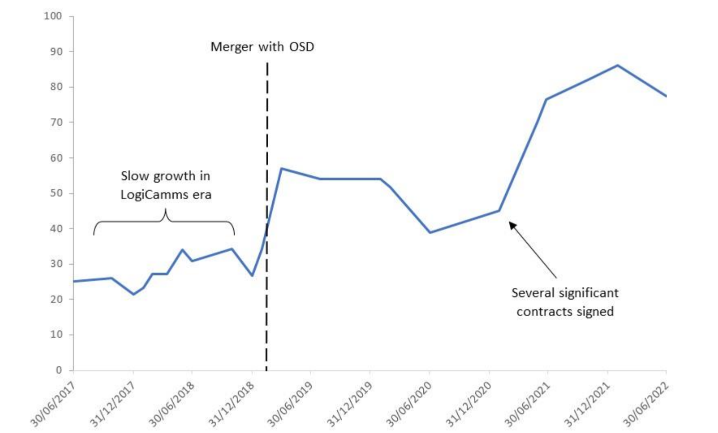
Verbrec Limited

A solution to the energy crisis

New management, improved processes and exposure to the booming Energy sector positions Verbrec for profit growth and improved quality of earnings. We launch coverage with a fair value of $0.34 per share.

- **Servicing infrastructure over its lifecycle:** Verbrec designs, constructs, commissions, maintains, operates and decommissions infrastructure for top tier Energy and Mining clients including Santos, Origin Energy and BHP.
- **A beneficiary of rising demand for Australian Energy:** Verbrec is a beneficiary of high oil and gas prices as well as the transition to 'clean energy'. It operates more than 1,000km of gas pipelines in Queensland, Victoria, South Australia, Western Australia and the Northern Territory. With global natural gas prices up more than fourfold since 2020 Verbrec are well placed to benefit from any projects required to expand capacity. More than half of group revenues came from Energy sector clients in FY22.
- **A new beginning:** OSD's reverse takeover of LogiCamms in June 2019 is a new beginning: the accomplished former OSD management team have taken work-in-hand to new highs (Figure 1), are major shareholders in the company and implemented improved processes to mitigate variance between quoted and achieved margins in future.
- **Improving cash conversion:** The completion of three legacy low margin projects by the end of CY22 should propel underlying EBITDA toward statutory EBITDA, a catalyst for a re-rating from the current EV/underlying EBITDA of just 2.7x in FY23.
- **Fair value of $0.34 per share:** Our DCF derived fair value of $0.34 per share puts the stock on an EV/EBITDA multiple of 6.2x in FY24, in line with peers.

Figure 1. Verbrec work-in-hand ($m)



Source: Company data, Veritas estimates.

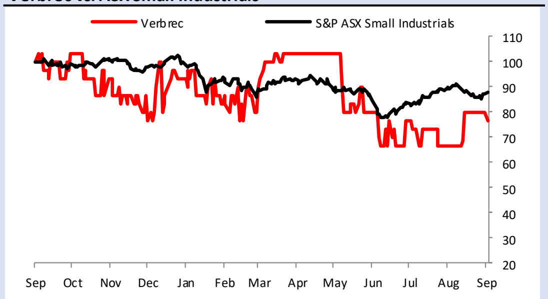
VBC.ASX BUY

Wednesday 21 September 2022

Share Price	$0.13
Price Target	$0.34
Valuation Method	DCF
Market capitalisation	$29m
Enterprise value	$31m
GICS sector	Construction and Engineering
12 month price range	$0.10 - $0.16
Average monthly t/o	0.3m
Shares in issue	221.5m
Top 20 holders	178.6m
Previous rating	Initiation

Year ended June 30		FY21	FY22	FY23E	FY24E	FY25E
Revenue	$m	97.4	121.4	132.1	142.1	150.5
Growth	%	(16.7)	24.6	8.8	7.6	5.9
EBITDA	$m	7.8	10.1	11.3	12.4	13.9
Margin	%	8.0	8.3	8.6	8.8	9.3
NPAT	$m	(4.5)	(3.2)	4.2	6.6	8.0
EPS	¢ps	1.4	2.1	2.6	3.0	3.6
CFPS	¢ps	(0.8)	1.4	3.9	5.2	5.8
DPS	¢ps	0.0	0.0	0.0	2.1	2.5
Franking	%	0.0	0.0	0.0	100.0	100.0
Dividend Yield	%	0.0	0.0	0.0	15.9	19.5
PER	x	9.1	6.1	5.0	4.4	3.6
EV/Revenue	x	0.3	0.3	0.2	0.2	0.2
EV/Gross profit	x	0.9	0.7	0.7	0.7	0.6
EV/EBITDA	x	4.0	3.1	2.7	2.5	2.2
EV/EBIT	x	8.4	5.9	4.8	4.3	3.5
Fixed charge cover	x	9.5	7.5	9.3	10.5	12.6
Return on capital	%	14.8	22.4	26.5	30.6	37.9

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.

https://verbrec.com/

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Verbrec Limited

Share Price: $0.13 ps **Valuation: $0.34 ps**

Financial Performance (A$m)

Year ended June 30	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Revenue	**117.0**	**97.4**	**121.4**	**132.1**	**142.1**	**150.5**
Cost of Goods Sold	(80.7)	(70.6)	(86.0)	(87.7)	(95.7)	(101.5)
Normalised Gross Profit	**36.3**	**34.0**	**42.1**	**44.3**	**46.4**	**48.9**
Other income	1.4	1.6	0.6	0.7	0.7	0.7
Operating costs	(30.1)	(27.8)	(32.7)	(33.7)	(34.7)	(35.7)
Normalised EBITDA	**7.6**	**7.8**	**10.1**	**11.3**	**12.4**	**13.9**
Non-recurring and legacy items	(0.1)	(7.5)	(7.9)	(1.5)	0.0	0.0
Statutory EBITDA	**7.6**	**0.3**	**2.1**	**9.8**	**12.4**	**13.9**
Depreciation and amortisation	(3.9)	(4.1)	(4.9)	(4.9)	(5.2)	(5.2)
Normalised EBIT	**3.7**	**3.7**	**5.2**	**6.4**	**7.2**	**8.7**
Associate income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(0.6)	(0.4)	(0.7)	(0.7)	(0.7)	(0.7)
Normalised Pre-tax Profit	**3.1**	**3.3**	**4.5**	**5.7**	**6.6**	**8.0**
Normalised tax	(1.2)	(0.3)	0.3	0.0	0.0	0.0
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised profit to holders	**1.9**	**3.0**	**4.8**	**5.7**	**6.6**	**8.0**
One off items (post-tax)	(0.3)	(7.5)	(8.0)	(1.5)	0.0	0.0
Reported profit to holders	**1.5**	**(4.5)**	**(3.2)**	**4.2**	**6.6**	**8.0**

Cash Flow Statement (A$m)

Year ended June 30	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Statutory EBITDA	**7.6**	**0.3**	**2.1**	**9.8**	**12.4**	**13.9**
Cash net interest	(0.6)	(0.4)	(0.7)	(0.7)	(0.7)	(0.7)
Cash tax (paid)/received	(1.2)	(0.3)	0.3	0.0	0.0	0.0
Working capital/other	4.9	(1.2)	1.3	(0.6)	(0.3)	(0.3)
Operating Cash Flow	**10.6**	**(1.6)**	**3.1**	**8.6**	**11.4**	**12.9**
Capex	(0.5)	(0.2)	(1.0)	(1.3)	(1.5)	(1.5)
Payments on Finance Leases	(2.3)	(2.6)	(2.7)	(2.5)	(2.7)	(2.8)
Free Cash Flow	**7.8**	**(4.5)**	**(0.6)**	**4.8**	**7.2**	**8.6**
Net Borrowings	(0.0)	(1.4)	(1.4)	(0.5)	0.0	0.0
Equity raised/buybacks	0.0	3.2	0.1	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	(4.6)
Other	0.1	(5.0)	0.1	0.0	0.0	0.0
Net increase/(decrease) cash	**7.9**	**(7.6)**	**(1.8)**	**4.3**	**7.2**	**4.0**
Cash at beginning	8.3	15.9	8.3	6.4	10.8	18.0
Cash at end	15.9	8.3	6.4	10.8	18.0	22.0

Balance Sheet (A$m)

Year ended June 30	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Cash	15.9	8.3	6.4	10.8	18.0	22.0
Receivables	17.1	17.0	18.6	20.3	21.7	23.1
Contract assets	1.8	4.9	6.9	6.9	6.9	6.9
Other current assets	0.2	0.0	0.1	0.1	0.1	0.1
Current Assets	**35.0**	**30.2**	**32.0**	**38.0**	**46.7**	**52.1**
Property, Plant & Equipment	1.3	1.5	1.5	1.5	1.7	1.9
Intangibles	9.6	16.0	14.6	14.3	14.0	13.6
Right-of-use assets	4.7	4.9	6.4	5.6	4.8	4.1
Deferred tax assets	7.0	6.8	7.5	7.5	7.5	7.5
Other non current assets	0.1	0.0	0.0	0.0	0.0	0.0
Non Current Assets	**22.7**	**29.3**	**30.1**	**28.9**	**27.9**	**27.0**
Total Assets	**57.7**	**59.5**	**62.1**	**66.9**	**74.6**	**79.1**
Payables	10.4	13.1	14.4	15.6	16.7	17.7
Borrowings	3.5	2.1	0.7	0.2	0.2	0.2
Lease Liabilities	5.1	5.6	7.7	7.7	7.7	7.7
Employee Benefits	5.7	7.1	6.4	6.4	6.4	6.4
Other liabilities	6.3	6.1	10.2	10.2	10.2	10.2
Total Liabilities	**31.0**	**34.0**	**39.5**	**40.2**	**41.3**	**42.3**
Shareholder Funds	**26.7**	**25.5**	**22.5**	**26.8**	**33.3**	**36.8**

Directors and Key Management Personnel		**Shares**	**Holding**
Brian O'Sullivan AM	Non Exec Director	69.4m	31.3%
Linton Burns	CEO and Managing Director	6.0m	2.7%
Phillip Campbell	Chairperson and Non Exec Direct	0.6m	0.3%
Matthew Morgan	Non Exec Director	0.4m	0.2%
Sarah Zeljko	Non Exec Director	0.0m	0.0%
Michael Casey	CFO	0.0m	0.0%

Major Shareholders (excluding nominees)	**Shares**	**Holding**
Brian O'Sullivan and Related Holdings	69.4m	31.3%
Thorney Holdings Pty Ltd	24.7m	11.2%
Candyblossom and Bloemhof Pty Ltd	21.8m	9.9%
GFNA Bartley Family Pty Ltd	18.0m	8.1%
Forager Funds Management Pty Ltd	14.3m	6.5%
Top 20 shareholders	**178.6m**	**80.7%**

Source: Company data, Veritas Research

Valuation Metrics		**Valution**
Price Target (ps)	$0.34	159%
Share Price (ps)	$0.13	
FY22 EV/Revenue (x)	3.1	
Implied FY24 EV/EBITDA (x)	6.2	101%
Implied FY25 EV/EBITDA (x)	5.5	79%
Market Capitalisation (A$m)	29	
Enterprise Value (A$m)	31	

Valuation Multiples

Year ended June	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
P/E (x)	14.4	9.1	6.1	5.0	4.4	3.6
Price/Cash Flow (x)	2.5	N/A	9.6	3.4	2.5	2.2
EV/Revenue (x)	0.3	0.3	0.3	0.2	0.2	0.2
EV/Gross profit (x)	0.9	0.9	0.7	0.7	0.7	0.6
EV/EBITDA (x)	4.1	4.0	3.1	2.7	2.5	2.2
EV/EBIT (x)	8.3	8.4	5.9	4.8	4.3	3.5
Equity FCF yield (%)	27.2	-15.5	-2.2	16.8	25.1	29.8
Dividend yield (%)	0.0	0.0	0.0	0.0	15.9	19.5
EV/capital (x)	0.9	1.2	1.5	1.0	0.7	0.6
Price to book value (x)	1.0	1.1	1.3	1.1	0.9	0.8

Per Share Data

Year ended June 30	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
EPS diluted - adjusted (¢ps)	**0.90**	**1.43**	**2.13**	**2.59**	**2.96**	**3.63**
EPS diluted (¢ps)	0.93	1.46	2.17	2.59	2.96	3.63
Cash flow per share (¢ps)	5.11	(0.79)	1.35	3.88	5.15	5.84
Free cash flow per share (¢ps)	3.77	(2.15)	(0.28)	2.18	3.26	3.87
Cash (¢ps)	7.68	4.01	2.84	4.86	8.11	9.92
Net assets (¢ps)	12.87	12.28	9.98	12.08	15.04	16.60
DPS (¢ps)	0.00	0.00	0.00	0.00	2.07	2.54
Franking (%)	0	0	0	0	100	100
Shares on issue - avg. basic (m)	201	203	221	221	221	221
Shares on issue - avg. diluted (m)	207	208	226	221	221	221

Segmental

Year ended June 30	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Work-in-hand (Start of Period)	54.0	39.0	76.6	86.2	86.8	85.5
Work-in-hand (% of Revenue)	*48.5*	*43.6*	*71.4*	*74.4*	*70.0*	*65.0*
Engineering Services	111.3	89.3	107.3	115.9	124.0	131.5
Training Services	5.7	8.1	14.1	16.2	18.1	19.0
Revenue ($m)	**117.0**	**97.4**	**121.4**	**132.1**	**142.1**	**150.5**
Engineering Services Growth	217.9	(19.8)	20.1	8.0	7.0	6.0
Training Services Growth	0.0	42.7	74.3	15.0	12.0	5.0
Revenue Growth (%)	**234.0**	**(16.7)**	**24.6**	**8.8**	**7.6**	**5.9**
Engineering Services Gross Profit	33.4	29.8	34.8	35.9	37.2	39.4
Training Services Gross Profit	2.9	4.2	7.3	8.4	9.2	9.5
Underlying Gross Profit ($m)	**36.3**	**34.0**	**42.1**	**44.3**	**46.4**	**48.9**
Engineering Services Margin	30.0	33.4	32.4	31.0	30.0	30.0
Training Services Margin	52.0	52.0	52.0	52.0	51.0	50.0
Underlying Gross Profit Margin (%)	**31.0**	**34.9**	**34.7**	**33.6**	**32.7**	**32.5**
Engineering Services EBITDA	6.5	7.4	9.6	9.9	10.4	11.9
Training Services EBITDA	1.1	0.3	0.5	1.4	2.0	2.1
Underlying EBITDA ($m)	**7.6**	**7.8**	**10.1**	**11.3**	**12.4**	**13.9**
Engineering Services Margin	5.8	8.3	8.9	8.6	8.4	9.0
Training Services Margin	20.1	4.2	3.6	8.6	11.1	10.9
Underlying EBITDA Margin (%)	**6.5**	**8.0**	**8.3**	**8.6**	**8.8**	**9.3**

Performance Ratios (%)

Year ended June 30	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Operating cost margin	25.8	28.6	26.9	25.5	24.4	23.7
Gross profit growth	422.7	(6.3)	23.8	5.3	4.7	5.4
Cost growth	333.0	(7.6)	17.4	3.1	2.9	3.0
Statutory EBITDA margin	6.5	0.3	1.8	7.4	8.8	9.3
Statutory EBITDA growth	58,000.0	(96.1)	615.8	362.5	26.6	11.9
Normalised EPS growth	(800.5)	56.9	48.9	19.2	14.2	22.7
Tax rate	40.0	10.2	(6.6)	0.0	0.0	0.0
Return on capital	11.1	14.8	22.4	26.5	30.6	37.9

Balance Sheet Ratios

Balance Sheet (A$m)	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Gross debt ($ m)	8.7	7.7	8.5	8.0	8.0	8.0
Net debt/(cash) ($ m)	(7.2)	(0.6)	2.1	(2.8)	(10.0)	(14.0)
Fixed charge cover (x)	6.0	9.5	7.5	9.3	10.5	12.6

Contents

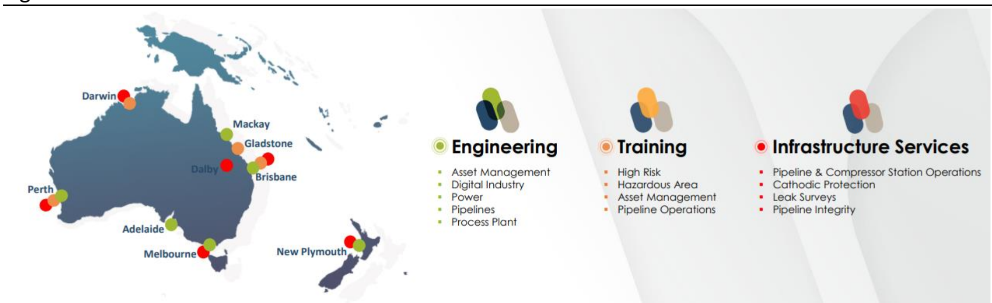
Servicing infrastructure over its lifecycle

Verbrec has a unique ability to provide services across the entire lifecycle of an asset from its three operating divisions.

- *Engineering:* Engineering design and project management, commissioning and decommissioning. Technical specialties include: process control systems, power, asset management and pipelines. Comprised mostly of the former LogiCamms business.
- *Infrastructure*: Operates and monitors pipelines for transporting gas and liquid under pressure. Comprised mostly of the OSD subsidiary and the EIM acquisition (completed in December 2020).
- *Training*: Registered training organisation's (RTO) offering an extensive range of qualifications related to operating resource, energy, construction and manufacturing sites. Trades under the 'Competency Training' and 'Site Skills Training' brands.

Verbrec's breadth of offer is an advantage compared to smaller players and their responsiveness to client needs is an advantage against multinationals. Verbrec has offices in Queensland, Melbourne, Adelaide, Perth, Darwin and New Zealand (Figure 2).

Figure 2: Verbrec offers services across ANZ and the Pacific Islands

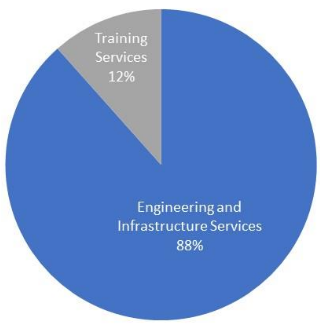


Source: Company data, Veritas

Verbrec has revenue of $121m and underlying EBITDA of $10m in FY22.

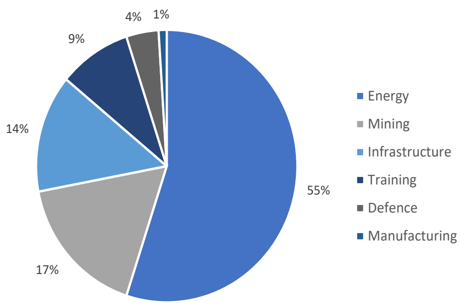
Verbrec reported sales of $121m in FY22, with nearly 90% from Engineering and Infrastructure Services which are not separately disclosed (Figure 3). Energy is the largest end market, comprising 55% of group revenues in FY22 (Figure 4) up from 39% in FY20. The company reported underlying EBITDA of $10.1m and statutory EBITDA of $2.1m with most of the difference explained by three underperforming projects that are either complete or will be completed soon.

Figure 3: Verbrec revenue by type in FY22 (%)



Source: Company data, Veritas

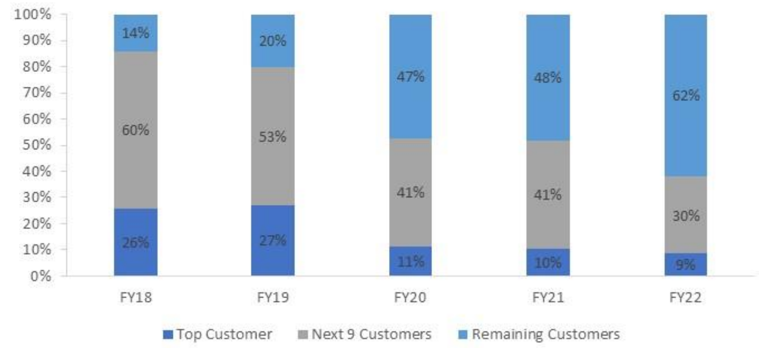
Figure 4: Verbrec revenue by sector in FY22 (%)



Source: Company data, Veritas

Management have de-risked the company via diversification over recent years. The top 10 customers as a percentage of total revenue has declined from 86% in FY18 to 39% in FY22.

Figure 5: Verbrec revenue concentration



Source: Company data, Veritas

Clients include major players in the Oil and Gas, Mining and Minerals, Renewables, Chemical Processing and Pipelining industries (Figure 6).

Figure 6: Verbrec clients

Source: Company data, Veritas

Engineering services

Engineering services offered by Verbrec include:

- **Process control system design:** Verbrec specialises in complex process control systems which are operated via a computer system known as SCADA as well as integration of new control systems into existing platforms. An example of work in progress is the upgrade control equipment to operate on a 4G network due to the phasing-out of the 3G network.
- **Electrical system design and commissioning**: includes electrical system design, power system modelling, protection design and testing, earthing and lightning system design, process instrumentation installation, commissioning and maintenance. The former LogiCamms company is known for its heritage in this area.
- **Process plant design and delivery**: includes multi-disciplinary design and project management for process plants across a range of industries including oil, gas, chemicals, mining, water treatment, power, food and beverage.

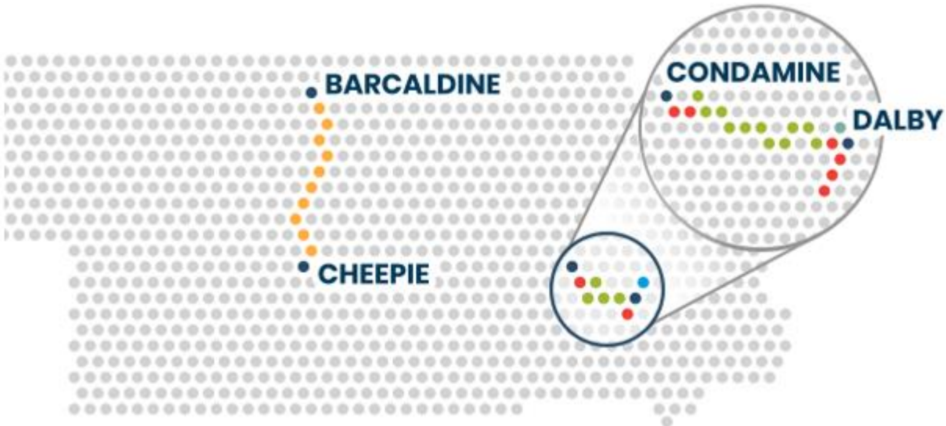
Infrastructure services

Infrastructure services comprise the construction, operation and maintenance of pipelines mostly conducted by the OSD subsidiary and the bolt-on acquisition of EIM. Verbrec is the largest independent pipeline player in Australia with expertise in gas, water, oil and slurry pipelines.

Verbrec was formed by the reverse takeover of LogiCamms by OSD in 2019. Following the bolt-on acquisition of EIM in 2020, the company operates over 1,000km of natural gas pipeline in Australia (Figure 7) including:

- Cheepie to Barcaldine Gas Pipeline, Queensland (404km)
- Condamine to Dalby Gas Pipeline, Queensland (159km)
- Daly Waters to McArthur River Pipeline, Northern Territory (330km)
- Several pipelines for Arrow Energy, Queensland (136km)
- Several pipelines for Beach Energy in Vic, SA and WA (277km)

Figure 7: Gas pipelines operated by Verbrec in Queensland



Source: Company data, Veritas research

Pipeline operation contracts typically run for 3 to 5 years. The company recently renewed contracts with Arrow Energy, Power and Water Corporation and Beach Energy.

Training

Verbrec's two training brands, Competency Training and Site Skills Training, deliver a range of qualifications primarily for the construction and manufacturing industries along with operators of mining, minerals, oil and gas facilities. For example Verbrec's Engineering team will design and commission a process plant then the Training business will provide the requisite qualifications to its operators.

The training offering allows Verbrec to extend its client relationship beyond the design and construction phase of an asset. There is potential to grow this business in NSW and Victoria where Verbrec doesn't currently offer training but has a significant Engineering presence.

A new beginning

OSD Pty Ltd.'s (OSD) reverse takeover of LogiCamms in June 2019 was a new beginning. The takeover brought new management and expanded the selling opportunity for both businesses. The new team have steadied the ship after years of high management turnover and missed earnings guidance.

LogiCamms suffered from the lack of retention of management

LogiCamms listed in 2007 principally as a designer and installer of electrical services and control systems for the energy and utilities industries. It was formed from the merger of Logitech and Camms to create national reach. The acquisition of ITL in May 2013 gave the company expertise in Energy (predominantly Oil and Gas) especially in New Zealand.

Since listing, the company's performance has been marred by a lack of stability from management, having eight CEO's, four CFO's and three Chairperson's (Figure 8).

Figure 8: Management changes since listing in 2007

Role	Duration	Person	Prior experience
CEO	2007 - Jun 2011	Adam Keats	Co founder Logicamms with 10 years as MD
CEO	Sep 2011 - May 2014	Steve Banning	CEO Epic Energy 2007 - 2011
CEO	May 2014 - Mar 2015	Matthew Adamo	Logicamms CFO since 2011
CEO	Mar 2015 - Feb 2017	Steve Banning	Returning as MD
CEO	Feb 2017 - Jun 2018	Flora Furness	Various HR roles
Interim CEO	Jun 2018 - Nov 2018	Dan Drewe	Former CFO
CEO	Nov 2018 - Sep 2020	Chris O'Neill	GM Development Broadspectrum, senior roles at WorleyParsons
CEO	Sep 2020 - Present	Linton Burns	MD of OSD 2009 - 2019
CFO	May 2014 - Feb 2017	Paul Bowker	Logicamms Company Secretary since 2011
CFO	Jun 2017 - Dec 2019	Dan Drewe	ex CFO of JTA international
CFO	Feb 2020 - Present	Michael Casey	CFO at several engineering and construction firms
Chairman	Apr 2011 - Jun 2019	Peter Watson	CEO Transfield Services 1999 - 2009
Chairman	Jun 2019 - Feb 2020	Charles Rottier	Executive GM Transfield
Chairman	Feb 2020 - Present	Phillip Campbell	Chair of Fleetwood (FWD) and Vmoto (VMT)

Source: Company data, Veritas research

CEO and Co-founder Adam Keats was initially successful in growing revenues from $20m in 2007 to $97m in 2011 (Figure 10), however six successive CEOs till the arrival of ex-OSD Managing Director Linton Burns in September 2020 struggled to grow the business. Poor execution led to a sequential decline in EBITDA from $8.4m in FY15 to -$8.1m in FY17 (Figure 11). Over the same period net cash declined from $21.9m in FY15 to -$1.8m in FY18 (Figure 12), including a $4.45m capital raise in FY17 and results were consistently below guidance (Figure 9).

Figure 9: Management guidance vs. actual results

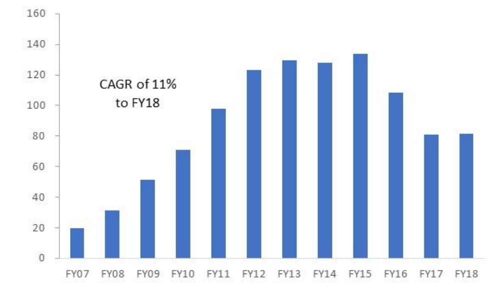
	Guidance ($m)		Actual ($m)		Difference (%)		Guidance Given
	Revenue	EBITDA	Revenue	EBITDA	Revenue	EBITDA	
FY16	120	6	108	-4	-10	-170	23 Feb 2016
1H17	40	Negative	42	-4	4		24 Nov 2016
FY17	120	7.2	81	-8	-32	-213	26 Aug 2016
FY18	80+	4+	82	2	2	-54	24 Feb 2017

Source: Company data, Veritas

The share price fell from a high of $2.05 in Oct 2013 to $0.18 in June 2019 (Figure 13). LogiCamms' reputation and employee satisfaction suffered. The OSD acquisition bid was unanimously recommended by LogiCamms Directors.

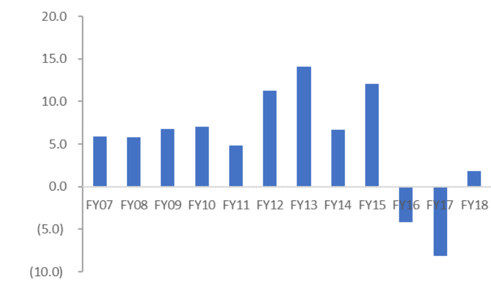
Under new management CEO Linton Burns and CFO Michael Casey the Company has not provided any explicit guidance, preferring to demonstrate through delivery.

Figure 10: LogiCamms revenue pre-takeover ($m)



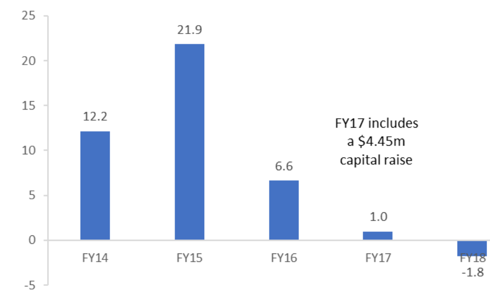
Source: Company data, Veritas research

Figure 11: LogiCamms EBITDA pre-takeover ($m)



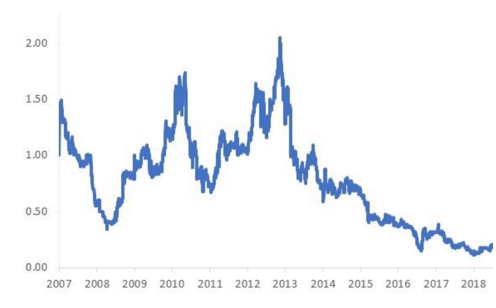
Source: Company data, Veritas research

Figure 12: LogiCamms net cash ($m)



Source: Company data, Veritas research

Figure 13: LogiCamms share price ($)

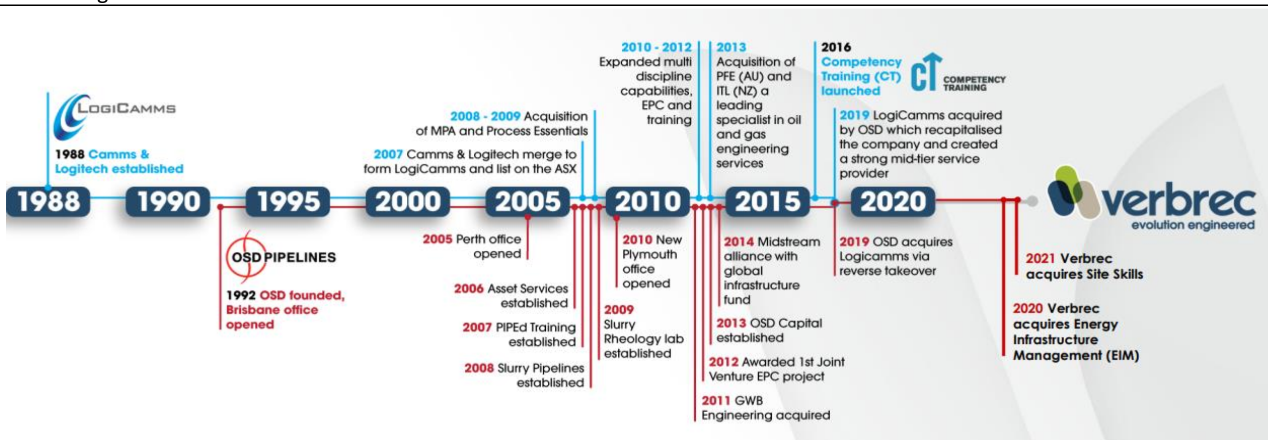


Source: Company data, Veritas research

OSD's reverse takeover of LogiCamms

The previously listed company LogiCamms Limited (ASX: LCM), was approached by private pipeline operator OSD to acquire the company via reverse takeover in June 2019 (Figure 14). Post-transaction OSD shareholders owned 59% of shares. The new management announced sweeping strategic changes to the Board and its growth strategy. The merged company was positioned to be a leading mid-tier engineering service business with expanded technical capabilities and a more diversified client base.

Figure 14: LogiCamms to Verbrec timeline

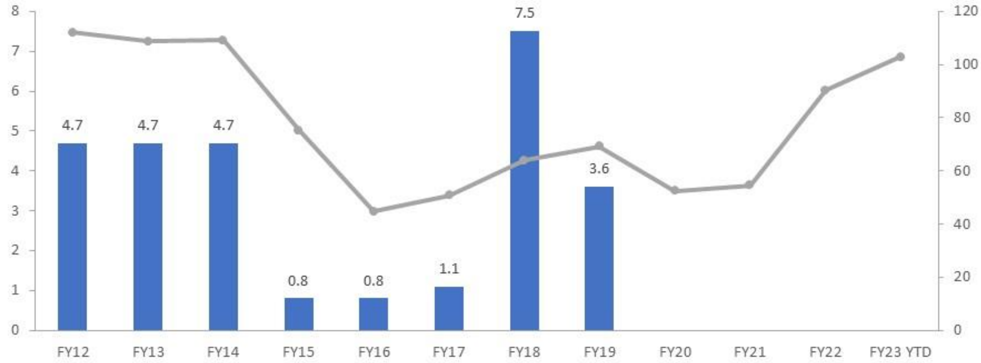


Source: Company data, Veritas

OSD was leveraged to the oil and gas cycle.

OSD was established in 1992 to provide engineering and operational services to the oil, gas and mining industries, with a particular speciality in pipeline operations and maintenance. The private company, with 66% ownership by its founder Brian O'Sullivan (now Verbrec's largest shareholder), maintained a positive average annual EBITDA despite depressed oil and gas markets through FY15-16 (Figure 15). It should be noted, the financial performance of OSD correlates to that of the Brent Crude Oil Price. With the Brent Crude Oil price on average at $102 USD/bbl. in FY23 YTD, this supports strong EBITDA for FY23 onwards.

Figure 15: OSD EBITDA pre-merger ($m, LHS) vs. Brent Crude Oil Price ($USD/bbl., RHS)



Note: FY12-14 & FY15-16 is average of period. Brent Crude price is average of respective period.
Note: FY23 YTD is to 20/09/2022
Source: Company data, Veritas, Bloomberg - C01 Commodity

In the past, LogiCamms and OSD have been highly susceptible to the changes in the commodity cycle, distinguishing the business as a commodity based company (Figure 16). Weakness in commodities such as coal, copper, gas and oil have contributed to the poor performance of the company between 2011-2017. Over 2011-2013 LogiCamms faced strong headwinds from mineral and metal prices dropping, however was able to pivot relatively efficiently in 2013 to hydrocarbon projects. Similarly, headwinds from oil and gas prices between 2014-2020 impacted growth. This sensitivity, on top of a high management turnover in the period, contributed to missed guidance. Stability of management and tailwinds from a strong commodity cycle with strong gains from coal, oil and gas bodes well for the refreshed Verbrec business.

Figure 16: Commodity Cycle Post-GFC (Coal, Copper, Gas and Oil)

Source: Bloomberg

Decoupling from commodities in future

Management are reducing the dependence on the commodity cycle by focusing on the energy transition toward renewables and hydrocarbons which is a long-term structural change.

Verbrec are embracing the push toward clean energy projects such as building infrastructure for renewables and hydrogen and the decommissioning of oil and gas infrastructure.

Energy comprises 55% of FY22 revenues and a substantial portion of the 25% YoY increase in revenues to FY22 (Figure 4). The Energy sector is currently experiencing significant growth in investment for projects transitioning to 'net zero emissions'. Historically high oil and gas prices, an east coast gas shortage, the Ukraine war narrowing production output and growth in renewables are also contributing to an increase in development activity for the sector.

Management are also moving toward the structural growth of renewables which means Verbrec should be less exposed to the cyclicality of commodities in future. For example Verbrec is the engineering firm behind one of Queensland's first green hydrogen generation facilities powered entirely from solar and is currently executing a decommissioning of the Gobe oil field operated by Oil Search in PNG.

Revenue and cost synergies from combined business

The rationale of the merger included:

- *$3m in cost synergies:* from eliminating duplication in both central and local operations.
- *Revenue synergies:* given complimentary skill sets between LogiCamms and OSD, there is opportunities to cross-sell to each companies' respective client bases.
- *Improved employee engagement*: OSD brings a history of high levels of employee satisfaction, particularly with the implementation of a new role - Head of People and Culture and the use of short and long term incentives to better align employees to company performance.
- *Reducing debt*: OSD brought net cash of $8.1m to the business, which allowed the merged company to pay down debt. Net cash post-merger was $4.6m.
- *Overhauled Board:* OSD Founder Brian O'Sullivan AM and Managing Director Linton Burns were added to the board as executive directors, with future KMP changes to be added.

Board and management overhaul

With the RTO, came a complete overhaul of management, favouring the successful OSD management team.

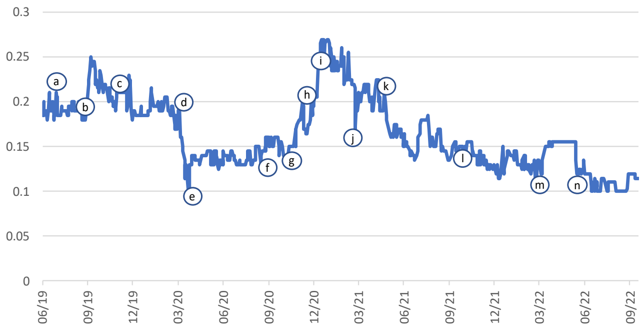
OSD Directors O'Sullivan and Burns were added to the board post-merger.

OSD directors Brian O'Sullivan AM and Linton Burns immediately joined the Board as directors. Ex-LogiCamms non-executive directors Richard Robinson remained on the board and Charles Rottier stepped into the Chairperson role after the retirement of long-serving Chairperson Peter Watson. The new Board was bolstered by 30+ years' experience in engineering, by O'Sullivan and Burns.

Further changes were made in February 2020, with Charles Rottier stepping down from the Board and the appointment of Phillip Campbell to Chair. In September 2020. Linton Burns was appointed CEO and Managing Director following the resignation of Chris O'Neill and Sarah Zeljko was added as a Non-Executive Director. This triggered a share price rally from 14c to 27c in December 2020 (Figure 17).

The drop in share price from highs in December 2020 and the 18c capital raise to current levels of 12c can be attributed to the drag from three legacy projects on margins.

Figure 17: Major events and the Verbrec share price ($ per share)



a. Jun 2019. Completition of merger with OSD.
b. Aug 2019. FY19 results. In-line with pre-merger projections.
c. Oct 2019. Appointment of two Directors and Mr Robinson steps down.
d. Jan 2020. Onset of COVID-19.
e. Mar 2020. Company release market update explaining challenging market conditions. However work-in-hand at all time highs.
f. Aug 2020. FY20 results. No growth in revenue, overhead costs lower, EBITDAI increased.
g. Sep 2020. Linton Burns appointment MD and CEO, Brian O'Sullivan becomes NED.
h. Dec 2020. Change of company name to Verbrec.
i. Dec 2020. Completion of EIM acquisition.
j. Feb 2021. Agreement to acquire Site Skills.
k. Apr 2021. Company raises $3m in oversubscribed placement at $0.18
l. Aug 2021. FY21 results. Revenue down 16% YoY to $98.3m, Stat EBITDA down 84% YoY to $1.2m.
m. Feb 2022. 1H22 results. Underlying EBITDA of $5.6m vs. statutory of $1.7m.
n. Jun 2022. Announced 2/3 legacy projects completed.

Source: Company Data

New management taking action

Management have made a concerted effort in rectifying the drop in share price and the perception of the old LogiCamms management and business. The first action taken by the new management team was to introduce a new long-term incentive plan focussed on aligning management incentives with shareholders incentives. The long-term incentive plan has a minimum EPS hurdle of 15% CAGR and total shareholder return to be positive over the measurement period.

Next, the company renamed to Verbrec in November 2020. The name change was designed to move away from the notion of LogiCamms synonymity with electrical control systems and asset management and OSD with pipelines infrastructure. Verbrec is a clean slate with clear operating divisions.

A common ERP system was also implemented to improve productivity, visibility on profitability and provide a platform for growth. Previously, LogiCamms and OSD operated on legacy ERP systems which contributed to poor earnings visibility. The new management team collated the existing OSD system across the entire business, offering more granularity for projects and better efficiency.

A 'Bidding Proposal' committee was also introduced in order to more tightly review and control pricing of projects. The experience of the three legacy projects drove the oversight committee to halt potential failures and maximise project bidding. A Project Oversight role was also introduced to manage the success of new projects.

The management team has also been successful in executing a FY22 margin improvement plan announced in the FY21 investor presentation (Figure 18).

Figure 18: Margin improvement plan executed

Plan	Execution
Review of our project delivery systems conducted, recommendations being implemented by taskforce	✓ Revamped project delivery system implemented
Tighter controls over pricing and bid review implemented	✓ Risk pricing tool implemented ✓ Significant increase in management reserves
Vigorously pursue $2.3m delay claim	✓Settled in December 2021 ✓Negotiated additional $6.7m in contract value across all legacy projects
Complete legacy projects as soon as possible and move delivery teams to much higher margin generating projects	✓2 of 3 legacy projects completed during FY22 ✓Acceleration of 3rd legacy project

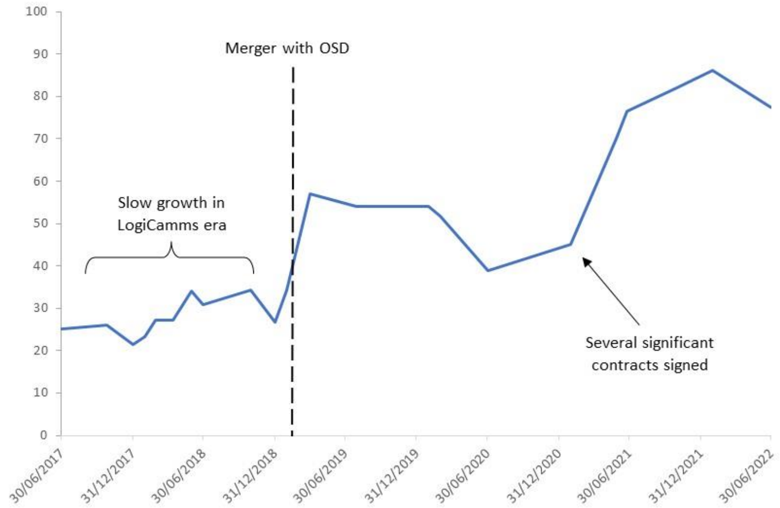
Source: Company Data, Veritas.

Building the pipeline

Work-in-hand is close to all-time highs at $77.4m

New management have expanded work-in-hand (Figure 19). Work-in-hand refers to the total contracted work for the engineering segment of the company, increased by winning contracts and decreased when projects have been executed (including contracts that are recognised over several years). Growing work-in-hand is a positive indicator for the company. Pro-forma work-in-hand post OSD merger increased from $34.3m to $57m from the merger. Prior to this, the LogiCamms business had relatively stable work-in-hand, ranging between $20-27m. The onset of COVID-19 subdued bidding activity just as the companies were integrating operations post-merger which caused a stagnation of work-in-hand from FY19-FY21. Following several significant contract wins and the returning from COVID-19, work-in-hand increased 72% YoY to $77.4mm in 2H22 from 2H21 from $45m.

Figure 19: Engineering segment work in hand over time ($m)



Source: Company data, Veritas

Over the past few years, work-in-hand at the start of the financial year has been 40-50% of full year revenue. This suggests the $77.4m work-in-hand currently could give revenue of $155-193m in FY23 versus our more conservative forecast for $132m due to longer term contracts being signed. Work-in-hand underpins our forecast for modest top line growth.

Growth Drivers

Management made two strategic acquisitions in EIM and Site Skills.

New management made several acquisitions to bolster the existing product portfolio and diversify revenue streams (Figure 20).

Figure 20: Major Verbrec acquisitions since merger in 2020

Target	Completed	Enterprise Value ($m)	EBITDA ($m)	EV/EBITDA	Detail
Energy Infrastructure Management	31/12/2020	3.2	1.07	3x	Cash
Site Skills Training	26/02/2021	1.9	2	1x	Upfront payment of $1.44m cash + additional $0.5m on satisfaction of conditions. $1m and $1.5m revenue milestone payments in FY22 and FY23 respectively.

Source: Company Data, Veritas.

In late December 2020, the company acquired Queensland based pipeline operators and maintenance company Energy Infrastructure Management (EIM), complementary with OSD. For a net cash consideration of $3.2m at 3x EBITDA multiple, the acquisition added; significant revenue diversification with long dated operations and maintenance contracts with tier 1 clients.

In February 2021, Verbrec added training provider Site Skills Group to its training subsidiary Competency Training. Site Skills' courses including: civil construction, gas transmission, health and safety and crane operation. The transaction, funded out of existing reserves, similarly added scale and diversification. The training company is also set to benefit from new training locations in Darwin and Gladstone. The business underperformed in FY22 due to the impact of COVID-19 restrictions on its face-to-face model. We expect $2m in synergies and the easing of restrictions to support a significant rebound in segment profitability in FY23.

Management have noted acquisitions are back on the radar, due to expected improvement in cash flow. We expect management are targeting EV/EBITDA multiples in the range of 1-4x. Asset Management companies are likely to be the focus. This includes solutions to drive efficiency, cost reductions, and productivity improvements for client assets.

Balance sheet improving

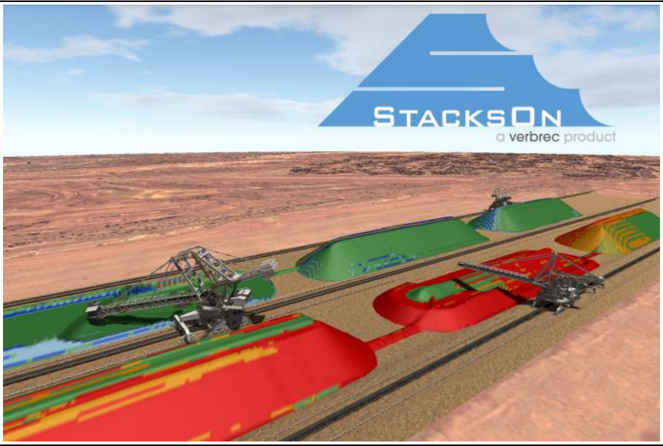
Verbrec conducted a $3m capital raise in April 2021. Issuing 16.7m ordinary shares at $0.18 per shares, proceeds were for:

- Funding initial working capital of Site Skills acquisition;
- Continuing commercialisation of StacksOn software, including production of a dedicated web site and to further enhance sales material; and
- Strengthening the balance sheet.

An embedded SaaS product

The internally developed StacksOn software is an example of an innovative product developed for a specific project that has been commercialised. StacksOn is a software for tracking, predicting and optimising the grade of bulk materials in stockyards. It tracks material being added to and reclaimed from stockpiles in order to maintain a 3D model of material in the stockyard (Figure 21).

Figure 21: StacksOn 3D visualisation example



Source: Company data, Veritas

The success of the product, after initial implementation at one BHP iron ore mine in FY20, was vindicated with BHP Iron Ore using StacksOn across its Western Australian iron ore stockyards and ports, via a fee-for-service arrangement. A SaaS model means high margin recurring revenue.

We estimate StacksOn could add >$10m of recurring revenue over time. The global opportunity within BHP alone is $10m ARR if all relevant sites were to utilise the product. The flexibility of the product, where any commodity or mineral stockpiled can be assessed, means opportunities with mining companies in other commodities exist.

Improving cash conversion

Verbrec is set to see a 5-6% improvement in Statutory EBITDA margins from the completion of legacy projects.

Statutory earnings in recent periods have been held back by the existence of three significant legacy projects, which lowered FY22 EBITDA and cash flow by $6.7m. Two of the projects were signed by previous LogiCamms management; and an additional legacy project signed in the COVID-19 period. The poor performance of the projects was due to: poor commercial models, poor bidding decisions, scope creep, poor change management and the detrimental impacts of COVID-19. We expect margins will improve now that 2 of the 3 are finished and the final project is drawing to a close:

Project 1 – LNG Import Terminal Design – completed in FY22.

Project 2 – Utilities SCADA Upgrade – subject to a binding settlement agreement, due to be completed in December 2022.

Project 3 – Water SCADA Upgrade –completed in FY22.

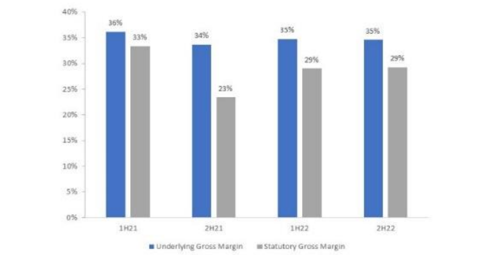
Margin expansion

The finalisation of two of the three legacy projects has the company in a stronger position. Underlying gross profit and EBITDA margins, excluding these projects and after non-recurring expenses, gives a more accurate representation of the company's future prospects.

6% and 5.2% jump in gross profit and EBITDA margin respectively expected in FY23.

Underlying gross margin has ranged between 34-36% since 1H21, with statutory margins of 33%, 29% and 29% in the respective three halves to 2H22 (Figure 22). Similarly, the legacy projects have had a substantial impact on EBITDA margins, with an underlying EBITDA margin of 7.4% vs. statutory of 0.6% in 2H22, a difference of $4.1m (Figure 23).

Figure 22: Underlying vs Statutory Gross Profit Margin (%)



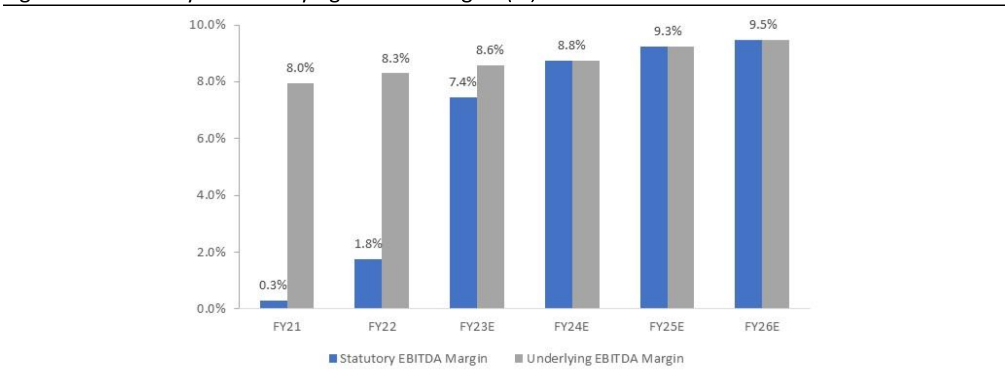
Source: Company data, Veritas estimates

Figure 23: Underlying vs. Statutory EBITDA Margin (%)

Source: Company data, Veritas estimates

We forecast the gap between statutory and underlying margins will narrow substantially in FY23 without the shackles of the legacy projects weighing on costs and team members moving to higher margin generating projects (Figure 24).

Figure 24: Statutory vs. Underlying EBITDA margins (%)



Source: Company data, Veritas estimates

Operating cash flow to quadruple by FY25

Modest growth, in-line with peers, is expected to increase group revenues to $150m in 3 years.

The completion of the three legacy projects and the shifting of resources to higher margin projects underpins our forecasts of statutory EBITDA moving from $2.1m in FY22 to $13.9m in FY25 and operating cash from $3.1m in FY22 to $12.9m in FY25.

The key elements to our forecasts include:

Moderate revenue growth: We forecast revenue to grow from $121.4m in FY22 to $150.5m in FY25. This represents a CAGR of 7.4%, in-line with the peer average revenue growth of 8%. Revenue growth is supported by more robust work-in-hand. Engineering services are expected to grow between 7-8% from FY23 onward and training services are forecasted to grow 12-15%. We expect higher near term growth in Training due to the resumption of face-to-face lessons post-COVID.

EBITDA to reach $13.9m in FY25: Statutory EBITDA margins are forecasted to increase by 560 b.p to 7.4% in FY23, narrowing the gap with the underlying EBITDA margin of 8.6% (+30 b.p YoY) adjusted for legacy poor performing projects. A renewed focus and shifting of resources to higher margin projects should assist this growth.

Net profit to rise on operating leverage: We forecast underlying profit after tax of $5.7m in FY23, rising to $6.6m in FY24 and $8.0m in FY25 primarily due to the improvement in EBITDA margins. It is important to note the company had unused tax losses of $29.9m at FY22, which we expect to be utilised over the medium term.

Capex to slightly increase: We forecast capex to rise slightly from $1.0m in FY22 to $1.5m in FY25 from the purchase of equipment to support growth.

Strong cash balance: Verbrec has maintained a cash balance >$6m since FY19. We forecast cash to increase from $6.4m in FY22 to $23.5m in FY25 due to improved quality of earnings and cash conversion. We forecast the company to begin to pay down debt in FY23. We expect net cash to increase to $15.5m in FY25.

Dividends anticipated in FY24: Management have expressed a desire for cash in excess of $10m to be distributed in dividends at a payout ratio of ~70%. As such, we forecast DPS of 2.1c, 2.5c and 2.8c over FY24 to FY26. The company has carried forward franking credits of $5.7m.

Extended finance facilities may accelerate growth: Verbrec has agreed to a new $18.8m finance facility with Westpac, previously a $13.5m facility with NAB. The $18.8m available limit includes $8.0m in invoice finance usage, likely utilised to advance on projects without having to wait for incoming payments and $7.5m in bank guarantees. In addition, Verbrec also has access to a $5m business loan (undrawn). The extension of the facility may help the company win bigger projects.

Proven board and management

Managing Director and CEO Linton Burns long stewardship of OSD should bring stability and consistency to Verbrec.

Verbrec Managing Director and CEO, Linton Burns, has over 25 years' commercial, financial business and management experience. Prior to his appointment to Verbrec, he led OSD after 10 years as CFO, COO and Managing Director until its merger with LogiCamms in 2019, where he was appointed Managing Director. Linton also held C-suite roles at ASX listed companies BresaGen Ltd and Progen Pharmaceuticals Ltd.

CFO Michael Casey has become a valuable addition after joining in February 2020. Michael is a Chartered Accountant with over 25 years' senior financial experience. He has previously held financial controlling roles at several engineering and construction firms such as FLSmidth, Ausenco and HMG Hardchrome. Michael was also Group Financial Controller for ASX listed company Cardno Ltd (ASX: CDD) between 2003-2008 where revenues increased from $45m to $399m.

Brian O'Sullivan AM experience will be integral in guiding the board and management.

Brian O'Sullivan AM became Non-Executive director in June 2019, having been OSD's founder and Chairman. Brian has over 30 years' experience in energy related developments, principally in oil and gas pipeline and facilities projects. His achievements in the oil and gas fields, as well as continuous support for muscular dystrophy led to the receipt of an Order of Australia Medal in 2015. Brian is the largest shareholder, holding 69.4m shares (31.3% of total).

Chairperson and Non-Executive Director Phillip Campbell was appointed to the Chair on 26 February 2020. Phillip has a broad range of board experience working across construction, engineering, consulting and technology companies. He has recently sat on the board for ASX listed companies Fleetwood Corporation (ASX: FWD) and Vmoto Limited (ASX: VMT). Currently, he sits on the board of several privately owned engineering and manufacturing firms.

Non-Executive Director Matthew Morgan brings to the board extensive corporate experience beginning his career as an institutional fund manager. He was appointed to the Verbrec board in October 2019. Matthew was also the co-founder of Diversa Ltd (ASX: DVA) which was sold to OneVue (ASX: OVH) under scheme of arrangement in 2018. He currently sits on the board of Total Brain Limited (ASX: TTB) and is the Managing Director of private equity firm Infratech Growth Partners.

Sarah Zeljko was appointed Non-Executive Director in September 2020. Sarah is a Graduate of the Australian Institute of Company Directors and has extensive executive, operational, governance and advisory experience. Sarah is a professional Non-Executive Director on the boards of LGIASuper, Powerlink, Unity Water and the Chair of Stockyard Beef.

Fair value of 34c per share

Our DCF derived fair value is 34c per share.

Our DCF derived value for Verbrec is 34c per share (Figure 25). The primary assumptions of the DCF include revenue growth fading to 0.5%, a terminal EBITDA margin of 7.5% which is in-line with underlying margins in FY22, terminal capex to depreciation of 1.0x and a WACC of 11% to reflect the impact of higher interest rates.

Figure 25: DCF valuation for Verbrec

Year end July	Units	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	TV
Revenue	**$m**	**132.1**	**142.1**	**150.5**	**155.0**	**156.6**	**158.1**	**159.7**	**160.5**	**161.3**	**162.1**	**162.1**
Revenue growth	*%*	*8.8*	*7.6*	*5.9*	*3.0*	*1.0*	*1.0*	*1.0*	*0.5*	*0.5*	*0.5*	*0.5*
EBITDA	**$m**	**9.8**	**12.4**	**13.9**	**14.7**	**12.5**	**12.6**	**12.8**	**12.0**	**12.1**	**12.2**	**12.2**
EBITDA margin	*%*	*7.4*	*8.8*	*9.3*	*9.5*	*8.0*	*8.0*	*8.0*	*7.5*	*7.5*	*7.5*	*7.5*
EBIT	**$m**	**6.4**	**7.2**	**8.7**	**9.5**	**6.3**	**6.3**	**6.4**	**5.6**	**5.6**	**5.7**	**5.7**
Tax rate	*%*	*0.0*	*30.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*30.0*
NOPAT	**$m**	**6.4**	**5.1**	**8.7**	**9.5**	**6.3**	**6.3**	**6.4**	**5.6**	**5.6**	**5.7**	**4.0**
DA	$m	4.9	5.2	5.2	5.2	6.3	6.3	6.4	6.4	6.5	6.5	6.5
Margin	*%*	*3.7%*	*3.7%*	*3.5%*	*3.4%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Working capital	$m	-0.6	-0.3	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
As % of incremental sales	*%*	*-5.1%*	*-3.4%*	*-3.7%*	*-3.6%*	*-8.0%*	*-8.0%*	*-8.0%*	*-8.0%*	*-8.0%*	*-8.0%*	*-8.0%*
Capex	$m	-1.3	-1.5	-1.5	-1.5	-6.3	-6.3	-6.4	-6.4	-6.5	-6.5	-6.5
Capex/D&A	*x*	*0.3*	*0.3*	*0.3*	*0.3*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*
FCF	**$m**	**9.5**	**8.4**	**12.1**	**13.0**	**6.1**	**6.2**	**6.3**	**5.6**	**5.6**	**5.6**	**3.9**
Discount factor	%	90%	81%	73%	66%	59%	53%	48%	43%	39%	35%	
NPV of FCF	**$m**	**8.6**	**6.8**	**8.9**	**8.6**	**3.6**	**3.3**	**3.0**	**2.4**	**2.2**	**2.0**	
		1.9	2.2	2.6	2.8	1.9	1.9	1.9	1.7	1.7	1.7	

Item	Units	Value
NPV of the forecast period	$m	57.9
NPV of terminal value	$m	14.5
NPV of cash flows	**$m**	**72.4**
Plus net cash	$m	2.1
Fair value of equity	**$m**	**74.5**
Fair value of equity per share	**$ps**	**0.34**
Share count	m	221.5

Item	Units	Value
WACC	%	11.0
Terminal growth	%	0.5
Terminal EBITDA margin	%	7.5
Terminal value nominal	$m	37
Terminal EV/EBITDA	x	3.1
Terminal EV/NOPAT	x	9.4

Source: Veritas estimates

A 65% EV/EBITDA discount to peers in FY25

Our forecasts for Verbrec's revenue growth are similar to average consensus forecasts for medium to large scale engineering and construction firms, specialising in mining, oil, gas, construction and pipeline industries. EBITDA margins are also expected to reach 8-9% in FY23 and FY24, in-line with the peer average, after the completion of its legacy projects.

Verbrec trades at an EV/EBITDA multiple of 2.2x in FY25, a 65% discount to the peer group average.

Verbrec currently trades on an EV/EBITDA multiple of 2.2x in FY25, a 65% discount to the 6.3x peer average (Figure 26). Our fair value of 34c per share puts the stock on an EV/EBITDA multiple of 5.5x in FY25, remaining in line with the peer average. Verbrec also looks cheap on a EV/Revenue of 0.2x in FY25 versus the peer average of 0.6x.

Figure 26: Verbrec valuation versus listed peers

Stock	Code	Price	Mkt Cap	EV	EV/Revenue (x)				EV/EBITDA (x)				EBITDA Margin (%)			
		LC	LC m	LC m	A	FY1	FY2	FY3	A	FY1	FY2	FY3	A	FY1	FY2	FY3
Verbrec Limited	VBC-ASX	0.13	28.8	30.9	0.3	0.2	0.2	0.2	3.1	2.7	2.5	2.2	8%	9%	9%	9%
Monadelphous Group Limited	MND-ASX	13.01	1,243	1,169	0.6	0.6	0.5	0.5	11.2	9.8	8.7	8.1	6%	6%	6%	7%
GR Engineering Services Limited	GNG-ASX	2.2	355	258	0.4	0.5	0.5	0.6	4.9	5.6	6.0	6.7	9%	9%	9%	8%
SRG Global Limited	SRG-ASX	0.7	314	312	0.5	0.4	0.4	0.4	5.5	4.4	4.1	3.8	9%	9%	9%	9%
Civmec Limited	P9D-SGX	0.64	323	431	0.6	0.5	0.5	0.4	5.2	4.5	4.2	4.1	11%	11%	11%	11%
Worley Limited	WOR-ASX	13.82	7,251	8,917	1.0	0.9	0.8	0.8	12.3	10.9	9.7	9.0	8%	8%	8%	8%
KBR	KBR-NYSE	47.54	6,610	8,073	1.1	1.2	1.1	1.0	13.1	12.4	10.8	10.0	8%	10%	10%	10%
Peer Average					**0.6**	**0.6**	**0.6**	**0.6**	**7.9**	**7.2**	**6.6**	**6.3**	**8%**	**9%**	**9%**	**9%**

Stock	Sales (LC m)				Sales Growth (%)				EBITDA (LC m)				EBITDA Growth (%)			
	A	FY1	FY2	FY3	A	FY1	FY2	FY3	A	FY1	FY2	FY3	A	FY1	FY2	FY3
Verbrec Limited	121	132	142	150		9%	8%	6%	10	11	12	14		12%	10%	12%
Monadelphous Group Limited	1,845	1,991	2,148	2,219		8%	8%	3%	105	120	134	144		15%	12%	7%
GR Engineering Services Limited	617	536	493	450		-13%	-8%	-9%	53	46	43	38		-13%	-7%	-11%
SRG Global Limited	637	788	837	889		24%	6%	6%	57	71	77	81		25%	8%	6%
Civmec Limited	782	872	938	984		12%	8%	5%	83	96	101	105		16%	6%	4%
Worley Limited	9,339	10,308	11,178	11,653		10%	8%	4%	724	817	915	988		13%	12%	8%
KBR	7,346	6,618	7,229	7,865		-10%	9%	9%	616	650	744	811		6%	15%	9%
Peer Average	**2,955**	**3,035**	**3,281**	**3,459**		**6%**	**6%**	**4%**	**235**	**259**	**290**	**312**		**11%**	**8%**	**5%**

Source: Bloomberg consensus as of market close on 21 September 2022, Veritas estimates for Verbrec.

Verbrec Limited has the potential to solidify itself as a leading mid-tier engineering firm. As the legacy projects conclude, the uplift in EBITDA margins in-line with peers, are anticipated to significantly improve the profit generation of Verbrec. We anticipate steady revenue growth and profit generation despite an uncertain macroenvironment due to exposure to the booming Energy sector. Verbrec's focus on clean energy projects and 'net zero emissions' may lead to the decoupling from the mining and energy commodity cycles in the future. We initiate coverage with a Buy recommendation and a fair value of $0.34 per share, 159% upside.

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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