

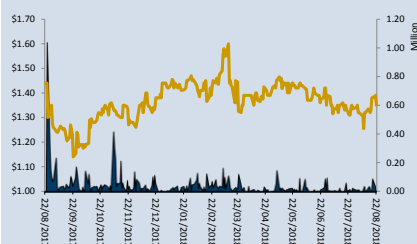
BUY

Current Price **\$1.35**
Valuation **\$1.55**

Ticker:	GNG.ASX		
Sector:	Engineering		
Shares on Issue (m):	153.5		
Market Cap (\$m):	207.2		
Net Debt (Cash) (\$m):	-21.3		
Enterprise Value (\$m):	185.9		
52 wk High/Low:	\$1.60	\$1.14	
12m Av Daily Vol (m):	0.04		
Key Metrics	19F	20F	
EV/EBITDA (x)	7.1	6.5	
EV/EBIT (x)	7.6	6.9	
P/E (x)	12.2	11.1	
Ratios	18A	19F	20F
Cash	21.3	35.7	46.7
EBITDA Mgn	8.5%	9.5%	9.5%
NPAT Mgn	5.8%	6.3%	6.3%
RoA	25.0%	35.2%	35.8%
RoE	22.2%	32.7%	35.1%
Normalised Financials:	18A	19F	20F
Revenue (\$m)	283.6	275.0	300.0
EBITDA (\$m)	24.1	26.1	28.5
EBIT (\$m)	22.7	24.5	26.8
PBT (\$m)	23.2	24.7	27.2
NPAT (\$m)	16.5	17.3	19.0
Rep EBITDA (\$m)	17.1	26.1	28.5
Rep NPAT (\$m)	11.6	17.3	19.0
Net Assets (\$m)	52.5	52.9	54.2
Op CF (\$m)	-0.9	32.7	30.3
Per Share Data:	18A	19F	20F
EPS (cps)	7.4	11.0	12.2
Norm EPS (cps)*	10.6	11.0	12.2
DPS (cps)	11.0	11.0	11.5
Div Yield	8.1%	8.1%	8.5%
NTAPS (cps)	34.2	34.4	35.3
CFPS (cps)	-0.6	21.3	19.7

* Adjusted for amortisation and one-offs

Share Price Graph



Please refer to important disclosures at the end of the report (from page 4)

Wednesday, 22 August 2018

GR Engineering (GNG)

FY18 results

Analyst | Ian Christie, CFA

Quick Read

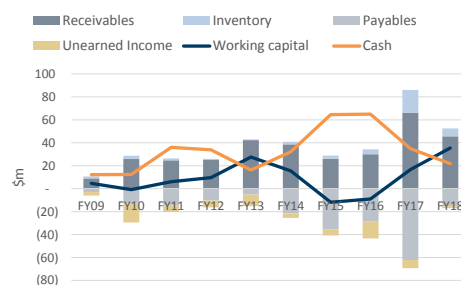
Revenue of \$284m and underlying EBITDA of \$24.1m were in line with our expectations. Timing of contracts and an increase in working capital negatively impacted cash flow in 2H18, although we expect this to improve through FY19. It will be influenced by the timing of two key projects (Thunderbird and Karlawinda), as will our FY19 revenue forecast (expected to be 2H weighted). Our \$1.55 valuation (prior \$1.60) is based on a longer term view, a solid track record, and an expectation cash will climb from here. BUY.

Event & Impact | Neutral

FY18 earnings in line: Revenue of \$284m and underlying EBITDA of \$24.1m were in line with our expectations. This followed the completion of two large contracts (Mt Morgans and Dalgara) and underlying margin improvement in 2H18 to 10.9% (from 7.0% in 1H18). Reported EBITDA was \$7.0m lower following one-off bad debt expenses largely related to the settlement of Hemerdon claims (as previously announced).

Cash flow lower than expected: An operating cash outflow of \$0.9m surprised us, as did the lower closing net cash balance of \$21.3m (compared to \$34.2m at end FY17). It highlights the difficulties in forecasting working capital movements for an EPC contractor. Nevertheless, GNG remains in a strong financial position, with negligible debt.

Working capital: The chart shows the swings in working capital over the years, and the mirror image changes to cash. This largely relates to contract timing. We expect the cash position to improve in FY19, albeit influenced by the timelines of preferred tenderer status contracts (expected to commence in 4Q2018).



Opportunities and timing: GNG is preferred EPC contractor on Sheffield's Thunderbird Mineral Sands Project and Capricorn's Karlawinda Gold Project. Process plant capex for these two exceeds \$350m (~\$270m for the former and ~\$93m for the latter). However, timing is unclear, and therefore our (unchanged) FY19 forecast is at risk. We expect earnings to be 2H weighted, perhaps significantly. GNG intends to provide guidance in November, when there is more certainty with regard to the timing of these key projects.

Recommendation

We maintain our BUY call on a blended valuation of \$1.55 (prior \$1.60). While earnings will invariably be lumpy for an EPC contractor, to avoid large moves in valuation we prefer to place more emphasis on track record and our view on longer term sustainable earnings. We also assume for valuation purposes that Eastern Goldfields settles amounts owing (\$8.3m) and changes in working capital will positively impact net cash in coming months.

GR Engineering

Equities Research

Ian Christie

Recommendation	BUY
Current Price (\$)	1.35
Valuation (\$)	1.55

Sector	Engineering
Market Cap (\$m)	207.2
Date	22 August 2018

Trading Metrics	FY17A	FY18A	FY19F	FY20F
EV / EBITDA (x)	11.0	7.7	7.1	6.5
EV / EBIT (x)	11.9	8.2	7.6	6.9
P/E (x)	16.1	12.8	12.2	11.1
Dividend Yield (%)	3.7%	8.1%	8.1%	8.5%

Trading metrics adjusted for one-offs

Per Share Data	FY17A	FY18A	FY19F	FY20F
Reported EPS (cps)	8.3	7.4	11.0	12.2
Normalised EPS (cps)	8.4	10.6	11.0	12.2
Div. per share (cps)	5.0	11.0	11.0	11.5
NTA per share (cps)	31.9	34.2	34.4	35.3
CF per share (cps)	-8.8	-0.6	21.3	19.7

Normalised P&L (\$m)	FY17A	FY18A	FY19F	FY20F
Revenue	238.7	283.6	275.0	300.0
EBITDA	16.9	24.1	26.1	28.5
D&A	-1.4	-1.4	-1.6	-1.7
EBIT	15.6	22.7	24.5	26.8
Net Interest	0.8	0.5	0.2	0.3
PBT	16.3	23.2	24.7	27.2
NPAT	12.9	16.5	17.3	19.0
Reported EBITDA*	16.9	17.1	26.1	28.5
Reported NPAT*	12.9	11.6	17.3	19.0

* Reported #'s FY18 capture \$6.5m write down of WLF receivables

Cash Flow (\$m)	FY17A	FY18A	FY19F	FY20F
Receipts	192.9	343.1	267.9	295.2
Payments	-203.4	-341.1	-230.0	-261.6
Other	-3.0	-2.8	-5.3	-3.4
Cash from Operations	-13.5	-0.9	32.7	30.3
Property, Plant & Equip	-0.5	-2.7	-1.1	-1.4
Payment for Subsidiary	0.0	0.0	0.0	0.0
Other	-0.4	-0.3	0.0	0.0
Cash From Investing	-0.8	-2.9	-1.1	-1.4
Issue of Shares	0.0	0.0	0.0	0.0
Net Borrowing	-0.8	-0.7	-0.4	-0.3
Dividends / Other	-15.3	-9.2	-16.9	-17.6
Cash From Financing	-16.0	-9.9	-17.3	-17.9
Net Cash Flow	-30.3	-13.7	14.3	10.9
Ending Cash	34.9	21.8	36.0	46.9

Balance Sheet (\$m)	FY17A	FY18A	FY19F	FY20F
Cash	34.9	21.8	36.0	46.9
Receivables	66.2	45.6	52.7	57.5
Inventory	19.8	6.9	6.8	7.4
Other	2.7	0.6	0.6	0.6
Current Assets	123.5	74.9	96.2	112.5
Property, Plant & Equip	2.7	3.9	3.6	3.6
Intangibles	0.0	0.0	0.0	0.0
Other NC Assets	4.2	5.8	5.8	5.8
Non-Current Assets	6.9	9.7	9.4	9.4
Total Assets	130.4	84.6	105.6	121.9
Payables	62.2	15.2	34.1	44.6
Borrowings	0.7	0.5	0.3	0.2
Tax Liabilities	0.0	0.4	0.4	0.4
Provisions	11.5	14.2	14.2	14.2
Other	7.1	1.8	3.8	8.2
Total Liabilities	81.6	32.1	52.8	67.7
Net Assets	48.9	52.5	52.9	54.2
Ordinary Equity	30.4	30.4	30.4	30.4
Reserves	-0.5	0.6	0.6	0.6
Retained Earnings	19.0	21.5	21.8	23.2
Total Equity	48.9	52.5	52.9	54.2

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	11.0%		
PV Free Cash Flow (\$m)		224.1	1.46
Plus Cash (\$m)		21.3	0.14
Equity Value (\$m)		245.4	1.60
EV/EBITDA Valuation:			
FY19 EBITDA multiple	7.5		
Enterprise Value (\$m)		195.9	1.28
Plus Cash (\$m)		21.3	0.14
Equity Value (\$m)		217.2	1.42
Valuation (\$) - blend of DCF & earnings cap.			1.55

Normalised P&L (\$m)	1H17A	2H17A	1H18A	2H18A
Revenue	105.9	132.8	177.2	106.4
EBITDA	10.8	6.1	12.5	11.6
D&A	-0.7	-0.7	-0.6	-0.7
EBIT	10.1	5.5	11.9	10.9
Net Interest	0.5	0.3	0.2	0.3
PBT	10.6	5.8	12.1	11.1
NPAT	7.9	5.0	7.8	8.7
Reported EBITDA*	10.8	6.1	12.1	5.0
Reported NPAT	7.9	5.0	7.5	4.1

* Reported #'s FY18 capture \$6.5m write down of WLF receivables

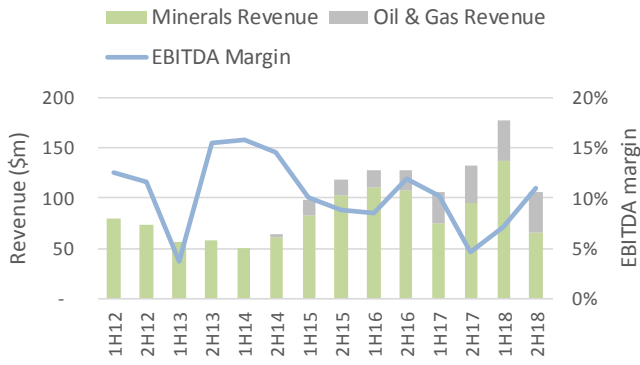
Cash Flow (\$m)	1H17A	2H17A	1H18A	2H18A
Receipts	83.5	109.4	196.2	146.8
Payments*	-96.1	-107.3	-182.0	-159.1
Other	-2.7	-0.2	-1.5	-1.3
Cash from Operations	-15.3	1.8	12.6	-13.5
Property, Plant & Equip	-0.3	-0.1	-1.9	-0.8
Payment for Subsidiary	0.0	0.0	0.0	0.0
Other	-0.4	0.0	0.0	-0.3
Cash From Investing	-0.7	-0.1	-1.9	-1.0
Issue of Shares	0.0	0.0	0.0	0.0
Net Borrowing	-0.2	-0.5	-0.1	-0.6
Dividends / Other	-7.6	-7.6	0.0	-9.2
Cash From Financing	-7.9	-8.2	-0.1	-9.8
Net Cash Flow	-23.9	-6.4	10.7	-24.4
Ending Cash	41.3	34.9	45.6	21.8

Financial Ratios	FY17A	FY18A	FY19F	FY20F
Growth				
Revenue growth (%)	-6.5%	18.8%	-3.0%	9.1%
NPAT growth (%)	-34.6%	28.3%	4.4%	10.2%
Norm. EPS growth (%)	-35.0%	26.5%	4.3%	10.2%
Profitability Ratios				
EBITDA Margin (%)	7.1%	8.5%	9.5%	9.5%
EBIT Margin (%)	6.5%	8.0%	8.9%	8.9%
PBT Margin (%)	6.8%	8.2%	9.0%	9.1%
NPAT Margin (%)	5.4%	5.8%	6.3%	6.3%
Return on Assets (%)	16.2%	25.0%	35.2%	35.8%
Return on Equity (%)	26.3%	22.2%	32.7%	35.1%
ROIC (%)	43.5%	39.3%	41.2%	57.0%
Balance Sheet Ratios				
Net Cash	34.2	21.3	35.7	46.7
Net Debt (ND) / Equity (%)	-70.0%	-40.6%	-67.6%	-86.1%
ND / ND + Equity (%)	n/a	n/a	n/a	n/a
Current Ratio (x)	1.6	2.5	1.9	1.7
Net Interest Cover (x)	-9.8	-15.7	-62.3	-39.0
Cash Flow Ratios				
Free Cash Flow Yield (%)	-6.8%	-1.7%	15.1%	13.8%
Cash Conversion (x)	-0.8	-0.0	1.3	1.1

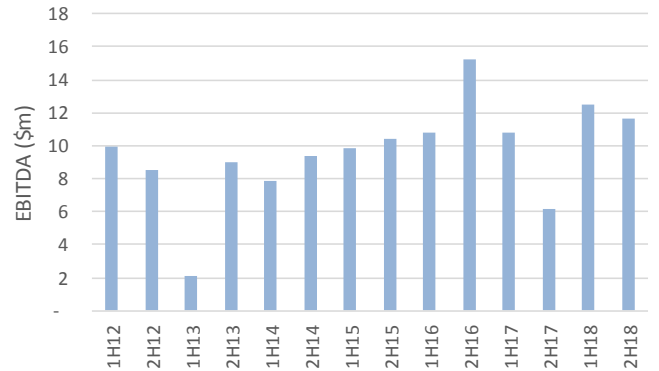
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Charts

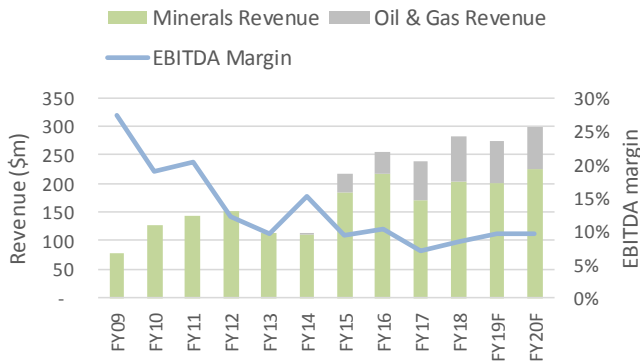
Revenue & Margin - historic half yearly



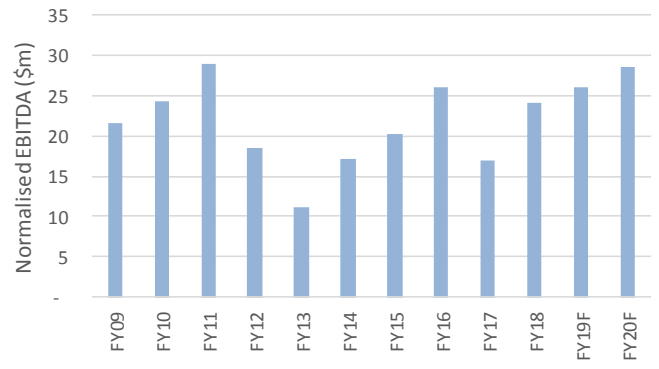
Normalised EBITDA - historic half yearly



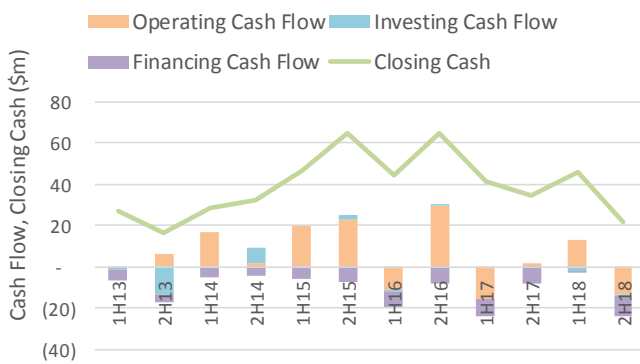
Revenue & Margin - annual (including forecasts)



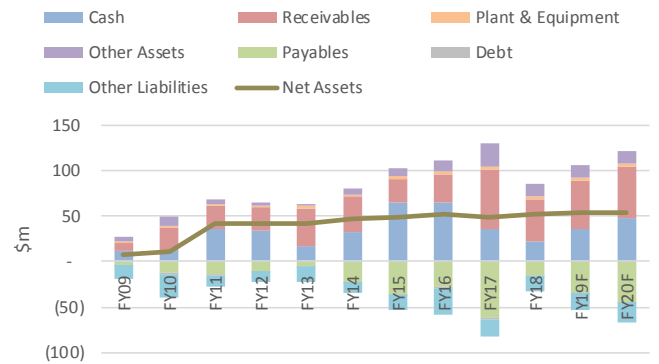
Normalised EBITDA - annual (including forecasts)



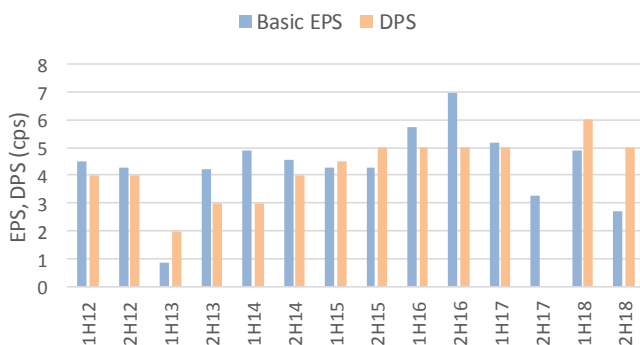
Cash Flow



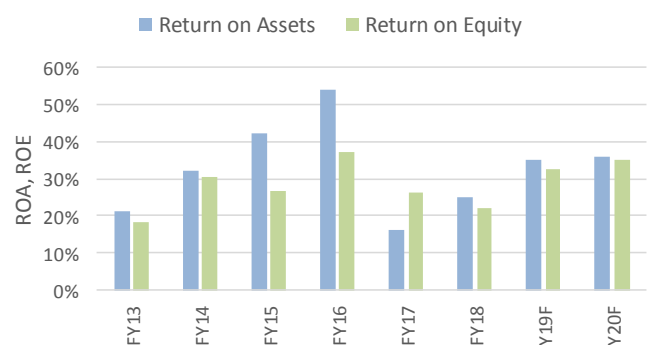
Balance Sheet



EPS & DPS



Returns



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