3	222.4	358.2	372.4	EBITDA margin	6%	5%	7%	9%
growth	-35.7%	22.0%	61.1%	4.0%	EBIT margin	5%	4%	6%	8%
EBITDA	11.2	10.9	25.9	33.5	Normalized net profit margin	4%	3%	4%	6%
margin	6.1%	4.9%	7.2%	9.0%	Effective tax rate	25%	25%	25%	25%
Depreciation/Amortisation	-1.4	-2.7	-2.9	-2.8	Liquidity				
EBITA	9.8	8.2	23.2	30.9	Capex/depreciation (x)	68.8%	37.4%	91.0%	95.9%
EBITA / Sales	5.4%	3.7%	6.5%	8.3%	Current ratio (x)	2.1	1.3	1.3	1.4
EBIT	9.7	8.1	23.0	30.7	Quick ratio (x)	2.0	1.3	1.2	1.3
EBIT / Sales	5.3%	3.7%	6.4%	8.2%	Receivable days	71.1	63.8	65.0	65.0
Net Interest	0.3	-0.1	0.0	0.2	Payable days	55.4	79.4	79.4	79.4
Profit Before Tax	8.8	-9.7	23.0	30.9	Risk Measures				
- margin	4.8%	-4.3%	6.4%	8.3%	Dividend Cover (x)	0.76	0.61	0.99	1.44
Tax	-2.2	2.4	-5.7	-7.7	Payout ratio (%)	131.1%	164.6%	100.6%	69.6%
Effective Tax Rate	25.5%	25.0%	25.0%	25.0%	Net interest cover (x)	nm	65.0	1220.0	nm
NPAT Pre Minorities	7.0	5.6	15.3	23.2	Net debt/equity (%)	na	na	na	na
Minorities	0.0	0.0	0.0	0.0	Returns				
Normalised NPAT to equity	7.0	5.6	15.3	23.2	ROIC (pre-tax)	21.9%	25.6%	85.9%	89.9%
Norm. Net Profit / Sales	3.9%	2.5%	4.3%	6.2%	Return on Assets	7.9%	-8%	15.5%	17.8%
Abnormals / discontinued	-0.5	-12.8	2.0	0.0	Return on Equity	13.2%	-18%	47.4%	55.2%
Reported Profit to equity	6.5	-7.2	17.3	23.2					
Cash flow (A\$m)	6/19A	6/20A	6/21F	6/22F	Share Data/Valuation	6/19A	6/20A	6/21F	6/22F
EBITDA	11.2	10.9	25.9	33.5	Share Data				
Working Capital Change	14.6	0.3	2.4	-1.1	Issued shares (m)	153.6	153.6	153.7	153.7
Cash from Operations	25.8	11.2	28.4	32.4	Weighted ave shares (m)	153.5	153.7	153.7	153.7
Net interest Paid	0.4	0.2	0.0	0.2	Fully diluted shares (m)	155.9	153.7	153.7	153.7
Tax Paid	-1.5	-0.1	-5.7	-7.7	Basic EPS (c)	4.3	-4.7	11.2	15.1
Net Operating Cash Flow	24.7	11.2	22.6	24.9	YoY change (%)	-44%	-211%	-338%	34.4%
Capital Expenditure	-1.0	-1.0	-2.6	-2.7	Fully diluted EPS (c)	4.2	-4.7	11.2	15.1
Asset Sales	0.0	0.1	0.0	0.0	YoY change (%)	-44%	-213%	-338%	34%
Other (inc Investments)	0.0	0.6	5.7	0.0	Fully diluted normalised EPS (c)	4.5	3.6	9.9	15.1
Net Investing Cash Flow	-1.0	-0.3	3.1	-2.7	YoY change (%)	-58%	-19%	173%	52%
Proceeds from Equity Issues	0.0	0.0	0.0	0.0	Dividend/share (c)	6.0	6.0	10.0	10.5
Net Change in Debt & Leases	-0.3	1.2	-3.8	1.2	Franking (%)	60%	0%	50%	100%
Dividends Paid	-13.8	-6.1	-13.8	-15.4	Gross cashflow/share (c)	16.1	7.3	14.7	16.2
Net Financing Cash Flow	-14.1	-4.9	-17.7	-14.2	NBV/share (c)	0.30	0.23	0.25	0.30
Movement in Cash	9.6	6.0	8.0	8.0	NTA/Share (c)	0.30	0.20	0.22	0.27
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	Valuation				
Balance Sheet (\$m)	6/19A	6/20A	6/21F	6/22F	PER (Basic) (x)	31.3	-28.2	11.8	8.8
Cash	31.4	37.5	45.5	53.5	PER (Fully diluted) (x)	31.8	-28.2	11.8	8.8
Receivables	35.5	38.8	63.8	66.3	PER (Fully diluted, normalized) (x)	29.5	36.5	13.4	8.8
Inventories	0.3	0.0	0.0	0.0	P/CFPS (x)	8.3	18.2	9.0	8.2
Other	2.7	1.4	1.4	1.4	Price/NBV (x)	4.4	5.9	5.4	4.4
Total Current Assets	69.9	77.8	110.8	121.3	Price/NTA (x)	4.4	6.7	6.0	4.9
Property, Plant & Equipment	3.4	6.4	6.3	6.4	Dividend Yield (%)	5%	5%	8%	8%
Intangibles	0.0	4.4	4.2	4.0	EV/EBITDA (x)	14.6	15.0	6.3	4.9
Other	8.3	9.4	3.7	3.7	EV/EBIT (x)	16.5	19.8	7.0	5.3
Total Non Current Assets	11.7	20.2	14.2	14.1	EV/Revenue (x)	0.9	0.7	0.5	0.4
Total Assets	81.6	98.0	125.0	135.4	Other Information				
Accounts Payable	24.8	44.6	72.0	73.5	Estimated free float:				Low
Interest Bearing Liabilities	0.5	3.4	3.4	3.4	12-mth High/Low (A\$/sh)				\$1.33 - \$0.6
Other	8.6	12.1	12.1	12.1	Average daily volume (A\$m)				0.05
Total Current Liabilities	33.8	60.1	87.5	89.0	ASX Code				GNG
Accounts Payable	0.0	0.0	0.0	0.0	Next result				Aug-21
Interest Bearing Liabilities	0.0	0.0	-3.8	-2.7					
Other	1.3	3.2	3.2	3.2	Company Description				
Total Non Current Liabilities	1.4	3.2	-0.7	0.5	An engineering design & construction, maintenance and industrial services group.				
Total Liabilities	35.2	63.3	86.9	89.5					
Net Assets	46.4	34.7	38.1	45.9					
Net Debt (net cash) inc AASB16	-30.1	-41.9	-48.8						
Net Debt (net cash) ex AASB16	-30.9	-34.1	-46.0	-52.8					

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