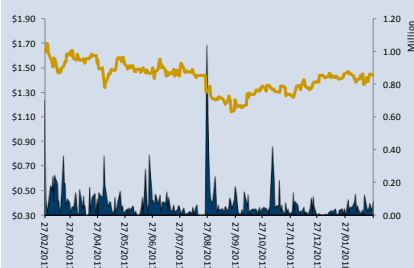


## BUY

Current Price **\$1.44**  
Valuation **\$1.60**

Ticker:	GNG.ASX			
Sector:	Engineering			
Shares on Issue (m):	153.3			
Market Cap (\$m):	220.7			
Net Debt (Cash) (\$m):	-44.6			
Enterprise Value (\$m):	176.1			
52 wk High/Low:	<b>\$1.70</b>	<b>\$1.14</b>		
12m Av Daily Vol (m):	<b>0.07</b>			
<b>Key Metrics</b>		<b>18F</b>	<b>19F</b>	
EV/EBITDA (x)		9.8	6.2	
EV/EBIT (x)		10.5	6.6	
P/E (x)		13.7	11.5	
<b>Ratios</b>		<b>17A</b>	<b>18F</b>	<b>19F</b>
Cash	34.2	37.9	34.2	
EBITDA Mgn	7.1%	8.7%	9.5%	
NPAT Mgn	5.4%	4.0%	6.4%	
RoA	16.6%	19.9%	32.9%	
RoE	26.3%	21.6%	36.1%	
<b>Normalised Financials:</b>		<b>17A</b>	<b>18F</b>	<b>19F</b>
Revenue (\$m)	238.7	285.0	300.0	
EBITDA (\$m)	16.9	24.9	28.5	
EBIT (\$m)	15.6	23.6	26.8	
PBT (\$m)	16.3	24.3	27.6	
NPAT (\$m)	12.9	16.2	19.3	
Rep NPAT (\$m)*	12.9	11.4	19.3	
<i>* Assumes 50% WLF bond withdrawal</i>				
Net Assets (\$m)	48.9	52.6	53.5	
Op CF (\$m)	-13.5	13.9	15.9	
<b>Per Share Data:</b>		<b>17A</b>	<b>18F</b>	<b>19F</b>
EPS (cps)	8.3	7.4	12.5	
Norm EPS (cps)*	8.4	10.5	12.5	
DPS (cps)	5.0	12.0	12.0	
Div Yield	3.5%	8.3%	8.3%	
NTAPS (cps)	31.9	34.3	34.9	
CFPS (cps)	-8.8	9.1	10.4	
<i>* Adjusted for amortisation and one-offs</i>				

### Share Price Graph



Please refer to important disclosures at the end of the report (from page 5)

Monday, 26 February 2018

## GR Engineering (GNG)

### Moving forward

Analysts | Daniel Williamson | Ian Christie, CFA

### Quick Read

GNG's 1H18 underlying EBITDA of \$12.5m on \$177.2m revenue was slightly ahead of our forecasts, although the Company has peeled back 2H expectations reducing revenue guidance to \$270-300m (previously \$300-330m). We would expect stronger margins in the 2H as more profit may be recognised at the back end of the soon to be concluded Mt Morgan and Dalgara projects. We believe investors can begin to look beyond customer disputes with EGS and WLF and focus on long-term growth prospects in an improving resources sector. Therefore, we maintain our BUY call on a \$1.60 valuation.

### Event & Impact | Neutral

**Strong first half:** GNG reported 1H18 underlying EBITDA of \$12.5m, ahead of our forecast for \$12.0m EBITDA. Margins were below our expectations although we would expect this to turnaround in the 2H as contingencies on the Mt Morgan and Dalgara projects will likely be recognised to profit. Despite a strong 1H GNG downgraded full year revenue guidance by ~10% due to project delays beyond its control although we believe delayed revenue will be regained in FY19. We now forecast \$285m full-year revenue in FY18.

**Dividend reinstated:** A key positive in the result was a strengthening of GNG's net cash position (now \$44.6m c/w \$34.2m at 30 June 2017), and the subsequent reinstatement of a dividend. The dividend of 6.0 cents per share was significantly higher than EPS of 4.9 cents per share for the half and, in our view, signals management's confidence that future earnings will be able to support the new dividend level.

**Customer disputes remain:** Little clarity was provided on current customer disputes with Eastern Goldfields (EGS) and Wolf Minerals (WLF). During the half claims against EGS were sent to arbitration, whilst GNG continues to engage with WLF in respect to low frequency noise (LFN) issues at the Hemerdon Tungsten & Tin Project. We are conservative in accounting for these matters, not recognising an unwinding of receivables in our model and assuming half the WLF performance bond (~A\$6.5m) is pulled to rectify LFN issues.

**Moving forward:** Although we remain conservative in accounting for current customer disputes we do take some comfort from management's willingness to reinstate a dividend. We also have a positive view on long-term growth given GNG's high levels of study activity (completing 17 studies in the 1H and engaged on a further 30 as at 31 Dec 2017) and the recently announced preferred tenderer status on Sheffield Resources Limited's (SFX) >\$270m Thunderbird Mineral Sands Project. We have upgraded FY19 numbers to reflect these heightened long-term growth prospects.

### Recommendation

We maintain our BUY call on a revised \$1.60 valuation (previously \$1.55).

## GR Engineering

## Equities Research

Daniel Williamson, Ian Christie

Recommendation	BUY
Current Price (\$)	1.44
Valuation (\$)	1.60

Sector	Engineering
Market Cap (\$m)	220.7
Date	26 February 2018

Trading Metrics	FY17A	FY18F	FY19F	FY20F
EV / EBITDA (x)	10.4	7.1	6.2	6.0
EV / EBIT (x)	11.3	7.5	6.6	6.4
P/E (x)	17.2	13.7	11.5	11.2
Dividend Yield (%)	3.5%	8.3%	8.3%	8.3%

Trading metrics adjusted for one-off costs and income

Per Share Data	FY17A	FY18F	FY19F	FY20F
Reported EPS (cps)	8.3	7.4	12.5	12.9
Normalised EPS (cps)	8.4	10.5	12.5	12.9
Div. per share (cps)	5.0	12.0	12.0	12.0
NTA per share (cps)	31.9	34.3	34.9	35.9
CF per share (cps)	-8.8	9.1	10.4	12.4

Normalised P&L (\$m)	FY17A	FY18F	FY19F	FY20F
Revenue	238.7	285.0	300.0	307.5
EBITDA	16.9	24.9	28.5	29.2
D&A	-1.4	-1.3	-1.7	-1.5
EBIT	15.6	23.6	26.8	27.7
Net Interest	0.8	0.6	0.7	0.7
PBT	16.3	24.3	27.6	28.4
NPAT	12.9	16.2	19.3	19.9
Reported NPAT*	12.9	11.4	19.3	19.9

\* Reported NPAT in FY18 assumes 50% of available WLF bond is drawn and expensed to P&amp;L

Cash Flow (\$m)	FY17A	FY18F	FY19F	FY20F
Receipts	192.9	285.1	300.6	310.1
Payments	-203.4	-267.2	-276.8	-283.5
Other	-3.0	-3.9	-7.9	-7.7
Cash from Operations	-13.5	13.9	15.9	19.0
Property, Plant & Equip	-0.5	-2.3	-1.0	-1.4
Payment for Subsidiary	0.0	0.0	0.0	0.0
Other	-0.4	0.0	0.0	0.0
Cash From Investing	-0.8	-2.3	-1.0	-1.4
Issue of Shares	0.0	0.0	0.0	0.0
Net Borrowing	-0.8	-0.5	-0.4	-0.3
Dividends / Other	-15.3	-7.6	-18.4	-18.4
Cash From Financing	-16.0	-8.2	-18.8	-18.7
Net Cash Flow	-30.3	3.5	-3.8	-1.1
Ending Cash	34.9	38.3	34.5	33.4

Balance Sheet (\$m)	FY17A	FY18F	FY19F	FY20F
Cash	34.9	38.3	34.5	33.4
Receivables	66.2	66.4	65.8	63.2
Inventory	19.8	8.8	7.4	6.1
Other	0.5	0.5	0.5	0.5
Current Assets	121.3	114.0	108.2	103.2
Property, Plant & Equip	2.7	4.0	3.6	3.8
Intangibles	0.0	0.0	0.0	0.0
Other NC Assets	4.2	4.2	4.2	4.2
Non-Current Assets	6.9	8.2	7.8	7.9
Total Assets	128.2	122.2	116.0	111.1
Payables	62.2	51.3	44.6	38.1
Borrowings	0.7	0.4	0.3	0.3
Tax Liabilities	-2.2	-2.2	-2.2	-2.2
Provisions	11.5	11.5	11.5	11.5
Other	7.1	8.6	8.2	8.4
Total Liabilities	79.3	69.6	62.5	56.1
Net Assets	48.9	52.6	53.5	55.0
Ordinary Equity	30.4	30.4	30.4	30.4
Reserves	-0.5	10.2	10.2	10.2
Retained Earnings	19.0	12.0	12.9	14.4
Total Equity	48.9	52.6	53.5	55.0

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	11.0%		
PV Free Cash Flow (\$m)		194.0	1.27
Plus Cash (\$m)		44.6	0.29
Equity Value (\$m)		238.6	1.56
EV/EBITDA Valuation:			
FY19 EBITDA multiple	7.5		
Enterprise Value (\$m)		213.8	1.39
Plus Cash (\$m)*		38.1	0.25
Equity Value (\$m)		251.8	1.64
Valuation (\$) - blend of DCF & earnings cap.			1.60

\* Adjusted for assumed withdrawal of 50% of WLF bond (note: DCF already captures withdrawal)

Normalised P&L (\$m)	1H17A	2H17A	1H18A	2H18F
Revenue	105.9	132.8	177.2	107.8
EBITDA	10.8	6.1	12.5	12.4
D&A	-0.7	-0.7	-0.6	-0.6
EBIT	10.1	5.5	11.9	11.8
Net Interest	0.5	0.3	0.2	0.4
PBT	10.6	5.8	12.1	12.2
NPAT	7.9	5.0	7.8	8.4
Reported NPAT	7.9	5.0	7.5	3.9

\* Reported NPAT in 2H18 assumes 50% of available WLF bond is drawn and expensed to P&amp;L

Cash Flow (\$m)	1H17A	2H17A	1H18A	2H18F
Receipts	83.5	109.4	196.2	88.8
Payments*	-96.1	-107.3	-182.0	-85.2
Other	-2.7	-0.2	-1.5	-2.3
Cash from Operations	-15.3	1.8	12.6	1.3
Property, Plant & Equip	-0.3	-0.1	-1.9	-0.4
Payment for Subsidiary	0.0	0.0	0.0	0.0
Other	-0.4	0.0	0.0	0.0
Cash From Investing	-0.7	-0.1	-1.9	-0.4
Issue of Shares	0.0	0.0	0.0	0.0
Net Borrowing	-0.2	-0.5	-0.1	-0.5
Dividends / Other	-7.6	-7.6	0.0	-7.6
Cash From Financing	-7.9	-8.2	-0.1	-8.1
Net Cash Flow	-23.9	-6.4	10.7	-7.2
Ending Cash	41.3	34.9	45.6	38.3

\* 2H18 payments reflects one-off cost associated with 50% WLF bond withdrawal

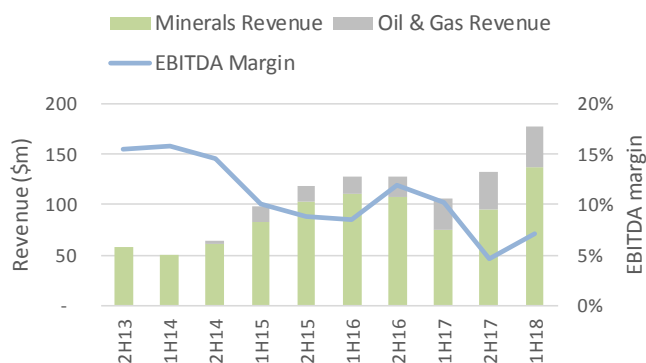
Financial Ratios	FY17A	FY18F	FY19F	FY20F
Growth				
Revenue growth (%)	-6.5%	19.4%	5.3%	2.5%
NPAT growth (%)	-34.6%	25.8%	19.0%	3.0%
Norm. EPS growth (%)	-35.0%	25.6%	19.0%	3.0%
Profitability Ratios				
EBITDA Margin (%)	7.1%	8.7%	9.5%	9.5%
EBIT Margin (%)	6.5%	8.3%	8.9%	9.0%
PBT Margin (%)	6.8%	8.5%	9.2%	9.2%
NPAT Margin (%)	5.4%	5.7%	6.4%	6.5%
Return on Assets (%)	16.6%	19.9%	32.9%	35.7%
Return on Equity (%)	26.3%	21.6%	36.1%	36.1%
ROIC (%)	45.5%	52.0%	54.1%	50.8%
Balance Sheet Ratios				
Net Cash	34.2	37.9	34.2	33.1
Net Debt (ND) / Equity (%)	-70.0%	-72.1%	-63.9%	-60.2%
ND / ND + Equity (%)	n/a	n/a	n/a	n/a
Current Ratio (x)	1.6	1.7	1.8	1.9
Net Interest Cover (x)	-9.8	-12.4	-18.0	-20.6
Cash Flow Ratios				
Free Cash Flow Yield (%)	-6.4%	5.2%	6.7%	7.9%
Cash Conversion (x)	-0.8	0.6	0.6	0.6



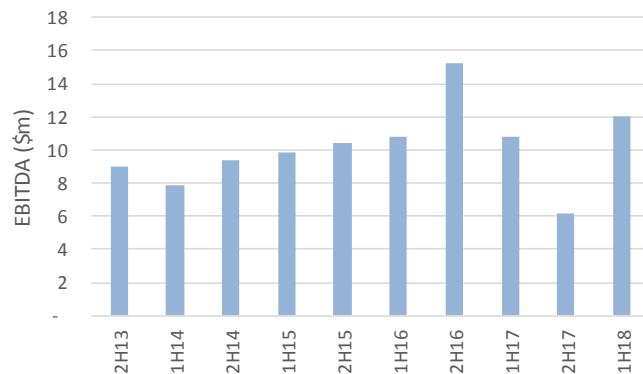
## GR Engineering

Charts

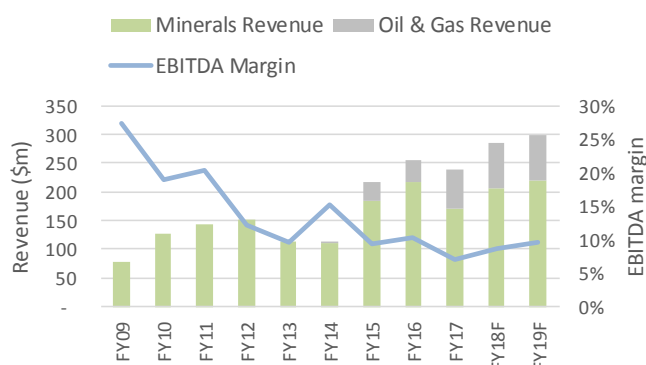
Revenue & Margin - historic half yearly



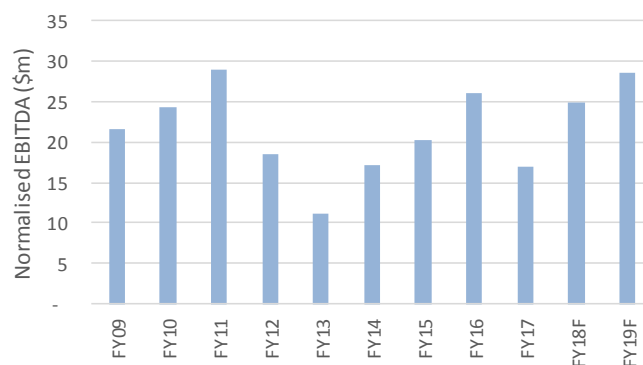
EBITDA - historic half yearly



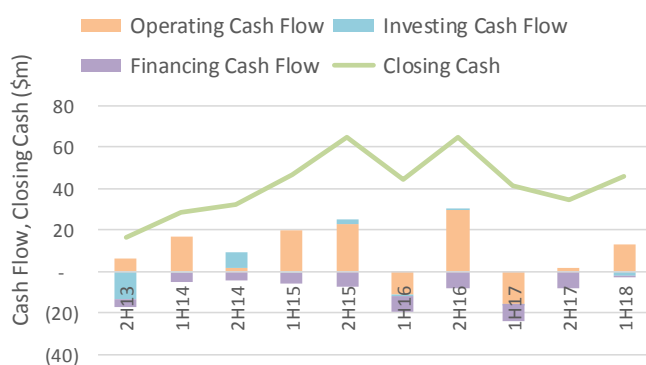
Revenue & Margin - annual (including forecasts)



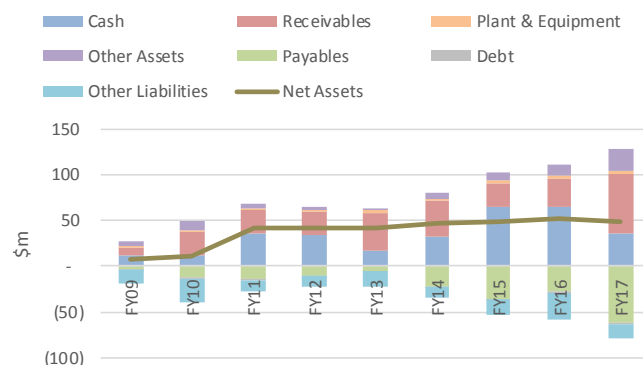
EBITDA - annual (including forecasts)



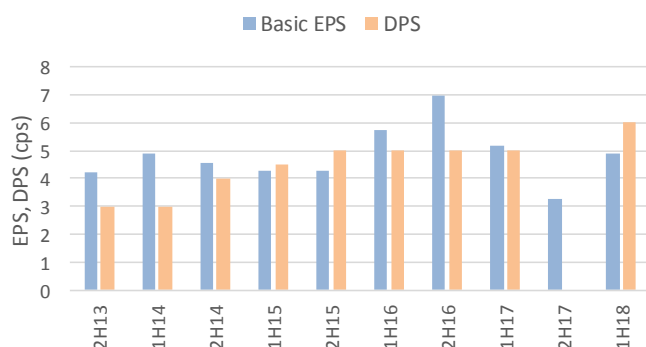
Cash Flow



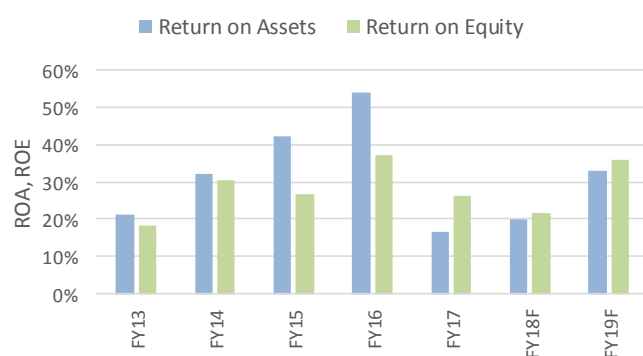
Balance Sheet



EPS & DPS



Returns



## Adjustments to forecasts

Figure 1: Adjustments to forecasts

Normalised*	FY17	FY18F			FY19F		
	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	238.7	300.0	285.0	-5%	270.0	300.0	11%
EBITDA (\$m)	16.9	28.5	24.9	-13%	25.7	28.5	11%
EBITDA margin	7.1%	9.5%	8.7%	-8%	9.5%	9.5%	0%
EBIT (\$m)	15.6	27.4	23.6	-14%	24.4	26.8	10%
PBT (\$m)	16.3	28.1	24.3	-14%	25.4	27.6	8%
NPAT (\$m)	12.9	19.7	16.2	-17%	17.8	19.3	8%
EPS (cps)	8.4	12.7	10.5	-17%	11.5	12.5	8%

\* Normalised for non-cash amortisation charges associated with UPS acquisition and forecast one-off cash cost associated with potential Wolf Minerals bond withdrawal

Source: Argonaut

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