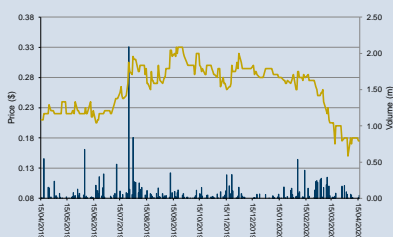


BUY

Current Price \$0.175
Valuation \$0.35

Ticker:	VMX.ASX		
Sector:	Engineering & Contracting		
Shares on Issue (m):	125.7		
Market Cap (\$m):	22.0		
Net Debt / (Cash) (\$m):	-0.2		
Enterprise Value (\$m):	21.8		
52 wk High/Low:	0.33	0.15	
12m Av Daily Vol (m):	0.09		
Key Metrics			
	20F	21F	
EV/EBITDA (x)	2.8	2.6	
EV/EBIT (x)	4.1	3.6	
P/E (x)	7.0	6.2	
Ratios			
	19A	20F	21F
ND / Equity	3.4%	2.7%	-6.6%
EBITDA Mgn	7.3%	6.2%	6.5%
RoA	12.1%	9.0%	9.4%
RoE	13.4%	10.0%	10.4%
Financials:			
<i>Normalised*:</i>	19A	20F	21F
Revenue (\$m)	110.2	127.5	130.0
EBITDA (\$m)	8.1	7.9	8.5
NPAT (\$m)	4.1	3.1	3.6
<i>* Adj. for one-offs & amortisation</i>			
Net Assets (\$m)	29.9	32.5	36.1
Op CF (\$m)	0.2	1.0	4.8
Per Share Data:			
	19A	20F	21F
Norm. EPS (cps)	3.3	2.5	2.8
DPS (cps)	0.00	0.00	0.00
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	21.4	23.8	26.7
CFPS (cps)	0.1	0.8	3.8

Share Price Graph



Please refer to important disclosures at end of the report (from page 4)

Thursday, 16 April 2020

Valmec (VMX)

Review

Analyst | Ian Christie, CFA

Quick Read

We reduce our earnings forecasts given the virus crisis impact on normal operations. We expect some delays to project work and deferral of non-essential services work, and we also anticipate additional costs as businesses endeavour to keep their employees safe. We expect VMX to continue its upward earnings trajectory post crisis but see balance sheet strength as key in the meantime. There is value on our revised numbers at the current price and we maintain a BUY call on a valuation of \$0.35 (prior \$0.42).

View | Factoring in risks

Delays: Despite starting the period with an \$80m order book providing good visibility and being “strongly positioned” at interim reporting, VMX unsurprisingly withdrew FY20 guidance in late March (previously revenue of \$130-140m and EBITDA of \$9.1-10.1m). The Company indicated that the heightened uncertainty caused by COVID-19 and government measures to mitigate the risks were resulting in delays in the execution of the current order book as well as in the commencement of new contracts.

Revisions: The range of potential outcomes is broad and our numbers will likely need recasting as the virus runs its course and new information comes to light. For now we assume some deferral of non-essential services as well as delays to project work over the remainder of FY20. Further we factor in a negative margin impact as costs and productivity are likely to be impacted by measures put in place to safeguard employees’ well-being. We expect the effects to extend into FY21, where we have also introduced more conservatism to our numbers. Adjustment detail is provided on page 3.

Revenue streams: We expect capex decisions on projects to be delayed in the near term. Once the crisis has passed however, we believe there is reason to be positive on the Company’s prospects, particularly with the emphasis on and growth of recurring revenue streams. Greater diversity is also noteworthy, with increasing exposure to water utilities and gold sector infrastructure providing opportunity in addition to onshore gas.

Balance sheet: Financial strength is key during tough times but forecasting cash flow is difficult. Given current events and amended forecasts we now assume a net cash outflow in 2H20, noting an extra \$2.2m tied up in working capital (mostly inventory) at interims. At December VMX had cash of \$3.0m and debt of \$2.8m. While this, together with available facilities, should be sufficient to manage near-term impacts, the balance sheet will be in greater focus should COVID-19 related issues continue for an extended period.

Recommendation

Our blended valuation (DCF weighted) falls to \$0.35 (prior \$0.42) on our new forecasts. Multiples remain low following share price falls and we retain a BUY call.

Valmec

Equity Research

Ian Christie

Recommendation	BUY
Current Price (\$)	0.175
Valuation (\$)	0.35

Sector	Engineering & Contracting
Market Cap (\$m)	22.0
Date	16 April 2020

Trading Metrics	FY18A	FY19A	FY20F	FY21F
EV / EBITDA (x)	4.5	2.7	2.8	2.6
EV / EBIT (x)	6.2	3.3	4.1	3.6
P/E (x)	6.7	5.3	7.0	6.2
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY18A	FY19A	FY20F	FY21F
Reported EPS (cps)	3.71	2.82	2.10	2.83
Adjusted EPS (cps)	2.59	3.28	2.49	2.83
Div. per share (cps)	0.00	0.00	0.00	0.00
NTA per share (cps)	27.60	21.44	23.83	26.66
CF per share (cps)	-2.71	0.14	0.77	3.85

Underlying P&L (\$m)*	FY18A	FY19A	FY20F	FY21F
Revenue	103.2	110.2	127.5	130.0
EBITDA	4.9	8.1	7.9	8.5
Depreciation	(1.4)	(1.5)	(2.6)	(2.5)
EBIT	3.5	6.6	5.3	6.0
PBT	2.6	5.4	4.3	5.1
NPAT	2.6	4.1	3.1	3.6
Reported NPAT	3.8	3.5	2.6	3.6

* Normalised for one-off items & amortisation

Cash Flow (\$m)	FY18A	FY19A	FY20F	FY21F
Receipts	93.5	99.2	128.6	127.6
Payments	(95.3)	(97.9)	(125.4)	(120.3)
Other / Prepayments	(1.0)	(1.1)	(2.2)	(2.4)
Cash from Operations	(2.8)	0.2	1.0	4.8
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)	(0.8)	2.9
Ending Cash	2.7	1.1	0.3	3.1

Balance Sheet (\$m)	FY18A	FY19A	FY20F	FY21F
Cash (incl. overdraft)	2.7	3.8	0.8	3.7
Receivables	29.0	32.5	31.4	33.8
Inventory / Other	7.7	7.7	10.7	10.6
Current Assets	39.5	44.0	43.0	48.1
Property, Plant & Equip	10.6	10.4	9.7	9.7
Other NC Assets	5.1	5.7	10.7	10.7
Non-Current Assets	15.8	16.0	20.3	20.4
Total Assets	55.2	60.0	63.3	68.4
Payables	19.0	23.0	21.3	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	30.8	32.4
Net Assets	31.5	29.9	32.5	36.1
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	15.3	18.9
Total Equity	31.5	29.9	32.5	36.1

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.6%		
PV Free Cash Flow (\$m)		46.0	
Less Net Debt / Plus Cash (\$m)		0.2	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		46.3	0.37

Earnings Capitalisation Valuation:

FY21 EBITDA multiple	4.5	38.4	0.31
FY21 PE multiple	10.0	35.6	0.28
Valuation (\$/share) - blend of DCF & earnings cap			0.35

Underlying P&L (\$m)*	1H19A	2H19A	1H20A	2H20F
Revenue	47.5	62.7	70.2	57.3
EBITDA	3.3	4.8	5.4	2.5
Depreciation	(0.8)	(0.7)	(1.2)	(1.3)
EBIT	2.5	4.1	4.2	1.1
PBT	1.9	3.6	3.6	0.7
NPAT	1.3	2.8	2.5	0.6
Reported NPAT	1.3	2.2	2.3	0.4

* Normalised for one-off items & amortisation

Cash Flow (\$m)	1H19A	2H19A	1H20A	2H20F
Receipts	46.5	52.7	69.8	58.8
Payments	(49.7)	(48.2)	(67.4)	(58.0)
Other / Prepayments	(0.6)	(0.5)	(0.6)	(1.6)
Cash from Operations	(3.8)	4.0	1.8	(0.8)
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	(2.2)
Ending Cash	(1.7)	1.1	2.5	0.3

Financial Ratios	FY18A	FY19A	FY20F	FY21F
Growth				
Revenue growth (%)	41.6%	6.7%	15.7%	2.0%
Norm. EPS growth (%)	36.9%	26.3%	-23.9%	13.7%
Profitability Ratios				
GP Margin (%)	14.0%	18.2%	15.6%	16.0%
EBITDA Margin (%)	4.7%	7.3%	6.2%	6.5%
Return on Assets (%)	7.7%	12.1%	9.0%	9.4%
Return on Equity (%)	10.8%	13.4%	10.0%	10.4%
ROIC (%)	12.3%	19.7%	10.0%	10.1%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	0.4%	3.4%	2.7%	-6.6%
ND / ND + Equity (%)	0.4%	3.3%	2.7%	-7.1%
Current Ratio (x)	1.8	1.5	1.7	1.8
Net Interest Cover (x)	5.7	5.4	4.5	6.7
Cash Flow Ratios				
Free Cash Flow Yield (%)	-33.1%	-5.3%	0.5%	14.9%
Cash Conversion (x)	(0.6)	0.0	0.1	0.6

Adjustments to forecasts

Figure 1: Adjustments to forecasts

Normalised*	FY17	FY18	FY19	FY20F			FY21F		
	Actual	Actual	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	72.9	103.2	110.2	139.0	127.5	-8%	144.0	130.0	-10%
Gross Profit (\$m)	11.8	14.4	20.0	22.5	19.9	-11%	23.9	20.8	-13%
GP Margin	16.1%	14.0%	18.2%	16.2%	15.6%		16.6%	16.0%	
EBITDA (\$m)	4.1	4.9	8.1	10.2	7.9	-23%	11.0	8.5	-23%
EBITDA margin	5.6%	4.7%	7.3%	7.3%	6.2%		7.6%	6.5%	
EBIT(A) (\$m)	3.0	3.5	6.6	7.6	5.3	-30%	8.5	6.0	-29%
PBT(A) (\$m)	2.2	2.6	5.4	6.5	4.3	-35%	7.5	5.1	-32%
NPAT(A) (\$m)	1.6	2.6	4.1	4.7	3.1	-34%	5.2	3.6	-32%
Rep. NPAT (\$m)	1.6	3.8	3.5	4.2	2.6	-37%	5.2	3.6	-32%
EPS (cps)	1.9	2.6	3.3	3.8	2.5	-34%	4.2	2.8	-32%

* Normalised numbers adjust for one-offs and amortisation

Source: Argonaut forecasts

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