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BUY

Current Price \$2.28

Valuation \$2.44

Wednesday, 23 August 2023

GR Engineering (GNG)

FY23 Results

Analyst | Ian Christie

Quick Read

Revenue was above guidance, but the standout was the margin jump in 2H23 as several projects completed. The balance sheet is healthy, with \$86M cash despite \$31M paid in dividends through the year. Visibility for the next couple of years is good and will get better when formal go-ahead is received on two near-term opportunities.

Key points

FY23 headlines: After delivering record breaking revenue of \$652M in FY22, GNG had guided to \$500-530M revenue in FY23. This line came in at \$551M, 4% ahead of the top end of guidance and our forecast. While revenue was a beat, the standout for us was the strong margin performance which jumped from 6.2% in the 1H (which had been impacted by projects in Tasmania which are now completed) to 10.8% in the 2H. It resulted in full year EBITDA of \$44.4M, comfortably ahead of our expectation (which was based on an 8.0% margin expectation in 2H23). A final dividend of 10cps brings the full year payout to 19cps (yielding an impressive 8.3% at the current share price).

Robust balance sheet: GNG retains a strong cash position of \$86.0M (in line with our expectations) after paying out \$30.7M in dividends. Full year operating cash flow of \$13.7M showed a decent 2H turnaround after the outflow of \$8.6M in the 1H.

Mineral processing work: Three contracts are expected to complete this half: Kimberley Mineral Sands' Thunderbird Project, Golden Spur's Bellevue Gold Project, and IGO's Cosmos Nickel Concentrator upgrade. The large \$312M West Musgrave Project for BHP is expected to complete around April 2025, providing a good baseload for the next two financial years. Recently GNG was awarded a \$210M EPC contract for Hasting's Yangibana Rare Earths Project subject to Hasting's finalising funding and other CP's. GNG has also received a Letter of Intent for EPC works for K92 Mining's Kainantu Gold Mine, worth a further US\$81M. If these two contracts both proceed on schedule, we believe our current FY24 revenue forecast of \$500M is largely backfilled (see page 3).

Forecasts: Despite this, our FY24 forecasts are little changed as we wait for formal award and commencement on both Yangibana and Kainantu. If forthcoming there is upside to these numbers. We are now less conservative in our revenue assumptions for FY25 and beyond for two reasons. Firstly, contracted work, study work, and pipeline opportunities are healthy. Secondly, GNG has now averaged six-monthly revenue of ~\$250M for the last three years assuming a normalised Upstream PS contribution. The key risk to forecasts is potential funding and timing difficulties for new project proponents.

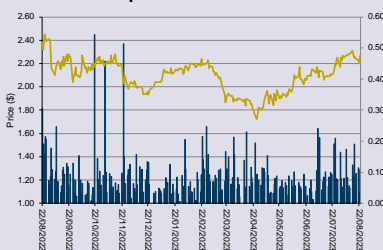
Valuation & recommendation

Forecast adjustments see our blended valuation climb to \$2.44 (prior \$2.37). GNG's track record, its balance sheet strength, and the pipeline opportunities underpin our BUY call.

Ticker:	GNG.ASX		
Sector:	Engineering		
Shares on Issue (m):	161.6		
Market Cap (\$m):	368.4		
Net Debt (Cash) (\$m):	-86.0		
Enterprise Value (\$m):	282.4		
52 wk High/Low:	\$2.45	\$1.72	
12m Av Daily Vol (m):	84.65		
Key Metrics	24F	25F	
EV/EBITDA (x)	7.1	7.5	
EV/EBIT (x)	8.1	8.6	
P/E (x)	15.1	16.1	
Ratios	23A	24F	25F
EBITDA Mgn	8.0%	8.0%	8.0%
NPAT Mgn	5.1%	5.0%	5.0%
RoA	37.0%	33.7%	32.3%
RoE	46.0%	44.3%	44.1%
Normalised Financials:	23A	24F	25F
Revenue (\$m)	551.4	500.0	475.0
EBITDA (\$m)	44.4	39.8	37.9
EBIT (\$m)	39.5	34.7	32.8
PBT (\$m)	40.9	36.0	33.9
NPAT (\$m)	28.3	25.2	23.8
Rep NPAT (\$m)	27.5	24.4	23.0
Net Assets (\$m)	59.7	55.0	52.2
Op CF (\$m)	13.7	22.8	24.3
Per Share Data:	23A	24F	25F
EPS (cps)	16.4	14.6	13.7
Norm EPS (cps)*	16.9	15.1	14.2
DPS (cps)	19.0	18.0	16.0
Div Yield	8.3%	7.9%	7.0%
NTAPS (cps)	23.1	20.9	19.9
CFPS (cps)	8.5	14.1	15.0

* Adjusted for amortisation and one-offs

Share Price Graph



Please refer to important disclosures from page 4



GR Engineering

Equities Research

Ian Christie

Recommendation	BUY
Current Price (\$)	2.28
Valuation (\$)	2.44

Sector	Engineering
Market Cap (\$m)	368.4
Date	23 August 2023

Trading Metrics	FY22A	FY23A	FY24F	FY25F
EV / EBITDA (x)	5.1	6.4	7.1	7.5
EV / EBIT (x)	5.5	7.1	8.1	8.6
P/E (x)	10.7	13.5	15.1	16.1
Dividend Yield (%)	8.3%	8.3%	7.9%	7.0%

Trading metrics adjusted for one-offs

Per Share Data	FY22A	FY23A	FY24F	FY25F
Reported EPS (cps)	20.8	16.4	14.6	13.7
Normalised EPS (cps)	21.4	16.9	15.1	14.2
Div. per share (cps)	19.0	19.0	18.0	16.0
NTA per share (cps)	24.3	23.1	20.9	19.9
CF per share (cps)	43.3	8.5	14.1	15.0

Normalised P&L (\$m)	FY22A	FY23A	FY24F	FY25F
Revenue	651.7	551.4	500.0	475.0
EBITDA	55.8	44.4	39.8	37.9
EBITDA Margin	8.6%	8.0%	8.0%	8.0%
Depreciation	-4.0	-4.9	-5.1	-5.0
EBIT	51.8	39.5	34.7	32.8
Net Interest	-0.2	1.4	1.3	1.1
PBT	51.5	40.9	36.0	33.9
NPAT	35.6	28.3	25.2	23.8
Reported NPAT	34.7	27.5	24.4	23.0
Amort. excluded from norm. #'s	-1.2	-1.1	-1.2	-1.1

Cash Flow (\$m)	FY22A	FY23A	FY24F	FY25F
Receipts	684.1	627.1	493.3	466.7
Payments	-598.4	-601.0	-461.4	-433.7
Other	-16.0	-12.4	-9.1	-8.7
Cash from Operations	69.7	13.7	22.8	24.3
Property, Plant & Equip	-3.6	-3.4	-2.3	-2.2
Payment for Subsidiary	-1.0	0.0	0.0	0.0
Other	0.7	7.7	0.0	0.0
Cash From Investing	-4.0	4.3	-2.3	-2.2
Issue of Shares	0.0	0.0	0.0	0.0
Net Borrowing	-7.7	-2.7	-2.3	-2.4
Dividends / Other	-25.8	-30.7	-29.1	-25.9
Cash From Financing	-33.5	-33.4	-31.3	-28.2
Net Cash Flow	32.3	-15.4	-10.8	-6.1
Ending Cash	102.0	86.0	75.2	69.1

Balance Sheet (\$m)	FY22A	FY23A	FY24F	FY25F
Cash	102.0	86.0	75.2	69.1
Receivables	93.3	53.7	54.8	58.6
Inventory	0.0	0.0	0.1	0.1
Other	2.6	3.8	3.8	3.8
Current Assets	197.9	143.6	133.9	131.5
Property, Plant & Equip	8.4	12.6	12.4	12.4
Intangibles	23.0	22.4	21.2	20.1
Other NC Assets	2.6	11.2	7.2	3.2
Non-Current Assets	34.0	46.2	40.7	35.6
Total Assets	231.9	189.7	174.6	167.2
Payables	97.5	51.5	50.4	53.9
Borrowings	4.3	7.2	7.5	8.0
Tax Liabilities	4.3	1.3	1.3	1.3
Provisions	19.1	19.3	19.3	19.3
Other	44.6	50.7	41.1	32.5
Total Liabilities	169.7	130.0	119.6	115.0
Net Assets	62.2	59.7	55.0	52.2
Ordinary Equity	39.9	40.0	40.0	40.0
Reserves	2.1	2.7	2.7	2.7
Retained Earnings	20.2	17.0	12.3	9.4
Total Equity	62.2	59.7	55.0	52.2

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	10.0%		
PV Free Cash Flow (\$m)		319.8	1.98
Plus Cash (\$m)		86.0	0.53
Equity Value (\$m)		405.9	2.51
EV/EBITDA Valuation:			
FY24 EBITDA multiple	7.5		
Enterprise Value (\$m)		298.1	1.85
Plus Cash (\$m)		86.0	0.53
Equity Value (\$m)		384.1	2.38
Valuation (\$) - blend of DCF & earnings cap.			2.44

Normalised P&L (\$m)	1H22A	2H22A	1H23A	2H23A
Revenue	302.3	349.4	331.9	219.5
EBITDA	24.3	31.5	20.6	23.8
EBITDA Margin	8.1%	9.0%	6.2%	10.8%
Depreciation	-2.0	-2.1	-2.4	-2.4
EBIT	22.4	29.4	18.2	21.3
Net Interest	-0.2	-0.1	0.5	0.9
PBT	22.2	29.3	18.7	22.2
NPAT	15.2	20.4	13.4	14.9
Reported NPAT	14.7	20.0	13.0	14.5
Amort. excluded from norm. #'s	-0.7	-0.6	-0.6	-0.6

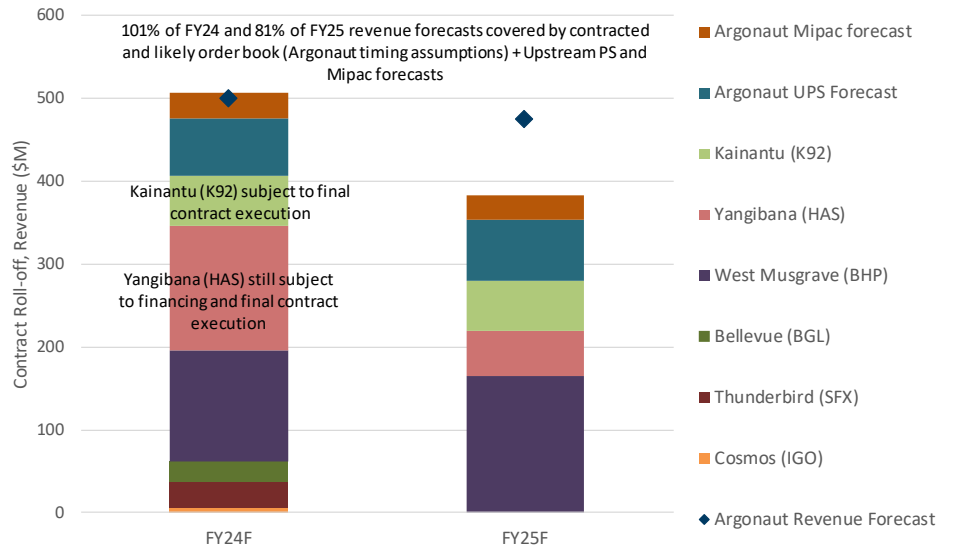
Cash Flow (\$m)	1H22A	2H22A	1H23A	2H23A
Receipts	303.8	380.3	353.9	273.2
Payments	-254.6	-343.8	-355.2	-245.9
Other	-9.6	-6.4	-7.4	-5.0
Cash from Operations	39.7	30.1	-8.6	22.3
Property, Plant & Equip	-2.0	-1.6	-2.2	-1.2
Payment for Subsidiary	-1.1	0.0	0.0	0.0
Other	0.4	0.3	9.2	-1.5
Cash From Investing	-2.7	-1.3	7.0	-2.7
Issue of Shares	0.0	0.0	0.0	0.0
Net Borrowing	-1.4	-6.3	-1.2	-1.5
Dividends / Other	-11.3	-14.5	-16.2	-14.5
Cash From Financing	-12.6	-20.8	-17.3	-16.1
Net Cash Flow	24.3	8.0	-19.0	3.6
Ending Cash	93.6	102.0	83.4	86.0

Financial Ratios	FY22A	FY23A	FY24F	FY25F
Growth				
Revenue growth (%)	66.1%	-15.4%	-9.3%	-5.0%
NPAT growth (%)	66.6%	-20.5%	-10.9%	-5.8%
Norm. EPS growth (%)	60.3%	-20.9%	-10.9%	-5.8%
Profitability Ratios				
EBITDA Margin (%)	8.6%	8.0%	8.0%	8.0%
EBIT Margin (%)	7.9%	7.2%	6.9%	6.9%
PBT Margin (%)	7.9%	7.4%	7.2%	7.1%
NPAT Margin (%)	5.5%	5.1%	5.0%	5.0%
Return on Assets (%)	38.9%	37.0%	33.7%	32.3%
Return on Equity (%)	55.9%	46.0%	44.3%	44.1%
ROIC (%)	130.8%	67.3%	49.6%	51.0%
Balance Sheet Ratios				
Net Cash	97.7	78.8	67.7	61.0
Net Debt (ND) / Equity (%)	n/a	n/a	n/a	n/a
ND / ND + Equity (%)	n/a	n/a	n/a	n/a
Current Ratio (x)	1.2	1.2	1.2	1.2
Net Interest Cover (x)	455.3	-12.0	-10.9	-12.2
Cash Flow Ratios				
Free Cash Flow Yield (%)	17.9%	2.7%	5.7%	6.1%
Cash Conversion (x)	1.2	0.3	0.6	0.6

Order book and assumed roll-off of work scenarios

Figure 1: Argonaut’s assumed roll-off of work in hand relative to revenue forecasts. This assumes the Kainantu contract is executed, and the Yangibana project gets financed and the contract executed

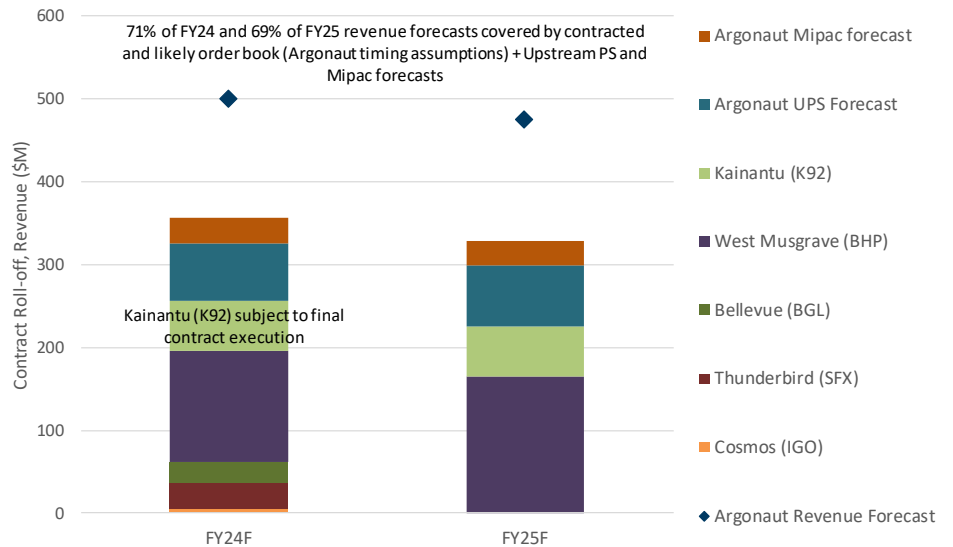
With West Musgrave, Yangibana, and Kainantu we see our FY24 revenue forecast backfilled and our FY25 revenue forecast 81% underpinned



Source: Argonaut, based on GNG announcements. Timing of roll-off of work are Argonaut assumptions

Figure 2: Argonaut’s assumed roll-off of work in hand relative to revenue forecasts in a scenario where the Yangibana project does not get financed and the contract is not executed

Excluding Yangibana, which still faces financing risk, our FY24 revenue forecast is 71% underpinned and our FY25 revenue forecast is 69% underpinned



Source: Argonaut, based on GNG announcements. Timing of roll-off of work are Argonaut assumptions

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