

## GR ENGINEERING SERVICES LTD (GNG)

### Extricating from any earnings expectation from Thunderbird

GR Engineering Ltd recently reported 1H19 NPAT of \$2.7m (as expected). DPS declared was 4cps (we expected only 2.5cps) with a payout ratio well above 100%. EBITDA was \$5.9m (we expected \$4.4m) excluding a \$1m write-down to the EGS.asx bad debt (GNG expects to receive \$6.1m under an EGS recapitalisation). Operating cash flow was \$13.5m (as expected), which was a good turnaround from 2H18 (outflow of \$13.4m). Capex was \$0.6m (as expected). Net cash was \$26.6m (as expected).

### Minerals okay in context of weak revenues, oil & gas shows rebound

The minerals division reported 1H EBITDA \$4.3m (2H18 EBITDA \$13.7m and 1H18 \$10m). UPS improved to \$1.6m EBITDA (up from no profit in 2H18) and it is encouraging that it appears to have turned around.

### Hartleys assumes FY19 EBITDA \$12.1m, FY20 \$19.5m

Company guidance is for 2H19 revenue to be in line with 1H19 (\$91.3m). Previous guidance was for FY19 revenue of \$220-240m, with downside risk flagged by the Company at the time it was made. We were already lower than guidance but have lowered our revenue estimate again to meet new guidance. We expect FY19 EBITDA \$12.1m and NPAT of \$7.9m. We expected 3cps final DPS.

For FY20 we estimate the orderbook is \$225m ex Thunderbird and \$350-400m including it (depending on start time). Contracts in the order book include Karlawinda (\$93m) and Tellus Holdings (\$50m). Other potential includes the Strandline and Kibaran projects in Tanzania. We assume FY20 revenue of \$235m which could be argued assumes Thunderbird is delayed indefinitely (but Karlawinda is financed - we believe the risk on Karlawinda financing is diminishing with the rising gold price, but is still significant). We assume FY20 EBITDA of A\$19.5m, NPAT of A\$13.5m. We assume a strong FY21 with revenue in order of \$245m and EBITDA margin expansion.

### Move to Speculative Buy (from Accumulate)

GNG has been preparing to construct the Thunderbird mineral sands project for SFX, but financing for the project is appearing more difficult. Hence, there appears a real risk around timing, and indeed a new financing partner may want to delay or redesign the project, depending on how much influence they have (for example if SFX were to be taken over).

There is certainly a building pipeline of projects to replace the Thunderbird project in FY20, and our estimates are now achievable without the project occurring in FY20.

We move to Speculative Buy (from Accumulate) given earnings expectations now exclude Thunderbird and there is speculative potential for significant upside. The strong gold price in recent years has meant there has been a number of gold developers that could be in a position to begin indicatively tendering for work in CY19 with intention for construction in CY20/21.

GNG.asx  
Speculative Buy

27 Feb 2019

Share Price:	\$1.14
Valuation:	\$1.17
12mth price target:	\$1.26

#### Brief Business Description:

An engineering design & construction, maintenance and industrial services group

#### Hartleys Brief Investment Conclusion

Order book filling up. Possible for a very good FY20/21 but speculative.

#### Chairman & CEO:

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

#### Top Shareholders:

CBA	10.1%
Sala Tenna Family (Exec.)	8.0%
Joley Ltd	7.4%
Joe Ricciardo	6.4%
Tony Patrizi (Exec. Dir.)	6.4%
Quintal Pty Ltd	6.2%
Spheria	6.0%
B. Schier (Exec. nom.)	5.3%
Eley Griffiths	5.2%
Joe Totaro (CFO, Exec)	5.2%

#### Company Address:

179 Great Eastern Highway  
Belmont, WA, 6104

Issued Capital:	153.3m		
- fully diluted	156.7m		
Market Cap:	\$174m		
- fully diluted	\$178m		
Net Cash (31 Dec '18a):	\$26.6m		
	FY18a	FY19e	FY20e
Op Cash Flw	-0.9	28.6	8.8
Free Cash Flw	-3.8	27.3	7.3
NPAT* (A\$m)	16.8	7.9	13.5
EPS (\$, bas)	7.6	5.2	8.8
P/E (basic)	14.9x	22.0x	12.9x
P/E (diluted)	10.5x	22.5x	13.2x
EV / EBITDA	7.0x	14.4x	8.9x
DPS (cps)	11.0	7.0	6.5
Franking	100%	100%	100%
Dividend Yield	9.7%	6.2%	5.7%
N.D. / equity	-41%	-75%	-65%

Source: Hartleys Research. \* normalised



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Analyst has a beneficial interest in GNG shares.

## GR Engineering Services Ltd (GNG)

Company Information		
Date	27 Feb 2019	179 Great Eastern Highway
Share Price	\$1.14	Belmont, WA, 6104
52 Week High-Low	\$1.6 - \$0.99	Ph: (08) 6372 6000
Market Cap (\$m)	\$173.9	Fax: (08) 6372 6001
Enterprise Value (\$m)	\$173.9	www.gres.com.au
Ordinary Shares	153.3	
Fully Diluted Shares	156.7	

## Valuation

Spot Fundamental Valuation				\$1.17
12mth fwd Fundamental Valuation				\$1.20
12mth forward P/E (diluted) of 14x (premium to comps)				\$1.28
Dec18a 1x Price / NTA (1x \$0.31)				\$0.31
12mth fwd Div Yield of 5.5% (Gross yield=7.9%)				\$1.18
<b>12 Months Price Target (wgted avg above 4 avg)</b>				<b>\$1.26</b>
P / E (6/20F) at price target				14.6x
P / E (6/21F) at price target				13.3x
Dividend yield (6/21F) at price target				5.2%
EV/EBITDA (6/21F) at price target				7.7x
EV/EBIT (6/21F) at price target				8.3x
Multiples (\$/price at \$1.14)	6/17A	6/18A	6/19F	6/20F
P / E (reported, basic weighted)	13.4x	14.9x	22.0x	12.9x
P / E (normalised, dil. weighted)	15.3x	10.5x	22.5x	13.2x
P / E (mkt cap / norm. NPAT)	15.3x	10.3x	22.0x	12.9x
P / E (fully diluted mkt cap / norm. NPAT)	15.6x	10.6x	22.4x	13.2x
Dividend Yield	4.4%	9.7%	6.2%	5.7%
Group Free Cash Flow (f.c.f) / EV	-8.0%	-2.0%	15.7%	4.2%
Equity f.c.f. / Mkt Cap	-8.2%	-2.3%	15.5%	4.0%
Norm f.c.f. / Mkt cap	-8.2%	-2.3%	15.5%	4.0%
Mkt cap / operating cash flow	12.9	196.0	6.1x	19.7x
EV/EBITDA multiple	10.3x	7.0x	14.4x	8.9x
EV/EBIT multiple	11.2x	7.4x	16.5x	9.6x
Price / Book Value	3.6x	3.3x	3.7x	3.4x
Price / NTA	3.6x	3.3x	3.7x	3.4x

Ratios	6/17A	6/18A	6/19F	6/20F
Return period end Equity	26.3%	22.2%	17.0%	26.6%
Return on Assets	9.5%	15.7%	9.6%	16.6%
ND / ND + Equity	nm	nm	nm	nm
ND / Equity	nm	nm	nm	nm
Net Interest Cover (EBIT)	nm	nm	nm	nm

Free Cash Flow Analysis (\$m)	6/17A	6/18A	6/19F	6/20F
Net Operating Cash Flow	-13.5	-0.9	28.6	8.8
Capex (Reported)	-0.5	-2.7	-1.3	-1.5
Group Free Cash Flow (rep'ted)	-13.9	-3.5	27.3	7.3
Fixed Debt Repayments	-0.4	-0.5	-0.3	-0.3
<b>Equity Free Cash Flow (rep'ted)</b>	<b>-14.3</b>	<b>-4.0</b>	<b>27.0</b>	<b>7.0</b>
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-14.3	-4.0	27.0	7.0
Capex (inc HP) / depreciation	33%	194%	83%	105%

Share Data	6/17A	6/18A	6/19F	6/20F
Ord Issued shares (m)	153.3	153.4	153.6	154.3
growth	0.3%	0.1%	0.1%	0.4%
Weighted ave shares (m)	152.2	153.3	153.5	154.0
growth	0.0%	0.7%	0.2%	0.3%
Diluted shares wgted (m)	153.1	156.3	156.9	156.9
growth	0.0%	2.1%	0.3%	0.0%

Unpaid Capital				
Year Expires	Number	% ord	Avg Price	\$m unpaid
30-Jun-19	177,500	0.0%	\$ -	\$ -
30-Jun-20	680,000	0.0%	\$ 0.85	\$ 0.0
30-Jun-21	2,575,000	0.0%	\$ 0.17	\$ 0.0
30-Jun-22	-	0.0%	\$ -	\$ -
30-Jun-23	-	0.0%	\$ -	\$ -
<b>TOTAL</b>	<b>3,432,500</b>	<b>0.0%</b>	<b>\$ 0.30</b>	<b>\$ 0.0</b>

Directors & Senior Management			Substantial Shareholders	
Phillip Lockyer (Non-Exec. Chairman)	CBA			10.1%
Geoff Jones (Managing Director)	Sala Tenna Family (Exec.)			8.0%
Tony Patrizi (Executive Director)	Joley Ltd			7.4%
Peter Hood (Non-Exec.)	Joe Ricciardo			6.4%
Barry Paterson (Non-Executive Director)	Tony Patrizi (Exec. Dir.)			6.4%
	Quintal Pty Ltd			6.2%
Joe Totaro (CFO)	Spheria			6.0%
	B. Schier (Exec. nom.)			5.3%
	Eley Griffiths			5.2%
	Joe Totaro (CFO, Exec)			5.2%

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Sources: IRESS, Company Information, Hartleys Research

## Recommendation: Speculative Buy

Profit & Loss (\$m)	6/17A	6/18A	6/19F	6/20F
Minerals Revenue	169.8	202.4	90.0	144.0
- EBITDA	10.8	23.6	10.8	18.7
- margin	6.4%	11.7%	12.0%	13.0%
Oil & Gas Revenue	68.9	81.2	89	94
- EBITDA	6.4	1.8	3.6	3.8
- margin	9.3%	2.2%	4.0%	4.0%
<b>Total Revenue</b>	<b>238.7</b>	<b>283.6</b>	<b>179.3</b>	<b>237.8</b>
<b>growth</b>	<b>-6.5%</b>	<b>18.8%</b>	<b>-36.8%</b>	<b>32.6%</b>
<b>EBITDA</b>	<b>16.9</b>	<b>24.9</b>	<b>12.1</b>	<b>19.5</b>
<b>margin</b>	<b>7.1%</b>	<b>8.8%</b>	<b>6.7%</b>	<b>8.2%</b>
Depreciation/Amortisation	-1.4	-1.4	-1.5	-1.5
EBITA	15.6	23.7	10.5	18.1
EBITA / Sales	6.5%	8.3%	5.9%	7.6%
EBIT	15.5	23.6	10.5	18.1
EBIT / Sales	6.5%	8.3%	5.9%	7.6%
Net Interest	0.8	0.5	0.5	0.7
Profit Before Tax	16.3	16.2	11.0	18.8
- margin	6.8%	5.7%	6.1%	7.9%
Tax	-3.4	-4.6	-3.1	-5.3
Effective Tax Rate	21.0%	28.2%	28.2%	28.2%
NPAT Pre Minorities	11.4	16.8	7.9	13.5
Minorities	0.0	0.0	0.0	0.0
<b>Normalised NPAT to equity</b>	<b>11.4</b>	<b>16.8</b>	<b>7.9</b>	<b>13.5</b>
<b>Norm. Net Profit / Sales</b>	<b>4.8%</b>	<b>5.9%</b>	<b>4.4%</b>	<b>5.7%</b>
Abnormals / discontinued	1.5	-5.2	0.0	0.0
Reported Profit to equity	12.9	11.6	7.9	13.5
Reported EPS (basic, wghted)	8.5	7.6	5.2	8.8
Normalised EPS (dil, wghtd)	7.4	10.8	5.1	8.6
Normalised EPS (full. diluted)	7.3	10.7	5.1	8.6
<b>DPS (cps)</b>	<b>5.0</b>	<b>11.0</b>	<b>7.0</b>	<b>6.5</b>

Franking	100%	100%	100%	100%
Payout Ratio	67.4%	100.3%	135.7%	74.3%

Cashflow Statement (\$m)	6/17A	6/18A	6/19F	6/20F
EBITDA	16.9	24.9	12.1	19.5
Working Capital Change	-27.4	-23.0	19.2	-6.1
Cash from Operations	-10.5	1.9	31.2	13.4
Net interest Paid	0.8	0.5	0.5	0.7
Tax Paid	-3.8	-3.4	-3.1	-5.3
<b>Net Operating Cash Flow</b>	<b>-13.5</b>	<b>-0.9</b>	<b>28.6</b>	<b>8.8</b>
Capital Expenditure	-0.5	-2.7	-1.3	-1.5
Asset Sales	0.0	0.0	0.0	0.0
Other (inc Investments)	-0.4	-0.3	0.0	0.0
<b>Net Investing Cash Flow</b>	<b>-0.8</b>	<b>-2.9</b>	<b>-1.3</b>	<b>-1.5</b>
Proceeds from Equity Issues	0.0	0.0	0.0	0.0
Net Change in Debt & Leases	-0.8	-0.7	1.5	-8.1
Dividends Paid	-15.3	-9.2	-13.8	-9.2
<b>Net Financing Cash Flow</b>	<b>-16.0</b>	<b>-9.9</b>	<b>-12.3</b>	<b>-17.3</b>
Movement in Cash	-30.3	-13.7	15.0	-10.0
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0

Balance Sheet (\$m)	6/17A	6/18A	6/19F	6/20F
Cash	34.9	21.8	36.8	26.8
Receivables	66.2	45.6	29.5	39.1
Inventories	19.8	6.9	4.5	5.8
Other	2.7	0.6	0.6	0.6
<b>Total Current Assets</b>	<b>123.5</b>	<b>74.9</b>	<b>71.3</b>	<b>72.3</b>
Property, Plant & Equipment	2.7	3.9	3.6	3.7
Intangibles	0.0	0.0	0.0	0.0
Other	4.2	5.8	5.8	5.8
<b>Total Non Current Assets</b>	<b>6.9</b>	<b>9.7</b>	<b>9.4</b>	<b>9.5</b>
<b>Total Assets</b>	<b>130.4</b>	<b>84.6</b>	<b>80.8</b>	<b>81.8</b>
Accounts Payable	62.2	15.2	15.8	20.6
Interest Bearing Liabilities	0.5	0.3	0.3	0.3
Other	16.0	13.9	13.9	13.9
<b>Total Current Liabilities</b>	<b>78.6</b>	<b>29.4</b>	<b>30.0</b>	<b>34.9</b>
Accounts Payable	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	0.2	0.1	1.6	-6.5
Other	2.7	2.6	2.6	2.6
<b>Total Non Current Liabilities</b>	<b>2.9</b>	<b>2.7</b>	<b>4.2</b>	<b>-3.9</b>
<b>Total Liabilities</b>	<b>81.6</b>	<b>32.1</b>	<b>34.2</b>	<b>31.0</b>
<b>Net Assets</b>	<b>48.9</b>	<b>52.5</b>	<b>46.6</b>	<b>50.8</b>
Net Asset Value / Share (\$)	0.32	0.34	0.30	0.33
NTA / Share (\$)	0.32	0.34	0.30	0.33
Free Net Debt (net cash)	-34.2	-21.3	-34.8	-32.9
- inc. encumbered	-34.2	-21.3	-34.8	-32.9

Last Earnings Estimate Changes:  
27 February 2019

**Fig. 1: Profit and Loss & Balance Sheet**

Profit & Loss (\$m)	Dec-15a	Jun-16a	Dec-16a	Jun-17a	Dec-17a	Jun-18a	Dec-18a	Jun-19e
Minerals Revenue	110.0	107.5	74.3	95.5	136.1	66.2	46.5	43.5
- EBITDA	9.6	10.9	9.8	1.1	10.0	13.7	4.3	6.5
- margin	8.7%	10.1%	13.1%	1.1%	7.3%	20.6%	9.3%	14.9%
Oil & Gas Revenue	17.2	20.5	31.6	37.2	41.1	40.1	44.8	44.5
- EBITDA	1.3	2.0	3.4	3.0	1.8	0.0	1.6	2.0
- margin	7.3%	9.9%	10.8%	8.0%	4.3%	0.0%	3.6%	4.4%
<b>Total Revenue</b>	<b>127.2</b>	<b>128.1</b>	<b>105.9</b>	<b>132.8</b>	<b>177.2</b>	<b>106.4</b>	<b>91.3</b>	<b>88.0</b>
sequential growth	7%	1%	-17%	25%	34%	-40%	-14.1%	-4%
<b>EBITDA</b>	<b>10.8</b>	<b>12.9</b>	<b>10.8</b>	<b>6.1</b>	<b>12.5</b>	<b>12.5</b>	<b>5.9</b>	<b>6.2</b>
margin	8.5%	10.1%	10.2%	4.6%	7.0%	11.7%	6.5%	7.0%
Depreciation/Amortisation	-0.9	-0.9	-0.7	-0.7	-0.6	-0.7	-0.7	-0.8
EBITA	9.9	12.0	10.0	5.4	11.9	11.7	5.2	5.3
EBITA / Sales	7.8%	9.4%	9.5%	4.1%	6.7%	11.0%	5.7%	6.0%
EBIT	9.9	12.0	10.0	5.4	11.9	11.7	5.2	5.3
EBIT / Sales	7.8%	9.4%	9.5%	4.1%	6.7%	11.0%	5.7%	6.0%
Net Interest	0.6	0.5	0.5	0.3	0.2	0.3	0.2	0.3
Profit Before Tax	10.5	14.9	10.5	5.7	11.6	4.6	4.4	6.6
- margin	8.3%	11.6%	10.0%	4.3%	6.6%	4.3%	4.8%	7.5%
Tax	-1.8	-4.3	-2.6	-0.8	-4.1	-0.4	-1.7	-1.4
Effective Tax Rate	17.0%	28.7%	25.1%	13.5%	35.6%	9.2%	38.0%	21.6%
NPAT Pre Minorities	8.7	7.4	7.9	3.5	7.8	9.1	3.3	4.6
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Normalised NPAT to equity</b>	<b>8.7</b>	<b>7.4</b>	<b>7.9</b>	<b>3.5</b>	<b>7.8</b>	<b>9.1</b>	<b>3.3</b>	<b>4.6</b>
<b>Norm. Net Profit / Sales</b>	<b>6.9%</b>	<b>5.8%</b>	<b>7.5%</b>	<b>2.6%</b>	<b>4.4%</b>	<b>8.5%</b>	<b>3.7%</b>	<b>5.2%</b>
Abnormals / discontinued	0.0	3.2	0.0	1.5	-0.3	-4.9	-0.6	0.6
Reported Profit to equity	8.7	10.6	7.9	5.0	7.5	4.1	2.7	5.2
Reported EPS (basic, wghtd)	5.7	7.0	5.2	3.2	4.9	2.7	1.8	3.3
Normalised EPS (dil, wghtd)	5.7	4.8	5.1	2.2	5.0	5.8	2.1	2.9
<b>DPS (cps)</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>0.00</b>	<b>6.00</b>	<b>5.00</b>	<b>4.00</b>	<b>3.00</b>
Franking	100%	100%	100%	100%	100%	100%	100%	100%
Payout Ratio	87.0%	71.8%	97.0%	0.0%	122.6%	185.2%	225.7%	89.8%
<b>Balance Sheet (\$m)</b>	<b>Dec-15a</b>	<b>Jun-16a</b>	<b>Dec-16a</b>	<b>Jun-17a</b>	<b>Dec-17a</b>	<b>Jun-18a</b>	<b>Dec-18a</b>	<b>Jun-19e</b>
Cash	44.1	64.9	41.3	34.9	45.6	21.8	26.9	36.8
Receivables	49.6	29.9	42.4	66.2	73.2	45.6	39.4	29.5
Inventories	3.0	4.4	4.9	19.8	11.2	6.9	9.2	4.5
Other	2.8	0.5	2.3	2.7	1.0	0.6	1.3	0.6
<b>Total Current Assets</b>	<b>99.5</b>	<b>99.7</b>	<b>91.0</b>	<b>123.5</b>	<b>131.0</b>	<b>74.9</b>	<b>76.8</b>	<b>71.3</b>
Property, Plant & Equipment	3.8	3.6	3.3	2.7	4.0	3.9	3.7	3.6
Intangibles	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	5.9	6.7	5.5	4.2	6.5	5.8	4.0	5.8
<b>Total Non Current Assets</b>	<b>10.0</b>	<b>10.4</b>	<b>8.8</b>	<b>6.9</b>	<b>10.5</b>	<b>9.7</b>	<b>7.6</b>	<b>9.4</b>
<b>Total Assets</b>	<b>109.5</b>	<b>110.1</b>	<b>99.7</b>	<b>130.4</b>	<b>141.4</b>	<b>84.6</b>	<b>84.4</b>	<b>80.8</b>
Accounts Payable	43.6	28.4	34.0	62.2	54.2	15.2	26.4	15.8
Interest Bearing Liabilities	0.8	0.4	0.9	0.5	0.8	0.3	0.2	0.3
Other	13.1	26.6	10.3	16.0	26.4	13.9	7.3	13.9
<b>Total Current Liabilities</b>	<b>57.4</b>	<b>55.3</b>	<b>45.1</b>	<b>78.6</b>	<b>81.5</b>	<b>29.4</b>	<b>33.9</b>	<b>30.0</b>
Accounts Payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	0.7	0.5	0.3	0.2	0.2	0.1	0.1	1.6
Other	2.2	2.3	2.5	2.7	2.8	2.6	2.6	2.6
<b>Total Non Current Liabilities</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>	<b>2.9</b>	<b>3.0</b>	<b>2.7</b>	<b>2.7</b>	<b>4.2</b>
<b>Total Liabilities</b>	<b>60.3</b>	<b>58.1</b>	<b>47.9</b>	<b>81.6</b>	<b>84.5</b>	<b>32.1</b>	<b>36.6</b>	<b>34.2</b>
<b>Net Assets</b>	<b>49.1</b>	<b>52.0</b>	<b>51.8</b>	<b>48.9</b>	<b>57.0</b>	<b>52.5</b>	<b>47.9</b>	<b>46.6</b>
Net Asset Value / Share (\$)	0.32	0.34	0.33	0.32	0.36	0.34	0.31	0.30
NTA / Share (\$)	0.32	0.34	0.33	0.32	0.36	0.34	0.31	0.30
Net Debt (net cash)	-42.6	-64.0	-40.1	-34.2	-44.6	-21.3	-26.6	-34.8
- inc. encumbered	-47.1	-64.0	-44.7	-34.2	-44.6	-21.3	-26.6	-34.8

Source: Hartleys Research Estimates

Margins soft

Solid balance sheet

**Fig. 2: Cash Flow Statement**

Cashflow Statement (\$m)	Dec-15a	Jun-16a	Dec-16a	Jun-17a	Dec-17a	Jun-18a	Dec-18a	Jun-19e
EBITDA	10.8	12.9	10.8	6.1	12.5	12.5	5.9	6.2
Working Capital Change	-16.0	17.5	-23.4	-4.0	1.7	-24.7	8.5	10.6
Cash from Operations	-5.2	30.4	-12.6	2.1	14.2	-12.2	14.4	16.8
Net interest Paid	0.6	0.6	0.5	0.3	0.2	0.3	0.2	0.3
Tax Paid	-6.7	-1.6	-3.2	-0.5	-1.8	-1.6	-1.2	-1.9
<b>Net Operating Cash Flow</b>	<b>-11.2</b>	<b>29.4</b>	<b>-15.3</b>	<b>1.8</b>	<b>12.6</b>	<b>-13.5</b>	<b>13.5</b>	<b>15.1</b>
Capital Expenditure	-0.6	-0.4	-0.3	-0.1	-1.9	-0.8	-0.6	-0.7
Asset Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (inc Investments)	-0.1	0.8	-0.4	0.0	0.0	-0.3	0.0	0.0
<b>Net Investing Cash Flow</b>	<b>-0.7</b>	<b>0.4</b>	<b>-0.7</b>	<b>-0.1</b>	<b>-1.9</b>	<b>-1.0</b>	<b>-0.6</b>	<b>-0.7</b>
Proceeds from Equity Issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Change in Debt & Leases	0.0	-0.6	-0.2	-0.5	-0.1	-0.6	-0.2	1.7
Dividends Paid	-7.5	-7.6	-7.6	-7.6	0.0	-9.2	-7.7	-6.1
<b>Net Financing Cash Flow</b>	<b>-7.5</b>	<b>-8.2</b>	<b>-7.9</b>	<b>-8.2</b>	<b>-0.1</b>	<b>-9.8</b>	<b>-7.9</b>	<b>-4.5</b>
Movement in Cash	-19.5	21.6	-23.9	-6.4	10.7	-24.4	5.0	10.0
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Free Cash Flow Analysis</b>	<b>Dec-15a</b>	<b>Jun-16a</b>	<b>Dec-16a</b>	<b>Jun-17a</b>	<b>Dec-17a</b>	<b>Jun-18a</b>	<b>Dec-18a</b>	<b>Jun-19e</b>
Net Operating Cash Flow	-11.2	29.4	-15.3	1.8	12.6	-13.5	13.5	15.1
Capex (Reported)	-0.6	-0.4	-0.3	-0.1	-1.9	-0.8	-0.6	-0.7
Group Free Cash Flow (rep'ted)	-11.8	29.0	-15.7	1.7	10.7	-14.3	12.9	14.4
Fixed Debt Repayments	-0.2	-0.4	-0.2	-0.4	-0.2	-0.4	-0.2	-0.1
<b>Equity Free Cash Flow (rep'ted)</b>	<b>-12.0</b>	<b>28.6</b>	<b>-15.9</b>	<b>1.3</b>	<b>10.5</b>	<b>-14.7</b>	<b>12.7</b>	<b>14.4</b>
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-12.0	28.6	-15.9	1.3	10.5	-14.7	12.7	14.4
Capex (inc HP) / depreciation	61%	44%	48%	16%	298%	103%	84%	82%

Cash flow improved

Source: Hartleys Research Estimates

**Fig. 3: Hartleys earnings revisions**

Profit & Loss (\$m)	6/18A				6/19F			6/20F			6/21F		
	actual	Old	New	% diff	Old	New	% diff	Old	New	% diff	Old	New	% diff
Revenue	283.6	204.1	179.3	-12.1%	262.6	237.8	-9.4%	237.5	245.0	3.2%			
- growth	18.8%	-28.0%	-36.8%		28.6%	32.6%		-9.5%	3.0%				
EBITDA	24.9	13.8	12.1	-12.5%	20.9	19.5	-6.4%	19.6	21.3	9.1%			
- margin	8.8%	6.8%	6.7%	-0.4%	7.9%	8.2%	3.4%	8.2%	8.7%	5.8%			
Depreciation/Amortisation	-1.4	-1.5	-1.5	0.0%	-1.5	-1.5	0.0%	-1.5	-1.5	0.0%			
EBIT	23.6	12.3	10.5	-14.0%	19.4	18.1	-6.9%	18.1	19.9	9.8%			
- margin	8.3%	6.0%	5.9%	-2.2%	7.4%	7.6%	2.8%	7.6%	8.1%	6.5%			
Net Interest	0.5	0.5	0.5	-6.3%	0.8	0.7	-9.2%	0.9	0.8	-13.0%			
Pretax Profit	16.2	12.8	11.0	-13.7%	20.2	18.8	-6.9%	19.0	20.7	8.7%			
Tax	-4.6	-3.6	-3.1	-13.7%	-5.7	-5.3	-6.9%	-5.4	-5.8	8.7%			
NPAT Pre Minorities	16.8	9.2	7.9	-13.7%	14.5	13.5	-6.9%	13.7	14.8	8.7%			
Minorities	0.0	0.0	0.0		0.0	0.0		0.0	0.0				
<b>Norm. Net Profit After Tax*</b>	<b>16.8</b>	<b>9.2</b>	<b>7.9</b>	<b>-13.7%</b>	<b>14.5</b>	<b>13.5</b>	<b>-6.9%</b>	<b>13.7</b>	<b>14.8</b>	<b>8.7%</b>			
- margin	5.9%	4.5%	4.4%	-1.8%	5.5%	5.7%	2.7%	5.8%	6.1%	5.4%			
Abnormals (net of tax)	-5.5	0.0	0.0		0.0	0.0		0.0	0.0				
<b>Reported Profit</b>	<b>11.3</b>	<b>9.2</b>	<b>7.9</b>	<b>-13.7%</b>	<b>14.5</b>	<b>13.5</b>	<b>-6.9%</b>	<b>13.7</b>	<b>14.8</b>	<b>8.7%</b>			
Net Debt (net cash)	-21.3	-35.9	-34.8	-3.0%	-34.2	-32.9	-4.0%	-40.2	-37.5	-6.7%			
- inc encumbered	-21.3	-35.9	-34.8	-3.0%	-34.2	-32.9	-4.0%	-40.2	-37.5	-6.7%			
DPS	11.0	6.5	7.0	7.7%	6.5	6.5	0.0%	6.5	6.5	0.0%			

Source: Hartleys Research Estimates

## PRICE TARGET

Our twelve month price target is \$1.26 (down from \$1.27).

GNG Price Target Methodology	Weighting	Spot	12 mth out
Fundamental Valuation	38%	\$1.17	\$1.20
- DCF (WACC 10.8%, Terminal growth 0.00%)	30%	\$1.21	\$1.24
- Gordon Growth (CoE 10.0%, FY18-23 DPS -2.7%pa, term. 2.0%pa)	8%	\$1.00	\$1.05
12mth forward P/E (diluted) of 14x (premium to comps)	33%	\$1.04	\$1.28
12mth forward EV/EBIT of 14x (peak)	10%	\$1.60	\$1.95
Dec18a 1x Price / NTA (1x \$0.31)	5%	\$0.31	\$0.31
12mth fwd Div Yield of 5.5% (Gross yield=7.9%)	14%	\$1.27	\$1.18
<b>Risk weighted composite</b>		<b>\$1.14</b>	<b>\$1.26</b>
<b>12 Months Price Target</b>		<b>\$1.26</b>	
Shareprice - Last		\$1.14	
<b>12 mth total return (% to 12mth target + dividend)</b>		<b>17%</b>	

Source: Hartleys Estimate

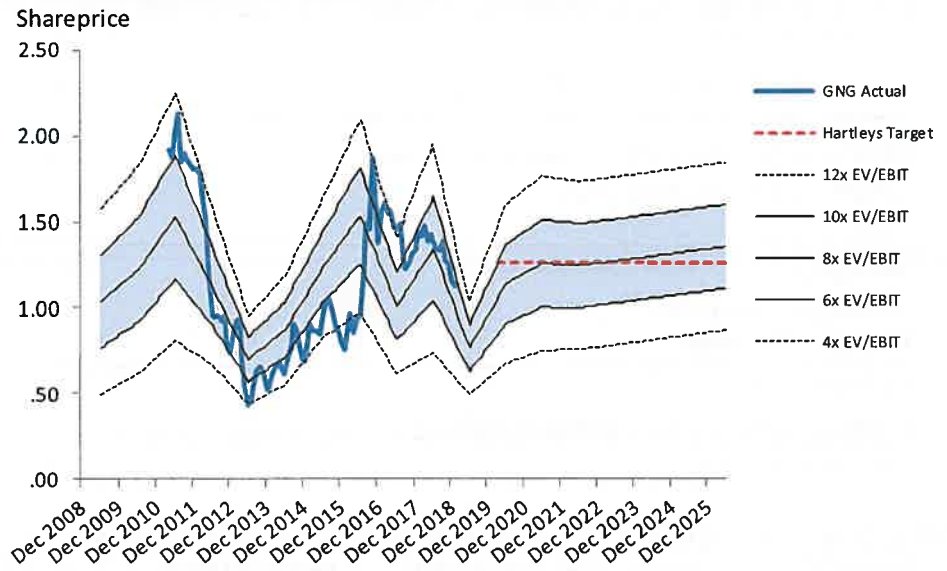
**Fig. 2: Key assumptions and risks for valuation**

Assumption	Risk of not realising assumption	Downside risk of valuation if assumption is incorrect	Comment
Revenue peaks ~\$275m	Moderate	High	The outlook for the industry suggests that this is easily achievable
EBITDA margins rebound to ~9%	Moderate to High	High	Appears reasonable.
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
<b>Conclusion</b>	<i>We believe our assumptions are realistic. 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. 3: Using Hartleys base case forecasts**



Source: Hartleys Estimates, IRESS

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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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