

Duratec Ltd

Industrials Construction & Engineering
20 May 2024

BUY

FY24e guidance narrowed, increased tender activity, award delays

EVENT

Narrowed FY24e EBITDA guidance with revenue affected by award delays, although opportunity set remain: the company has issued FY24e guidance and now expects revenue range of \$550-565m and EBITDA of \$46-48m, revised from prior \$570-610m and \$45-52m. The revised guidance midpoint implies improved EBITDA profitability at 8.4% margin and revenue and EBITDA growth of 13% and 23%, respectively. The company noted strong project performance in 2H24 to date; delays in expected project awards have affected FY24e revenue guidance, though tendered opportunities remain with the company and awards are now expected to occur in 1H25.

Significantly increased tender activity, broadly stable orderbook: the orderbook stands at \$377m, down from \$388m at February'24 while the tender book has grown significantly (+44%) to \$1.47b from \$1.02b. Defence (32% or ~\$470m), and Buildings & Facades (B&F, 23% or ~\$340m) together comprise a majority of tendered opportunities. Pipeline is \$3.95b, +\$200m from February'24.

Key sector updates show activity remains solid although key sectors have been affected by delays in contract awards in 2H24. In Defence, DUR has tendered \$450m+ (DUR 50% interest) potential works at Garden Island, excluding Parkes Wharf. The company expects news on Garden Island and Parkes Wharf in 1H25. Highlights from Mining & Industrial sector include Roy Hill Wharf and Port maintenance MSA, new remediation works for inpx in NT, re-established presence at Rio Gove operations, and identification of maintenance works with Rio post 3D modelling on wharf structures. Tendered activity in B&F is large, with management noting a strong sector outlook, especially in the medium-sized project space. Energy has also seen project award delays with the integration of A&B Welding on track as well as the commencement of decommissioning work in the North West Shelf.

IMPACT

We have revised **FY24-26e EPS estimates 8.9/10.5/11.6cps (-16%/-11%/-8%)**, due to guidance revision in FY24e and rebased D&A charges in FY25-26e.

INVESTMENT VIEW

We maintain a **Buy rating and decreased target price of \$1.50 (prior \$1.62)**. While the near term delays in project awards have pulled back FY24e revenue expectations, we remain encouraged by 1) better performed, higher margin projects; 2) significantly increased tender activity, broadly stable order book, and growing pipeline; 3) supportive operating environment with expanding asset base, sunk capex, and ageing infrastructure to drive demand for asset maintenance. Key catalysts include: 1) ongoing contract wins and continued conversion of tenders; 2) continued growth in MSA and recurring revenue work; 3) execution on rapidly growing Energy segment. DUR trades at 9.8x FY25 P/E.

Y/E JUN 30	2023a	2024e	2025e	2026e
EBITDA	38.1	47.0	52.8	56.0
EV/EBITDA	6.2x	5.0x	4.5x	4.2x
NPAT	19.8	21.8	25.8	28.3
EPS (Diluted) (¢)	7.8	8.9	10.5	11.6
P/E	13.3x	11.6x	9.8x	9.0x
EPS growth	169.5%	14.3%	18.2%	9.7%
DPS (¢)	4.0	3.5	5.3	5.3
Yield	3.9%	3.3%	5.1%	5.1%
DPS growth	100.0%	(13.7)%	52.6%	0.0%
Dividend payout ratio (%)	51.3%	38.7%	50.0%	45.6%

All figures are in AUD.

COMPANY UPDATE

Ticker	DUR
Stock Price	\$1.04
Target Price	\$1.50
Forecast Capital Return	44.9%
Forecast Dividend Yield	4.6%
Estimated Total Return - 12Mth	49.5%

COMPANY MARKET DATA

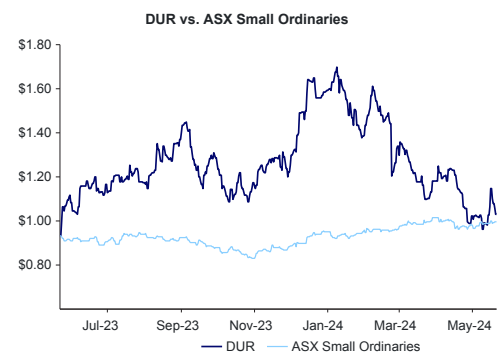
Market Cap	\$253.3m
Free Float (%)	26.1%
Enterprise Value	\$235.1m
Shares on issue	244.8m
52-wk Range	\$0.91 - \$1.72

ESTIMATE CHANGES 2023a 2024e 2025e 2026e

NPAT - new	19.8	21.8	25.8	28.3
NPAT - old	19.8	25.8	28.9	30.9
% Change	0.0%	(15.6)%	(10.6)%	(8.3)%
EPS (Dil.) (¢) - new	7.8	8.9	10.5	11.6
EPS (Dil.) (¢) - old	7.8	10.6	11.8	12.6
% Change	0.0%	(15.6)%	(10.6)%	(8.3)%
DPS (¢) - new	4.0	3.5	5.3	5.3
DPS (¢) - old	4.0	4.3	5.9	5.9
% Change	0.0%	(18.6)%	(10.2)%	(10.2)%

All figures are in AUD unless otherwise specified.

SHARE PRICE PERFORMANCE

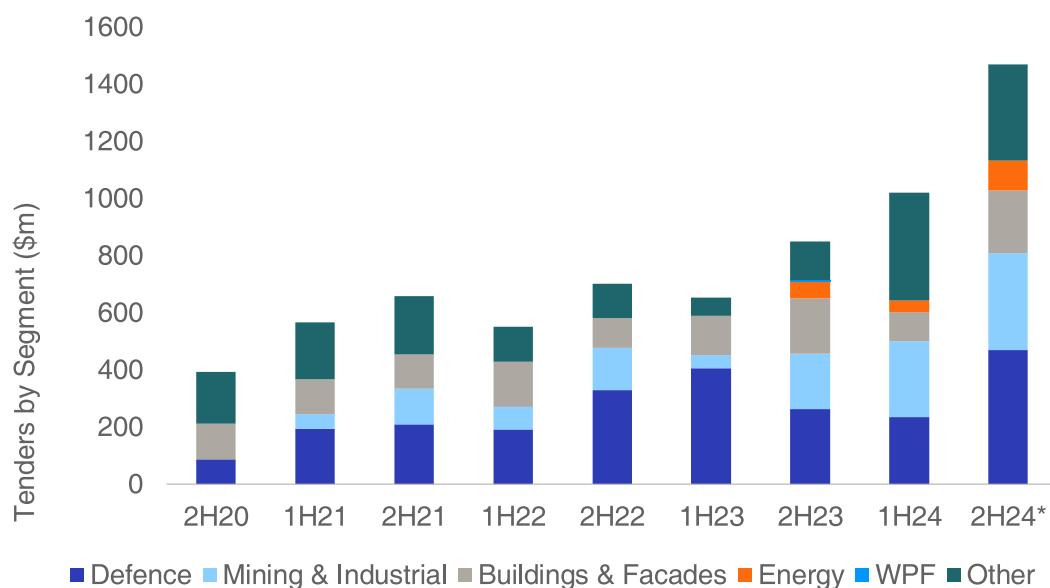


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Chart 1 - Tenders by Segment



Source: MA Moelis Australia, * As per trading update May'24

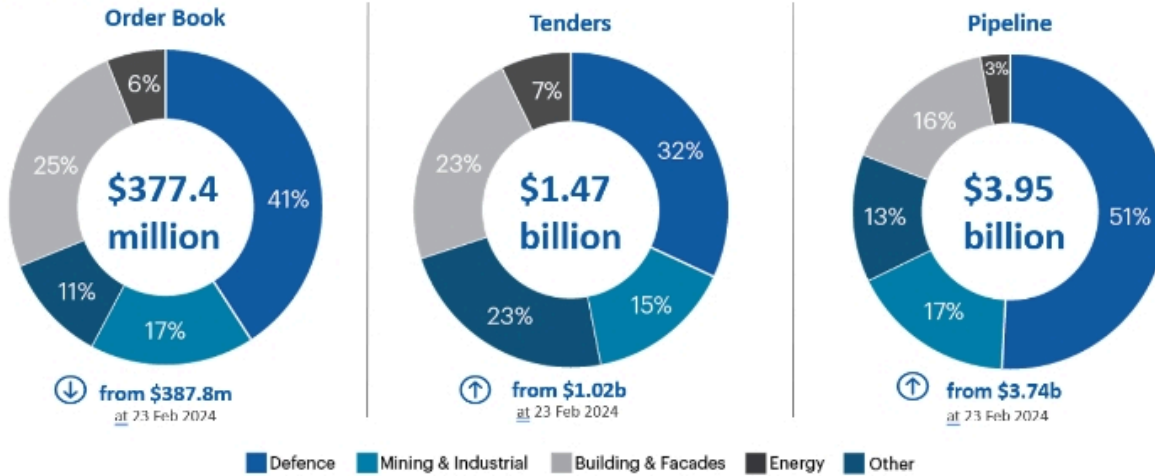
Chart 2 - Order Book by Segment



Source: MA Moelis Australia, * As per trading update May'24

Chart 3 - Pipeline of Work

PIPELINE OF WORK



1. Figures include 49% share of DDR Australia Pty Ltd Revenue.
 2. Tenders includes submitted and currently being tendered opportunities.
 3. Pipeline represents tangible opportunities identified in the market by the Durates group of companies.

Source: Company at May'24.

Duratec Ltd (DUR) Market Cap: \$253.3m Stock Price: \$1.04 Target Price: \$1.50 Buy

Y/E JUN 30

PROFIT & LOSS (\$)	2022A	2023A	2024E	2025E	2026E
Revenue	310.0	492.0	555.6	607.8	634.7
<i>Growth</i>	31.5%	58.7%	12.9%	9.4%	4.4%
EBITDA	17.8	38.1	47.0	52.8	56.0
<i>Growth</i>	11.6%	114.5%	23.4%	12.3%	6.0%
Dep'n & Amort.	(6.8)	(8.8)	(14.2)	(14.3)	(14.6)
EBIT	11.0	28.5	32.8	38.5	41.4
<i>Growth</i>	2.8%	159.7%	14.9%	17.5%	7.4%
Net interest Expense	(0.7)	(0.2)	(1.7)	(1.7)	(1.0)
Interest Expense	(0.8)	(1.0)	(2.6)	(3.0)	(3.0)
Profit Before Tax	10.3	28.3	31.1	36.8	40.4
Tax	(3.1)	(8.5)	(9.3)	(11.1)	(12.1)
Tax Rate (%)	(30.0)%	(30.0)%	(30.0)%	(30.0)%	(30.0)%
Minorities / Abnormal items	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	7.2	19.8	21.8	25.8	28.3
<i>Growth</i>	1.5%	175.1%	9.9%	18.4%	9.7%
One-Off Items	0.6	0.1	(5.2)	5.2	0.0
NPAT (Reported)	7.9	19.9	16.5	31.0	28.3
EPS Underlying (Diluted) (¢)	2.9	7.8	8.9	10.5	11.6
<i>Growth</i>	(6.3)%	169.5%	14.3%	18.2%	9.7%

BALANCE SHEET (\$)	2022A	2023A	2024E	2025E	2026E
Cash	58.3	66.2	52.9	73.1	86.2
Inventory	0.3	0.3	0.5	0.6	0.6
Current Receivable	30.0	59.8	36.2	41.2	43.0
PPE	21.3	28.7	40.3	45.5	51.3
Intangibles	0.0	10.3	10.6	10.6	10.6
Other	27.7	47.1	62.8	62.8	62.8
Total Assets	137.6	212.4	203.4	233.8	254.5
Current Payables	39.4	82.1	69.9	79.8	84.7
ST Debt	5.1	6.8	0.0	0.0	0.0
LT Debt	9.7	11.5	34.6	34.6	34.6
Provisions	7.6	11.8	9.8	10.9	11.3
Other	44.9	54.2	37.3	38.7	38.7
Total Liabilities	106.7	166.4	151.6	163.9	169.3
Net Assets	31.0	46.1	51.8	69.9	85.3
Equity & Reserves	27.1	29.1	30.4	30.4	30.4
Retained Profits	3.8	17.0	21.3	39.5	54.9
Shareholders' Equity	31.0	46.1	51.8	69.9	85.3
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	31.0	46.1	51.8	69.9	85.3

CASHFLOW (\$)	2022A	2023A	2024E	2025E	2026E
EBITDA	17.8	38.1	47.0	52.8	56.0
Net Interest	(0.5)	(0.0)	(1.9)	(1.7)	(1.0)
Tax	(1.3)	(6.5)	(16.1)	(5.8)	(12.1)
Δ in Working Capital	1.7	16.5	9.0	5.9	3.5
Other	8.9	(13.2)	(23.5)	0.0	0.0
Operating Cash Flow	26.5	34.8	14.5	51.2	46.4
<i>Growth</i>	146.8%	31.4%	(58.3)%	252.8%	(9.4)%
Capex	(7.4)	(13.0)	(17.5)	(17.0)	(18.0)
Acquisitions	0.0	(10.0)	(8.5)	0.0	0.0
Divestments	0.8	0.4	0.2	0.0	0.0
Other	1.5	0.4	0.0	0.0	0.0
Investing Cash Flow	(5.1)	(22.2)	(25.9)	(17.0)	(18.0)
Equity Raised	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(4.5)	(5.5)	(10.4)	(11.5)	(12.9)
Net Borrowings	0.1	0.8	8.4	(2.4)	(2.4)
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	(4.4)	(4.7)	(1.9)	(14.0)	(15.3)
FX / Non Cash items	0.0	0.0	0.0	0.0	0.0
Change in Cash	17.0	7.9	(13.3)	20.2	13.0
Free Cash Flow	18.1	19.8	(5.9)	31.8	25.9

VALUATION SUMMARY	
Market Cap	\$253.3m
Shares on issue	244.8m
Stock Price	\$1.04
Target Price	\$1.50
Estimated Total Return - 12 Mth	49.5%
12 Mth Fwd Dividend Yield	4.6%

PERFORMANCE RATIOS	2022A	2023A	2024E	2025E	2026E
ROA	5.9%	11.3%	10.5%	11.8%	11.6%
ROE	25.3%	51.5%	44.5%	42.4%	36.5%
ROIC	(106.8)%	(279.3)%	144.9%	83.2%	89.0%
ROCE	26.6%	51.4%	40.5%	36.8%	34.1%
Net Debt (Cash) (\$m)	(43.5)	(47.9)	(18.3)	(38.5)	(51.6)
Net Debt/EBITDA (x)	(2.4)x	(1.3)x	(0.4)x	(0.7)x	(0.9)x
ND/(ND + Equity) (%)	347.7%	2,659.1%	(54.6)%	(122.7)%	(152.9)%
Interest Cover (x)	15.9x	131.5x	19.8x	22.9x	42.3x
Working Capital	(39.4)	(51.9)	(27.8)	(35.1)	(38.6)
Working Capital/Sales (%)	(12.7)%	(10.5)%	(5.0)%	(5.8)%	(6.1)%

VALUATION RATIOS	2022A	2023A	2024E	2025E	2026E
EPS Underlying (Diluted) (¢)	2.9	7.8	8.9	10.5	11.6
<i>Growth</i>	(6.3)%	169.5%	14.3%	18.2%	9.7%
P/E (x)	35.8x	13.3x	11.6x	9.8x	9.0x
Small industrials (ex Fin's)	0.0x	0.0x	24.4x	21.3x	20.1x
Premium / (Discount)	--	--	52.5%	54.0%	55.4%
EV/EBITDA (x)	13.2x	6.2x	5.0x	4.5x	4.2x
Small industrials (ex Fin's)	0.0x	0.0x	12.9x	11.7x	10.9x
Premium / (Discount)	--	--	61%	62%	62%
DPS (¢)	2.0	4.0	3.5	5.3	5.3
<i>Growth</i>	33.3%	100.0%	(13.7)%	52.6%	0.0%
Yield	1.9%	3.9%	3.3%	5.1%	5.1%
Dividend Payout Ratio (%)	69.1%	51.3%	38.7%	50.0%	45.6%
Franking (%)	100.0%	100.0%	100.0%	100.0%	100.0%
NTA	31.0	31.4	27.0	45.1	60.5
NTA/Share (\$)	0.12	0.12	0.11	0.18	0.25

CASH FLOW METRICS	2022A	2023A	2024E	2025E	2026E
FCF/Share (\$)	0.08	0.08	(0.02)	0.13	0.11
Price/FCPS (x)	13.7x	12.7x	(42.7)x	8.0x	9.8x
Gross Cash Conversion (%)	159.6%	108.6%	69.2%	111.2%	106.2%
Capex/Sales (%)	2.4%	2.6%	3.2%	2.8%	2.8%
Capex/Depreciation (x)	1.1x	1.4x	1.2x	1.2x	1.2x

MARGINS	2022A	2023A	2024E	2025E	2026E
EBITDA	5.7%	7.7%	8.5%	8.7%	8.8%
EBIT	3.5%	5.8%	5.9%	6.3%	6.5%
NPAT	2.3%	4.0%	3.9%	4.2%	4.5%

VALUATION METHODOLOGY	
WACC	10.69%
Sum-of-the-Parts Valuation/Share	\$1.37
Average Valuation/Share	\$1.37
Target Price	\$1.50

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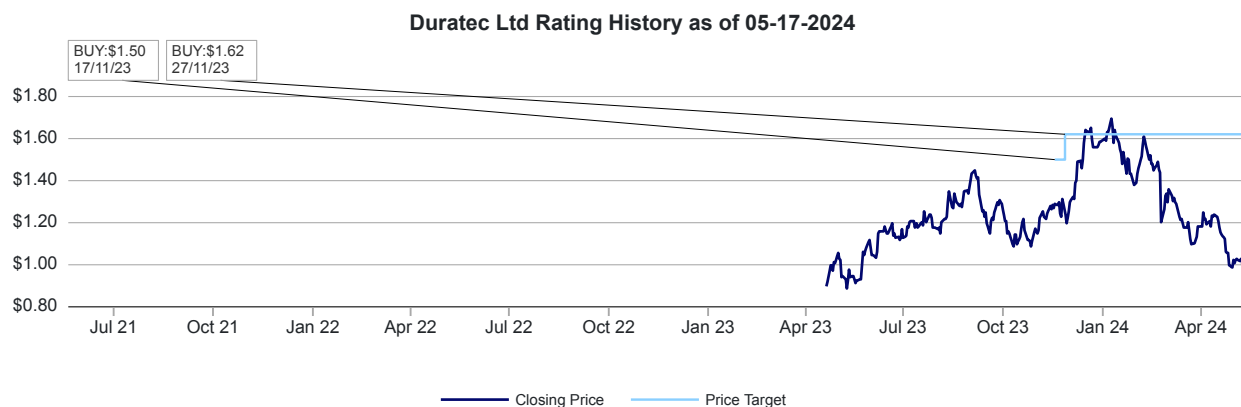
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