

## BUY

Current Price \$0.15  
Valuation \$0.35

Ticker: VMX.ASX  
Sector: Engineering & Contracting

Shares on Issue (m): 125.7  
Market Cap (\$m): 18.9  
Net Debt / (Cash) (\$m): -0.2  
Enterprise Value (\$m): 18.6  
52 wk High/Low: 0.33 0.15  
12m Av Daily Vol (m): 0.12

### Key Metrics

	20F	21F
EV/EBITDA (x)	3.3	2.2
EV/EBIT (x)	5.9	3.2
P/E (x)	11.8	5.2

### Ratios

	19A	20F	21F
ND / Equity	3.4%	0.9%	-1.3%
EBITDA Mgn	7.3%	5.1%	6.5%
RoA	12.1%	5.5%	9.7%
RoE	13.4%	5.3%	11.3%

### Financials:

Normalised*:	19A	20F	21F
Revenue (\$m)	110.2	112.0	130.0
EBITDA (\$m)	8.1	5.7	8.4
NPAT (\$m)	4.1	1.6	3.6

\* Adj. for one-offs & amortisation

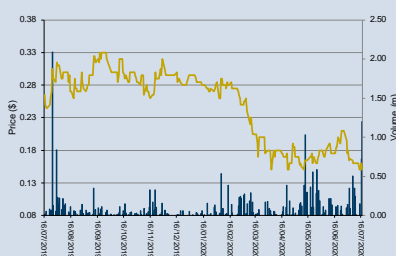
Net Assets (\$m) 29.9 30.5 33.7

Op CF (\$m) 0.2 1.6 2.3

### Per Share Data:

	19A	20F	21F
Norm. EPS (cps)	3.3	1.3	2.9
DPS (cps)	0.00	0.00	0.00
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	21.4	22.2	25.1
CFPS (cps)	0.1	1.3	1.8

### Share Price Graph



Please refer to important disclosures at end of the report (from page 3)

Friday, 17 July 2020

## Valmec (VMX)

### Market update

Analyst | Ian Christie, CFA

### Quick Read

VMX's update is noteworthy for the confident tone around earnings growth in FY21 and a maintained liquidity position through a difficult half. VMX screens value on FY20 EBITDA guidance of ~\$5.7m before taking into account any FY21 earnings growth. Our FY21+ forecasts are little changed, and we maintain a BUY call on a \$0.35 blended valuation.

### View | Upbeat for FY21

**Market update:** VMX expects FY20 underlying EBITDA to be ~\$5.7m. Prior guidance for revenue of \$130-140m and EBITDA of \$9.1-10.1m was withdrawn in March post which we pencilled in EBITDA of \$7.9m. At the time we noted the range in potential outcomes was broad and, given the update highlights delays and deferrals, we pull back our revenue forecast more-so than GP margin to get a revised FY20 EBITDA result near guidance.

**Upbeat for FY21:** Positively, VMX anticipates revenue growth of more than 20% in FY21 with EBITDA "set to significantly grow". The tone suggests confidence in this outlook, with an order book (including preferred contract positions) of \$74m, a strong tender and opportunity pipeline, and a growing diversity of revenue streams (including to water and resources infrastructure). Further, we see the strategy to provide a broader suite of energy services sitting well with clients and cementing relationships.

**Pick-up this year:** We have left our FY21+ numbers little changed. This sees conservative FY21 revenue growth compared to guidance, but at this stage we believe is warranted pending release of the actual revenue outturn for FY20, while there remains a degree of uncertainty around C-19, and given the slowdown in oil & gas markets. That said, FY20 delays and deferrals should see work shift into this financial year, and a higher exposure to the northern and western parts of Australia, rather than the south and east, is positive.

**Cash management:** In our prior note we pointed out that 2H20 cash flow would be a key focus. The Company's indication that net cash and available facilities currently stand at \$23.1m suggests there has been little change to the net gearing position through this half, a positive result given business strain posed by C-19 in recent months. It will still remain a focus in coming periods, particularly if the conversion of opportunities necessitates additional investment in working capital.

### Recommendation

Given our FY21+ forecasts are little changed we retain a blended valuation of \$0.35. The Company is trading on undemanding multiples, and we maintain a BUY call. The ongoing John Holland litigation is worth noting (the summons is for ~\$11.6m plus interest and costs); given it has been completely written off in the books, any successful resolution would result in a one-off lift to earnings and cash flow.

## Valmec

## Equity Research

Ian Christie

Recommendation	BUY
Current Price (\$)	0.150
Valuation (\$)	0.35

Sector	Engineering & Contracting
Market Cap (\$m)	18.9
Date	17 July 2020

Trading Metrics	FY18A	FY19A	FY20F	FY21F
EV / EBITDA (x)	3.8	2.3	3.3	2.2
EV / EBIT (x)	5.3	2.8	5.9	3.2
P/E (x)	5.8	4.6	11.8	5.2
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY18A	FY19A	FY20F	FY21F
Reported EPS (cps)	3.71	2.82	0.49	2.55
Adjusted EPS (cps)	2.59	3.28	1.27	2.90
Div. per share (cps)	0.00	0.00	0.00	0.00
NTA per share (cps)	27.60	21.44	22.21	25.11
CF per share (cps)	-2.71	0.14	1.27	1.81

Underlying P&L (\$m)*	FY18A	FY19A	FY20F	FY21F
Revenue	103.2	110.2	112.0	130.0
EBITDA	4.9	8.1	5.7	8.4
Depreciation	(1.4)	(1.5)	(2.6)	(2.5)
EBIT	3.5	6.6	3.1	5.9
PBT	2.6	5.4	2.1	5.0
NPAT	2.6	4.1	1.6	3.6
Reported NPAT	3.8	3.5	0.6	3.2

\* Normalised for one-off items &amp; amortisation

Cash Flow (\$m)	FY18A	FY19A	FY20F	FY21F
Receipts	93.5	99.2	116.9	123.8
Payments	(95.3)	(97.9)	(114.0)	(119.2)
Other / Prepayments	(1.0)	(1.1)	(1.3)	(2.3)
Cash from Operations	(2.8)	0.2	1.6	2.3
Property, Plant & Equip	(0.5)	(1.4)	(0.9)	(1.6)
Payment for Subsidiary	(2.6)	-	-	-
Other	0.2	0.1	-	-
Cash From Investing	(2.9)	(1.3)	(0.9)	(1.6)
Issue of Shares	10.4	0.3	-	-
Net Borrowing	(1.0)	(0.8)	(0.9)	(0.4)
Dividends / Other	-	-	-	-
Cash From Financing	9.4	(0.5)	(0.9)	(0.4)
Net Cash Flow	3.7	(1.7)	(0.2)	0.3
Ending Cash	2.7	1.1	0.9	1.2

Balance Sheet (\$m)	FY18A	FY19A	FY20F	FY21F
Cash (incl. overdraft)	2.7	3.8	1.4	1.7
Receivables	29.0	32.5	27.6	33.8
Inventory / Other	7.7	7.7	9.7	10.6
Current Assets	39.5	44.0	38.7	46.1
Property, Plant & Equip	10.6	10.4	9.7	9.7
Other NC Assets	5.1	5.7	10.7	10.2
Non-Current Assets	15.8	16.0	20.3	19.9
Total Assets	55.2	60.0	59.0	66.1
Payables	19.0	23.0	19.1	23.3
Borrowings	2.9	4.8	1.7	1.3
Provisions / Other	1.9	2.3	7.8	7.8
Total Liabilities	23.8	30.2	28.5	32.4
Net Assets	31.5	29.9	30.5	33.7
Ordinary Equity	16.6	16.9	16.9	16.9
Reserves	0.4	0.3	0.3	0.3
Retained Earnings	14.5	12.6	13.3	16.5
Total Equity	31.5	29.9	30.5	33.7

Valuation	Calcs.	\$m	\$ps
<b>DCF Valuation:</b>			
Discount Rate / WACC (%)	12.6%		
PV Free Cash Flow (\$m)		45.8	
Less Net Debt / Plus Cash (\$m)		0.2	
Unpaid Capital (\$m)		-	
<b>Equity Value (\$m)</b>		<b>46.0</b>	<b>0.37</b>

<b>Earnings Capitalisation Valuation:</b>			
FY21 EBITDA multiple	4.5	38.0	0.30
FY21 PE multiple	10.0	36.4	0.29
<b>Valuation (\$/share) - blend of DCF &amp; earnings cap</b>			<b>0.35</b>

Underlying P&L (\$m)*	1H19A	2H19A	1H20A	2H20F
Revenue	47.5	62.7	70.2	41.8
EBITDA	3.3	4.8	5.4	0.3
Depreciation	(0.8)	(0.7)	(1.2)	(1.3)
EBIT	2.5	4.1	4.2	(1.0)
PBT	1.9	3.6	3.6	(1.5)
NPAT	1.3	2.8	2.5	(0.9)
Reported NPAT	1.3	2.2	2.3	(1.7)

\* Normalised for one-off items &amp; amortisation

Cash Flow (\$m)	1H19A	2H19A	1H20A	2H20F
Receipts	46.5	52.7	69.8	47.1
Payments	(49.7)	(48.2)	(67.4)	(46.6)
Other / Prepayments	(0.6)	(0.5)	(0.6)	(0.7)
Cash from Operations	(3.8)	4.0	1.8	(0.2)
Property, Plant & Equip	(1.1)	(0.4)	(0.2)	(0.6)
Payment for Subsidiary	-	-	-	-
Other	0.0	0.1	0.1	(0.1)
Cash From Investing	(1.0)	(0.3)	(0.2)	(0.7)
Issue of Shares	0.3	-	-	-
Net Borrowing	0.1	(0.9)	(0.2)	(0.7)
Dividends / Other	-	-	-	-
Cash From Financing	0.4	(0.9)	(0.2)	(0.7)
Net Cash Flow	(4.4)	2.8	1.4	(1.6)
Ending Cash	(1.7)	1.1	2.5	0.9

Financial Ratios	FY18A	FY19A	FY20F	FY21F
<b>Growth</b>				
Revenue growth (%)	41.6%	6.7%	1.7%	16.1%
Norm. EPS growth (%)	36.9%	26.3%	-61.1%	127.3%
<b>Profitability Ratios</b>				
GP Margin (%)	14.0%	18.2%	15.7%	15.9%
EBITDA Margin (%)	4.7%	7.3%	5.1%	6.5%
Return on Assets (%)	7.7%	12.1%	5.5%	9.7%
Return on Equity (%)	10.8%	13.4%	5.3%	11.3%
ROIC (%)	12.3%	19.7%	6.1%	10.4%
<b>Balance Sheet Ratios</b>				
Net Debt (ND) / Equity (%)	0.4%	3.4%	0.9%	-1.3%
ND / ND + Equity (%)	0.4%	3.3%	0.9%	-1.3%
Current Ratio (x)	1.8	1.5	1.7	1.7
Net Interest Cover (x)	5.7	5.4	1.8	6.1
<b>Cash Flow Ratios</b>				
Free Cash Flow Yield (%)	-38.6%	-6.2%	3.9%	3.8%
Cash Conversion (x)	(0.6)	0.0	0.3	0.3

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