

Mader Group Ltd

(MAD \$1.11) Buy

EUROZ HARTLEYS

| Analyst | Date | Price Target |
|-------------|------------------------------|----------------------------|
| Gavin Allen | 24 th August 2021 | \$1.55/sh ▲ from \$1.21/sh |

2021 Full Year numbers reported and 2022 guidance

Event

MAD has reported solid full year 2021 numbers and issued very robust market guidance for 2022.

Impact

MAD has reported full year 2021 numbers and issued 2022 guidance as follows:

- Revenue of \$304.3m up 11% on the pcp (EH \$298.8m)
- EBITDA of \$35.7m up from \$32.7m pcp and in line with our expectations.
- NPAT of \$19.3m up from \$17.5m and above our \$18.6m expectation.
- Net debt is at \$27.5m (including leases), up modestly on 2020, reflecting working capital build consistent with the revenue increase.
- The above is consistent with a 4th quarter operational update provided late July.
- Final dividend of 1.5c declared for 3.0c full year.
- **2022 guidance has however been provided, which is new:**
 - Revenue between \$355m and \$365m, up from \$304.4m in 2021
 - NPAT forecast between \$23m and \$25m, up from \$19.3m in 2021
 - Midpoint NPAT forecast is a 24.5% increase on 2021, representing a significant upgrade on consensus expectations.

Action

Buy, PT increased to \$1.55/sh

Key Catalysts

- This robust 2022 guidance issued is catalyst in isolation.
- Quarterly updates consistent with this ambition will see further re-rate as objectives are de-risked.
- MAD is pursuing well understood strategic ambitions, the outcomes from which are likely further catalyst.

| Mader Group Ltd | Year End 30 June | |
|---------------------------|------------------|--------|
| Share Price | 1.11 | A\$/sh |
| Price Target | 1.55 | A\$/sh |
| Valuation (DCF) | 1.84 | A\$/sh |
| WACC | 8.9% | |
| Terminal Growth | 3.0% | |
| Shares on issue | 200 | m |
| Market Capitalisation | 222.0 | A\$m |
| Enterprise Value | 249.6 | A\$m |
| Cash | 3.2 | A\$m |
| Debt (inc leases) | 30.8 | A\$m |
| Net debt excluding leases | 23.9 | A\$m |

| Key Financials | 2021a | 2022f | 2023f |
|--------------------------|--------|--------|-------|
| Revenue (A\$m) | 304.3 | 358.4 | 368.6 |
| EBITDA (A\$m) | 35.7 | 43.6 | 45.1 |
| EBIT (A\$m) | 28.2 | 35.4 | 36.6 |
| Reported NPAT (A\$m) | 19.3 | 23.8 | 24.6 |
| Normalised NPAT (A\$m) | 19.3 | 23.8 | 24.6 |
| Gross Cashflow (A\$m) | 24.5 | 31.6 | 32.7 |
| Capex (A\$m) | -11.3 | -10.9 | -10.0 |
| Op. Free Cashflow (A\$m) | 5.1 | 13.6 | 21.8 |
| Revenue Growth (%) | 11% | 18% | 3% |
| EBITDA Growth (%) | 9% | 22% | 3% |
| Norm. NPAT Growth (%) | 6% | 7% | 7% |
| Normalised EPS (Ac) | 9.67 | 11.90 | 12.29 |
| Norm. EPS growth (%) | na | 23% | 3% |
| PER (x) | 11.48 | 9.32 | 9.03 |
| EV:EBITDA (x) | 6.99 | 5.73 | 5.54 |
| EV:EBIT (x) | 8.85 | 7.04 | 6.83 |
| DPS (Ac) | 3.00 | 3.00 | 3.00 |
| Dividend Yield (%) | 0.03 | 0.03 | 0.03 |
| Net Cash (A\$m)* | -27.63 | -20.38 | -4.91 |
| Net Debt:Equity (%) | -0.46 | -0.26 | -0.05 |

*includes leases

Share Price Chart



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Analysis

We are upgrading our 2022 ambitions and our new forecasts are summarised below:

| | 2019 | 2020 | 2021 | 2022 |
|--------------------|--------|--------|--------|--------|
| | (\$m) | (\$m) | (\$m) | (\$m) |
| Revenue | 228.6 | 273.5 | 304.3 | 358.4 |
| COGS | -180.7 | -218.8 | -245.9 | -288.5 |
| Gross Profit | 47.9 | 54.7 | 58.4 | 69.9 |
| Operating expenses | -22.6 | -22.1 | -22.7 | -26.3 |
| EBITDA | 25.3 | 32.7 | 35.7 | 43.6 |
| Depreciation | -3.8 | -6.6 | -7.5 | -8.1 |
| EBIT | 21.5 | 26.0 | 28.2 | 35.4 |
| Interest | -1.1 | -1.1 | -1.4 | -1.4 |
| EBT | 20.4 | 24.9 | 26.8 | 34.0 |
| Tax | -5.5 | -7.4 | -7.4 | -10.2 |
| NPAT | 14.9 | 17.5 | 19.3 | 23.8 |
| ROIC | 26% | 25% | 22% | 23% |
| ROA | 17% | 17% | 16% | 16% |
| ROE | 44% | 36% | 32% | 30% |
| GP margin | 21.0% | 20.0% | 19.2% | 19.5% |
| EBITDA margin | 11.1% | 11.9% | 11.7% | 12.2% |

Our old versus new forecasts for 2022 are provided below:

| | old | new | variance |
|---------|-------|-------|----------|
| | (\$m) | (\$m) | (\$m) |
| Revenue | 326.5 | 358.4 | 10% |
| EBITDA | 39.7 | 43.6 | 10% |
| NPAT | 21.3 | 23.8 | 12% |

- Guidance is circa 10% above our previous ambitions and we were already looking for solid growth.
- Under the hood in 2021, GP margin year over year has decreased from 20% to 19.2%, as movement challenges impacted Q1 in particular and Q3 to a lesser extent before improving in 4Q 2021, providing solid run rate heading into 2022.
- We can find good support for the robust targets MAD has set for 2022:
 - Strong demand continues in Australia (limited by the practical realities on accessing labour, however also recognising this is the DNA of the business)
 - Further growth in North America supported by a capital expenditure (service vehicles) program that has occurred in 2021 ahead of growing 2022 activity.
 - Entry formally into Canada.
 - Further steady return in activity in Rest of World markets.

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Investment Thesis

- MAD trades on PE of 9.3x our revised 2022 forecast.
- Given the growth delivered in 2021 in challenging circumstances and robust further growth guided in 2022, the capitalisation of these earnings at 9x is particularly undemanding.
- This is true on fundamental basis in light of the growth, relatively light capital requirements, size of available markets, track record and strong returns on capital invested (ROIC).
- This is equally true when compared to the overall mining services sector, trading on average of 15x 2021 and 12x 2022.
- We set a 12 month share price target at \$1.55, up from \$1.21, based on nothing much more complicated than 13x our 2022 EPS (guided) forecast.
- We are confident that with delivery of forecasts as guided that the share price will respond.
- Buy maintained

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| Financial Statements | 2020a | 2021a | 2022f | 2023f | Performance Ratios | 2020a | 2021a | 2022f | 2023f |
|--------------------------------------|--------------|--------------|--------------|--------------|-------------------------------------|-------|-------|-------|-------|
| Income Statement | | | | | Growth & Margins | | | | |
| Revenue | 273.5 | 304.3 | 358.4 | 368.6 | Revenue Growth | 20% | 11% | 18% | 3% |
| COGS | -218.8 | -245.9 | -288.5 | -296.7 | EBITDA Growth | 29% | 9% | 22% | 3% |
| Gross Profit | 54.7 | 58.4 | 69.9 | 71.9 | EBIT Growth | 21% | 8% | 26% | 3% |
| OPEX | -22.1 | -22.7 | -26.3 | -26.8 | Normalized Net Profit Growth | 17% | 11% | 23% | 3% |
| EBITDA | 32.7 | 35.7 | 43.6 | 45.1 | EBITDA margin | 12% | 12% | 12.2% | 12.2% |
| Depreciation & amortisation | -6.6 | -7.5 | -8.1 | -8.5 | EBIT margin | 10% | 9% | 9.9% | 9.9% |
| Impairment | 0.0 | 0.0 | 0.0 | 0.0 | Normalized net profit margin | 6% | 6% | 6.6% | 6.7% |
| EBIT | 26.0 | 28.2 | 35.4 | 36.6 | Effective tax rate | 30% | 28% | 30% | 30% |
| Borrowing Costs | -1.7 | -1.4 | -1.4 | -1.4 | Liquidity | | | | |
| Interest Income | 0.0 | 0.0 | 0.0 | 0.0 | Capex/depreciation (x) | 1.9 | 1.5 | 1.3 | 1.2 |
| FX | 0.0 | 0.0 | 0.0 | 0.0 | Current ratio (x) | 1.7 | 1.5 | 1.7 | 1.9 |
| Other income/(expense) | 0.6 | 0.0 | 0.0 | 0.0 | Quick ratio (x) | 3.3 | 3.3 | 3.4 | 3.9 |
| EBT | 24.9 | 26.8 | 34.0 | 35.1 | Receivable days | 74 | 81 | 88 | 88 |
| Tax expense | -7.4 | -7.4 | -10.2 | -10.5 | Payable days | 29 | 29 | 33 | 33 |
| Reported Earnings | 17.5 | 19.3 | 23.8 | 24.6 | Risk Measures | | | | |
| Abnormal Expenses / (Incomes) | 0.0 | 0.0 | 0.0 | 0.0 | Dividend Cover (x) | 2.9 | 3.2 | 4.0 | 4.1 |
| Normalized Net Profit | 17.5 | 19.3 | 23.8 | 24.6 | Payout ratio (%) | 34% | 31% | 25% | 24% |
| Cash flow (A\$m) | | | | | Net interest cover (x) | 15.0 | 19.8 | 24.8 | 25.6 |
| Profit before Tax | 24.9 | 26.8 | 34.0 | 35.1 | Net debt/equity (%) | -23% | -46% | -26% | -5% |
| (+) D&A | 6.6 | 7.5 | 8.1 | 8.5 | Returns | | | | |
| (-) Lease Expense | -0.4 | -0.4 | -0.4 | -0.4 | ROIC(%) | 24.6% | 21.9% | 23.0% | 20.2% |
| (+/-) write-downs/revals | 0.0 | 0.0 | 0.0 | 0.0 | Return on assets (%) | 17.4% | 15.8% | 15.7% | 14.3% |
| (+/-) Other | 0.0 | -1.5 | 0.0 | 0.0 | Return on average equity (%) | 36.4% | 31.9% | 30.3% | 25.3% |
| (-) Tax Paid | -6.4 | -7.9 | -10.2 | -10.5 | Share Data/Valuation | | | | |
| Gross Cashflow | 24.8 | 24.5 | 31.6 | 32.7 | Share Data | | | | |
| (-) Capital Expenditure | -12.9 | -11.3 | -10.9 | -10.0 | Issued shares (m) | 200 | 200 | 200 | 200 |
| (-) Change in WC | -5.7 | -8.1 | -7.1 | -0.9 | Weighted ave shares (m) | 100 | 200 | 200 | 200 |
| Operating Free cashflow | 6.2 | 5.1 | 13.6 | 21.8 | Fully diluted shares (m) | 200 | 200 | 200 | 200 |
| (+) Other | -4.3 | -4.5 | 0.0 | 0.0 | Basic EPS (c) | 8.8 | 9.7 | 11.9 | 12.3 |
| (-) Dividends Paid | 0.0 | -6.0 | -6.0 | -6.0 | YoY change (%) | na | na | 23% | 3% |
| (+) Equity issued | 0.0 | 0.0 | 0.0 | 0.0 | Fully diluted EPS (c) | 8.8 | 9.7 | 11.9 | 12.3 |
| Net Cashflow | 2.7 | -5.4 | 7.6 | 15.8 | YoY change (%) | na | na | 23% | 3% |
| Bop Net Cash* | -21.2 | -21.0 | -27.6 | -20.4 | Fully diluted normalised EPS (c) | 8.8 | 9.7 | 11.9 | 12.3 |
| (+/-) Net Cashflow | 2.7 | -5.4 | 7.6 | 15.8 | YoY change (%) | na | na | 23% | 3% |
| (-) AASB 16 Adjustment | -2.6 | -1.2 | -0.3 | -0.3 | Dividend/share (c) | 3.0 | 3.0 | 3.0 | 3.0 |
| EoP Net Cash (debt) | -21.0 | -27.6 | -20.4 | -4.9 | Franking (%) | na | na | na | na |
| Balance Sheet (\$m) | | | | | Gross cashflow/share (c) | 12.4 | 12.3 | 15.8 | 16.4 |
| Cash | 6.5 | 3.2 | 10.5 | 25.9 | NBV/share (c) | 24.1 | 30.3 | 39.2 | 48.5 |
| Receivables | 55.5 | 67.9 | 86.0 | 88.5 | NTA/Share (c) | 23.9 | 27.9 | 36.8 | 46.0 |
| Other assets | 1.2 | 1.0 | 1.0 | 1.0 | Valuation | | | | |
| Total Current Assets | 63.2 | 72.0 | 97.4 | 115.4 | PER (Basic) (x) | 12.7 | 11.5 | 9.3 | 9.0 |
| Property/plant/equipment | 32.5 | 36.9 | 40.4 | 42.6 | PER (Fully diluted) (x) | 12.7 | 11.5 | 9.3 | 9.0 |
| Other | 0.4 | 5.0 | 5.0 | 5.0 | PER (Fully diluted, normalized) (x) | 12.7 | 11.5 | 9.3 | 9.0 |
| DTA | 2.0 | 5.1 | 5.1 | 5.1 | P/CFPS (x) | 9.0 | 9.1 | 6.8 | 6.6 |
| Right of Use | 2.6 | 3.5 | 3.5 | 3.5 | Price/NBV (x) | 4.6 | 3.7 | 2.8 | 2.2 |
| Total Non-Current Assets | 37.5 | 50.5 | 53.9 | 56.1 | Price/NTA (x) | 4.7 | 4.0 | 2.9 | 2.3 |
| Total Assets | 100.7 | 122.5 | 151.4 | 171.5 | Dividend Yield (%) | 0.0 | 2.7% | 3% | 3% |
| Payables | 18.9 | 21.5 | 28.3 | 29.1 | EV/EBITDA (x) | 7.6 | 7.0 | 5.7 | 5.5 |
| Provisions | 1.3 | 1.7 | 1.7 | 1.7 | EV/EBIT (x) | 9.6 | 8.9 | 7.0 | 6.8 |
| Interest Bearing liabilities | 13.8 | 19.0 | 19.0 | 19.0 | EV/Revenue (x) | 0.9 | 0.8 | 0.7 | 0.7 |
| Lease Liability | 0.5 | 0.5 | 0.6 | 0.6 | | | | | |
| Current income tax liability | 3.2 | 4.5 | 8.7 | 9.5 | | | | | |
| Total Current Liabilities | 37.7 | 47.3 | 58.3 | 59.8 | | | | | |
| Deferred Tax Liability | 1.1 | 2.4 | 2.4 | 2.4 | | | | | |
| Lease Liabilities | 2.1 | 3.1 | 3.1 | 3.1 | | | | | |
| Provisions | 0.6 | 0.9 | 0.9 | 0.9 | | | | | |
| Borrowings | 11.1 | 8.1 | 8.1 | 8.1 | | | | | |
| Total Non-Current Liabilities | 14.9 | 14.5 | 14.6 | 14.6 | | | | | |
| Total Liabilities | 52.6 | 61.8 | 72.9 | 74.4 | | | | | |
| Net Assets | 48.1 | 60.7 | 78.5 | 97.1 | | | | | |
| Issued capital | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Reserves | -0.4 | -1.2 | -1.2 | -1.2 | | | | | |
| Retained profits | 48.5 | 61.9 | 79.7 | 98.3 | | | | | |
| Total Equity | 48.1 | 60.7 | 78.5 | 97.1 | | | | | |

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