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Verbrec Limited

VBC.ASX

BUY

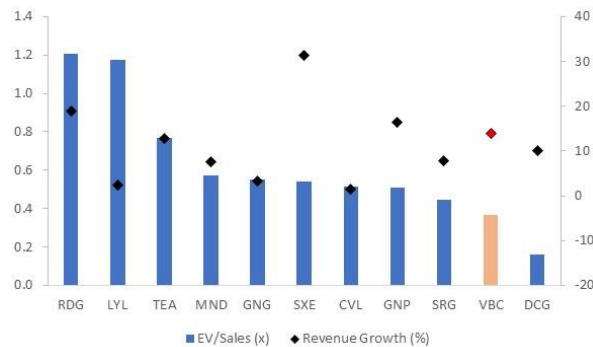
55% P/E discount to peers in FY25 ~
desk note

Friday, 24 May 2024

Share price: \$0.125

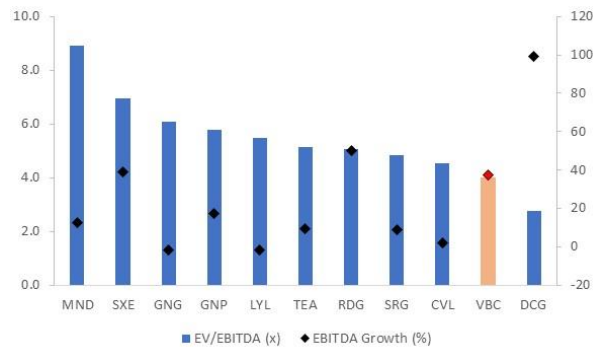
Developing a peer comparison analysis, using similar Engineering, Construction and Maintenance ASX-listed companies, suggests Verbrec is trading at substantial discount to peers in almost all metrics (Figure 5, page 3). Using consensus data via FactSet for respective competitors shows despite Verbrec trading on the second lowest EV/Sales (Figure 1) and EV/EBITDA (Figure 2) multiple in FY25, the company is forecasted to be one of the largest growing companies in respective years for each metric.

Figure 1: EV/Sales in FY25 (LHS, x) vs. Revenue Growth in FY25 (RHS, %)



Source: FactSet, Veritas estimates

Figure 2: EV/EBITDA in FY25 (LHS, x) vs. EBITDA Growth in FY25 (RHS, %)



Source: FactSet, Veritas estimates

Further, the market usually rewards high EPS growth with a higher P/E multiple. On our estimates, Verbrec offers strong compound EPS growth from FY24 to FY26 and is trading on the lowest P/E multiple (Figure 3). We expect the multiple to expand as it delivers on the growth we forecast. At our 21c fair value, Verbrec would trade on a P/E of 7.8x, which we believe better reflects the Company’s growth prospects, however still undervalued compared to peers.

Figure 3. P/E in FY25 (LHS, x) vs. EPS CAGR FY24 – FY26 (bottom, %)



Note: Verbrec does not pay tax
Source: FactSet, Veritas estimates

Assessing against our peer comparison shows that in FY25 the company is trading on an EV/Sales and EV/EBITDA multiple of 0.4x (33% discount to peer median) and 4.0x (25% discount to peer median) respectively. From a P/E perspective, Verbrec is trading on a 4.7x and 3.5x multiple in FY25 and FY26, a 55% and 65% discount to the peer median. At our fair value of 21c, the company is trading on a P/E multiple of 7.8x in FY25, a 25% discount to the median. Using the PEG ratio to factor in the estimated future growth of each company also shows VBC is undervalued, trading under 1x in FY25 and FY26 and at a 88% and 89% discount to peer median respectively.

Recent Transactions

The Engineering, Maintenance and Asset Management sector has seen several public and private transactions occur in the last 5-years. We believe the sector is primed for consolidation, particularly by large players looking for undervalued competitors in growth areas such as oil & gas or renewable energy. Deloitte recently acquired Perth-based asset management and engineering services company Nihar in November 2023 for an undisclosed amount to bolster their operations in oil and gas as well as mining and minerals. Recent global public transactions (Figure 4) suggest an average EV/EBITDA transaction multiple of 10.4x.

Figure 4. Recent Global Engineering, Maintenance and Asset Management Transactions

Date	Target	Acquirer	Target's Country	Transaction		Notes
				Value (US\$m)	EV/EBITDA (x)	
Oct 17	Amec Foster Wheeler	John Wood Group (LON: WG)	United Kingdom	3,995	9.1	
May 22	Jacobs Engineering Group (NYSE:JEC)	Worley (ASX:WOR)	United States	3,300	11.6	Jacob's Energy, Chemicals and Resources division
Dec 19	Data Respons ASA	Akka Technologies	Norway	305	17.7	
Apr 23	Sureserve Group	Cap10 Partners	United Kingdom	253	10.6	
Feb 23	Eurocon Consulting	Rejlers AB (STO: REJL-B)	Sweden	45	9.4	
Jul 21	Valmec Group (ASX:VMX)	Altrad Group	Australia	35	4.3	
Average					10.4	

Note: Target companies are engineering, construction or maintenance related, fully or partly servicing the oil & gas, mining & minerals and/or renewable energy sectors
 Source: Bloomberg M&A

Figure 5: Verbrec peer comparison versus Australian Listed Engineering, Construction and Maintenance companies

Stock	Code	Price	Mkt Cap	EV	EV/Sales (x)				EV/EBITDA (x)				P/E (x)				PEG Ratio				
					FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	
Verbrec Limited	VBC-ASX	0.13	36	41	0.3	0.4	0.4	0.3	5.5	4.0	3.3	6.7	4.7	3.5	0.8	1.1	0.1	0.1			
Tasmea Limited	TEA-ASX	1.55	338	378	1.0	0.9	0.8	0.7	7.1	5.6	5.2	4.7	4.7	3.3	10.1	9.2	8.2	0.9			
Monadelphous Group Limited	MND-ASX	13.61	1,326	1,237	0.7	0.6	0.6	0.5	11.3	10.0	8.9	8.3	8.3	24.4	21.6	18.5	17.4	1.7			
Decmill Group Limited	DCG-ASX	0.29	45	82	0.2	0.2	0.2	0.2	9.1	5.5	2.7	2.7	2.7	2.7	26.4	5.3	4.8	0.0			
GR Engineering Services Ltd	GNG-ASX	2.25	376	297	0.5	0.6	0.6	0.5	6.7	6.0	6.1	5.0	5.0	13.2	11.8	12.2	9.7	1.0			
SRG Global Limited	SRG-ASX	0.90	469	513	0.6	0.5	0.4	0.4	6.4	5.3	4.8	4.5	4.5	13.4	12.2	10.8	10.3	0.3			
Southern Cross Electrical Engineering	SXE-ASX	1.66	437	370	0.8	0.7	0.5	0.5	9.7	9.6	6.9	6.5	6.5	21.8	19.7	13.7	12.4	0.8			
Lycpodium Limited	LVL-ASX	12.26	487	421	1.3	1.2	1.2	1.1	6.0	5.4	5.5	5.0	5.0	10.4	9.8	10.0	9.4	1.5			
Resource Development Group	RDG-ASX	0.03	89	182	3.3	1.4	1.2	1.3	9.6	7.6	5.1	11.4	11.4	6.3	5.8	5.4	30.0	0.0			
Genus Plus Group Ltd.	GNP-ASX	1.82	323	304	0.7	0.6	0.5	0.4	8.3	6.8	5.8	4.7	4.7	20.5	15.5	13.5	10.6	3.3			
Civmec Ltd	CVL-ASX	0.95	480	523	0.6	0.5	0.5	0.5	4.9	4.6	4.5	4.5	4.5	8.5	7.5	7.3	6.8	0.8			
Median					0.7	0.6	0.5	0.5	7.7	5.8	5.3	4.8	4.8	13.3	12.0	10.4	10.0	0.8			
VBC versus median					-49	-31	-33	-35	-6	-25	-32	-44	-55	-65	-88	-88	-89				
Stock																					
		Revenue Growth (%)				EBITDA Margin (%)				EBITDA Growth (%)				EPS (cps)				EPS Growth (%)			
		FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Verbrec Limited		-2.6	-17.6	14.0	10.6	-4.1	7.6	9.2	10.1	-261.3	-253.7	37.5	21.1	-0.1	1.9	2.7	3.6	-107.4	-1361.2	44.3	34.5
Tasmea Limited		25.3	18.4	12.8	10.8	14.6	15.4	15.0	14.8	25.8	25.2	9.4	10.0	0.0	15.3	16.9	18.9	2.4	12.6	16.8	11.9
Monadelphous Group Limited		-5.2	10.0	7.6	5.5	6.0	6.1	6.4	6.5	-1.9	13.2	12.4	6.8	5.9	6.2	73.4	78.3	2.4	12.6	16.8	6.6
Decmill Group Limited		29.5	-5.2	10.1	4.0	1.8	3.2	5.8	5.6	-120.6	65.6	99.3	1.0	-1.2	1.1	5.5	6.1	-98.3	-192.8	400.0	10.9
GR Engineering Services Ltd		-15.4	-5.4	3.3	8.6	8.1	9.5	9.1	10.1	-20.4	11.6	-1.5	21.6	17.0	19.1	18.5	23.3	-18.5	12.2	-3.0	25.9
SRG Global Limited		25.6	31.6	7.8	6.7	9.9	9.2	9.3	9.3	40.0	22.0	8.8	7.0	6.7	7.4	8.3	8.7	48.9	10.5	12.4	4.8
Southern Cross Electrical Engineering		-16.0	11.6	31.4	4.5	8.2	7.4	7.8	8.0	8.2	0.3	99.1	6.3	7.6	8.4	12.2	13.3	26.6	11.0	44.0	9.7
Lycpodium Limited		41.1	6.5	2.4	3.8	21.3	22.4	21.4	22.7	53.4	12.2	-2.0	10.1	11.7	12.5	12.4	130.7	72.1	6.6	-2.5	6.8
Resource Development Group		9.7	128.1	18.9	-7.3	34.1	18.9	23.8	11.4	216.7	26.3	50.0	-55.6	0.5	0.5	0.6	0.1	380.0	8.3	7.7	-82.1
Genus Plus Group Ltd.		-1.5	15.2	16.4	20.1	8.3	8.7	8.8	9.1	11.5	21.7	17.5	23.8	8.9	11.8	13.5	17.1	6.2	32.5	14.7	26.7
Civmec Ltd		2.7	20.7	1.4	5.3	12.7	11.3	11.4	11.0	17.2	6.9	2.1	1.7	11.2	12.7	12.9	13.8	10.4	11.0	13.5	1.6
Median		6.2	13.4	9.0	5.4	9.1	9.3	9.2	9.7	14.4	17.5	10.9	6.9	8.2	12.2	13.2	15.5	10.4	11.0	11.4	8.5
VBC versus median		-14.3	-23.1	5.6	9.7	-14.5	-1.8	0	4	-19.0	-15.4	24.5	20.6	-10.2	-6.5	-8.0	-7.7	-11.3	-124.9	29.0	30.6

Source: FactSet, Veritas estimates

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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