



GR Engineering BUY

Current Price: **\$0.98**
Target Price: **\$1.20**

Ticker: **GNG.ASX**
Sector: **Construction & Eng**

Shares on Issue (m): **150.0**
Market Cap (\$m): **146.3**
Net Debt (Cash) (\$m): **-38.4**
Enterprise Value (\$m): **107.8**

52 wk High/Low: \$2.06 \$0.86
12m Av Daily Vol (m): 0.07

Key Metrics

	13F	14F
EV/EBIT (x)	5.7	3.7
EV/EBITDA (x)	5.5	3.5
P/E (x)	10.2	6.7

Ratios

	12A	13F	14F
ND / Equity	-79%	-90%	-86%
EBIT Mgn	116%	12.0%	14.5%
RoA	515%	52.5%	67.7%
RoE	31%	32.1%	45.3%

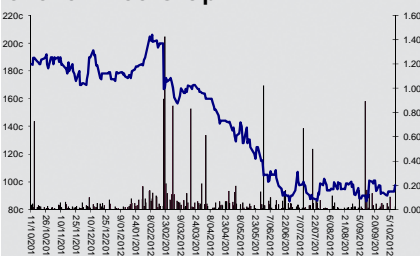
Financials:

	12A	13F	14F
Revenue (\$m)	152.8	156.7	203.7
EBITDA (\$m)	18.4	19.6	30.5
NPAT (\$m)	13.1	14.3	22.0
Net Assets (\$m)	42.2	44.5	48.4
Op CF (\$m)	16.2	20.2	20.6

Per Share Data:

	12A	13F	14F
EPS (cps)	8.7	9.5	14.6
DPS (cps)	8.0	8.0	12.0
Div Yield	8.2%	8.2%	12.3%
NTAPS (cps)	28.1	29.7	32.3
CFPS (cps)	10.8	13.4	13.8

Share Price Graph



Analysts:
Ian Christie, CFA
Emily Reilly

11 October 2012

Settlement of arbitration proceedings

Back to business:

GNG has announced that it has reached agreement with Gold Ridge Mining Limited (GRML), now a wholly owned subsidiary of St Barbara (ASX:SBM), to settle arbitration proceedings commenced by GNG in June 2011.

GNG and GRML have released each other from claim and counterclaim and have terminated all arbitration proceedings, with GRML paying GNG a cash sum of \$2.65m. The settlement will result in a further write-off of \$0.49m.

GNG has been in discussions with SBM to deliver engineering services to optimise the operation and performance of the processing plant facilities.

Impact:

Positive

We had not attempted to model the potential outcome from the arbitration proceedings, so this announcement results in no change to our FY13 forecasts.

However, despite the relatively small additional write-off, this is a very positive outcome for GNG as it:

- × Keeps the Company's solid reputation intact
- × Removes the uncertainty, and costs, related to these proceedings in a timely manner
- × Eliminates what must have been an unwelcome and time-consuming distraction for management

Our View:

Positive

For some time now we have been cautious with regard to companies exposed to the earlier stages of the mining life cycle, expecting delays to investment decisions.

However, we are beginning to see a greater willingness to fund junior gold projects, with recent examples being:

- × Doray's (ASX:DRM) recent capital raise to fund the Andy Well Gold Project in WA
- × PMI Gold's (ASX:PVM; TSXV:PMV) announcement yesterday with regard to a capital raise to fund the Obotan Project in Ghana

We believe the high exposure to gold projects places the Company in a stronger position, and that this will be reflected in increased project work in the medium term (in particular as a result of GNG's expansion into West Africa).

Our Recommendation:

Buy

Our forecasts, and therefore valuations, are unchanged. However, given our more positive view, we believe we should now place a greater emphasis on our DCF valuation (\$1.39) than our FY13 PE based valuation (\$0.76). The former takes into account earnings beyond FY13, which is increasingly going to be an investor focus.

A 70:30 weighting in favour of our DCF valuation (prior 50:50) sees our target price improve from \$1.05 to \$1.20, and our recommendation upgraded from hold to buy.



GR Engineering

Equities Research

Ian Christie, CFA

Recommendation	BUY
Current Price (\$)	0.98
All Ords (XAO)	4,511.9

Sector	Construction & Eng
Market Cap (\$m)	146.3
Date	11 October 2012

Profit and Loss (\$m)	2011A	1H12A	2012A	2013F	2014F
Revenue	142.5	79.3	152.8	156.7	203.7
Norm. EBITDA	28.9	9.9	18.4	19.6	30.5
Depreciation	-0.5	-0.3	-0.7	-0.8	-1.1
Norm. EBIT	28.3	9.6	17.8	18.8	29.5
Net Interest	0.9	1.0	2.1	1.6	1.9
Norm. PBT	29.2	10.6	19.9	20.4	31.4
Norm. NPAT	21.1	6.7	13.1	14.3	22.0
Rep. NPAT	21.1	6.7	13.1	14.3	22.0

Cash Flow (\$m)	2011A	1H12A	2012A	2013F	2014F
Receipts	132.6	96.7	157.2	156.3	195.9
Payments	-112.5	-71.5	-139.7	-135.5	-167.8
Other	-4.6	-2.8	-1.3	-0.6	-7.5
Cash from Operations	15.6	22.4	16.2	20.2	20.6
Property, Plant & Equip	-1.1	-0.2	-0.9	-1.7	-0.8
Payment for Subsidiary	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	-2.3	0.0	0.0
Cash From Investing	-1.1	-0.2	-3.2	-1.7	-0.8
Issue of Shares	27.9	0.0	0.0	0.0	0.0
Net Borrowing	0.3	-0.3	-0.4	-0.3	-0.1
Dividends	-19.0	-6.0	-12.0	-12.0	-18.0
Cash From Financing	9.1	-6.3	-12.4	-12.3	-18.1
Net Cash Flow	23.6	15.9	0.6	6.1	1.8
Ending Cash	36.0	49.1	33.9	40.0	41.8
Total Capex (incl HP)	1.1		0.9	1.7	0.8

Balance Sheet (\$m)	2011A	1H12A	2012A	2013F	2014F
Cash	36.0	49.1	33.9	40.0	41.8
Receivables	24.7	18.9	25.4	25.8	33.5
Inventory	1.7	1.7	0.6	1.9	2.4
Other	1.2	2.5	0.2	0.2	0.2
Current Assets	63.6	72.2	60.0	67.9	77.9
Property, Plant & Equip	2.0	1.8	2.2	3.1	2.8
Intangibles	0.0	0.0	0.0	0.0	0.0
Other Non-current Assets	3.2	1.9	1.8	1.8	1.8
Non-Current Assets	5.2	3.8	4.0	5.0	4.6
Total Assets	68.8	76.0	64.1	72.8	82.5
Payables	14.8	14.6	10.3	13.1	19.0
Borrowings	0.9	0.6	0.5	0.2	0.0
Provisions	6.7	4.2	4.4	4.4	4.4
Unearned Inc. / Other	5.6	17.6	6.8	10.7	10.7
Total Liabilities	28.0	37.0	21.9	28.4	34.1
Net Assets	40.8	39.0	42.2	44.5	48.4
Ordinary Equity	28.5	28.5	28.5	28.5	28.5
Reserves	0.1	0.2	0.3	0.3	0.3
Retained Earnings	12.3	13.0	13.4	15.7	19.6
Total Equity	40.8	41.7	42.2	44.5	48.4

Summary

Target Price (A\$ per share)	1.20
Forecast 2013 Yield (%)	8.2%
Forecast 2013 P/E (x)	10.2
Forecast 2014 P/E (x)	6.7

Valuation Method Calculations Results

DCF Valuation	Calculations	Results
	Discount Rate / WACC (%)	13.9%
	PV Free Cash Flow (\$m)	170.0
	Less Net Debt / Plus Cash (\$m)	38.4
	Unpaid Capital (\$m)	0.0
	Equity Value (\$m)	208.4
	Equity Value (A\$ps)	1.39

On FY13 Earnings	Multiple	EV	Equity Val per Share
P/E (x)	8.0	114,330	0.76
Multiple Valuation (A\$ps)			0.76

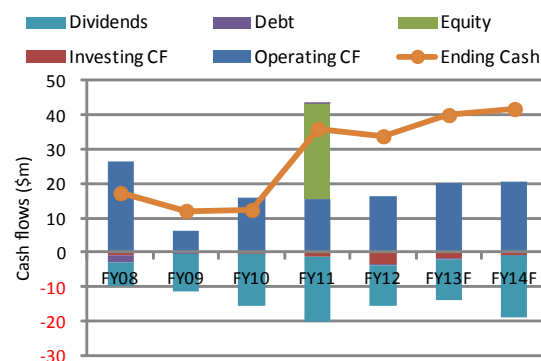
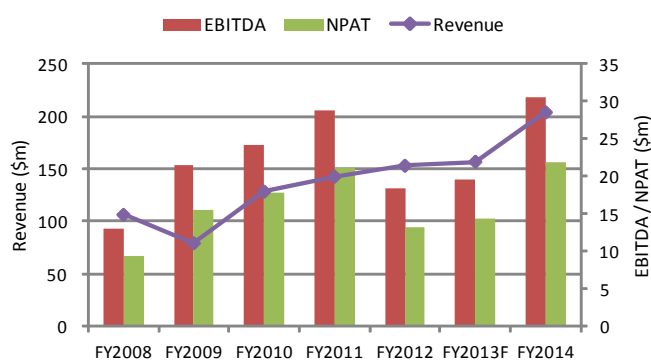
Target Price	1.20
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Financial Ratios 2011A 2012A 2013F 2014F

Balance Sheet Ratios	2011A	2012A	2013F	2014F
Net Debt / Equity (%)	-85.9%	-79.1%	-89.6%	-86.2%
Current Ratio (x)	2.3	2.8	2.4	2.3
Net Interest Cover (x)	-31.1	-8.4	-11.9	-15.6
Profitability Ratios	2011A	2012A	2013F	2014F
EBITDA Margin (%)	20.0%	12.1%	12.5%	15.0%
Net Profit Margin (%)	14.8%	8.6%	9.1%	10.8%
Return on Assets (%)	83.4%	51.5%	52.5%	67.7%
Return on Equity (%)	51.7%	31.1%	32.1%	45.3%
Cash Flow Ratios	2011A	2012A	2013F	2014F
Free Cash Flow Yield	5.0%	10.5%	12.6%	13.6%

Per Share Data 2011A 2012A 2013F 2014F

Reported EPS (cps)	16.8	8.7	9.5	14.6
Basic Norm. EPS (cps)	16.8	8.7	9.5	14.6
Diluted Norm. EPS (cps)	16.8	8.7	9.5	14.6
Diluted Norm. P/E (x)	5.8	11.2	10.2	6.7
Dividends per share (cps)	4.0	8.0	8.0	12.0
Dividend Yield (%)	4.1%	8.2%	8.2%	12.3%
NTA per share (cps)	27.2	28.1	29.7	32.3
Cash Flow per share (cps)	12.4	10.8	13.4	13.8



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Argonaut has acted as corporate adviser to GNG in the past.

In December 2011 Argonaut managed the founding shareholders' sales of 18 million shares at \$1.80.

Argonaut holds and/or controls 200,000 GNG shares.

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