

BUY

Current Price \$0.265

Valuation \$0.42

Ticker: VMX.ASX
Sector: Engineering & Contracting

Shares on Issue (m): 124.6
Market Cap (\$m): 33.0
Net Debt / (Cash) (\$m): 0.1
Enterprise Value (\$m): 33.1

52 wk High/Low: 0.40 0.20
12m Av Daily Vol (m): 0.18

Key Metrics

	19F	20F
EV/EBITDA (x)	3.8	3.1
EV/EBIT (x)	4.7	3.7
P/E (x)	6.7	5.2

Ratios

	18A	19F	20F
ND / Equity	0.4%	-14.0%	-21.9%
EBITDA Mgn	4.7%	7.3%	7.9%
RoA	7.7%	13.2%	15.9%
RoE	10.8%	14.7%	16.6%

Financials:

Normalised*:	18A	19F	20F
Revenue (\$m)	103.2	120.0	135.0
EBITDA (\$m)	4.9	8.8	10.6
NPAT (\$m)	2.6	5.0	6.4

* Adj. for one-offs & amortisation

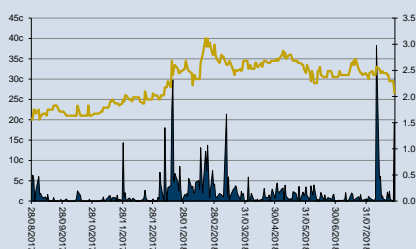
Net Assets (\$m) 31.5 35.8 41.6

Op CF (\$m) -2.8 6.4 5.8

Per Share Data:

	18A	19F	20F
Norm. EPS (cps)	2.6	4.0	5.1
DPS (cps)	0.00	0.00	0.00
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	27.6	26.5	31.6
CFPS (cps)	-2.7	5.2	4.7

Share Price Graph



Please refer to important disclosures at end of the report (from page 6)

Tuesday, 28 August 2018

Valmec (VMX)

Opportunity

Analyst | Ian Christie, CFA

Quick Read

The negative reaction to the underlying EBITDA result of \$4.9m (reported \$7.5m) provides an opportunity for investors looking to gain exposure to the improving environment in gas and related infrastructure services sectors. We see VMX trading on undemanding forward multiples after having built more conservatism into our forecasts. BUY maintained on a blended valuation of \$0.42 (prior \$0.48).

Impact | Neutral

Underlying EBITDA calculation problematic: As flagged in an earlier earnings update, VMX reported FY18 revenue of \$103m and EBITDA of \$7.5m. This included a one-off, non-cash accounting gain of \$2.6m relating to the purchase of APTS. It also included a one-off cost provision relating to a civil project over which VMX has taken John Holland to court. This latter provision was not itemised in the accounts, but the impact would have been partly responsible for the fall in GP margin from 16.1% in FY17 to 14.0% in FY18. We only adjust for the accounting gain in our underlying FY18 EBITDA calculation.

Problem contract also impacted cash flow: VMX also reported operating cash outflows of \$2.8m in FY18, with the bulk of this outflow in the 2H. This was predominantly related to amounts unpaid by John Holland in relation to the Northlink contract referred to above. We note the court proceedings contemplate a value of ~\$11.6m, so success here could have a significant positive impact on cash flow. Borrowings of \$2.9m largely relate to hire purchase agreements secured by the underlying assets, and VMX ended the financial year with \$2.7m cash. We anticipate positive operating cash inflow this year.

Outlook & thematic more important: We initiated on VMX earlier this year with a positive view on the tailwinds behind gas construction and operations services. This view has not changed, and is echoed in VMX's commentary. VMX anticipates construction revenues to increase in FY19, and services revenue to also climb, such that the latter falls within the targeted 35-40% of total revenue. GP margins are expected to improve due to a higher services component (and absent the margin impact of the problem civil contract in FY18), while overheads are expected to remain steady (and decline as a percent of revenue).

Forecasts more conservative: We take the above into account, but have built more conservatism into our forecasts. Our 16% revenue growth in FY19 is mostly acquisitive, and our GP and EBITDA margins are lower than previous. Detail on our revised forecasts, their breakdown, and the adjustments on prior, are shown on pages 2-5.

Recommendation

A combination of DCF and multiple-based valuation methods delivers a revised blended valuation of \$0.42 (prior \$0.48). Multiples are undemanding and the negative reaction to the underlying FY18 EBITDA result provides an opportunity. BUY maintained.

Valmec

Equity Research

Ian Christie

Recommendation	BUY
Current Price (\$)	0.265
Valuation (\$)	0.42

Sector	Engineering & Contracting
Market Cap (\$m)	33.0
Date	28 August 2018

Trading Metrics	FY17A	FY18A	FY19F	FY20F
EV / EBITDA (x)	8.1	6.8	3.8	3.1
EV / EBIT (x)	11.0	9.4	4.7	3.7
P/E (x)	14.0	10.2	6.7	5.2
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY17A	FY18A	FY19F	FY20F
Reported EPS (cps)	1.90	3.71	3.43	4.61
Adjusted EPS (cps)	1.90	2.59	3.97	5.13
Div. per share (cps)	0.00	0.00	0.00	0.00
NTA per share (cps)	18.76	27.60	26.46	31.57
CF per share (cps)	1.03	-2.71	5.15	4.68

Underlying P&L (\$m)*	FY17A	FY18A	FY19F	FY20F
Revenue	72.9	103.2	120.0	135.0
EBITDA	4.1	4.9	8.8	10.6
D&A	(1.1)	(2.1)	(2.4)	(2.3)
EBIT	3.0	3.5	7.0	8.9
PBT	2.2	2.6	6.8	8.9
NPAT	1.6	2.6	5.0	6.4
Reported NPAT	1.6	3.8	4.3	5.8

*Normalised for one-off items & amortisation

Cash Flow (\$m)	FY17A	FY18A	FY19F	FY20F
Receipts	66.7	93.5	119.4	131.3
Payments	(65.1)	(95.3)	(110.9)	(122.9)
Other / Prepayments	(0.8)	(1.0)	(2.1)	(2.5)
Cash from Operations	0.8	(2.8)	6.4	5.8
Property, Plant & Equip	(0.4)	(0.5)	(1.4)	(1.7)
Payment for Subsidiary	-	(2.6)	-	-
Other	1.0	0.2	-	-
Cash From Investing	0.6	(2.9)	(1.4)	(1.7)
Issue of Shares	-	10.4	0.1	-
Net Borrowing	(0.9)	(1.0)	(0.9)	(1.8)
Dividends / Other	-	-	-	-
Cash From Financing	(0.9)	9.4	(0.8)	(1.8)
Net Cash Flow	0.5	3.7	4.2	2.3
Ending Cash	(1.0)	2.7	7.0	9.3

Balance Sheet (\$m)	FY17A	FY18A	FY19F	FY20F
Cash (incl. overdraft)	2.3	2.7	7.0	9.3
Receivables	19.4	29.0	29.6	33.3
Inventory / Other	7.4	7.7	9.7	10.8
Current Assets	29.1	39.5	46.3	53.4
Property, Plant & Equip	7.0	10.6	10.2	10.3
Other NC Assets	5.4	5.1	4.5	3.8
Non-Current Assets	12.4	15.8	14.7	14.1
Total Assets	41.5	55.2	61.0	67.5
Payables	15.7	19.0	21.3	23.8
Borrowings	7.1	2.9	2.0	0.2
Provisions / Other	1.4	1.9	1.9	1.9
Total Liabilities	24.3	23.8	25.2	25.9
Net Assets	17.2	31.5	35.8	41.6
Ordinary Equity	6.2	16.6	16.7	16.7
Reserves	0.3	0.4	0.4	0.4
Retained Earnings	10.7	14.5	18.8	24.5
Total Equity	17.2	31.5	35.8	41.6

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.5%		
PV Free Cash Flow (\$m)		57.7	
Less Net Debt / Plus Cash (\$m)		(0.1)	
Unpaid Capital (\$m)		0.1	
Equity Value (\$m)		57.6	0.46

Earnings Capitalisation Valuation:			
FY19 EBITDA multiple	5.0	43.7	0.35
FY19 PE multiple	10.0	49.6	0.40
Valuation (\$/share) - blend of DCF & earnings cap			0.42

Underlying P&L (\$m)*	1H17A	2H17A	1H18A	2H18A
Revenue	30.0	42.9	49.8	53.4
EBITDA	1.1	3.0	3.4	1.5
D&A	(0.6)	(0.5)	(0.6)	(1.5)
EBIT	0.6	2.5	2.8	0.7
PBT	0.2	2.1	2.3	0.3
NPAT	0.1	1.5	1.6	1.0
Reported NPAT	0.1	1.5	1.6	2.2

*Normalised for one-off items & amortisation

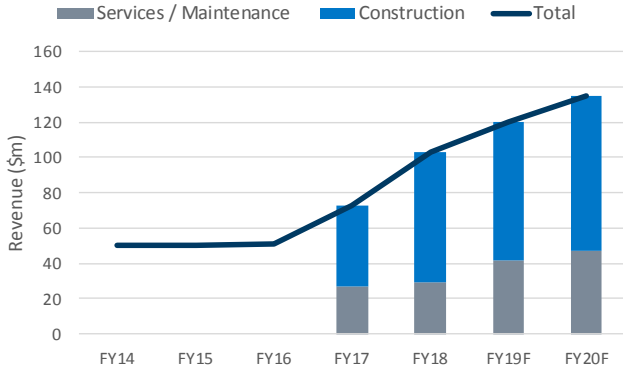
Cash Flow (\$m)	1H17A	2H17A	1H18A	2H18A
Receipts	30.2	36.6	46.1	47.4
Payments	(27.2)	(37.9)	(45.4)	(49.9)
Other / Prepayments	(0.4)	(0.4)	(0.5)	(0.4)
Cash from Operations	2.6	(1.7)	0.2	(2.9)
Property, Plant & Equip	(0.1)	(0.3)	(0.3)	(0.2)
Payment for Subsidiary	-	-	-	(2.6)
Other	0.0	1.0	0.2	0.0
Cash From Investing	(0.1)	0.7	(0.1)	(2.8)
Issue of Shares	-	-	-	10.4
Net Borrowing	(0.2)	(0.7)	(0.3)	(0.7)
Dividends / Other	-	-	-	-
Cash From Financing	(0.2)	(0.7)	(0.3)	9.7
Net Cash Flow	2.2	(1.7)	(0.3)	4.0
Ending Cash	0.7	(1.0)	(1.2)	2.7

Financial Ratios	FY17A	FY18A	FY19F	FY20F
Growth				
Revenue growth (%)	43.5%	41.6%	16.3%	12.5%
Norm. EPS growth (%)	733.9%	36.9%	52.9%	29.5%
Profitability Ratios				
GP Margin (%)	16.1%	14.0%	16.1%	16.1%
EBITDA Margin (%)	5.6%	4.7%	7.3%	7.9%
Return on Assets (%)	8.3%	7.7%	13.2%	15.9%
Return on Equity (%)	9.5%	10.8%	14.7%	16.6%
ROIC (%)	13.0%	12.3%	14.8%	18.7%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	28.2%	0.4%	-14.0%	-21.9%
ND / ND + Equity (%)	22.0%	0.4%	-16.3%	-28.1%
Current Ratio (x)	1.4	1.8	1.9	2.1
Net Interest Cover (x)	3.8	5.7	27.9	113.6
Cash Flow Ratios				
Free Cash Flow Yield (%)	1.8%	-21.8%	15.3%	12.4%
Cash Conversion (x)	0.2	(0.6)	0.7	0.5

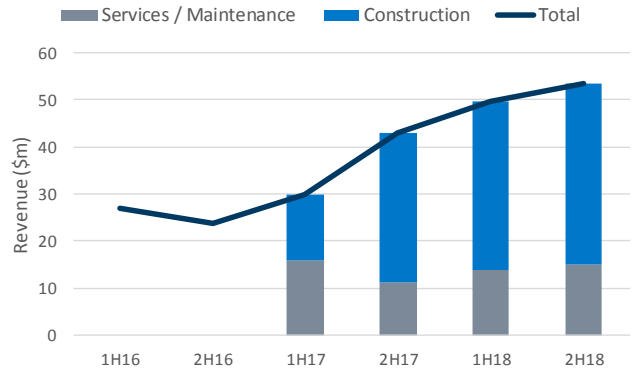
Valmec

Equities Research

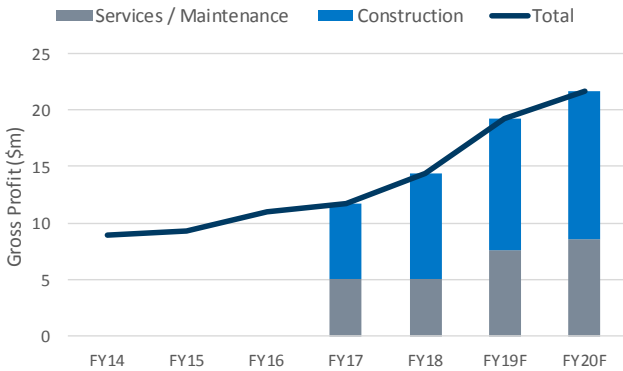
Revenue (Argonaut assumption on historic split; Argonaut forecast splits)



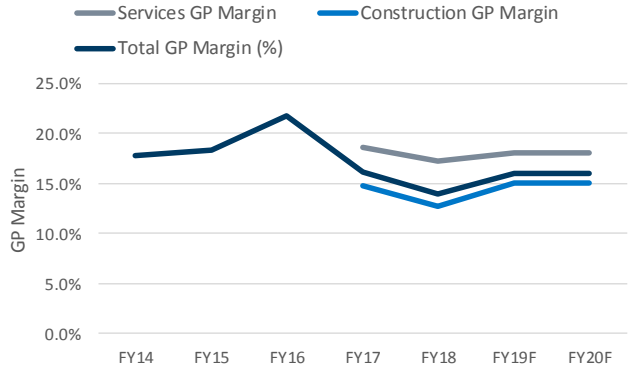
Revenue (Argonaut assumption on historic split)



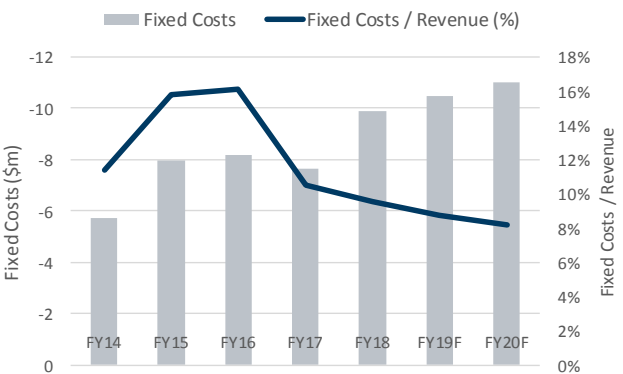
Gross Profit (Argonaut assumptions on historic and forecast splits)



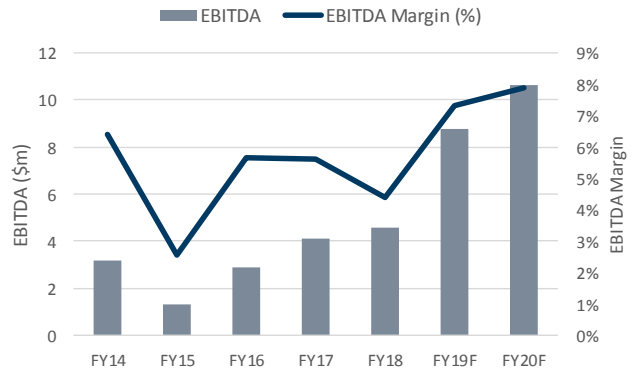
GP Margin (Argonaut assumptions on historic and forecast segment margins)



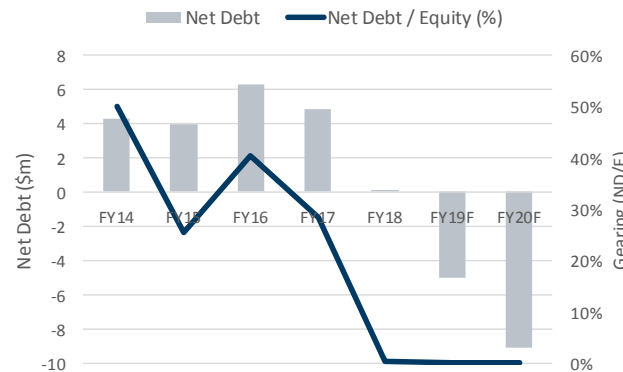
Fixed Costs



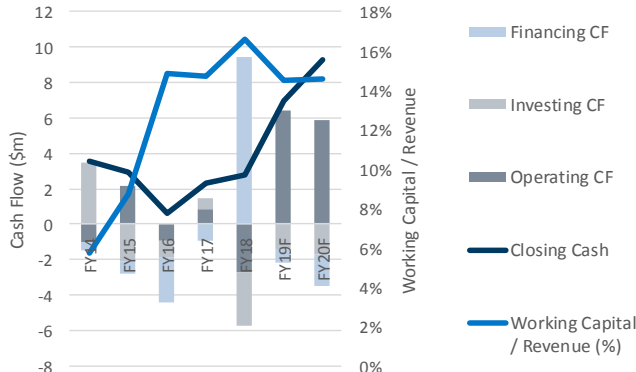
EBITDA



Gearing



Cash Flow



Valmec - Argonaut Summary									
	FY17	FY18	FY19F	FY20F	FY21F	1H17	2H17	1H18	2H18
A\$ millions	Historic Forecast					Historic			
Revenue (Argonaut assumptions on historic splits; Argonaut forecast splits)									
Services / Maintenance	26.9	29.0	42.0	47.3	49.6	15.8	11.1	14.0	15.0
Construction	46.0	74.2	78.0	87.8	92.1	14.2	31.8	35.8	38.4
Total	72.9	103.2	120.0	135.0	141.8	30.0	42.9	49.8	53.4
Services / Maintenance (%)	37%	28%	35%	35%	35%	53%	26%	28%	28%
Construction (%)	63%	72%	65%	65%	65%	47%	74%	72%	72%
Total (%)	100%	100%	100%	100%	100%	100%	100%	100%	100%
* Note this analysis excludes other revenue									
Gross Profit (Argonaut assumptions on historic splits; Argonaut forecast splits)									
Services / Maintenance	5.0	5.0	7.6	8.5	8.9				
Construction	6.8	9.4	11.7	13.2	13.8				
Total	11.8	14.4	19.3	21.7	22.8	4.3	7.4	7.7	6.7
Services / Maintenance GP Margin (%)	18.6%	17.2%	18.0%	18.0%	18.0%				
Construction GP Margin (%)	14.7%	12.7%	15.0%	15.0%	15.0%				
Total GP Margin (%)	16.1%	14.0%	16.1%	16.1%	16.1%	14.5%	17.3%	15.4%	12.6%
Fixed Costs									
Fixed Costs	(7.7)	(9.9)	(10.5)	(11.0)	(11.3)	(3.3)	(4.4)	(4.4)	(5.5)
Fixed Costs / Revenue (%)	10.5%	9.6%	8.8%	8.2%	8.0%	11.0%	10.2%	8.8%	10.3%
EBITDA									
EBITDA	4.1	4.6	8.8	10.6	11.5	1.0	3.1	3.3	1.3
EBITDA Margin (%)	5.6%	4.4%	7.3%	7.9%	8.1%	3.5%	7.1%	6.6%	2.4%
Balance Sheet									
Gross Debt	7.1	2.9	2.0	0.2	0.2	4.6	7.1	7.0	2.9
Net Debt	4.9	0.1	(5.0)	(9.1)	(15.1)	3.9	4.9	4.9	0.1
Equity	17.2	31.5	35.8	41.6	48.2	15.7	17.2	18.8	31.5
Net Debt / Equity (%)	28.2%	0.4%	net cash	net cash	net cash	24.5%	28.2%	25.9%	0.4%
Cash Flow									
Operating CF	0.8	(2.8)	6.4	5.8	7.6	2.6	(1.7)	0.2	(2.9)
Investing CF	0.6	(2.9)	(1.4)	(1.7)	(1.7)	(0.1)	0.7	(0.1)	(2.8)
Financing CF	(0.9)	9.4	(0.8)	(1.8)	-	(0.2)	(0.7)	(0.3)	9.7
Closing Cash	2.3	2.7	7.0	9.3	15.3	0.7	2.3	2.2	2.7
Working Capital	10.7	17.1	17.4	19.7	20.7	5.7	10.7	12.7	17.1
Working Capital / Revenue (%)	14.7%	16.6%	14.5%	14.6%	14.6%				

Adjustments to forecasts

Figure 1: Argonaut adjustments to forecasts

Normalised*	FY17	FY18	FY19F				FY20F			
	Actual	Actual	Old	New	Change	Change	Old	New	Change	Change
Revenue (\$m)	72.9	103.2	130.0	120.0	-10.0	-8%	143.0	135.0	-8.0	-6%
Gross Profit (\$m)	11.8	14.4	22.2	19.3	-2.9	-13%	24.4	21.7	-2.7	-11%
GP Margin	16.1%	14.0%	17.0%	16.1%	-1.0%		17.0%	16.1%	-1.0%	
EBITDA (\$m)	4.1	4.9	10.2	8.8	-1.4	-14%	12.1	10.6	-1.4	-12%
EBITDA margin	5.6%	4.7%	7.8%	7.3%	-0.5%		8.4%	7.9%	-0.6%	
PBT (\$m)	2.2	2.6	8.3	6.8	-1.5	-18%	10.2	8.9	-1.4	-13%
NPAT (\$m)	1.6	2.6	5.8	5.0	-0.8	-15%	7.2	6.4	-0.7	-10%
Rep. NPAT (\$m)	1.6	3.8	5.8	4.3	-1.5	-26%	7.2	5.8	-1.4	-20%
EPS (cps)	1.9	2.6	4.6	4.0	-0.7	-15%	5.7	5.1	-0.6	-10%

* Normalised numbers adjust for one-offs and amortisation

Source: Argonaut forecasts

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