

27 Feb 2018

GR ENGINEERING SERVICES LTD (GNG)

Good result, dividends are back

GR Engineering Ltd (GNG) reported 1H NPAT of \$7.5m (we expected \$6.0m). A 6cps DPS declared (we expected 5cps). EBITDA was \$12.5m (we expected \$9.0m). Revenue was \$177m (we expected \$150m) and margins were 7.0%, better than our expected 6.0%. Operating cash flow was \$12.6m (we expected \$6.8m). Capex was \$1.9m (we expected \$0.6m). Net cash was \$44.6m (we expected \$40.3m)

Minerals division turns around, UPS (oil & gas) margins soft

The minerals division reported EBITDA of \$10m, with margins of 7.3%. This is a turnaround from 2H17, but remember that was impacted by the two contract disputes in 2H17 (WLF.asx and EGS.asx).

UPS showed lower margins (4.3%) versus 8.0% in 2H17.

Hartleys expects FY18 EBITDA \$23.4m, FY19 \$26.7m

The Company has lowered revenue guidance to FY18 to \$270-\$300m (from previous guidance of ~\$300-330m) due to contract award delays.

We expect FY18 EBITDA of A\$23.4m, NPAT of A\$15.3m and a 5cps final dividend.

For FY19, we estimate that the order book is \$250m. We assume revenue of \$350m, EBITDA of A\$26.7m, NPAT of A\$17.6m.

Retain Buy

GNG is very well placed to win EPC contracts. We see another big pipeline of junior and mid cap gold and base metal developers building for construction in late FY20. Towards the end of this year we believe the pipeline will become more visible as the companies release scoping studies. GNG is well placed to win a good share of such work. Additionally, SFX's Thunderbird project would be very significant if it moves to contract award.

We maintain our Buy recommendation. On our estimates, GNG trades on a FY19 EV/EBIT of ~7.1x.

Fig. 1: Hartleys Earnings Changes

Profit & Loss (\$m)	6/17A				6/18F			
	Actual	Old	New	% diff	Old	New	% diff	
Revenue	238.7	322.3	291.8	-9.5%	350.1	350.1	0.0%	
- growth	-6.5%	35.0%	22.2%		8.6%	20.0%		
EBITDA	16.9	26.9	23.4	-12.9%	28.1	26.7	-5.0%	
- margin	7.1%	8.3%	8.0%	-3.8%	8.0%	7.6%	-5.0%	
Depreciation/Amortisation	-1.4	-1.7	-1.9	15.4%	-1.1	-1.5	35.9%	
EBIT	15.5	25.2	21.4	-14.8%	27.0	25.2	-6.7%	
- margin	6.5%	7.8%	7.4%	-5.9%	7.7%	7.2%	-6.7%	
Net Interest	0.8	0.7	0.4	-38.7%	0.6	0.0	-105.4%	
Pretax Profit	16.3	25.9	21.9	-15.5%	27.6	25.2	-8.9%	
Tax	-3.4	-7.8	-6.6	-15.5%	-8.3	-7.5	-8.9%	
NPAT Pre Minorities	11.4	18.1	15.3	-15.5%	19.3	17.6	-8.9%	
Minorities	0.0	0.0	0.0		0.0	0.0		
Norm. Net Profit After Tax*	11.4	18.1	15.3	-15.5%	19.3	17.6	-8.9%	
- margin	4.8%	5.6%	5.3%	-6.6%	5.5%	5.0%	-8.9%	
Abnormals (net of tax)	0.0	0.0	0.0		0.0	0.0		
Reported Profit	11.4	18.1	15.3	-15.5%	19.3	17.6	-8.9%	
Net Debt (net cash)	-34.2	-42.0	-36.3	-13.5%	-41.3	-32.8	-20.4%	
- inc encumbered	-34.2	-42.0	-36.3	-13.5%	-41.3	-32.8	-20.4%	
DPS	5.0	10.0	11.0	10.0%	10.5	11.0	4.8%	

Source: Hartleys Research.

Share Price:	\$1.46
Valuation:	\$1.81
12mth price target:	\$1.83

Brief Business Description:

An engineering design & construction, maintenance and industrial services group

Hartleys Brief Investment Conclusion

Significant cash flow generation which Company distributes to shareholders

Chairman & CEO:

Phillip Lockyer (Non-Exec. Chairman)
Geoff Jones (Managing Director)

Top Shareholders:

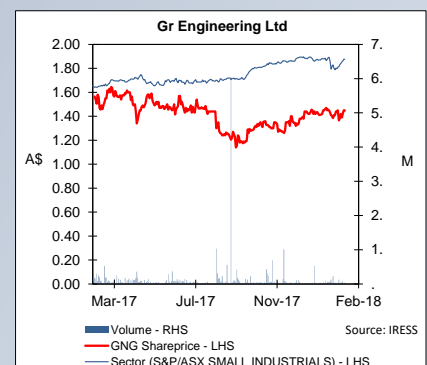
Sala Tenna Family (Exec.)	9.0%
CBA	8.7%
Joley Ltd	7.8%
Joe Ricciardo	6.4%
Tony Patrizi (Exec. Dir.)	6.4%
Quintal Pty Ltd	6.2%
Joe Totaro (CFO, Exec)	5.2%
B. Schier (Exec. nom.)	5.3%
Eley Griffiths	5.2%

Company Address:

179 Great Eastern Highway
Belmont, WA, 6104

Issued Capital:	153.3m		
- fully diluted	157.2m		
Market Cap:	\$224m		
- fully diluted	\$230m		
Net Debt (31 Dec '17a):	-\$44.6m		
	FY17a	FY18e	FY19e
Op Cash Flw	-13.5	13.7	13.9
Free Cash Flw	-14.3	11.3	11.9
NPAT* (A\$m)	11.4	15.3	17.6
EPS (\$, bas)	8.5	10.0	11.4
P/E (basic)	17.3x	14.6x	12.8x
P/E (diluted)	19.7x	15.0x	13.0x
EV / EBITDA	10.6x	7.7x	6.7x
DPS (cps)	5.0	11.0	11.0
Franking	100%	100%	100%
Dividend Yield	3.4%	7.5%	7.5%
N.D. / equity	-70%	-66%	-57%

Source: Hartleys Research. * normalised



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Analyst has a beneficial interest in GNG shares.

GR Engineering Services Ltd (GNG)					Recommendation: Buy				
Company Information					Profit & Loss (\$m)				
Date	27 Feb 2018	179 Great Eastern Highway			6/16A	6/17A	6/18F	6/19F	
Share Price	\$1.46	Belmont, WA, 6104			Minerals Revenue	217.6	169.8	216.0	270.5
52 Week High-Low	\$1.725 - \$1.03	Ph: (08) 6372 6000			- EBITDA	20.4	10.8	20.6	24.2
Market Cap (\$m)	\$223.8	Fax: (08) 6372 6001			- margin	9.4%	6.4%	9.5%	8.9%
Enterprise Value (\$m)	\$179.2	www.gres.com.au			Oil & Gas Revenue	37.7	68.9	75.7	80
Ordinary Shares	153.3				- EBITDA	3.3	6.4	3.3	3.4
Fully Diluted Shares	157.2				- margin	8.7%	9.3%	4.3%	4.3%
Valuation					Total Revenue				
Spot Fundamental Valuation					<i>growth</i>	255.3	238.7	291.8	350.1
12mth fwd Fundamental Valuation						17.7%	-6.5%	22.2%	20.0%
12mth forward P/E (diluted) of 14x (premium to comps)					EBITDA	23.7	16.9	23.4	26.7
Dec17a 1x Price / NTA (1x \$0.36)					margin	9.3%	7.1%	8.0%	7.6%
12mth fwd Div Yield of 5.4% (Gross yield=7.7%)					Depreciation/Amortisation	-1.8	-1.4	-1.9	-1.5
12 Months Price Target (wgted avg above 4 avg)					EBITDA	22.1	15.6	21.4	25.2
P / E (6/18F) at price target					EBITDA / Sales	8.6%	6.5%	7.4%	7.2%
P / E (6/19F) at price target					EBIT	22.0	15.5	21.4	25.2
Dividend yield (6/19F) at price target					EBIT / Sales	8.6%	6.5%	7.4%	7.2%
EV/EBITDA (6/19F) at price target					Net Interest	1.1	0.8	0.4	0.0
EV/EBIT (6/19F) at price target					Profit Before Tax	25.4	16.3	21.9	25.2
					- margin	10.0%	6.8%	7.5%	7.2%
					Tax	-6.1	-3.4	-6.6	-7.5
					Effective Tax Rate	23.9%	21.0%	30.0%	30.0%
					NPAT Pre Minorities	16.1	11.4	15.3	17.6
					Minorities	0.0	0.0	0.0	0.0
					Normalised NPAT to equity	16.1	11.4	15.3	17.6
					Norm. Net Profit / Sales	6.3%	4.8%	5.3%	5.0%
					Abnormals / discontinued	3.2	1.5	0.0	0.0
					Reported Profit to equity	19.3	12.9	15.3	17.6
					Reported EPS (basic, w'gtded)	12.7	8.5	10.0	11.4
					Normalised EPS (dil, w'gtd)	10.5	7.4	9.7	11.2
					Normalised EPS (full, diluted)	10.3	7.2	9.7	11.2
					DPS (cps)	10.0	5.0	11.0	11.0
					Franning	100%	100%	100%	100%
					Payout Ratio	94.9%	67.4%	110.4%	96.3%
					Cashflow Statement (\$m)	6/16A	6/17A	6/18F	6/19F
					EBITDA	23.7	16.9	23.4	26.7
					Working Capital Change	1.5	-27.4	-3.6	-5.2
					Cash from Operations	25.2	-10.5	19.8	21.5
					Net interest Paid	1.2	0.8	0.4	0.0
					Tax Paid	-8.2	-3.8	-6.6	-7.5
					Net Operating Cash Flow	18.2	-13.5	13.7	13.9
					Capital Expenditure	-0.9	-0.5	-2.3	-1.9
					Asset Sales	0.0	0.0	0.0	0.0
					Other (inc Investments)	0.7	-0.4	0.0	0.0
					Net Investing Cash Flow	-0.2	-0.8	-2.3	-1.9
					Proceeds from Equity Issues	0.0	0.0	0.0	0.0
					Net Change in Debt & Leases	-0.6	-0.8	3.9	13.4
					Dividends Paid	-15.2	-15.3	-9.2	-15.4
					Net Financing Cash Flow	-15.8	-16.0	-5.3	-1.9
					Movement in Cash	2.2	-30.3	6.0	10.0
					HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0
					Balance Sheet (\$m)	6/16A	6/17A	6/18F	6/19F
					Cash	64.9	34.9	40.9	50.9
					Receivables	29.9	66.2	80.9	97.1
					Inventories	4.4	19.8	24.1	28.9
					Other	0.5	2.7	2.7	2.7
					Total Current Assets	99.7	123.5	148.5	179.6
					Property, Plant & Equipment	3.6	2.7	3.1	3.6
					Intangibles	0.0	0.0	0.0	0.0
					Other	6.7	4.2	4.2	4.2
					Total Non Current Assets	10.4	6.9	7.3	7.7
					Total Assets	110.1	130.4	155.8	187.3
					Accounts Payable	28.4	62.2	77.6	93.4
					Interest Bearing Liabilities	0.4	0.5	0.5	0.5
					Other	26.6	16.0	16.0	16.0
					Total Current Liabilities	55.3	78.6	94.0	109.8
					Accounts Payable	0.0	0.0	0.0	0.0
					Interest Bearing Liabilities	0.5	0.2	4.1	17.6
					Other	2.3	2.7	2.7	2.7
					Total Non Current Liabilities	2.8	2.9	6.8	20.2
					Total Liabilities	58.1	81.6	100.8	130.1
					Net Assets	52.0	48.9	55.0	57.2
					Net Asset Value / Share (\$)	0.34	0.32	0.36	0.37
					NTA / Share (\$)	0.34	0.32	0.36	0.37
					Free Net Debt (net cash)	-64.0	-34.2	-36.3	-32.8
					- inc. encumbered	-64.0	-34.2	-36.3	-32.8
					Analyst: Trent Barnett	Last Earnings Estimate Changes:			
					Phone: +61 8 9268 3052	27 February 2018			
					Sources: IRESS, Company Information, Hartleys Research				

Fig. 2: Profit and Loss & Balance Sheet

Profit & Loss (\$m)	Dec-13a	Jun-14a	Dec-14a	Jun-15a	Dec-15a	Jun-16a	Dec-16a	Jun-17a	Dec-17a	Jun-18e
Minerals Revenue	49.7	60.2	82.7	103.0	110.0	107.5	74.3	95.5	136.1	79.9
- EBITDA	0.0	11.8	7.7	11.4	9.6	10.9	9.8	1.1	10.0	10.6
- margin	0.0%	19.5%	9.3%	11.1%	8.7%	10.1%	13.1%	1.1%	7.3%	13.3%
Oil & Gas Revenue	0.0	4.2	15.4	15.8	17.2	20.5	31.6	37.2	41.1	34.6
- EBITDA	0.0	2.4	0.9	0.3	1.3	2.0	3.4	3.0	1.8	1.5
- margin		57.4%	5.9%	1.7%	7.3%	9.9%	10.8%	8.0%	4.3%	4.3%
Total Revenue	49.7	64.5	98.2	118.7	127.2	128.1	105.9	132.8	177.2	114.5
<i>sequential growth</i>	<i>-14%</i>	<i>30%</i>	<i>52%</i>	<i>21%</i>	<i>7%</i>	<i>1%</i>	<i>-17%</i>	<i>25%</i>	<i>34%</i>	<i>-35%</i>
EBITDA	8.0	6.2	9.9	10.4	10.8	12.9	10.8	6.1	12.5	10.9
margin	16.1%	9.6%	10.1%	8.8%	8.5%	10.1%	10.2%	4.6%	7.0%	9.5%
Depreciation/Amortisation	-0.5	-1.1	-2.1	-2.1	-0.9	-0.9	-0.7	-0.7	-0.6	-1.3
EBITA	7.5	5.7	7.8	8.3	9.9	12.0	10.0	5.4	11.9	9.6
EBITA / Sales	15.0%	8.9%	8.0%	7.0%	7.8%	9.4%	9.5%	4.1%	6.7%	8.4%
EBIT	7.5	5.1	7.8	8.3	9.9	12.0	10.0	5.4	11.9	9.6
EBIT / Sales	15.0%	-4.0%	8.0%	7.0%	7.8%	9.4%	9.5%	4.1%	6.7%	8.4%
Net Interest	0.6	0.5	0.5	0.6	0.6	0.5	0.5	0.3	0.2	0.2
Profit Before Tax	8.0	8.8	8.3	8.9	10.5	14.9	10.5	5.7	11.6	10.2
- margin	16.0%	13.7%	8.5%	7.5%	8.3%	11.6%	10.0%	4.3%	6.6%	8.9%
Tax	-0.6	-2.0	-1.8	-2.4	-1.8	-4.3	-2.6	-0.8	-4.1	-2.4
Effective Tax Rate	8.0%	22.5%	22.1%	27.2%	17.0%	28.7%	25.1%	13.5%	35.6%	23.7%
NPAT Pre Minorities	7.4	4.2	6.5	6.5	8.7	7.4	7.9	3.5	7.8	7.5
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Normalised NPAT to equity	7.4	4.2	6.5	6.5	8.7	7.4	7.9	3.5	7.8	7.5
Norm. Net Profit / Sales	15.0%	6.4%	6.6%	5.5%	6.9%	5.8%	7.5%	2.6%	4.4%	6.6%
Abnormals / discontinued	-0.1	2.7	0.0	0.0	0.0	3.2	0.0	1.5	-0.3	0.3
Reported Profit to equity	7.3	6.9	6.5	6.5	8.7	10.6	7.9	5.0	7.5	7.8
Reported EPS (basic, wghtd)	5.0	4.5	4.3	4.3	5.7	7.0	5.1	3.2	4.9	5.1
Normalised EPS (dil, wghtd)	4.9	2.7	4.2	4.2	5.7	4.8	5.0	2.2	4.9	4.8
DPS (cps)	3.00	4.00	4.50	5.00	5.00	5.00	5.00	0.00	6.00	5.00
Franking	40%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Payout Ratio	60.4%	89.3%	104.7%	116.1%	87.0%	71.8%	97.2%	0.0%	122.7%	98.2%
Balance Sheet (\$m)	Dec-13a	Jun-14a	Dec-14a	Jun-15a	Dec-15a	Jun-16a	Dec-16a	Jun-17a	Dec-17a	Jun-18e
Cash	28.2	32.2	46.7	64.6	44.1	64.9	41.3	34.9	45.6	40.9
Receivables	14.0	34.7	35.3	26.0	49.6	29.9	42.4	66.2	73.2	80.9
Inventories	0.6	2.4	2.7	2.8	3.0	4.4	4.9	19.8	11.2	24.1
Other	1.0	0.7	1.1	0.7	2.8	0.5	2.3	2.7	1.0	2.7
Total Current Assets	43.9	70.0	85.8	94.1	99.5	99.7	91.0	123.5	131.0	148.5
Property, Plant & Equipment	2.1	2.0	2.6	3.5	3.8	3.6	3.3	2.7	4.0	3.1
Intangibles	0.0	3.6	2.1	0.6	0.3	0.0	0.0	0.0	0.0	0.0
Other	15.9	5.0	4.0	4.6	5.9	6.7	5.5	4.2	6.5	4.2
Total Non Current Assets	18.0	10.7	8.7	8.7	10.0	10.4	8.8	6.9	10.5	7.3
Total Assets	61.9	80.7	94.5	102.8	109.5	110.1	99.7	130.4	141.4	155.8
Accounts Payable	4.5	21.6	19.1	35.4	43.6	28.4	34.0	62.2	54.2	77.6
Interest Bearing Liabilities	0.3	0.3	0.7	0.4	0.8	0.4	0.9	0.5	0.8	0.5
Other	10.9	10.6	24.4	15.4	13.1	26.6	10.3	16.0	26.4	16.0
Total Current Liabilities	15.7	32.5	44.2	51.2	57.4	55.3	45.1	78.6	81.5	94.0
Accounts Payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	0.4	0.2	0.2	0.7	0.7	0.5	0.3	0.2	0.2	4.1
Other	1.1	1.4	1.7	2.1	2.2	2.3	2.5	2.7	2.8	2.7
Total Non Current Liabilities	1.5	1.7	1.8	2.8	2.9	2.8	2.8	2.9	3.0	6.8
Total Liabilities	17.2	34.1	46.0	54.0	60.3	58.1	47.9	81.6	84.5	100.8
Net Assets	44.7	46.6	48.5	48.7	49.1	52.0	51.8	48.9	57.0	55.0
Net Asset Value / Share (\$)	0.29	0.31	0.32	0.32	0.32	0.34	0.33	0.32	0.36	0.36
NTA / Share (\$)	0.30	0.29	0.30	0.32	0.32	0.34	0.33	0.32	0.36	0.36
Net Debt (net cash)	-27.5	-31.7	-45.8	-63.5	-42.6	-64.0	-40.1	-34.2	-44.6	-36.3
- inc. encumbered	-41.5	-35.5	-50.4	-63.5	-47.1	-64.0	-44.7	-34.2	-44.6	-36.3

Margins rebounded

Strong balance sheet

Source: Hartleys Research Estimates

Fig. 3: Cash Flow Statement

Cashflow Statement (\$m)	Dec-13a	Jun-14a	Dec-14a	Jun-15a	Dec-15a	Jun-16a	Dec-16a	Jun-17a	Dec-17a	Jun-18e
EBITDA	8.0	6.2	9.9	10.4	10.8	12.9	10.8	6.1	12.5	10.9
Working Capital Change	9.8	-3.4	11.5	15.3	-16.0	17.5	-23.4	-4.0	1.7	-5.3
Cash from Operations	17.8	2.8	21.4	25.7	-5.2	30.4	-12.6	2.1	14.2	5.6
Net interest Paid	0.7	-3.8	0.5	0.6	0.6	0.6	0.5	0.3	0.2	0.2
Tax Paid	-2.1	-0.9	-2.1	-3.7	-6.7	-1.6	-3.2	-0.5	-1.8	-4.8
Net Operating Cash Flow	16.4	2.4	19.8	22.7	-11.2	29.4	-15.3	1.8	12.6	1.0
Capital Expenditure	0.0	0.0	-1.1	-0.7	-0.6	-0.4	-0.3	-0.1	-1.9	-0.4
Asset Sales	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (inc Investments)	0.2	7.1	0.6	3.3	-0.1	0.8	-0.4	0.0	0.0	0.0
Net Investing Cash Flow	0.2	7.0	-0.5	2.6	-0.7	0.4	-0.7	-0.1	-1.9	-0.4
Proceeds from Equity Issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Change in Debt & Leases	-0.2	-0.2	0.3	-0.5	0.0	-0.6	-0.2	-0.5	-0.1	4.0
Dividends Paid	-4.5	-4.5	-6.0	-6.8	-7.5	-7.6	-7.6	-7.6	0.0	-9.2
Net Financing Cash Flow	-4.7	-4.7	-5.7	-7.3	-7.5	-8.2	-7.9	-8.2	-0.1	-5.3
Movement in Cash	11.9	4.7	13.6	18.0	-19.5	21.6	-23.9	-6.4	10.7	-4.7
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow Analysis	Dec-13a	Jun-14a	Dec-14a	Jun-15a	Dec-15a	Jun-16a	Dec-16a	Jun-17a	Dec-17a	Jun-18e
Net Operating Cash Flow	16.4	2.4	19.8	22.7	-11.2	29.4	-15.3	1.8	12.6	1.0
Capex (Reported)	0.0	0.0	-1.1	-0.7	-0.6	-0.4	-0.3	-0.1	-1.9	-0.4
Group Free Cash Flow (rep'ted)	16.3	2.4	18.7	22.0	-11.8	29.0	-15.7	1.7	10.7	0.6
Fixed Debt Repayments	-0.2	-0.2	-0.1	-0.4	-0.2	-0.4	-0.2	-0.4	-0.2	-0.4
Equity Free Cash Flow (rep'ted)	16.2	2.3	18.6	21.6	-12.0	28.6	-15.9	1.3	10.5	0.2
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	16.2	2.3	18.6	21.6	-12.0	28.6	-15.9	1.3	10.5	0.2
Capex (inc HP) / depreciation	4%	2%	53%	34%	61%	44%	48%	16%	298%	32%

Source: Hartleys Research Estimates

Fig. 4: Hartleys earnings revisions

Profit & Loss (\$m)	6/17A			6/18F			6/19F			6/20F		
	Actual	Old	New	% diff	Old	New	% diff	Old	New	% diff		
Revenue	238.7	322.3	291.8	-9.5%	350.1	350.1	0.0%	377.1	367.9	-2.4%		
- growth	-6.5%	35.0%	22.2%		8.6%	20.0%		7.7%	5.1%			
EBITDA	16.9	26.9	23.4	-12.9%	28.1	26.7	-5.0%	30.0	28.3	-5.8%		
- margin	7.1%	8.3%	8.0%	-3.8%	8.0%	7.6%	-5.0%	8.0%	7.7%	-3.4%		
Depreciation/Amortisation	-1.4	-1.7	-1.9	15.4%	-1.1	-1.5	35.9%	-1.2	-1.5	25.5%		
EBIT	15.5	25.2	21.4	-14.8%	27.0	25.2	-6.7%	28.8	26.7	-7.1%		
- margin	6.5%	7.8%	7.4%	-5.9%	7.7%	7.2%	-6.7%	7.6%	7.3%	-4.8%		
Net Interest	0.8	0.7	0.4	-38.7%	0.6	0.0	-105.4%	0.1	-0.7	-850.1%		
Pretax Profit	16.3	25.9	21.9	-15.5%	27.6	25.2	-8.9%	28.9	26.0	-9.8%		
Tax	-3.4	-7.8	-6.6	-15.5%	-8.3	-7.5	-8.9%	-8.7	-7.8	-9.8%		
NPAT Pre Minorities	11.4	18.1	15.3	-15.5%	19.3	17.6	-8.9%	20.2	18.2	-9.8%		
Minorities	0.0	0.0	0.0		0.0	0.0		0.0	0.0			
Norm. Net Profit After Tax*	11.4	18.1	15.3	-15.5%	19.3	17.6	-8.9%	20.2	18.2	-9.8%		
- margin	4.8%	5.6%	5.3%	-6.6%	5.5%	5.0%	-8.9%	5.4%	5.0%	-7.6%		
Abnormals (net of tax)	0.0	0.0	0.0		0.0	0.0		0.0	0.0			
Reported Profit	11.4	18.1	15.3	-15.5%	19.3	17.6	-8.9%	20.2	18.2	-9.8%		
Net Debt (net cash)	-34.2	-42.0	-36.3	-13.5%	-41.3	-32.8	-20.4%	-42.2	-32.4	-23.1%		
- inc encumbered	-34.2	-42.0	-36.3	-13.5%	-41.3	-32.8	-20.4%	-42.2	-32.4	-23.1%		
DPS	5.0	10.0	11.0	10.0%	10.5	11.0	4.8%	11.5	11.5	0.0%		

Source: Hartleys Research Estimates

Fig. 5: Emerging list of possible gold developers

Sponsor	Project	Sponsor	Project
AQQ	Aphrodite	BRB	Lake Roe
EAR	Bronzewing	KIN	Leonora
FML	Coolgardie	VAN	Marymia
DKM	Duketon	RRL	McPhillamys
IRC	Goongarrie	MGV	Moyagee
HRN	Gum Creek	CDV	Namdini
BCN	Jaurdi	EMR	Okvau
EXG	Kalgoorlie North	WAF	Sanbrado
CMM	Karlawinda	OKU	Seko
AUC	Katanning	EXU	Tampia
KIN	Kin Mining	CAI	Warrawoona
		PRU	Yaoure

Source: Hartleys Research Estimates

Another wave of junior
/ midcap gold
developers coming

PRICE TARGET

Our twelve month price target is \$1.83 (unchanged from \$1.83).

GNG Price Target Methodology	Weighting	Spot	12 mth out
Fundamental Valuation	38%	\$1.81	\$1.82
- DCF (WACC 10.8%, Terminal growth 0.00%)	30%	\$1.81	\$1.81
- Gordon Growth (CoE 10.0%, FY14-19 DPS 9.5%pa, term. 2.0%pa)	8%	\$1.84	\$1.86
12mth forward P/E (diluted) of 14x (premium to comps)	33%	\$1.50	\$1.60
12mth forward EV/EBIT of 14x (peak)	20%	\$2.35	\$2.54
Dec17a 1x Price / NTA (1x \$0.36)	5%	\$0.36	\$0.36
12mth fwd Div Yield of 5.4% (Gross yield=7.7%)	4%	\$2.04	\$2.04
Risk weighted composite		\$1.75	\$1.83
12 Months Price Target		\$1.83	
Shareprice - Last		\$1.46	
12 mth total return (% to 12mth target + dividend)		33%	

Source: Hartleys Estimate

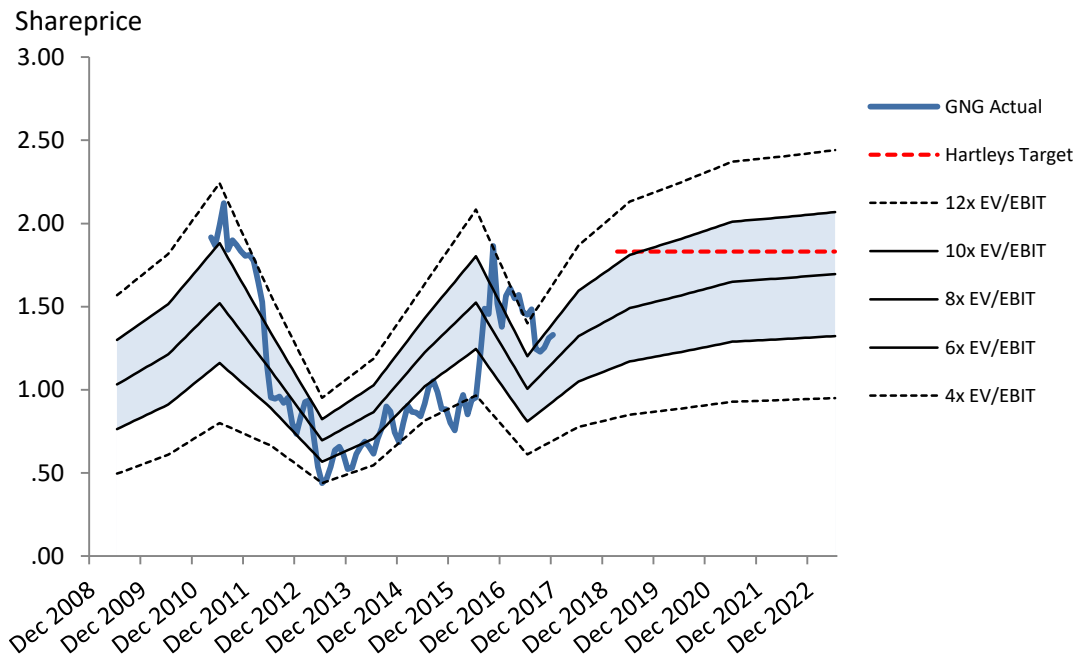
Fig. 6: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk o valuation if assumption is incorrect	Comment
Revenue peaks ~\$400m	Moderate	High	The outlook for the industry suggests that this is easily achievable
EBITDA margins rebound to ~8%	Moderate to High	High	Appears reasonable, but implies big turnaround from 2H17.
Capex is very low	Low	Moderate	GNG is predominantly a services business, and hence capex is low.
No substantial acquisitions	High	Upside / Downside	We believe it's likely GNG makes further acquisitions
<i>Conclusion</i>	<i>We believe our assumptions are conservative. In the short term, it is likely to be revenue growth that results in changes to our valuation.</i>		

Source: Hartleys

EV/EBIT BANDS

Fig. 7: Using Hartleys base case forecasts



Source: Hartleys Estimates, IRESS

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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