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Verbrec Limited

VBC.ASX

BUY

A fresh chapter ahead ~ desk note

Wednesday, 7 February 2024

Share price: \$0.08

Yesterday, Verbrec released its business update and preliminary 1H24 guidance. Key points from the update were the success of the operational review in producing a combined \$2.8m in annualised EBITDA savings and the completion of the Site Skills divestment expected to result in a further \$2m in annualised EBITDA savings. Preliminary unaudited guidance for 1H24 is as follows:

- Underlying Revenue in the range of \$48.7m to \$50.5m for 1H24 versus \$47.3m Veritas estimate. An additional \$1.9m of revenue will be recognised in the statutory accounts representing the discontinued Site Skills revenue in the period (note: Site Skills revenue has not been included in Veritas' revenue estimates). The company looks set to reach Veritas' full-year revenue forecast of \$98.5m. There is a slight first half weighting in revenue due to more billable days in the period.
- Underlying Gross Profit in the range of \$17.0m to \$17.6m for 1H24 versus \$15.4m Veritas estimate and \$15.1m in 1H23. This indicates a Gross Margin of 33.7% to 36.1% versus 32.5% Veritas estimate and 25.5% in the pcp.
- Underlying EBITDA in the range of \$4.7m to \$5.1m for 1H24 versus \$3.3m Veritas estimate and \$1.3m in 1H23. This indicates an EBITDA Margin of 9.4% to 10.5% versus 6.9% Veritas estimate and 2.3% in the pcp.
- Underlying Net Profit Before Tax in the range of \$2.4 to \$2.8m for 1H24 versus \$1.9m Veritas estimate and -\$1.4m in 1H23. Statutory Net Profit Before Tax is guided to be in the range of -\$0.3m to \$0.1m with the inclusion of a one-off impact of \$2.8m made up of \$1.8m in written off intangibles (non-cash) and \$1.0m in operating losses from the divested asset.

During December, Verbrec successfully raised approximately \$4.0m between an oversubscribed placement, non-renounceable entitlement and subsequent shortfall placement. As such, the company anticipates a closing cash position of \$5.9m at end of 1H24. The company is expected to pass all banking covenant tests for the half year. The additional capital is intended to provide working capital for operational efficiencies, growth initiatives and minimise the company's net debt position.

The completion of the operational review and finalisation of the legacy projects means Verbrec is entering clear air. With this, management are now able to focus on maintaining margin quality, chasing growth opportunities from existing clients in asset management and infrastructure and increasing exposure in sustainable and renewable energy revenue streams. Management has made it clear it aims to focus on these projects as they watch their clients shift into areas such as electrification, gas market transition and green commodities.

We will review our estimates at the 1H24 results expected to be released in the last week of February.

Verbrec Limited is a mid-tier engineering, training and infrastructure services business executing work across Australia and the Pacific.

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RATING

BUY – anticipated stock return is greater than 10%

SELL – anticipated stock return is less than -10%

HOLD – anticipated stock return is between -10% and +10%

SPECULATIVE – high risk with stock price likely to fluctuate by 50% or more

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