

## HOLD

Current Price **\$1.17**  
Valuation **\$1.26**

Ticker:	GNG.ASX	
Sector:	Engineering	
Shares on Issue (m):	153.5	
Market Cap (\$m):	179.6	
Net Debt (Cash) (\$m):	-26.6	
Enterprise Value (\$m):	153.0	
52 wk High/Low:	\$1.60	\$1.05
12m Av Daily Vol (m):	0.02	

### Key Metrics

	19F	20F
EV/EBITDA (x)	11.8	6.8
EV/EBIT (x)	13.3	7.3
P/E (x)	22.0	12.2

### Ratios

	18A	19F	20F
Cash	21.3	39.1	44.9
EBITDA Mgn	8.5%	7.0%	9.0%
NPAT Mgn	5.8%	4.5%	6.0%
RoA	25.0%	18.5%	36.6%
RoE	22.2%	15.9%	30.1%

### Normalised Financials:

	18A	19F	20F
Revenue (\$m)	283.6	185.0	250.0
EBITDA (\$m)	24.1	13.0	22.5
EBIT (\$m)	22.7	11.5	21.1
PBT (\$m)	23.2	11.9	21.4
NPAT (\$m)	16.5	8.3	15.0
Rep EBITDA (\$m)	17.1	12.0	22.5
Rep NPAT (\$m)	11.6	7.6	15.0

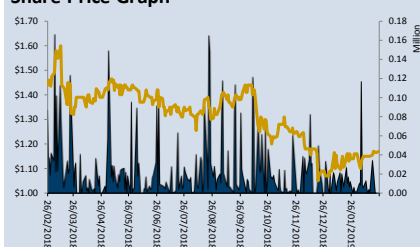
Net Assets (\$m)	52.5	47.9	49.8
Op CF (\$m)	-0.9	31.4	20.2

### Per Share Data:

	18A	19F	20F
EPS (cps)	7.4	4.9	9.6
Norm EPS (cps)*	10.6	5.3	9.6
DPS (cps)	11.0	8.0	8.5
Div Yield	9.4%	6.8%	7.3%
NTAPS (cps)	34.2	31.2	32.5
CFPS (cps)	-0.6	20.5	13.2

\* Adjusted for amortisation and one-offs

### Share Price Graph



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

Monday, 25 February 2019

## GR Engineering (GNG)

### Interim results

Analyst | Ian Christie, CFA

### Quick Read

Interim EBITDA of \$5.9m met our forecast, and we are confident revised FY19 revenue guidance for ~\$180m will be met by locked-in work. Indeed, 2H19 wins could provide upside. We note significant pending project work, and an amount of study work that suggests further opportunities. In particular, if SFX's project goes ahead GNG's revenues would be underpinned for at least two years. However, project timing and margins remain uncertain, so we retain a HOLD call on a revised \$1.26 valuation (prior \$1.30).

### Impact | Limited risk to revised FY19 revenue guidance

**Interims largely in line:** GNG's 1H19 revenue of \$91.3m was ahead of both guidance (for \$80-85m) and our forecast (which was \$83m). Underlying EBITDA of \$5.9m and the closing net cash of \$26.6m was in line, and GNG declared an interim dividend of 4cps. Reported EBITDA of \$4.9m was impacted by a \$1.0m bad debt expense associated with amounts owing by Eastern Goldfields. The \$6.1m still due under a DOCA may be received, subject to conditions precedent in the agreement, in cash and scrip.

**Guidance pulled back:** The Company now expects 2H19 revenue similar to the first half, i.e. ~\$182m for the full year (down from \$220-240m previously). While prior guidance was at risk from project delays, we believe 2H19 revenue of ~\$90m is underpinned by:

- UPS revenue of ~\$40m (this segment delivered revenue of \$45m in 1H19)
- The balance of work on Saracen's (SAR) Carosue Dam paste fill plant and Kirkland Lake's Fosterville paste production facility
- Work commencing this half on the \$50m (conditional) EPC contract with Tellus at the Sandy Ridge project (Stage 1 commences this quarter), and the \$16m EPC contract with OZ Minerals (OZL) for the Carapateena Northern Wellfield project

**Opportunities remain:** A pipeline of opportunities, following considerable recent study work, remains. Projects subject to one or more of CP's, financing and FID include:

- A \$366m EPC contract with Sheffield Resources (SFX) for the Thunderbird project
- A US\$18m EPC contract with Strandline (STA) for the Fungoni Mineral Sands project
- An EPC contract with Kibaran (KNL) for the Epanko Graphite project
- A \$93m EPC contract with Capricorn Metals (CMM) for the Karlawinda Gold project

### Recommendation

We now assume \$185m revenue in FY19 and a 2H19 EBITDA margin of 7.5% (after 6.5% in 1H19). We maintain our \$250m FY20 revenue assumption, but pare back our EBITDA margin to 9.0% (prior 9.5%) given weaker margins in recent reporting periods. It results in a minor reduction in our blended valuation to \$1.26 (prior \$1.30). There is still a degree of project FID and timing uncertainty around FY20 numbers which, together with ongoing margin weakness, suggests a near-term HOLD call remains appropriate.

## GR Engineering

## Equities Research

Ian Christie

Recommendation	HOLD
Current Price (\$)	1.17
Valuation (\$)	1.26

Sector	Engineering
Market Cap (\$m)	179.6
Date	25 February 2019

Trading Metrics	FY17A	FY18A	FY19F	FY20F
EV / EBITDA (x)	9.0	6.3	11.8	6.8
EV / EBIT (x)	9.8	6.7	13.3	7.3
P/E (x)	14.0	11.1	22.0	12.2
Dividend Yield (%)	4.3%	9.4%	6.8%	7.3%

Trading metrics adjusted for one-offs

Per Share Data	FY17A	FY18A	FY19F	FY20F
Reported EPS (cps)	8.3	7.4	4.9	9.6
Normalised EPS (cps)	8.4	10.6	5.3	9.6
Div. per share (cps)	5.0	11.0	8.0	8.5
NTA per share (cps)	31.9	34.2	31.2	32.5
CF per share (cps)	-8.8	-0.6	20.5	13.2

Normalised P&L (\$m)	FY17A	FY18A	FY19F	FY20F
Revenue	238.7	283.6	185.0	250.0
EBITDA	16.9	24.1	13.0	22.5
D&A	-1.4	-1.4	-1.5	-1.4
EBIT	15.6	22.7	11.5	21.1
Net Interest	0.8	0.5	0.4	0.4
PBT	16.3	23.2	11.9	21.4
NPAT	12.9	16.5	8.3	15.0
Reported EBITDA*	16.9	17.1	12.0	22.5
Reported NPAT*	12.9	11.6	7.6	15.0

\* Reported #'s capture write downs of receivables

Cash Flow (\$m)	FY17A	FY18A	FY19F	FY20F
Receipts	192.9	343.1	191.3	248.4
Payments	-203.4	-341.1	-160.2	-223.9
Other	-3.0	-2.8	0.3	-4.3
Cash from Operations	-13.5	-0.9	31.4	20.2
Property, Plant & Equip	-0.5	-2.7	-1.1	-1.3
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	-1.3
Issue of Shares	0.0	0.0	0.1	0.0
Net Borrowing	-0.8	-0.7	-0.4	-0.3
Dividends / Other	-15.3	-9.2	-12.3	-13.0
Cash From Financing	-16.0	-9.9	-12.6	-13.3
Net Cash Flow	-30.3	-13.7	17.7	5.6
Ending Cash	34.9	21.8	39.5	45.1

Balance Sheet (\$m)	FY17A	FY18A	FY19F	FY20F
Cash	34.9	21.8	39.5	45.1
Receivables	66.2	45.6	39.5	41.1
Inventory	19.8	6.9	7.1	6.2
Other	2.7	0.6	0.6	0.6
Current Assets	123.5	74.9	86.7	93.0
Property, Plant & Equip	2.7	3.9	3.8	3.8
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	9.6	9.6
Total Assets	130.4	84.6	96.3	102.7
Payables	62.2	15.2	28.5	31.2
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	5.1	6.8
Total Liabilities	81.6	32.1	48.5	52.9
Net Assets	48.9	52.5	47.9	49.8
Ordinary Equity	30.4	30.4	30.5	30.5
Reserves	-0.5	0.6	0.6	0.6
Retained Earnings	19.0	21.5	16.8	18.7
Total Equity	48.9	52.5	47.9	49.8

Valuation	Calcs.	\$m	\$ps
<b>DCF Valuation:</b>			
Discount Rate / WACC (%)	12.0%		
PV Free Cash Flow (\$m)		165.6	1.08
Plus Cash (\$m)		26.6	0.17
Equity Value (\$m)		192.2	1.25
<b>EV/EBITDA Valuation:</b>			
FY20 EBITDA multiple	7.5		
Enterprise Value (\$m)		168.8	1.10
Plus Cash (\$m)		26.6	0.17
Equity Value (\$m)		195.4	1.27
Valuation (\$) - blend of DCF & earnings cap.			1.26

Normalised P&L (\$m)	1H18A	2H18A	1H19A	2H19F
Revenue	177.2	106.4	91.3	93.7
EBITDA	12.5	11.6	5.9	7.1
D&A	-0.6	-0.7	-0.7	-0.8
EBIT	11.9	10.9	5.2	6.3
Net Interest	0.2	0.3	0.2	0.2
PBT	12.1	11.1	5.4	6.5
NPAT	7.8	8.7	3.4	4.9
Reported EBITDA*	12.1	5.0	4.9	7.1
Reported NPAT*	7.5	4.1	2.7	4.9

\* Reported #'s capture write downs of receivables

Cash Flow (\$m)	1H18A	2H18A	1H19A	2H19F
Receipts	196.2	146.8	95.3	96.0
Payments	-182.0	-159.1	-80.9	-79.4
Other	-1.5	-1.3	-1.0	1.3
Cash from Operations	12.6	-13.5	13.5	18.0
Property, Plant & Equip	-1.9	-0.8	-0.6	-0.5
Payment for Subsidiary	0.0	0.0	0.0	0.0
Other	0.0	-0.3	0.0	-0.0
Cash From Investing	-1.9	-1.0	-0.6	-0.5
Issue of Shares	0.0	0.0	0.0	0.1
Net Borrowing	-0.1	-0.6	-0.2	-0.2
Dividends / Other	0.0	-9.2	-7.7	-4.6
Cash From Financing	-0.1	-9.8	-7.9	-4.7
Net Cash Flow	10.7	-24.4	5.0	12.7
Ending Cash	45.6	21.8	26.9	39.5

Financial Ratios	FY17A	FY18A	FY19F	FY20F
<b>Growth</b>				
Revenue growth (%)	-6.5%	18.8%	-34.8%	35.1%
NPAT growth (%)	-34.6%	28.3%	-49.7%	80.4%
Norm. EPS growth (%)	-35.0%	26.5%	-49.8%	80.4%
<b>Profitability Ratios</b>				
EBITDA Margin (%)	7.1%	8.5%	7.0%	9.0%
EBIT Margin (%)	6.5%	8.0%	6.2%	8.4%
PBT Margin (%)	6.8%	8.2%	6.4%	8.6%
NPAT Margin (%)	5.4%	5.8%	4.5%	6.0%
Return on Assets (%)	16.2%	25.0%	18.5%	36.6%
Return on Equity (%)	26.3%	22.2%	15.9%	30.1%
ROIC (%)	43.5%	39.3%	21.2%	53.8%
<b>Balance Sheet Ratios</b>				
Net Cash	34.2	21.3	39.1	44.9
Net Debt (ND) / Equity (%)	-70.0%	-40.6%	-81.8%	-90.0%
ND / ND + Equity (%)	n/a	n/a	n/a	n/a
Current Ratio (x)	1.6	2.5	1.9	1.9
Net Interest Cover (x)	-9.8	-15.7	-13.9	-27.8
<b>Cash Flow Ratios</b>				
Free Cash Flow Yield (%)	-7.9%	-1.9%	16.8%	10.5%
Cash Conversion (x)	-0.8	-0.0	2.4	0.9

## Adjustments to forecasts

Figure 1: Adjustments to forecasts

Normalised*	FY16	FY17	FY18	FY19F			FY20F		
	Actual	Actual	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	255.3	238.7	283.6	220.0	185.0	-16%	250.0	250.0	0%
EBITDA (\$m)	26.1	16.9	24.1	18.7	13.0	-30%	23.8	22.5	-5%
EBITDA margin	10.2%	7.1%	8.5%	8.5%	7.0%		9.5%	9.0%	
EBIT (\$m)	24.9	15.6	22.7	17.1	11.5	-32%	22.1	21.1	-5%
PBT (\$m)	25.9	16.3	23.2	17.2	11.9	-31%	22.5	21.4	-5%
NPAT (\$m)	19.7	12.9	16.5	12.1	8.3	-31%	15.7	15.0	-5%
NPAT margin	7.7%	5.4%	5.8%	5.5%	4.5%		6.3%	6.0%	
EPS (cps)	12.9	8.4	10.6	7.7	5.3	-31%	10.0	9.6	-5%

\* Normalised for one-offs

Source: Argonaut forecasts

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