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![RaaS Research as a Service]

Verbrec Ltd

H1 FY25 Result

Discipline a saviour in macro headwind

Verbrec Limited (ASX:VBC) provides engineering, asset management, infrastructure services and training to the energy, mining, infrastructure and defence industries in Australia, New Zealand, PNG and the Pacific Islands. The company has released its H1 FY25 results delivering a profitable outcome for the third consecutive period, albeit below RaaS forecasts predominantly due to macro headwinds resulting in lower-than-forecast revenue on the back of project delays. Management cited that client feedback suggests "inflationary pressures, uncertainty prior to election results (both international and domestic) and shortage of qualified engineering resources caused deferrals of several notable prospective project opportunities that were expected to commence in H1 FY2025". We interpret this as one or two large projects not landing as expected. This resulted in H1 FY25 revenue of $42.8m (down 14.4% on the pcp and 8.9% below RaaS's forecast) and EBITDA of $3.1m (35.4% below RaaS's forecast). Importantly, the recent cost-out initiatives and operating disciplines resulted in a profitable result with the gross profit margin strengthening to 37% at the project level, but the reduced top-line scale over the cost base resulted in a more material impact at the EBITDA line. VBC provided a forward-weighted revenue pipeline of $46.9m for H2 FY25, showing it is expecting an improved result and some momentum into FY26. We adjust our forecasts with FY25 revenue reduced by 14% to $90.3m and EBITDA by 33% to $7.0m. We had forecast a return to dividends but the weaker-than-expected H1 FY25 result at the bottom-line has delayed this. The flow-forward impact of growth off a lower base subsequently reduces our DCF valuation from $0.40/share to $0.35/share but still represents potential upside of 303% over the current share price.

Business model

The business reports two divisions in Engineering and Training, with the former representing ~92% of group revenue in H1 FY25. The engineering business is focussed on industries including energy, mining, infrastructure and defence, offering services across the whole-of-asset life including engineering, asset management, infrastructure services, operation and maintenance (O&M), and technology solutions. The training business operates in associated areas of expertise within those industries.

Business case intact

Importantly, the result was another "clean" one under new management and without negative impact from problematic fixed-price construction projects which have plagued performance in the past. "It is management's expectation that the trend of client capital expenditure deferrals is temporary and may persist until the results of the Australian federal election are released in mid-2025". Longer-term macro industry tailwinds remain, most notably the energy-transition story. We forecast an improved H2 FY25 and growth off that base over the balance of the forecast period.

DCF valuation of $0.35/share, down from $0.40/share

Our discounted cash-flow (DCF) valuation reduces from $0.40/share to $0.35/share, representing 303% upside potential from the current share price. Provided the business can rebuild momentum to drive sustainable profitability, share price upside could be driven by both earnings growth and multiple re-rating.

Earnings history and RaaS' estimates (in A$m unless otherwise stated)

Year end	Revenue	EBITDA adj.*	NPAT adj.*	EPS adj.* (c)	P/E (x)	EV/EBITDA (x)
06/23a	109.9	(2.9)	(6.4)	n.a.	n.a.	n.a.
06/24a	93.4	8.8	3.5	1.3	6.9	3.1
06/25f	90.3	7.0	3.3	1.0	8.4	3.4
06/26f	100.1	11.4	5.9	1.8	4.7	1.5
06/27f	112.2	14.5	8.3	2.6	3.4	0.6

Source: RaaS estimates for FY25f, FY26f and FY27f; Company data for historical earnings;
*Adjusted for one-time and non-cash items and continuing businesses.

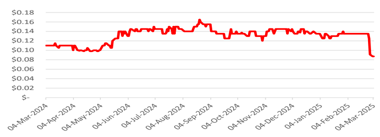
Industrials – Construction and Engineering

5 March 2025

Share Details

ASX code	VBC
Share price (4-Mar)	$0.087
Market capitalisation	$25.3M
Shares on issue	290.3M
Net debt at 31-Dec-2024	$1.5M

Share Performance (12 months)



Upside Case

- Project awards ahead of forecast
- Margin expansion story plays out ahead of forecas
- Cash generation used for new growth strategies

Downside Case

- Project underperformance impacts profitability
- Macro weakness inhibiting growth
- Challenges with labour costs and availability

Catalysts

- Project award announcements
- Proof of stronger 2HFY25 emerging
- Margin expansion delivery
- M&A activity (either direction)

Board and Management

Phillip Campbell	Non-Executive Chair
Matthew Morgan	Non-Executive Director
Brian O'Sullivan	Non-Executive Director
Mark Read	Chief Executive Officer
Richard Aden	Chief Financial Officer
Joel Voss	Company Secretary

Company Contact

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RaaS Contact

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H1 FY25 Result

After a strong turnaround in FY24 whereby the company reversed a FY23 EBITDA loss of $2.9m into positive EBITDA of $8.8m, the H1 FY25 result delivered another profit, albeit below our forecast.

Exhibit 1: H1 FY25 vs H1 FY24 and RaaS H1 FY25 forecasts (in A$m unless otherwise stated)

Year ending 30 June	H1 FY25	H1 FY24	Change	H1 FY25 RaaS forecast	Difference
Engineering revenue	38.9	46.3	(-15.9%)	43.1	(9.7%)
Training revenue*	3.9	3.6	8.3%	3.9	0.0%
Group revenue	**42.8**	**50.0**	**(14.4%)**	**47.0**	**(8.9%)**
Gross margin	**37.0%**	**34.9%**	**2.1%pts**	**37.0%**	**0.0%pts**
EBITDA	**3.1**	**5.0**	**(38.0%)**	**4.8**	**(35.4%)**
EBITDA Margin	7.2%	10.0%	(2.8%pts)	10.2%	(3.0%pts)
NPAT (adj.)**	1.5	3.0	(69.0%)	2.3	(34.7%)

Source: Company data for actual, RaaS forecasts;
* Continuing operations; ** H1 FY24 adjusted for continuing operations NPAT and share-based payments

The key financial takeaways are:

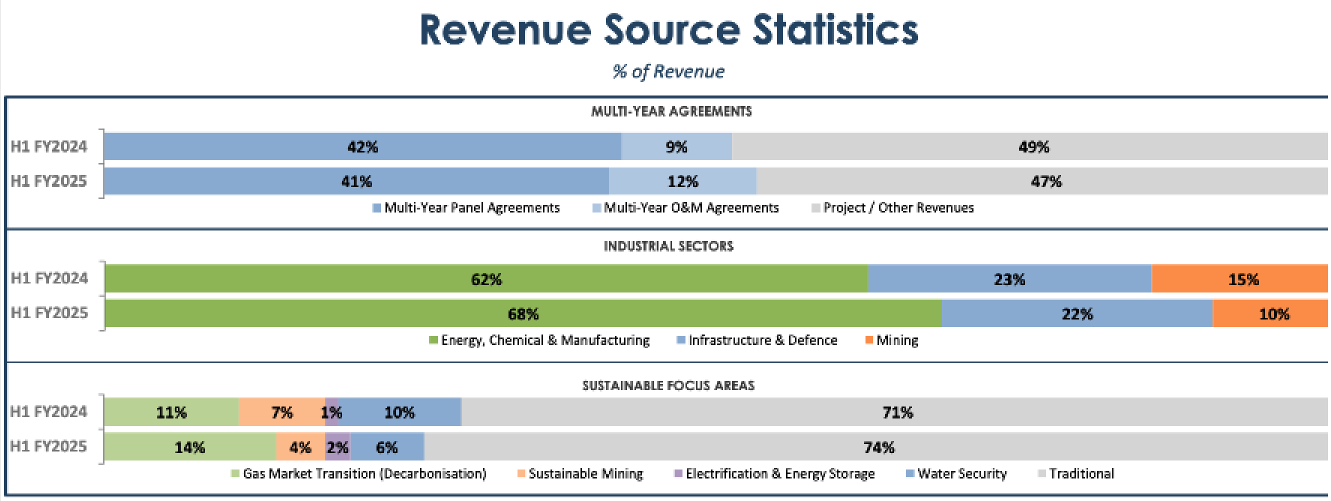
- **Engineering revenue below expectation** – We were surprised by the revenue result after positive AGM comments in November. We therefore assume that one or two material near-term contracts with early stage revenue components were not awarded late in the half as the company had expected, particularly considering “project delays” being the main driver as per commentary from management. Management cited that client feedback suggests “inflationary pressures, uncertainty prior to election results (both international and domestic) and shortage of qualified engineering resources caused deferrals of several notable prospective project opportunities that were expected to commence in H1 FY2025”.
- **Training performance solid** – The training division delivered to our forecast at both the revenue and EBITDA line, validating the decision to sell the non-profitable parts of the business in FY24. VBC has invested in the cost base to expand the footprint (from six to 12 sites over the past 12 months) so we see further upside and margin expansion from here.
- **Projects being delivered well** – Gross margin of 37.0% at the project level (the strongest in recent memory and up from 23.3% over the past 18 months) clearly illustrates the strengthened tendering, pricing and delivery disciplines implemented over the past 18 months under the new management team. No impairments affected the profitability of the group through the half.
- **Revenues and gross margins in-line with H2 FY24** – Although weaker against H1 FY24, the recent result was in line with the H2 FY24 result, so again, if the expected new projects had landed late in the period the result may have delivered to expectation. We take comfort that the operating business appears to be in good shape.
- **Shortfall in revenue flowed through materially to the EBITDA line** – The lower-than-forecast revenue has resulted in a more material impact at the EBITDA line largely due to the fixed cost component of operating expenses. Operating costs were around $0.5m higher than the pcp (previous corresponding period), with the difference attributed to higher share-based payments of $0.8m ($0.1m H1 FY24), so the cost base has been well contained but the expected operating leverage has not yet transpired. Management appears to have found a balance between positioning for forward growth and managing operating costs, in our view.

- **Positive operating cash flow** – Operating cash flow improved to +$1.0m against -$0.7m in the pcp. The net cash movement, when adding the impact of investing and financing cash flows, was break-even. Again, in our view, a solid result given the shortfall in revenue.
- **Debt reduction** – Through the half the company further reduced debt by $0.5m, in-line with our expectation.
- **Balance sheet in solid state** – The balance sheet remains in solid shape with a cash position of $4.5m and net debt of $1.5m as at 31 December 2024.

Revenue Composition

VBC's 20 key relationship clients have historically driven the majority of the revenue (68% in FY24) and the development and extension of those relationships remains at the core of the company's growth strategy. The clients range across the three core industry exposures of Energy & Utilities, Infrastructure & Defence, and Mining & Minerals, with the Energy, Chemicals and Utilities industries the largest contributors. The percentage contribution of the top relationship clients was not disclosed in the latest release, but multi-year agreements represented 53% (up from 51%) and by sector, Energy, Chemical and Manufacturing represented 68% of group revenue (marginally up from 62% in the pcp). The company's areas of sustainable focus contributed 26% of group revenue, over half of which was gas market transition work.

Exhibit 2: H1 FY25 revenue composition



Source: Company presentation

We view the energy sector as the most critical component of Verbrec's growth story, driven partially by the energy transition piece but also the traditional market, so the fact that it delivered a strong contribution is positive, in our view. Some of the shortfall in other areas were called out by management, notably "lack of industrial activity in New Zealand and tightening of mining capital expenditures".

Pipeline Remains Solid

The company released an updated pipeline and provided clarity on its composition, as outlined in Exhibit 3.

Exhibit 3: Verbrec forward pipeline

Overall Weighted Forward Pipeline **$139.7 million** made up of:	**Remainder FY2025** Weighted Forward Pipeline **$46.9 million** made up of:
Opportunity Pipeline **$131.0 million** *FY2024 Tender Win Rate (TWR): 36.0%*	**Opportunity Pipeline** **$20.7 million** *FY2024 Tender Win Rate (TWR): 36.0%*
Repeatable Revenue **$52.6 million**	**Repeatable Revenue** **$11.7 million**
Work in Hand **$40.0 million**	**Work in Hand** **$27.7 million**

Source: Company presentation

Key takeaways include:

- **H2 FY25 pipeline guides to stronger second half -** The weighted forward pipeline from 31 December 2024 to 30 June 2025 is $46.9m, of which 84% is represented by repeatable revenue and work in hand. The balance of $7.5m relates to the opportunity pipeline of $20.7m, risk weighted to the assumed tender win rate of 36% (in-line with FY24). On the back of this management stated it "expects stronger revenues and profits in the second half, supported by an increased work in hand at $40.0m". Note, the pipeline relates only to the Engineering division.
- **Ongoing short-term delays create the biggest risk** – The medium and long-term macro story, including drivers such as the energy transition story, remains intact and VBC appears well placed to deliver. However, in its release management stated that "it is expected that deferred project opportunities will proceed to award decision in H1 FY2026". This suggests that material upside on the expected pipeline appears unlikely in H2 FY25. We discuss our adjusted forecasts in the report shortly.
- **Longer-term pipeline provides less certainty due to undefined timeframes –** The longer-term pipeline looks robust but doesn't really provide much by way of forward guidance due to the timelines being undefined. Having said that, work-in-hand increases from $36.6m as at 31 October 2024 to $40.0m at period end.

Outlook and Forecasts

Our forecasts have been revised over the short and medium term as shown in Exhibit 4.

Exhibit 4: Revised forecasts (in A$m unless otherwise stated)

	FY25 Old	FY25 New	*Change*	FY26 Old	FY26 New	*Change*	FY27 Old	FY27 New	*Change*
Revenue	103.2	90.3	*(14.2%)*	116.7	100.1	*(14.2%)*	131.8	112.2	*(14.8%)*
EBITDA	10.5	7.0	*(33.3%)*	13.4	11.4	*(14.9%)*	16.8	14.5	*(13.7%)*
NPAT (adj.)	5.0	3.3	*(36.0%)*	7.3	5.9	*(19.1%)*	10.0	8.3	*(18.0%)*

Source: RaaS forecasts

Key considerations regarding the amended forecasts are:

- **FY25** - We reduce our revenue forecasts to marginally below management guidance based on the released H2 FY25 forward pipeline. This results in second half forecast revenue of $47.5m (previously forecast to be $56.3m). Revenue composition is now $43.6m Engineering (up from $38.9m H1 FY25) and $3.9m Training (in-line with H1 FY25), taking FY25f group revenue to $90.3m, marginally below the FY24 figure of $93.4m. We have maintained our GP margin forecast but FY25 EBITDA margin drops from 10.2% to 7.8% on the impact of lower revenue reducing operating leverage. We assume H2 FY25 EBITDA margin improves to 8.2% from the 7.2% delivered in the first half (based on the improved revenue performance half-on-half with slightly improved gross margin and a similar fixed cost base).
- **FY26 –** We reduce revenue forecasts by 14.2% due to growth off the now lower FY25 base plus a reduction in the Engineering growth rate from 12.0% to 10.4% to allow for potential project delays continuing into H1 FY26. This flows through to the EBITDA and NPAT lines, but some operating leverage begins to emerge on revenue growth.
- **FY27 -** Again, our revenue forecast reduces off the lower prior year base, in this case by 14.8%.

DCF Valuation Is $0.35/Share

Our DCF based valuation reduces from $0.40/share to $0.35/share. Key metrics include a discount rate of 13.0% (beta 1.5, terminal growth rate of 2.5%), as illustrated in Exhibit 5.

Exhibit 5: DCF valuation (in A$m unless otherwise stated)

Parameters	Outcome
Discount rate / WACC	13.0%
Beta	1.5
Terminal growth rate assumption	2.5%
Sum of Present Value (PV)	60.4
PV of terminal value	54.2
PV of enterprise	114.6
Net debt at 30 June 2024	2.0
Net value – shareholder	112.6
No. of shares on issue (m)	320.0
NPV per share	**A$0.35**

Source: RaaS estimates

Exhibit 6: Financial Summary

Verbrec (VBC)						Share price (4 March 2025)						A$	0.087

Profit and Loss (A$m)					
Y/E 30 June	FY23A	FY24A	FY25F	FY26F	FY27F
Revenue	109.9	93.4	90.3	100.1	112.2
EBITDA (Reported)	(6.0)	6.0	7.0	11.4	14.5
EBITDA underlying	**(2.9)**	**8.8**	**7.0**	**11.4**	**14.5**
Depn	(0.6)	(0.5)	(0.4)	(0.4)	(0.5)
Amort	(1.9)	(2.1)	(2.1)	(2.0)	(2.0)
EBIT underlying	**(6.2)**	**5.4**	**4.0**	**8.4**	**11.5**
Interest	(0.6)	(1.0)	(0.5)	(0.3)	(0.0)
Tax	0.4	0.4	(1.0)	(2.3)	(3.2)
NPAT (Reported)	(9.5)	2.0	2.5	5.9	8.3
Significant & non-cash items	(3.1)	(2.8)	(0.8)	0.0	0.0
NPAT (adj)	**(6.4)**	**3.5**	**3.3**	**5.9**	**8.3**
NPAT (Rep)	(9.5)	2.0	2.5	5.9	8.3

Cash flow (A$m)					
Y/E 30 June	FY23A	FY24A	FY25F	FY26F	FY27F
EBITDA	(2.9)	8.8	7.0	11.4	14.5
Interest	(0.7)	(0.6)	(0.7)	(0.0)	0.0
Tax	0.0	0.0	(0.9)	(1.6)	(2.3)
Other	(0.3)	(6.2)	(1.8)	0.5	0.6
Operating cash flow	(3.9)	2.0	3.6	10.2	12.8
Mtce capex	(0.8)	(0.2)	(0.5)	(0.6)	(0.7)
Free cash flow	(4.7)	1.8	3.1	9.6	12.1
Acquisitions/Disposals	(0.5)	(0.9)	0.0	0.0	0.0
Other	0.0	(0.3)	0.0	0.0	0.0
Cash flow pre financing	(5.2)	0.5	3.1	9.6	12.1
Equity	0.0	4.0	0.0	0.0	0.0
Debt	6.0	(1.3)	(2.3)	(0.5)	(0.5)
Dividends paid	0.0	0.0	0.0	(2.3)	(3.3)
Net cash flow for year	0.9	3.2	0.8	6.8	8.3

Balance sheet (A$m)					
Y/E 30 June	FY23A	FY24A	FY25F	FY26F	FY27F
Cash	4.5	4.6	5.5	12.3	20.6
Accounts receivable	15.4	13.7	13.2	14.7	16.4
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	7.7	2.9	3.3	3.7	4.0
Total current assets	27.6	23.0	23.3	31.9	42.6
PPE	1.5	1.1	1.0	1.2	1.4
Intangibles and Goodwill	12.6	10.3	10.3	10.3	10.2
Investments	0.0	0.0	0.0	0.0	0.0
Deferred tax asset	7.6	8.2	8.2	8.2	8.2
Other non current assets	4.8	5.2	5.1	5.1	5.0
Total non current assets	26.5	24.7	24.6	24.7	24.9
Total Assets	54.1	47.7	47.8	56.6	67.5
Accounts payable	14.7	7.7	9.0	10.0	11.2
Short term debt	6.8	2.3	0.0	0.0	0.0
Tax payable	0.0	0.0	0.0	0.0	0.0
Other current liabilities	14.5	10.0	8.6	13.4	18.6
Total current liabilities	36.8	20.0	17.6	23.4	29.8
Long term debt	0.0	4.3	4.3	3.8	3.3
Other non current liabs	4.0	4.2	4.2	4.2	4.2
Total non-current liabilities	4.2	8.5	8.5	8.0	7.5
Total Liabilities	41.0	28.5	26.1	31.4	37.3
Net Assets	13.0	19.2	21.7	25.2	30.2
Share capital	24.3	28.0	28.0	28.0	28.0
Accumulated profits/losses	(11.5)	(9.5)	(7.0)	(3.5)	1.4
Reserves	0.3	0.7	0.7	0.7	0.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	13.0	19.2	21.7	25.2	30.2

Interim (A$m)	H1 24A	H2 24A	H1 25A	H2 25F	H1 26F	H2 26F
Revenue	50.0	43.4	42.8	47.5	48.6	51.6
EBITDA (Unlderying)	5.0	3.8	3.3	3.7	5.5	5.9
NPAT (reported)	0.2	1.8	0.8	1.7	2.8	3.0
Minorities and adjustments	2.7	(1.3)	0.8	-	-	-
NPAT (normalised)	2.9	0.6	1.6	1.7	2.8	3.0

Divisions/Categories	FY23A	FY24A	FY25F	FY26F	FY27F
Revenue					
Energy, Manufacturing & Chemical	61.9	51.1	46.2	51.3	57.5
Mining	18.2	15.5	20.0	22.2	24.9
Infrastructure & Defence	23.7	20.2	16.2	18.0	20.2
Total Engineering	**103.8**	**86.8**	**82.5**	**91.5**	**102.5**
Training	**6.1**	**6.9**	**7.8**	**9.0**	**10.1**
Total group revenue	**109.9**	**93.7**	**90.3**	**100.4**	**112.7**
Gross Profit	**26.9**	**33.4**	**30.4**	**37.3**	**43.5**
Gross Profit Margin %	**24.5%**	**35.7%**	**33.6%**	**37.1%**	**38.6%**
Sustainable Focus Areas (Revenue)					
Electrification and Storage		1.5	1.8	2.5	2.8
Gas Market Transition		9.0	9.0	11.0	13.5
Sustainable Mining		8.6	8.4	9.3	10.4
Water Security		10.0	4.5	5.0	5.6
Total Sustainable Revenue		**29.2**	**23.7**	**27.8**	**32.3**
% of Group Revenue		**33.6%**	**28.7%**	**30.4%**	**31.5%**

Margins, Leverage, Returns	FY23A	FY24A	FY25F	FY26F	FY27F
EBITDA	(2.6%)	9.4%	7.8%	11.4%	12.9%
EBIT	(5.6%)	5.8%	4.4%	8.4%	10.2%
NPAT pre significant items	(8.7%)	2.1%	2.8%	5.9%	7.4%
Net (Debt)/ Cash	(2.3)	(2.0)	1.2	8.4	17.3
ROA	(10.7%)	10.6%	8.4%	16.1%	18.5%
ROE	(36.0%)	21.4%	16.2%	25.0%	29.8%
ROIC	(31.3%)	33.2%	18.2%	31.1%	35.8%
Working capital	0.8	6.0	4.2	4.6	5.2
WC/Sales (%)	0.7%	6.4%	4.6%	4.6%	4.6%
Revenue growth	(9.5%)	(15.1%)	(3.3%)	10.9%	12.1%

Pricing		FY23A	FY24A	FY25F	FY26F	FY27F
No of shares (y/e)	(m)	221	289	290	290	290
Weighted Av Dil Shares	(m)	225	274	320	320	320
EPS Reported	cps	(4.2)	0.7	0.8	1.8	2.6
EPS Normalised/Diluted	cps	(2.8)	1.3	1.0	1.8	2.6
EPS growth (norm/dil)		n/a	-144%	-18%	77%	41%
DPS	cps	-	-	-	0.8	1.1
DPR		0%	0%	0%	40%	40%
Dividend yield		0.0%	0.0%	0.0%	9.3%	13.1%
PE (x)		-	6.9	8.4	4.7	3.4
EV/EBITDA		n/a	3.1	3.4	1.5	0.6
NTA/Share	cps	(1.0)	(0.7)	0.4	2.6	5.4
FCF/Share	cps	(2.1)	0.6	1.0	3.0	3.8
Price/FCF share		(4.2)	13.5	8.9	2.9	2.3
Free Cash flow Yield		(24.1%)	7.4%	11.2%	34.5%	43.5%
Cash Conversion		n/a	33.5%	51.7%	89.5%	88.3%

Source: RaaS estimates; Company data for actuals

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415, of

BR SECURITIES AUSTRALIA PTY LTD; ABN 92 168 734 530; AFSL 456663

Effective Date: 26th March 2024

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Complaints

If you have a complaint about our service, you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below.

BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

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