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BUY

Current Price \$1.06

Valuation \$1.55

Tuesday, 22 August 2023

Perenti (PRN)

Moving parts

Analyst | Ian Christie

Quick Read

PRN's FY23 performance was strong across the board, although investors appear to have focused on the forecast extent and expensing of future facing investment initiatives. In our view this is a wise allocation of capital for a firm looking to a tech-enhanced future.

Key points

Strong results: FY23 earnings were in line with guidance (which had been increased four times during the year), and operating cash flow of \$398M was ahead of the \$349M we had pencilled in. As a result leverage dropped below 1x (to 0.9x) ahead of expectations. The Underground segment delivered record performance, with EBIT(A) of \$257M up 39% at a margin of 12.7%. The Surface business continued its recovery path, with EBIT(A) of \$62M up 106% at a margin of 9.4%. Further Surface improvement is expected in FY24. Revenue climbed across other businesses, although investment in idoba impacted margin such that this segment's EBIT(A) of \$7M was down 45% at a margin of 3.7%.

Standalone guidance: On a standalone basis (excluding DDH) PRN is targeting revenue of \$2.8-3.0B, EBIT(A) of \$260-275M, leverage of 0.8-0.9x and net capex ~\$330M. We had revenue of \$2.9B and EBIT(A) of \$265M, comfortably in line with this guidance. PRN has previously pointed out its intention to invest 10-20% of free cash flow in future facing initiatives, which we had previously capitalised and reflected as an investing cash outflow. PRN's intention now is to partly expense this investment. This more conservative treatment has no cash flow impact but does reduce PRN standalone earnings, which we now forecast to be \$253M at the EBIT(A) line.

PRN & DDH combined: Our forecasts continue to assume the transaction proceeds (DDH shareholders are due to vote on 18th September), and we capture an assumed eight-month DDH contribution in FY24. Compared to PRN standalone our capex line is higher to account for DDH stay in business capital and leverage is lower to reflect DDH's low gearing. In other model tweaks we adjust the FY24 combined effective tax rate to 31% to reflect PRN commentary and pare back longer-term underground margin assumptions. Although PRN is targeting a 10% EBIT(A) margin in FY25 our forecast of 9.2% (inclusive of non-capitalised future facing expenses) and 9.6% (excluding) remains more conservative.

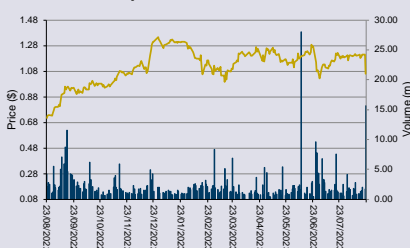
Standalone value: The negative share price move today may increase the risk to the DDH transaction proceeding. If DDH shareholders are not in favour, we note the same valuation EV/EBIT(A) multiple on standalone numbers drives a similar multiple valuation of ~\$1.40.

Valuation & recommendation

More conservative longer-term margin assumptions, expenses related to future facing initiatives, and a higher expected tax rate impacts our DCF and multiple valuations. On a combined basis it falls to \$1.55 (prior \$1.65) and continues to support a BUY call.

Ticker:	PRN.ASX		
Sector:	Mining Services		
Shares on Issue (m)*:	969		
Market Cap (\$m)*:	1,028		
Net Debt (\$m):	499		
Enterprise Value (\$m)*:	1,527		
* Assumed post DDH acquisition			
52 wk High/Low:	1.35	0.72	
12m Av Daily Vol (m):	2.21		
Key Metrics			
	24F	25F	
EV/EBITDA (x)	2.3	2.1	
EV/EBIT (x)	5.0	4.6	
P/E (x)	5.5	5.4	
Ratios			
	23A	24F	25F
ND/(ND+E)	25.9%	20.3%	17.2%
Cash Con.	95%	93%	93%
Leverage (x)	0.9	0.7	0.6
EBIT(A) Mgn	9.2%	9.2%	9.2%
RoE	9.6%	10.1%	9.9%
Financials*:			
	23A	24F	25F
Revenue (\$m)	2,880.1	3,305.0	3,617.4
EBITDA (\$m)	552.6	653.7	715.4
EBIT(A) (\$m)	264.0	303.4	332.0
PBT(A) (\$m)	203.1	243.1	272.0
NPAT(A) (\$m)	131.8	167.7	190.4
Rep. NPAT (\$m)	95.7	128.2	152.0
* Underlying unless otherwise stated			
Net Assets (\$m)	1,426.3	1,890.3	1,974.4
Op CF (\$m)	398.1	469.1	522.6
Per Share Data:			
	23A	24F	25F
EPS Dil.* (cps)	18.4	19.2	19.6
DPS (cps)	0.0	3.5	7.0
Div Yield	0.0%	3.3%	6.6%
NTAPS (cps)	117.3	127.8	138.3
CFPS (cps)	55.6	53.7	53.9
* Underlying			

Share Price Graph



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



Perenti (PRN)

Assumes PRN and DDH transaction proceeds

Equities Research

Ian Christie, CFA

Recommendation	BUY
Current Price (\$)	1.06
Valuation (\$)	1.55

Sector	Mining Services
Market Cap (\$m)	1,027.6
Date	22 August 2023

Trading Metrics	FY22A	FY23A	FY24F	FY25F
EV / EBITDA (x)	3.6	2.8	2.3	2.1
EV / EBIT (x)	8.7	5.8	5.0	4.6
P/E (x)	9.2	5.8	5.5	5.4
Dividend Yield (%)	0.0%	0.0%	3.3%	6.6%

Per Share Data*	FY22A	FY23A	FY24F	FY25F
Reported EPS (cps)	6.0	14.9	15.8	16.7
Normalised EPS (cps)	11.6	19.1	19.2	19.6
Div. per share (cps)	0.0	0.0	3.5	7.0
NTA per share (cps)	95.4	117.3	127.8	138.3
CF per share (cps)	48.2	55.6	53.7	53.9

* Adjusted for one-off items

Profit and Loss (\$m)	FY22A	FY23A	FY24F	FY25F
Reported Revenue	2,437.7	2,880.1	3,305.0	3,617.4
Reported EBITDA	405.4	544.8	653.7	715.4
Adjustments	21.1	7.8	0.0	0.0
Adjusted EBITDA	426.5	552.6	653.7	715.4
Adjusted EBITDA Margin	17.5%	19.2%	19.8%	19.8%
Depreciation	-250.1	-283.6	-350.3	-383.4
Adjustments	0.0	-4.9	0.0	0.0
Adjusted EBIT(A)	176.4	264.0	303.4	332.0
Adjusted EBIT(A) Margin	7.2%	9.2%	9.2%	9.2%
Net Interest	-55.9	-60.9	-60.3	-60.0
Adjusted PBT(A)	120.5	203.1	243.1	272.0
Adjusted NPAT(A)	81.7	131.8	167.7	190.4
Adjusted NPAT(A) after Min.	79.9	124.9	157.7	180.1
Reported NPAT	42.5	102.6	138.2	162.2
Reported NPAT after Min.	40.7	95.7	128.2	152.0

Cash Flow (\$m)	FY22A	FY23A	FY24F	FY25F
Receipts	2,515.7	3,009.0	3,290.2	3,582.6
Payments	-2,056.8	-2,486.4	-2,695.4	-2,928.4
Other	-117.6	-124.6	-125.6	-131.6
Cash from Operations	341.3	398.1	469.1	522.6
Property, Plant & Equip	-467.9	-373.9	-353.6	-350.3
Acq/Sale Business/Assets	21.6	93.1	-50.0	0.0
Other	134.6	0.2	-5.0	-10.0
Cash From Investing	-311.8	-280.7	-408.6	-360.3
Issue of Shares	0.0	-21.5	0.0	0.0
Net Borrowing	66.5	-145.8	-24.7	-24.7
Dividends / Other	-17.7	-0.4	-23.9	-67.9
Cash From Financing	48.8	-167.7	-48.6	-92.6
Net Cash Flow	78.3	-50.3	11.9	69.7
Ending Cash	348.5	307.4	319.3	389.0

Balance Sheet (\$m)	FY22A	FY23A	FY24F	FY25F
Cash	348.5	307.4	319.3	389.0
Receivables	391.1	435.2	535.0	569.9
Inventory	212.1	227.2	289.7	318.0
Other	20.0	34.3	34.3	34.3
Current Assets	971.8	1,004.1	1,178.2	1,311.2
Property, Plant & Equip	926.3	968.2	1,239.4	1,231.0
Intangibles	652.2	626.1	651.5	633.4
Other NC Assets	239.0	225.0	215.0	205.0
Non-Current Assets	1,817.5	1,819.3	2,105.9	2,069.4
Total Assets	2,789.3	2,823.4	3,284.1	3,380.5
Payables	393.3	421.4	425.0	437.3
Borrowings	845.7	757.1	750.2	750.2
Other	228.0	218.6	218.6	218.6
Total Liabilities	1,466.9	1,397.1	1,393.8	1,406.1
Net Assets	1,322.4	1,426.3	1,890.3	1,974.4
Ordinary Equity	1,147.5	1,135.3	1,495.0	1,495.0
Reserves	-56.0	-35.7	-35.7	-35.7
Retained Earnings	230.9	326.7	431.0	515.1
Total Equity	1,322.4	1,426.3	1,890.3	1,974.4

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	11.5%		
PV Free Cash Flow (\$m)	2,293.8		
Less Net Debt / Plus Cash (\$m)	-499.0		
Unpaid Capital (\$m)	0.0		
Equity Value		1,794.8	1.85
Earnings Capitalisation Valuation:			
Pro forma FY24 EBIT(A) Multiple	5.75	1,382.4	1.43
Pro forma FY24 Net Earnings Multiple	7.50	1,224.6	1.26
Average Equity Value			1.34
Valuation (\$ per share) - blend of DCF and PE			1.55

Profit and Loss (\$m)	1H22A	2H22A	1H23A	2H23A
Reported Revenue	1,192.4	1,245.2	1,438.5	1,441.6
Reported EBITDA	202.8	202.6	273.4	271.4
Adjustments	-1.1	22.2	7.8	-0.0
Adjusted EBITDA	201.7	224.8	281.2	271.4
Adjusted EBITDA Margin	16.9%	18.1%	19.5%	18.8%
Depreciation	-120.9	-129.2	-144.2	-139.4
Adjustments	0.0	0.0	-2.3	0.0
Adjusted EBIT(A)	80.8	95.6	134.7	132.0
Adjusted EBIT(A) Margin	6.8%	7.7%	9.4%	9.2%
Net Interest	-27.2	-28.7	-30.7	-30.2
Adjusted PBT(A)	53.6	66.9	103.9	101.7
Adjusted NPAT(A)	34.9	17.8	61.0	70.8
Adjusted NPAT(A) after Min.	32.7	18.1	56.6	68.4
Reported NPAT	26.7	15.8	44.0	58.6
Reported NPAT after Min.	24.6	16.1	39.7	56.1

Cash Flow (\$m)	1H22A	2H22A	1H23A	2H23A
Receipts	1,210.7	1,305.0	1,513.4	1,495.6
Payments	-1,020.4	-1,036.4	-1,302.9	-1,183.5
Other	-59.9	-57.7	-52.1	-72.4
Cash from Operations	130.5	210.8	158.4	239.7
Property, Plant & Equip	-220.9	-247.0	-165.2	-208.7
Acq/Sale Business/Assets	56.8	-35.2	23.6	69.5
Other	31.2	103.4	0.0	0.2
Cash From Investing	-133.0	-178.8	-141.6	-139.1
Issue of Shares	0.0	0.0	-8.6	-12.9
Net Borrowing	7.8	58.7	-31.4	-114.4
Dividends / Other	-14.1	-3.6	0.0	-0.4
Cash From Financing	-6.3	55.1	-40.0	-127.7
Net Cash Flow	-8.9	87.2	-23.2	-27.1
Ending Cash	258.9	348.5	322.5	307.4

Financial Ratios	FY22A	FY23A	FY24F	FY25F
Growth				
Revenue growth (%)	16.8%	18.2%	14.8%	9.5%
NPAT growth (%)	2.5%	61.2%	27.3%	13.5%
Norm. EPS growth (%)	1.8%	59.7%	4.2%	2.3%
Profitability Ratios*				
EBITDA Margin (%)	17.5%	19.2%	19.8%	19.8%
EBIT Margin (%)	7.2%	9.2%	9.2%	9.2%
ROACE (PRN Calc., %)	15.5%	21.6%	20.6%	19.5%
Return on Equity (%)	6.2%	9.6%	10.1%	9.9%
Balance Sheet Ratios				
Net Debt (ND)	553.3	499.0	480.2	410.5
ND / ND + Equity (%)	29.5%	25.9%	20.3%	17.2%
ND/EBITDA	1.3	0.9	0.7	0.6
Int Cover (Adj. EBITDA, x)	7.6	9.1	10.8	11.9
Cash Flow Ratios				
Free Cash Flow Yield (%)	-14.4%	3.9%	7.1%	16.8%
Cash Con. (pre Int, Tax) (x)	1.08	0.95	0.93	0.93

* based on underlying profits and before amortisation

* ROACE = underlying EBIT(A)/(adjusted average total assets - average current liabilities)

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