

11 February 2021

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Downer EDI Ltd

Industrials

HOLD

DOW A\$5.54 **TARGET PRICE A\$5.07**

Downer EDI Limited (DOW) provides services to customers in Transport, Utilities; Facilities; Engineering, Construction and Maintenance (EC&M). Their principal activities include engineering, construction, and asset management services to customers in the Minerals & Metals, Oil & Gas, Power, Transport, Telecommunications, Water and Property sectors.

Company Data

Number of shares	701.3 M
Market Capitalisation	\$3,744.9 M
Free float (%)	98.7
12-month high/low	\$7.33/\$2.68
Average Daily Turnover (\$m)	8.53
% S&P/ASX200	0.2%
DDM Ranking	177
% All Ordinaries	0.17%
GICS Industry Group	Commercial & Professional Services

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	13,417.9	13,248.5	13,572.2	13,951.5
EBITDA (\$M)	862.0	935.9	987.0	1,017.3
Reported NPAT (\$M)	-150.3	206.6	280.9	308.9
Adjusted NPAT (\$M)	165.2	258.5	319.8	350.8
Reported EPS (c)	-26.6	29.8	39.1	42.9
Adjusted EPS (c - FD)	34.6	38.7	46.0	51.5
Adjusted EPS growth (%)	-35.9	12.1	18.7	11.9
Adjusted P/E (x)	15.5	13.8	11.6	10.4
Dividend (c/sh)	14.0	16.8	24.9	28.5
Gross yield (%)	3.7	4.4	6.5	7.4
Net yield (%)	2.6	3.0	4.5	5.2
ROIC (%)	3.7	5.6	7.1	7.8

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

FY21 Half Yearly Report

On 11th February, Downer EDI Ltd (DOW) announced their results for the Half year FY21 with the following highlights:

- Total Revenue for the Group decreased by 10.6% or \$722.5 million to \$6.1 billion;
- Total expenses decreased by 10.6% or \$675.1 million compared to the pcp;
- If \$47.1 million of ISI's are excluded, total expenses decreased by 11.4%;
- Statutory EBIT of \$162.4 million was \$18.0 million than pcp driven by lower contributions from Transport, Utilities, Facilities and Mining as a result of contract completions and some COVID-19 impact;
- EBITDA for the period of \$195.8 million includes \$25.2 million (pre-tax) of ISI's;
- Statutory NPAT for the Group decreased by 17.3% or \$15.8 million to \$75.6 million and includes \$20.1 million after-tax ISI's; and
- Underlying NPATA for the Group increased by 3.1% or, \$3.6 million to \$119.1 million, while statutory NPATA of \$99.0 million has decreased \$16.5 million.

Gearing has decreased by 7.3pp to 28.2% since June 2020 which shows that the Group as able to de-gear the equity raising and despite \$83.3 million deferred interim 2020 dividend paid in the period and a \$134.5 million payment made to acquire the remaining 12.2% interest in Spotless.

Cash Conversion for the period was 84.1% up from 4.5% in the pcp, and 97.4% once adjusted for \$60.3 million of cash outflows relating to Individually Significant Items (ISI's) recognised in FY20.

Outlook

Downer's strategy is to focus on its Urban Services businesses – Transport, Utilities, Facilities and Asset Services – because these businesses have:

- Demonstrated strength and resilience;
- Leading market positions and attractive medium and long term growth opportunities; and
- A high proportion of government and government related contracts; and a capital light, services-based business model generating lower risk more predictable revenues and cash flows.

These Urban Services businesses have work-in hand of \$36.2 billion and it is expected that demand will remain strong due to continuing investment by both governments and blue-chip industrial companies.

Earnings changes

For FY21, DOW reported underlying NPATA of \$119.1M compared to market expectations of \$96M and statutory NPATA of \$99M compared to market expectations of \$96M. Hence, we expect positive earnings revisions of 3% for FY21 and future periods.

Valuation

We are initiating on DOW with a price target of \$5.07 and a HOLD recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Barclay Pearce Capital Recommendation Proportions

Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)