

Primero Group Ltd

(PGX \$0.35) Buy

Analyst	Date	Price Target
Gavin Allen	7 th October 2020	\$0.58/sh ▲ from \$0.44/sh

Contract wins and work in hand update

Investment case

PGX, since delivery of the full year result has continued to add to the work in hand position. In recent announcements a further \$55m in new work has been won, with a work in hand position for 2021 now at \$285m (up from \$230m visible at the full year.) EBITDA margin is targeted at between 6% and 8% and at the low end of this target range the stock trades on PE of 6x. Capitalising these earnings at 10 x = \$0.58/share; our revised, and very uncomplicated Price Target. A simple catalyst would be some form of (perhaps settled) cash back on the Wartsila contract, however frankly, as we explore below, it shouldn't need this in isolation to trade up. In summary, despite a good recent run off a very low base, PGX has significant further leverage available on numerous fronts. Buy

Key points

- With delivery of the full year result, PGX had \$230m in revenue visible for 2021 and a net cash position of \$9.5m; an encouraging development that allowed delivery of healthy orderbook despite the considerable funds tied up in the Wartsila contract.
- Since then further work has been won and the work in hand position for 2021 is now \$285m, with a further (several hundred \$m) in preferred EPC status behind it.
- In total the preferred contractor status is \$900m, not all of which is financed, however in several commodities conditions are robust and further, for forgotten possible projects (such as in Lithium), conditions have seemingly improved.
- In short there is a lot of work to do and increasingly, not enough people to do it.
- What this means for contractors like PGX, is that contracting conditions can evolve, particularly working capital conditions, such that large clients like FMG and RIO, keen to see competition remain in the market, are increasingly happy to pay, if not in advance of, then perhaps on par with contracting costs out.
- Which is a long way around of saying that we see marginal investors (perhaps at first glance) concerned about working capital requirements for PGX; we see this as a challenge for PGX also, however on balance believe clients are working with PGX to ensure mutually beneficial outcomes.
- Assuming this is the case, any Wartsilla cash return remains \$ for \$ upside and encouragingly, the stock is responding to pure weight of work won despite this ongoing dispute.
- In short, assuming PGX delivers \$285m in revenue in 2021 at the lower end of margins targeted (and can manage working capital along the journey), then with any sort of visibility into 2022 in 12 months time (refer the two preferred EPC contracts referred to above) and the stock trades up, and perhaps substantially up; with Wartsilla as optional upside.
- Buy, PT increased to \$0.58.

Primero Group Ltd	Year End 30 June	
Share Price	0.35	A\$/sh
Price Target (PER)	0.58	A\$/sh
Shares on issue	171.7	m, diluted
Market Capitalisation	60.1	A\$m
Enterprise Value	50.6	A\$m
Net cash	9.5	A\$m

Key Financials	2020a	2021f	2022f
Revenue (A\$m)	205.6	280.0	302.4
EBITDA (A\$m)	9.2	17.0	20.7
EBIT (A\$m)	7.3	14.9	18.3
Reported NPAT (A\$m)	4.6	10.0	12.4
Normalised NPAT (A\$m)	4.7	10.0	12.4
Gross Cashflow (A\$m)	6.8	11.6	14.3
Capex (A\$m)	-1.7	-2.0	-2.5
Op. Free Cashflow (A\$m)	-13.0	5.1	11.3

Revenue Growth (%)	36%	36%	8%
EBITDA Growth (%)	-13%	85%	22%
Norm. NPAT Growth (%)	-35%	112%	24%

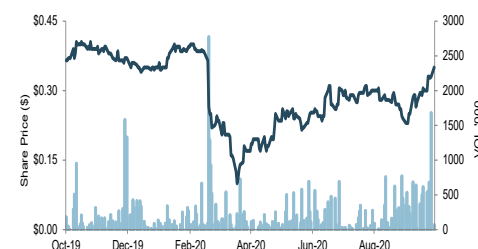
Normalised EPS (Ac)	2.73	5.80	7.19
Norm. EPS growth (%)	-0.43	1.12	0.24
PER (x)	12.8	6.0	4.9
EV:EBITDA (x)	5.5	3.0	2.4
EV:EBIT (x)	6.9	3.4	2.8

DPS (Ac)	0.00	0.00	0.00
Dividend Yield (%)	0.0%	0.0%	0.0%

Net (Debt) Cash (A\$m)	9.5	14.6	26.0
Net Debt:Equity (%)	-20%		

* excludes possible writedown of accrued income

Share Price Chart



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Primer Group Ltd

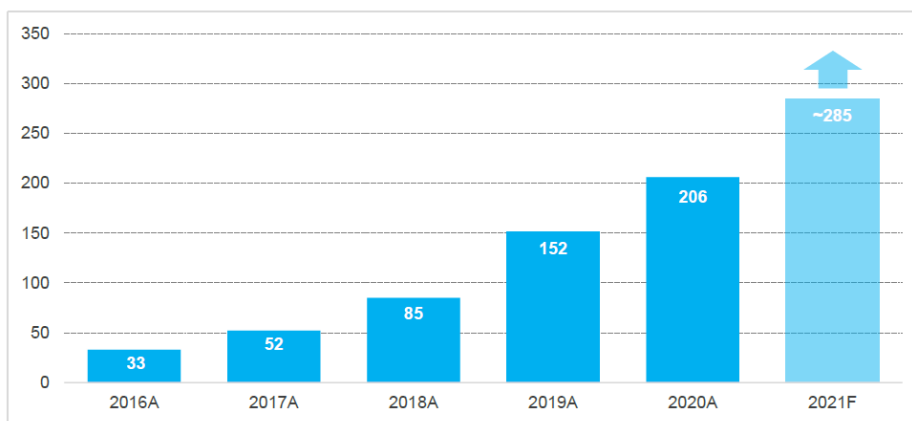
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Analysis

We provide below our revised (increased) earnings forecasts:

	2017	2018	2019	2020	2021	2022
	\$m	\$m	\$m	\$m	\$m	\$m
Revenues	52.1	85.2	140.2	205.6	280.0	302.4
GP	5.5	13.9	18.2	17.6	26.0	30.2
GP Margin	10.6%	16.3%	13.0%	8.6%	9.3%	10.0%
Administration	-2.9	-5.4	-7.8	-8.5	-9.0	-9.5
EBITDA	2.6	8.5	10.4	9.1	17.0	20.7
Normalised EBITDA	2.6	8.5	11.2	9.1	17.0	20.7
EBITDA Margin	5.0%	10.0%	7.4%	4.4%	6.1%	6.9%

The work in hand position was depicted in recent presentation as follows:



The \$285m in revenue loosely consists of NPI, SMP, EPC and study works for the majors such as FMG and RIO Tinto however in reality will be performed for 100+ clients over a range of projects and commodities.

Investment Thesis

PRG trades on 2021 PE of 6x, based on existing work in hand position and the lower end of guided EBITDA expectation.

There is frankly no need to overly complicate this investment thesis beyond the simple idea that capitalising these earnings at 10x is entirely undemanding and that this translates to \$0.58/share.

Buy

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Financial Statements	2019a	2020a	2021f	2022f
Sales	151.7	205.6	280.0	302.4
Other	0.0	0.0	0.0	0.0
Revenue	151.7	205.6	280.0	302.4
COGS	-131.7	-187.5	-254.0	-272.2
Opex	-9.4	-8.9	-9.0	-9.5
EBITDA	10.6	9.2	17.0	20.7
Depreciation & amortisation	-1.2	-1.9	-2.2	-2.5
EBIT	9.4	7.3	14.9	18.3
Net Interest income/(expense)	-0.2	-0.6	-0.6	-0.6
Abnormal items (pretax)	0.0	0.0	0.0	0.0
EBT	9.2	6.7	14.3	17.7
Tax expense	-3.0	-2.0	-4.3	-5.3
Minority interest	0.0	0.0	0.0	0.0
Reported Earnings	6.2	4.6	10.0	12.4
Normalised Earnings	7.3	4.7	10.0	12.4

Cash flow (A\$m)	2019a	2020a	2021f	2022f
Pretax profit	9.2	6.7	14.3	17.7
+ Depreciation & Amort	1.2	1.9	2.2	2.5
-/+ associates profit/loss	0.0	0.0	0.0	0.0
+ associates dividends	0.0	0.0	0.0	0.0
+ Provisions	1.2	0.3	0.0	0.0
+ Foreign Exchange loss/(gain)	0.0	0.0	0.0	0.0
+/- Other	0.0	0.0	0.0	0.0
+/- writedowns/revs	0.0	0.0	0.0	0.0
- Tax Paid	-2.7	-1.5	-4.3	-5.3
Gross Cashflow	8.9	6.8	11.6	14.3
- Capital Expenditure	-3.2	-1.7	-2.0	-2.5
- Change in Working Capital	-4.9	-18.1	-4.5	-0.4
Operating Free Cashflow	0.8	-13.0	5.1	11.3
- acq of subs/other investments	0.0	0.0	0.0	0.0
+ proceeds from disp of FA/subs	0.0	0.0	0.0	0.0
- Dividends Paid	0.0	0.0	0.0	0.0
+ Equity issued	19.7	7.6	0.0	0.0
+ buy back	0.0	0.0	0.0	0.0
+/- Other	0.0	0.0	0.0	0.0
Net Cashflow	20.5	-5.4	5.1	11.3
Opening Net Cash	-1.5	19.0	9.5	14.6
(+/-) Net Cashflow	20.5	-5.4	5.1	11.3
(+/-) AASB16 Adjustment	0.0	-4.1	0.0	0.0
Closing Net (Debt)/Cash	19.0	9.5	14.6	26.0

Balance Sheet (\$m)	2019a	2020a	2021f	2022f
Cash	21.9	15.2	20.3	31.7
Receivables	13.4	48.2	56.0	60.5
Inventories	29.4	42.8	42.8	42.8
Other financial assets	0.0	0.0	0.0	0.0
Current tax assets	0.0	0.0	0.0	0.0
Assets for sale	0.0	0.0	0.0	0.0
Other	0.5	0.6	0.6	0.6
Total current assets	65.2	106.8	119.7	135.5
Equity accounted investments	0.1	2.0	2.0	2.0
Receivables	0.0	0.0	0.0	0.0
Property, plant and equipment	5.8	6.2	6.6	7.2
Righ to use Assets	0.0	2.7	2.7	2.7
Intangibles	0.0	0.0	0.0	0.0
Deferred Tax Assets	1.2	1.0	1.0	1.0
Other	0.0	0.0	0.0	0.0
Total non current assets	7.1	11.9	12.3	12.9
Total assets	72.3	118.7	132.0	148.4
Payables	30.3	47.1	50.4	54.4
Interest bearing liabilities + Leases	0.9	1.4	1.4	1.4
Provisions	2.0	2.3	2.3	2.3
Current tax liabilities	1.9	2.4	2.4	2.4
Other	0.0	14.0	14.0	14.0
Total current liabilities	35.1	67.1	70.4	74.5
Payables	0.0	0.0	0.0	0.0
Interest bearing liabilities	2.0	4.3	4.3	4.3
Provisions	0.4	0.4	0.4	0.4
lease liabilities	0.0	0.0	0.0	0.0
Deferred tax liabilities	0.0	0.0	0.0	0.0
Total non current liabilities	2.4	4.8	4.8	4.8
Total liabilities	37.5	71.9	75.2	79.2
Net Assets	34.8	46.8	56.7	69.1
Contributed equity	19.7	27.0	27.0	27.0
Reserves	1.0	1.0	1.0	1.0
OEI	0.0	0.0	0.0	0.0
Retained Earnings	14.1	18.7	28.7	41.0
Total equity	34.8	46.7	56.7	69.0

Performance Ratios	2019a	2020a	2021f	2022f
Growth & Margins				
Revenue Growth	78%	36%	36%	8%
EBITDA Growth	25%	-13%	85%	22%
EBIT Growth	24%	-22%	103%	23%
Normalized Net Profit Growth	40%	-35%	112%	24%
EBITDA margin	7%	4%	6%	7%
EBIT margin	6%	4%	5%	6%
Normalized net profit margin	5%	2%	4%	4%
Effective tax rate	33%	30%	30%	30%

Liquidity				
Capex/depreciation (x)	2.7	0.9	0.9	1.0
Current ratio (x)	1.9	1.6	1.7	1.8
Quick ratio (x)	1.2	1.3	1.5	1.7
Receivable days	32	86	73	73
Inventory days	81	83	61	57
Payable days	84	92	72	73

Risk Measures				
Dividend Cover (x)	na	na	na	na
Payout ratio (%)	0%	0%	0%	0%
Net interest cover (x)	47.0	12.0	24.8	30.4
Net debt/equity (%)	-55%	-20%	-26%	-38%

Returns				
ROIC	17%	10%	17%	17%
ROA	10%	4%	8%	8%
ROE	21%	10%	18%	18%

Share Data/Valuation	2019a	2020a	2021f	2022f
Share Data				
Issued shares (m)	149.6	172.1	171.7	171.7
Weighted ave shares (m)	149.6	172.1	171.7	171.7
Fully diluted shares (m)	152.3	172.1	172.1	172.1
Basic EPS (c)	4.1	2.7	5.8	7.2
YoY change (%)	19%	-36%	118%	24%
Fully diluted EPS (c)	4.1	2.7	5.8	7.2
YoY change (%)	19%	-35%	118%	24%
Fully diluted normalised EPS (c)	4.8	2.7	5.8	7.2
YoY change (%)	40%	-43%	112%	24%
Dividend/share (c)	0.0	0.0	0.0	0.0
Franking (%)	100%	100%	100%	100%
Gross cashflow/share (c)	5.8	4.0	6.7	8.3
NBV/share (c)	23.3	27.1	33.0	40.2
NTA/Share (c)	23.3	27.1	33.0	40.2

Valuation				
PER (Basic) (x)	8.4	13.1	6.0	4.9
PER (Fully diluted) (x)	8.6	13.1	6.0	4.9
PER (Fully diluted, normalized) (x)	7.3	12.8	6.0	4.9
P/CFPS (x)	6.0	8.8	5.2	4.2
Price/NBV (x)	1.5	1.3	1.1	0.9
Price/NTA (x)	1.5	1.3	1.1	0.9
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	4.8	5.5	3.0	2.4
EV/EBIT (x)	5.4	6.9	3.4	2.8
EV/Revenue (x)	0.3	0.2	0.2	0.2

Other Information				
Estimated free float				40.0%
12-mth High/Low (A\$/sh)				\$0.47/\$0.33
Average daily volume (A\$m)				0.5m
ASX Code				PGX
Next result				Aug-20

Company Description

Primero is a multi-disciplinary engineering group specialising in the design, construction and operation of global resource projects

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