



## GR ENGINEERING SERVICES LTD (GNG)

### FY19 some risk, FY20 very strong

GR Engineering Ltd reported FY18 NPAT of \$11.6m (we expected \$15.3m). DPS declared was 5cps (as expected). EBITDA was \$24.1m, excluding \$7m of bad debt expenses. Our EBITDA expectation was \$23.4m, but we had not anticipated the bad debt expense (we had assumed recovery). Reported EBITDA was \$17.1m. Operating cash flow was an outflow of \$0.9m (we expected in-flow of \$13.7m), and was very poor in 2H (outflow of \$13.4m). Capex was \$2.7m (we expected \$2.3m). Net cash was \$21.3m.

### Minerals division strong underlying, UPS (oil & gas) soft

The minerals division reported normalised 2H EBITDA of \$13.7m (1H \$10m), with very strong margins, which often happens when projects complete.

UPS showed further deterioration with no profit in 2H. We understand this is expected to turn around. We assume margins rebound significantly.

### Hartleys assumes FY19 EBITDA \$13.2m, FY20 \$28.0m

The Company did not provide guidance, other than FY19 will be 2H weighted. Clearer guidance is expected at the AGM (22 November 2018) when it is likely to have more certainty in relation to the timing of key projects. GNG is very dependent on the SFX.asx Thunderbird project, which we currently believe will begin construction in CY19, but is still pending final regulatory approval and financing. We have updated our GNG numbers to assume that the contract is deferred into FY20. This is not our base case (and our SFX model assumes construction in early CY19), but until it is confirmed we prefer to value GNG as if FY19 is a "bear case" year. The CMM.asx Karlawinda project could contribute \$90m of revenue, but it is a junior gold mine with funding still to be secured, and hence we also see timing risk in the current environment.

Excluding Thunderbird and Karlawinda, we estimate that the FY19 orderbook is only \$120m. With Thunderbird the order book could be \$200m-plus. We assume the Company can still generate FY19 revenue of \$210m without Thunderbird, but we assume weak margins given the holding costs of the Thunderbird team. Our bear case FY19 EBITDA estimate is \$13.2m, NPAT of A\$8.7m and 9cps dividend. We assume a very soft 1H (EBITDA ~\$5m). If Thunderbird begins in March 2019, it could add ~\$5-7.5m to FY19 EBITDA for a very strong 2H (in order of \$13-15m EBITDA for FY19 of ~\$20m). For FY20 we estimate the orderbook is \$80m ex Thunderbird, but \$275m including it (and \$350m if we were to include Karlawinda). We assume FY20 revenue of \$350m, EBITDA of A\$28.0m, NPAT of A\$19.4m.

### Retain Buy

We retain our Buy recommendation. Our FY19 is a bear case estimate, but we would rather investors buy a stock having some upside risk to our earnings estimates than downside risk. There is still a pipeline of EPC contracts outside the named projects by GNG, and also if the SFX timetable is met, then we will need to increase our GNG earnings estimates.

If, though, our FY19 bear case estimate proves to be correct, then our FY20 estimate would appear to be robust (deferral of FY19 into FY20) and FY20 should be one of GNG's best years. Consequently, we retain our Buy recommendation.

GNG.asx  
Buy

23 Aug 2018

Share Price:	\$1.35
Valuation:	\$1.60
12mth price target:	\$1.70

#### 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:

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%
Pinnacle Inv Mgt	5.7%
B. Schier (Exec. nom.)	5.3%
Eley Griffiths	5.2%
Joe Totaro (CFO, Exec)	5.2%

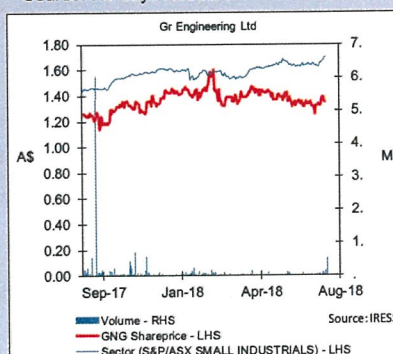
#### Company Address:

179 Great Eastern Highway  
Belmont, WA, 6104

Issued Capital:	153.3m
- fully diluted	156.7m
Market Cap:	\$206m
- fully diluted	\$211m
Net Debt (30 Jun '18a):	-\$21.3m

	FY18a	FY19e	FY20e
Op Cash Flw	-0.9	29.3	7.1
Free Cash Flw	-3.8	28.0	5.6
NPAT* (A\$m)	16.8	8.7	19.4
EPS (\$, bas)	7.6	5.7	12.6
P/E (basic)	17.7x	23.7x	10.6x
P/E (diluted)	12.5x	24.2x	10.8x
EV / EBITDA	7.4x	14.1x	6.6x
DPS (cps)	11.0	9.0	10.0
Franking	100%	100%	100%
Dividend Yield	8.2%	6.7%	7.4%
N.D. / equity	-41%	-75%	-50%

Source: Hartleys Research. \* normalised



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Analyst has a beneficial interest in GNG shares.

## GR Engineering Services Ltd (GNG)

Company Information		
Date	23 Aug 2018	179 Great Eastern Highway
Share Price	\$1.35	Belmont, WA, 6104
52 Week High-Low	\$1.6 - \$1.03	Ph: (08) 6372 6000
Market Cap (\$m)	\$206.1	Fax: (08) 6372 6001
Enterprise Value (\$m)	\$184.8	www.gres.com.au
Ordinary Shares	153.3	
Fully Diluted Shares	156.7	

Valuation	
Spot Fundamental Valuation	\$1.60

12mth fwd Fundamental Valuation	\$1.63
12mth forward P/E (diluted) of 14x (premium to comps)	\$1.71
Jun18a 1x Price / NTA (1x \$0.34)	\$0.34
12mth fwd Div Yield of 5.6% (Gross yield=8.0%)	\$1.80

12 Months Price Target (wgted avg above 4 avg)	\$1.70
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P/E (6/19F) at price target	30.6x
P/E (6/20F) at price target	13.7x
Dividend yield (6/20F) at price target	6.5%
EV/EBITDA (6/20F) at price target	8.3x
EV/EBIT (6/20F) at price target	8.7x

Multiples (\$/price at \$1.35)	6/17A	6/18A	6/19F	6/20F
P/E (reported, basic weighted)	15.9x	17.7x	23.7x	10.6x
P/E (normalised, dil. weighted)	18.1x	12.5x	24.2x	10.8x
P/E (mkt cap / norm. NPAT)	18.1x	12.2x	23.7x	10.6x
P/E (fully diluted mkt cap / norm. NPAT)	18.5x	12.5x	24.2x	10.8x
Dividend Yield	3.7%	8.2%	6.7%	7.4%
Group Free Cash Flow (f.c.f.) / EV	-7.5%	-1.9%	15.2%	3.0%
Equity f.c.f. / Mkt Cap	-7.0%	-1.9%	13.4%	2.5%
Norm f.c.f. / Mkt cap	-7.0%	-1.9%	13.4%	2.5%
Mkt cap / operating cash flow	-15.3	-232.3	7.0x	28.9x
EV/EBITDA multiple	11.0x	7.4x	14.1x	6.6x
EV/EBIT multiple	11.9x	7.8x	15.9x	7.0x
Price / Book Value	4.2x	3.9x	4.4x	4.0x
Price / NTA	4.2x	3.9x	4.4x	4.0x

Ratios	6/17A	6/18A	6/19F	6/20F
Return period end Equity	26.3%	22.2%	18.4%	37.8%
Return on Assets	9.5%	15.7%	10.3%	21.1%
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	29.3	7.1
Capex (Reported)	-0.5	-2.7	-1.3	-1.5
Group Free Cash Flow (rep'ted)	-13.9	-3.5	28.0	5.6
Fixed Debt Repayments	-0.4	-0.5	-0.3	-0.3
Equity Free Cash Flow (rep'ted)	-14.3	-4.0	27.7	5.3
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-14.3	-4.0	27.7	5.3
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%	\$ -	\$ -
0-Jan-00	-	0.0%	\$ -	\$ -
TOTAL	3,432,500	0.0%	\$ 0.30	\$ 0.0

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%
Terrance Strapp (Non Executive Director)	Quintal Pty Ltd	6.2%
Joe Totaro (CFO)	Spheria	6.0%
	Pinnacle Inv Mgt	5.7%
	B. Schier (Exec. nom.)	5.3%
	Eley Griffiths	5.2%
	Joe Totaro (CFO, Exec)	5.2%

Analyst: Trent Barnett  
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Sources: IRESS, Company Information, Hartleys Research

## Recommendation:

Buy

Profit & Loss (\$m)	6/17A	6/18A	6/19F	6/20F
Minerals Revenue	169.8	202.4	124.5	276.3
- EBITDA	10.8	23.6	9.0	24.2
- margin	6.4%	11.7%	7.3%	8.8%
Oil & Gas Revenue	68.9	81.2	85	90
- EBITDA	6.4	1.8	6.4	6.7
- margin	9.3%	2.2%	7.5%	7.5%

Total Revenue	238.7	283.6	209.8	365.8
growth	-6.5%	18.8%	-26.0%	74.4%
EBITDA	16.9	24.9	13.2	28.0
margin	7.1%	8.8%	6.3%	7.7%
Depreciation/Amortisation	-1.4	-1.4	-1.5	-1.5
EBITA	15.6	23.7	11.6	26.5
EBITA / Sales	6.5%	8.3%	5.5%	7.3%
EBIT	15.5	23.6	11.6	26.5
EBIT / Sales	6.5%	8.3%	5.5%	7.3%
Net Interest	0.8	0.5	0.5	0.5
Profit Before Tax	16.3	16.2	12.1	27.1
- margin	6.8%	5.7%	5.8%	7.4%
Tax	-3.4	-4.6	-3.4	-7.6
Effective Tax Rate	21.0%	28.2%	28.2%	28.2%
NPAT Pre Minorities	11.4	16.8	8.7	19.4
Minorities	0.0	0.0	0.0	0.0
Normalised NPAT to equity	11.4	16.8	8.7	19.4
Norm. Net Profit / Sales	4.8%	5.9%	4.2%	5.3%
Abnormals / discontinued	1.5	-5.2	0.0	0.0
Reported Profit to equity	12.9	11.6	8.7	19.4

Reported EPS (basic, wghted)	8.5	7.6	5.7	12.6
Normalised EPS (dil, wghtd)	7.4	10.8	5.6	12.4
Normalised EPS (full. diluted)	7.3	10.7	5.6	12.4
DPS (cps)	5.0	11.0	9.0	10.0

Franking	100%	100%	100%	100%
Payout Ratio	67.4%	100.3%	158.8%	79.3%

Cashflow Statement (\$m)	6/17A	6/18A	6/19F	6/20F
EBITDA	16.9	24.9	13.2	28.0
Working Capital Change	-27.4	-23.0	19.1	-13.8
Cash from Operations	-10.5	1.9	32.2	14.2
Net Interest Paid	0.8	0.5	0.5	0.5
Tax Paid	-3.8	-3.4	-3.4	-7.6
Net Operating Cash Flow	-13.5	-0.9	29.3	7.1
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
Net Investing Cash Flow	-0.8	-2.9	-1.3	-1.5
Proceeds from Equity Issues	0.0	0.0	0.0	0.0
Net Change in Debt & Leases	-0.8	-0.7	0.8	-0.2
Dividends Paid	-15.3	-9.2	-13.8	-15.4
Net Financing Cash Flow	-16.0	-9.9	-13.0	-15.6
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	31.6	55.1
Inventories	19.8	6.9	5.3	9.0
Other	2.7	0.6	0.6	0.6
Total Current Assets	123.5	74.9	74.2	91.5
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
Total Non Current Assets	6.9	9.7	9.4	9.5
Total Assets	130.4	84.6	83.7	101.0
Accounts Payable	62.2	15.2	18.6	32.1
Interest Bearing Liabilities	0.5	0.3	0.3	0.3
Other	16.0	13.9	13.9	13.9
Total Current Liabilities	78.6	29.4	32.8	46.3
Accounts Payable	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	0.2	0.1	0.9	0.7
Other	2.7	2.6	2.6	2.6
Total Non Current Liabilities	2.9	2.7	3.5	3.3
Total Liabilities	81.6	32.1	36.3	49.6
Net Assets	48.9	52.5	47.4	51.4
Net Asset Value / Share (\$)	0.32	0.34	0.31	0.33
NTA / Share (\$)	0.32	0.34	0.31	0.33
Free Net Debt (net cash)	-34.2	-21.3	-35.5	-25.7
- inc. encumbered	-34.2	-21.3	-35.5	-25.7

Last Earnings Estimate Changes:  
23 August 2018

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

Profit & Loss (\$m)	Dec-15a	Jun-16a	Dec-16a	Jun-17a	Dec-17a	Jun-18a
Minerals Revenue	110.0	107.5	74.3	95.5	136.1	66.2
- EBITDA	9.6	10.9	9.8	1.1	10.0	13.7
- margin	8.7%	10.1%	13.1%	1.1%	7.3%	20.6%
Oil & Gas Revenue	17.2	20.5	31.6	37.2	41.1	40.1
- EBITDA	1.3	2.0	3.4	3.0	1.8	0.0
- margin	7.3%	9.9%	10.8%	8.0%	4.3%	0.0%
<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>
sequential growth	7%	1%	-17%	25%	34%	-40%
<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>margin</b>	<b>8.5%</b>	<b>10.1%</b>	<b>10.2%</b>	<b>4.6%</b>	<b>7.0%</b>	<b>11.7%</b>
Depreciation/Amortisation	-0.9	-0.9	-0.7	-0.7	-0.6	-0.7
EBITA	9.9	12.0	10.0	5.4	11.9	11.7
EBITA / Sales	7.8%	9.4%	9.5%	4.1%	6.7%	11.0%
EBIT	9.9	12.0	10.0	5.4	11.9	11.7
EBIT / Sales	7.8%	9.4%	9.5%	4.1%	6.7%	11.0%
Net Interest	0.6	0.5	0.5	0.3	0.2	0.3
Profit Before Tax	10.5	14.9	10.5	5.7	11.6	4.6
- margin	8.3%	11.6%	10.0%	4.3%	6.6%	4.3%
Tax	-1.8	-4.3	-2.6	-0.8	-4.1	-0.4
Effective Tax Rate	17.0%	28.7%	25.1%	13.5%	35.6%	9.2%
NPAT Pre Minorities	8.7	7.4	7.9	3.5	7.8	9.1
Minorities	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>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>
Abnormals / discontinued	0.0	3.2	0.0	1.5	-0.3	-4.9
Reported Profit to equity	8.7	10.6	7.9	5.0	7.5	4.1
Reported EPS (basic, w/ghted)	5.7	7.0	5.2	3.2	4.9	2.7
Normalised EPS (dil, wghtd)	5.7	4.8	5.1	2.2	5.0	5.8
<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>
Franking	100%	100%	100%	100%	100%	100%
Payout Ratio	87.0%	71.8%	97.0%	0.0%	122.6%	185.2%
Balance Sheet (\$m)	Dec-15a	Jun-16a	Dec-16a	Jun-17a	Dec-17a	Jun-18a
Cash	44.1	64.9	41.3	34.9	45.6	21.8
Receivables	49.6	29.9	42.4	66.2	73.2	45.6
Inventories	3.0	4.4	4.9	19.8	11.2	6.9
Other	2.8	0.5	2.3	2.7	1.0	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>
Property, Plant & Equipment	3.8	3.6	3.3	2.7	4.0	3.9
Intangibles	0.3	0.0	0.0	0.0	0.0	0.0
Other	5.9	6.7	5.5	4.2	6.5	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>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>
Accounts Payable	43.6	28.4	34.0	62.2	54.2	15.2
Interest Bearing Liabilities	0.8	0.4	0.9	0.5	0.8	0.3
Other	13.1	26.6	10.3	16.0	26.4	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>
Accounts Payable	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
Other	2.2	2.3	2.5	2.7	2.8	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>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>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>
Net Asset Value / Share (\$)	0.32	0.34	0.33	0.32	0.36	0.34
NTA / Share (\$)	0.32	0.34	0.33	0.32	0.36	0.34
Net Debt (net cash)	-42.6	-64.0	-40.1	-34.2	-44.6	-21.3
- inc. encumbered	-47.1	-64.0	-44.7	-34.2	-44.6	-21.3

Source: Hartleys Research Estimates

Margins rebounded

Strong balance sheet

Fig. 2: Cash Flow Statement

Cashflow Statement (\$m)	Dec-15a	Jun-16a	Dec-16a	Jun-17a	Dec-17a	Jun-18a
EBITDA	10.8	12.9	10.8	6.1	12.5	12.5
Working Capital Change	-16.0	17.5	-23.4	-4.0	1.7	-24.7
Cash from Operations	-5.2	30.4	-12.6	2.1	14.2	-12.2
Net interest Paid	0.6	0.6	0.5	0.3	0.2	0.3
Tax Paid	-6.7	-1.6	-3.2	-0.5	-1.8	-1.6
<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>
Capital Expenditure	-0.6	-0.4	-0.3	-0.1	-1.9	-0.8
Asset Sales	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
<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>
Proceeds from Equity Issues	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
Dividends Paid	-7.5	-7.6	-7.6	-7.6	0.0	-9.2
<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>
Movement in Cash	-19.5	21.6	-23.9	-6.4	10.7	-24.4
HP Lease Capex (non-cash)	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>
Net Operating Cash Flow	-11.2	29.4	-15.3	1.8	12.6	-13.5
Capex (Reported)	-0.6	-0.4	-0.3	-0.1	-1.9	-0.8
Group Free Cash Flow (rep'ted)	-11.8	29.0	-15.7	1.7	10.7	-14.3
Fixed Debt Repayments	-0.2	-0.4	-0.2	-0.4	-0.2	-0.4
<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>
HP Lease Capex (non-cash)	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
Capex (inc HP) / depreciation	61%	44%	48%	16%	298%	103%

Source: Hartleys Research Estimates

Fig. 3: Hartleys earnings revisions

	6/17A		6/18A		6/19F		6/20F			
Profit & Loss (\$m)	Actual	f'cast	actual	% diff	Old	New	% diff	Old	New	% diff
Revenue	238.7	291.8	283.6	-2.8%	350.1	209.8	-40.1%	367.9	365.8	-0.6%
- growth	-6.5%	22.2%	18.8%		20.0%	-26.0%		5.1%	74.4%	
EBITDA	16.9	23.4	24.9	6.7%	26.7	13.2	-50.7%	28.3	28.0	-0.9%
- margin	7.1%	8.0%	8.8%	9.7%	7.6%	6.3%	-17.7%	7.7%	7.7%	-0.3%
Depreciation/Amortisation	-1.4	-1.9	-1.4	-29.4%	-1.5	-1.5	3.1%	-1.5	-1.5	-3.3%
EBIT	15.5	21.4	23.6	9.9%	25.2	11.6	-53.9%	26.7	26.5	-0.8%
- margin	6.5%	7.4%	8.3%	13.1%	7.2%	5.5%	-23.0%	7.3%	7.3%	-0.2%
Net Interest	0.8	0.4	0.5	6.9%	0.0	0.5	-1586.7%	-0.7	0.5	-175.4%
Pretax Profit	16.3	21.9	16.2	-26.0%	25.2	12.1	-51.8%	26.0	27.1	3.9%
Tax	-3.4	-6.6	-4.6	-30.5%	-7.5	-3.4	-54.8%	-7.8	-7.6	-2.5%
NPAT Pre Minorities	11.4	15.3	16.8	9.9%	17.6	8.7	-50.6%	18.2	19.4	6.7%
Minorities	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
Norm. Net Profit After Tax*	11.4	15.3	16.8	9.9%	17.6	8.7	-50.6%	18.2	19.4	6.7%
- margin	4.8%	5.3%	5.9%	13.0%	5.0%	4.2%	-17.5%	5.0%	5.3%	7.3%
Abnormals (net of tax)	0.0	0.0	-5.5		0.0	0.0		0.0	0.0	
Reported Profit	11.4	15.3	11.3	-26.0%	17.6	8.7	-50.6%	18.2	19.4	6.7%
Net Debt (net cash)	-34.2	-36.3	-21.3	-41.3%	-32.8	-35.5	8.1%	-32.4	-25.7	-20.8%
- inc encumbered	-34.2	-36.3	-21.3	-41.3%	-32.8	-35.5	8.1%	-32.4	-25.7	-20.8%
DPS	5.0	11.0	11.0	0.0%	11.0	9.0	-18.2%	11.5	10.0	-13.0%

Source: Hartleys Research Estimates

## PRICE TARGET

Our twelve month price target is \$1.70 (down from \$1.83).

GNG Price Target Methodology	Weighting	Spot	12 mth out
Fundamental Valuation	38%	\$1.60	\$1.63
- DCF (WACC 10.8%, Terminal growth 0.00%)	30%	\$1.62	\$1.66
- Gordon Growth (CoE 10.0%, FY18-23 DPS -3.2%pa, term. 2.0%pa)	8%	\$1.51	\$1.54
12mth forward P/E (diluted) of 14x (premium to comps)	33%	\$0.92	\$1.71
12mth forward EV/EBIT of 14x (peak)	10%	\$1.45	\$2.50
Jun18a 1x Price / NTA (1x \$0.34)	5%	\$0.34	\$0.34
12mth fwd Div Yield of 5.6% (Gross yield=8.0%)	14%	\$1.62	\$1.80
<b>Risk weighted composite</b>		<b>\$1.30</b>	<b>\$1.70</b>
<b>12 Months Price Target</b>		<b>\$1.70</b>	
Shareprice - Last		\$1.35	
<b>12 mth total return (% to 12mth target + dividend)</b>		<b>33%</b>	

Source: Hartleys Estimate

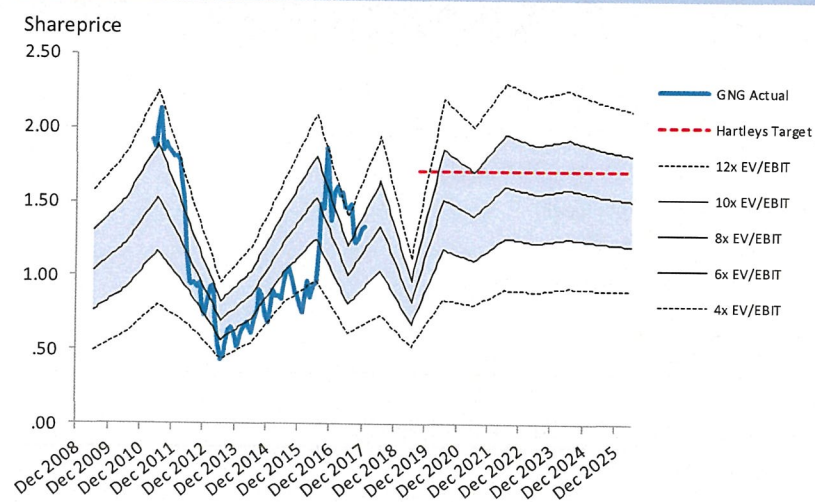
*Fig. 2: Key assumptions and risks for valuation*

Assumption	Risk of not realising assumption	Downside risk of valuation if assumption is incorrect	Comment
Revenue peaks ~\$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.
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 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. 3: 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	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.
Buy	

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