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# Verbrec Limited

## Turnaround complete and foundation set

Verbrec released its results for FY24, late Friday. The turnaround and restructure look to be completed. EBITDA of \$8.8m, the highest since FY15, sets a new foundation for profitability and growth. COGS and Overheads have both been reduced significantly as well as substantial balance sheet repairs completed in the period. We believe the company is now able to focus on the future and achieving profitability growth – with the aim of reinstating dividends in the future. Amendments to our long-term EBITDA margin means our DCF derived fair value increases to \$0.25 per share (previously \$0.21).

- **FY24 results:** Revenue decreased 15% YoY to \$93.4m vs. \$97.3m Veritas est. EBITDA (on a continuing basis) increased to \$8.8m vs. \$8.4m Veritas est (5% beat). NPAT (on a continuing basis) of \$4.8m vs. \$4.7m Veritas est. Operating cash flow increased to \$2.0m vs. -\$3.9m in FY23. Cash at end of period was \$4.6m.
- **Amendments to forecasts:** We are adjusting our forward forecasts to reflect minor changes in accounting and representation of EBITDA and Profit (Figure 1). We believe the company has successfully addressed operational inefficiencies and is now on the right track for producing sustainable profit growth into the future.
- **StacksOn has room for growth:** StacksOn, the company’s stockpiling software, reported slightly lower revenue in FY24 due to lower implementation revenue. Validation of the product was given by BHP in allowing it to “ship tonnes faster” through the products modelling and visibility capabilities. We anticipate momentum to build as the product is rolled out across further BHP reclaimers and contracts with competitors are signed.
- **56% upside:** Our DCF derived fair value increases to \$0.25 per share. At our fair value the company trades on an EV/EBITDA multiple of 5.9x in FY26 versus 6.1x for listed Engineering Services peers in FY26.

Figure 1: Changes to Veritas forecasts for VBC

Year ended June 30 (\$m)	FY24A			FY25E			FY26E		
	Old	Actual	Chg.	Old	New	Chg.	Old	New	Chg.
Revenue	97.3	93.4	-4.0	111.0	107.4	-3.6	122.7	119.0	-3.7
Growth (% YoY)	-17.6	-15.1	2.6	14.0	15.1	1.1	10.6	10.7	0.2
EBITDA	8.4	8.8	0.4	10.2	10.6	0.4	12.4	12.8	0.4
Margin (%)	8.6	9.4	0.8	9.2	9.8	0.6	10.1	10.7	0.7
Profit before tax	4.7	4.4	-0.3	7.7	6.6	-1.1	10.4	8.9	-1.4
Normalised dil. EPS (cps)	1.9	1.7	-0.1	2.7	2.3	-0.4	3.6	3.1	-0.5
Capex	-0.6	-0.2	0.4	-0.8	-0.8	0.0	-0.9	-0.9	0.0
Free Cash Flow	3.3	1.8	-1.5	8.6	8.7	0.1	12.4	11.5	-0.9

Source: Company data, Veritas estimates.

**Risks** – include (but are not limited to): economic downturns, project execution risks, regulatory and compliance risks, technological changes, market competition, dependency on key clients, talent acquisition and retention, project dependency, safety and health risks and failure to execute business strategy and growth objectives.

VBC.ASX

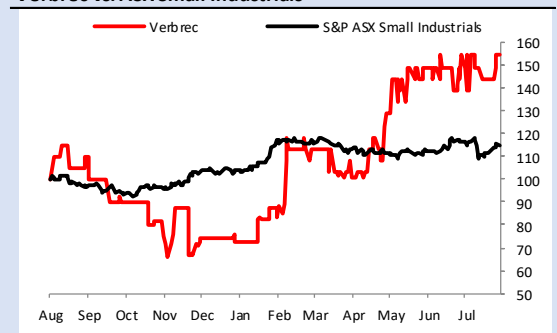
BUY

Monday, 26 August 2024

Share Price	\$0.16
Price Target	\$0.25
Valuation Method	DCF
Market capitalisation	\$46m
Enterprise value	\$50m
GICS sector	Construction and Engineering
12 month price range	\$0.06 - \$0.16
Average monthly t/o	3.2m
Shares in issue	288.7m
Top 20 holders	76%
Previous rating	Buy

Year ended June 30		FY23	FY24	FY25E	FY26E
Revenue	\$m	109.9	93.4	107.4	119.0
Growth	%	(9.5)	(15.1)	15.1	10.7
EBITDA	\$m	(2.9)	8.8	10.6	12.8
Margin	%	(2.7)	9.4	9.8	10.7
NPAT	\$m	(9.5)	2.0	6.6	8.9
EPS	cps	(2.8)	1.7	2.3	3.1
CFPS	cps	(1.7)	0.7	3.3	4.3
DPS	cps	0.0	0.0	0.0	0.0
PER	x	N/A	9.2	7.0	5.2
EV/Revenue	x	0.5	0.5	0.5	0.4
EV/Gross profit	x	1.7	1.6	1.3	1.2
EV/EBITDA	x	N/A	5.7	4.8	3.9
EV/EBIT	x	N/A	9.3	7.0	5.4
Fixed charge cover	x	N/A	5.3	13.4	25.6
Return on capital	%	N/A	28.2	30.4	38.9

### Verbrec vs. ASX Small Industrials



Source: Factset, Veritas

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

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## Verbrec Limited

Share Price: \$0.16 ps

Valuation: \$0.25 ps

### Financial Performance (A\$m)

Year ended June 30	FY23	FY24	FY25E	FY26E
<b>Revenue</b>	<b>109.9</b>	<b>93.4</b>	<b>107.4</b>	<b>119.0</b>
Cost of Goods Sold	(83.0)	(59.9)	(69.8)	(76.1)
<b>Gross profit</b>	<b>30.4</b>	<b>32.2</b>	<b>37.6</b>	<b>42.8</b>
Other income	0.1	0.1	0.2	0.2
Operating costs	(33.4)	(23.5)	(27.2)	(30.2)
<b>EBITDA</b>	<b>(2.9)</b>	<b>8.8</b>	<b>10.6</b>	<b>12.8</b>
Depreciation and amortisation	(3.3)	(3.4)	(3.4)	(3.5)
<b>EBIT</b>	<b>(6.2)</b>	<b>5.4</b>	<b>7.2</b>	<b>9.3</b>
Associate income	0.0	0.0	0.0	0.0
Net interest	(0.6)	(1.0)	(0.7)	(0.5)
<b>Pre-tax Profit</b>	<b>(6.8)</b>	<b>4.4</b>	<b>6.6</b>	<b>8.9</b>
Tax expense	0.4	0.4	0.0	0.0
Profit attributable to minorities	0.0	0.0	0.0	0.0
<b>Profit to holders</b>	<b>(6.4)</b>	<b>4.8</b>	<b>6.6</b>	<b>8.9</b>
Discontinued Operations	(3.1)	(2.8)	0.0	0.0
One off items (post-tax)	(0.0)	0.1	0.0	0.0
<b>Reported profit to holders</b>	<b>(9.5)</b>	<b>2.0</b>	<b>6.6</b>	<b>8.9</b>

### Cash Flow Statement (A\$m)

Year ended June 30	FY23	FY24	FY25E	FY26E
<b>EBITDA</b>	<b>(2.9)</b>	<b>8.8</b>	<b>10.6</b>	<b>12.8</b>
Cash net interest	(0.6)	(1.0)	(0.5)	(0.4)
Cash tax (paid)/received	0.4	0.4	0.0	0.0
Working capital/other	(0.8)	(6.1)	(0.5)	(0.0)
<b>Operating Cash Flow</b>	<b>(3.9)</b>	<b>2.0</b>	<b>9.5</b>	<b>12.4</b>
Capex	(0.8)	(0.2)	(0.8)	(0.9)
<b>Free Cash Flow</b>	<b>(4.7)</b>	<b>1.8</b>	<b>8.7</b>	<b>11.5</b>
Net Borrowings	6.0	(1.3)	(1.3)	(1.3)
Payments on Finance Leases	(2.8)	(2.9)	(2.7)	(2.7)
Equity raised/buybacks	0.0	4.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Asset disposal/other	(0.5)	(1.4)	0.0	0.0
<b>Net increase/(decrease) cash</b>	<b>(2.0)</b>	<b>0.1</b>	<b>4.7</b>	<b>7.5</b>
Cash at beginning	6.4	4.5	4.6	9.3
Cash at end	4.5	4.6	9.3	16.9

### Balance Sheet (A\$m)

Year ended June 30	FY23	FY24	FY25E	FY26E
Cash to hand	1.6	2.6	7.3	14.8
Restricted cash	2.9	2.1	2.1	2.1
Receivables	15.4	13.7	17.7	19.6
Contract assets	5.8	3.0	3.0	3.0
Other current assets	0.3	0.0	0.0	0.0
<b>Current Assets</b>	<b>27.6</b>	<b>23.0</b>	<b>31.7</b>	<b>41.1</b>
Property, Plant & Equipment	1.5	1.1	1.2	1.4
Intangibles	12.6	10.3	9.7	9.1
Right-of-use assets	4.8	5.2	5.7	6.2
Deferred tax assets	7.6	8.2	8.2	8.2
Other non current assets	0.0	0.0	0.0	0.0
<b>Non Current Assets</b>	<b>26.4</b>	<b>24.7</b>	<b>24.8</b>	<b>24.9</b>
<b>Total Assets</b>	<b>54.1</b>	<b>47.7</b>	<b>56.5</b>	<b>66.0</b>
Payables	14.7	7.7	11.2	13.0
Borrowings	6.8	6.6	5.3	4.0
Lease Liabilities	6.1	6.0	6.0	6.0
Employee Benefits	5.5	4.5	4.5	4.5
Other liabilities	8.0	3.7	3.7	3.7
<b>Total Liabilities</b>	<b>41.0</b>	<b>28.5</b>	<b>30.7</b>	<b>31.3</b>
<b>Shareholder Funds</b>	<b>13.0</b>	<b>19.2</b>	<b>25.8</b>	<b>34.7</b>

### Directors and Key Management Personnel

	Shares	Holding
Brian O'Sullivan AM	72.4m	25.1%
Mark Read	0.9m	0.3%
Phillip Campbell	1.5m	0.5%
Matthew Morgan	0.9m	0.3%
Richard Aden	0.2m	0.1%

### Major Shareholders (excluding nominees)

	Shares	Holding
Brian O'Sullivan and Related Holdings	72.4m	25.1%
Thorney Holdings Pty Ltd	42.1m	14.6%
Candyblossom and Bloemhof Pty Ltd	36.2m	12.5%
GFNA Bartley Family Pty Ltd	17.4m	6.0%
Forager Funds Management Pty Ltd	15.8m	5.5%
<b>Top 20 shareholders</b>	<b>218.0m</b>	<b>75.5%</b>

Source: Company data, Veritas Research

### Valuation Metrics

Price Target (ps)	\$0.25	55%
Share Price (ps)	\$0.16	
FY25 EV/EBITDA (x)	10.6	
Implied FY25 EV/EBITDA (x)	7.2	-32%
Implied FY26 EV/EBITDA (x)	5.9	-44%
Market Capitalisation (A\$m)	46	
Enterprise Value (A\$m)	50	

### Valuation Multiples

Year ended June	FY23	FY24	FY25E	FY26E
P/E (x)	N/A	9.2	7.0	5.2
Price/Cash Flow (x)	N/A	21.8	4.8	3.7
EV/Revenue (x)	0.5	0.5	0.5	0.4
EV/Gross profit (x)	1.7	1.6	1.3	1.2
EV/EBITDA (x)	N/A	5.7	4.8	3.9
EV/EBIT (x)	N/A	9.3	7.0	5.4
Equity FCF yield (%)	-10.2	3.8	18.9	25.0
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/capital (x)	6.4	3.3	1.8	1.1
Price to book value (x)	2.8	2.3	1.8	1.3

### Per Share Data

Year ended June 30	FY23	FY24	FY25E	FY26E
<b>EPS diluted - adjusted (cps)</b>	<b>(2.84)</b>	<b>1.74</b>	<b>2.29</b>	<b>3.09</b>
EPS diluted (cps)	(2.89)	1.82	2.29	3.09
Cash flow per share (cps)	(1.74)	0.73	3.30	4.29
Free cash flow per share (cps)	(2.10)	0.64	3.02	3.99
Cash (cps)	0.69	0.94	2.53	5.14
Net assets (cps)	5.79	7.00	8.93	12.02
DPS (cps)	0.00	0.00	0.00	0.00
Franking (%)	0	0	0	0
Shares on issue - avg. basic (m)	221	261	289	289
Shares on issue - avg. diluted (m)	225	274	289	289

### Segmental

Year ended June 30	FY23	FY24	FY25E	FY26E
Work-in-hand (Start of Period)	77.4	66.0	55.0	65.0
<i>Work-in-hand (% of Revenue)</i>	<i>74.6</i>	<i>76.3</i>	<i>55.3</i>	<i>58.9</i>
Engineering Services	103.8	86.5	99.5	110.4
Training Services	6.1	6.9	8.0	8.4
<b>Revenue (\$m)</b>	<b>109.9</b>	<b>93.4</b>	<b>107.4</b>	<b>118.8</b>
Engineering Services Growth	(3.3)	(16.7)	15.0	11.0
Training Services Growth	(56.5)	12.2	16.0	6.0
<b>Revenue Growth (%)</b>	<b>(9.5)</b>	<b>(15.1)</b>	<b>15.1</b>	<b>10.6</b>
Engineering Services Gross Profit	27.2	28.1	33.0	37.9
Training Services Gross Profit	3.2	4.1	4.6	4.9
<b>Gross Profit (\$m)</b>	<b>30.4</b>	<b>32.2</b>	<b>37.6</b>	<b>42.8</b>
Engineering Services Margin	26.3	32.5	33.2	34.4
Training Services Margin	52.0	59.3	58.0	58.0
<b>Gross Profit Margin (%)</b>	<b>27.7</b>	<b>34.5</b>	<b>35.0</b>	<b>36.0</b>
Engineering Services EBITDA	1.4	7.1	9.0	11.3
Training Services EBITDA	(4.3)	1.7	1.5	1.5
<b>EBITDA (\$m)</b>	<b>(2.9)</b>	<b>8.8</b>	<b>10.6</b>	<b>12.8</b>
Engineering Services Margin	1.3	8.2	9.1	10.2
Training Services Margin	(70.6)	24.1	19.3	18.0
<b>EBITDA Margin (%)</b>	<b>(2.7)</b>	<b>9.4</b>	<b>9.8</b>	<b>10.8</b>

### Performance Ratios (%)

Year ended June 30	FY23	FY24	FY25E	FY26E
Operating cost margin	30.4	25.2	25.4	25.4
Gross profit growth	(27.8)	(5.7)	16.9	13.9
Cost growth	(16.0)	29.6	15.8	11.0
Statutory EBITDA margin	-2.7	9.4	9.8	10.7
Statutory EBITDA growth	(197.6)	(400.3)	20.4	21.2
Normalised EPS growth	182.0	162.9	26.0	34.8
Tax rate	6.3	(8.6)	0.0	0.0
Return on capital	N/A	28.2	30.4	38.9

### Balance Sheet Ratios

Balance Sheet (A\$m)	FY23	FY24	FY25E	FY26E
Gross debt (\$ m)	6.8	6.6	5.3	4.0
Net debt/(cash) (\$ m)	5.2	4.1	(2.0)	(10.8)
Fixed charge cover (x)	N/A	5.3	13.4	25.6
Net assets/(Assets - Right of use)	26%	45%	51%	58%

## Amendments to Forecasts

Revenue was down 15.1% to \$93.4m in FY24. The decrease is a function of the company being more selective with projects, focus on generating revenue from relationship clients (top 20 customers) and delivering a higher proportion of work under commercially favourable terms. Strong growth in the Training business and a \$121m FY25 opportunity pipeline for Engineering services underpins revenue forecasts of \$107.4m and \$119.0m in FY25 and FY26 respectively. We view revenue forecasts as relatively conservative given anticipated increases to the average tender-win-rate have not been forecasted.

EBITDA increases moderately following a disciplined cost management program during FY24 reducing the cost base. EBITDA margins increase 60bps and 70bps to 9.8% and 10.7% respectively.

Depreciation and Amortisation increases against previous forecasts to include slightly higher depreciation on right-of-use assets. Profit before tax therefore decreases versus previous forecasts.

Operating cash flow in FY24 was lower than Veritas estimates due to several one-off costs associated with the restructure and divestment of assets. The company anticipates stronger EBITDA to operating cash conversion going forward.

Additionally, the company has flagged their ambition in reintroducing a dividend to shareholders as a primary goal. The company had \$5.68m in franking credits as at FY24. Veritas has not forecasted dividends in our estimates.

Figure 2: Changes to Veritas forecasts for VBC

Year ended June 30 (\$m)	FY24A			FY25E			FY26E		
	Old	Actual	Chg.	Old	New	Chg.	Old	New	Chg.
Revenue	97.3	93.4	-4.0	111.0	107.4	-3.6	122.7	119.0	-3.7
Growth (% YoY)	-17.6	-15.1	2.6	14.0	15.1	1.1	10.6	10.7	0.2
EBITDA	8.4	8.8	0.4	10.2	10.6	0.4	12.4	12.8	0.4
Margin (%)	8.6	9.4	0.8	9.2	9.8	0.6	10.1	10.7	0.7
Profit before tax	4.7	4.4	-0.3	7.7	6.6	-1.1	10.4	8.9	-1.4
Normalised dil. EPS (cps)	1.9	1.7	-0.1	2.7	2.3	-0.4	3.6	3.1	-0.5
Capex	-0.6	-0.2	0.4	-0.8	-0.8	0.0	-0.9	-0.9	0.0
Free Cash Flow	3.3	1.8	-1.5	8.6	8.7	0.1	12.4	11.5	-0.9

Source: Company data, Veritas estimates

## Summary

We rate Verbrec as a buy:

- Strong and experienced management team who have (in our view) successfully turned around the business and built a strong platform for profitable growth.
- Verbrec is positioned to take advantage of the evolving energy landscape. Verbrec is addressing the need for gas firming and a renewables rich energy grid. The investment required in transitioning the energy system could be as high as \$625bn by 2050.
- StacksOn has significant upside. The product is producing annual savings and operational gains for BHP across its entire iron ore operations. We anticipate growth from adding modules and contracting with new companies in the future.
- The company looks cheap on all valuation metrics. It currently trades at a 20%, 22% and 40% discount for EV/Sales, EV/EBITDA and P/E respectively against Australian-listed engineering service companies.

## Risks

Include (but are not limited to): economic downturns, project execution risks, regulatory and compliance risks, technological changes, market competition, dependency on key clients, talent acquisition and retention, project dependency, safety and health risks and failure to execute business strategy and growth objectives.

## Verbrec – Description

Verbrec is a leading engineering, asset management, infrastructure, and mining technology software (collectively reported as “Engineering Services”) and training company (reported as “Training Services”) operating across the entire asset lifecycle to a diverse range of industries including energy, mining, defence, and infrastructure. The group has more than 400 professionals operating across Australia, New Zealand, PNG and the Pacific Islands from 11 offices throughout Australia and New Zealand.

Verbrec operates through two segments:

1. **Engineering Services:** Verbrec provides a range of engineering and project management services across the following areas: Asset Management, Automation & Control, Infrastructure Services, Pipeline Engineering, Power and Process Plant. The company also operates a 3D stockpile yard modelling digital twin software StacksOn.
2. **Training Services:** Under the Competency Training brand, the company provides specialist industrial training services for the Mining, Resources, Infrastructure and Manufacturing sectors. The specialty offers an extensive range of site-specific training as well as customised competency assurance services. Competency Training has dedicated, fully equipped training facilities (allowing for ‘hands-on’ training with equipment) across Australia.

## 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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