

2 February 2021

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GR Engineering Services Ltd (GNG)

Diversified Metals & Mining

BUY

GNG A\$1.18

TARGET PRICE A\$1.31

GR Engineering Services Limited (GNG) is into provision of high-quality process and detailed engineering design, procurement and construction services to the mining and mineral processing industry and the provision of operations, maintenance, projects and advisory services to the oil and gas sector.

Company Data

Number of shares	155.2
Market Capitalisation	\$ 183.1
Free float (%)	39.7
12-month high/low	\$1.245/\$0.64
Average Daily Turnover (\$m)	0.1471
% S&P/ASX200	0.01
DDM Ranking	142
% All Ordinaries	0.01
GICS Industry Group	Diversified Metals & Mining

Source: FactSet, Barclay Pearce Capital

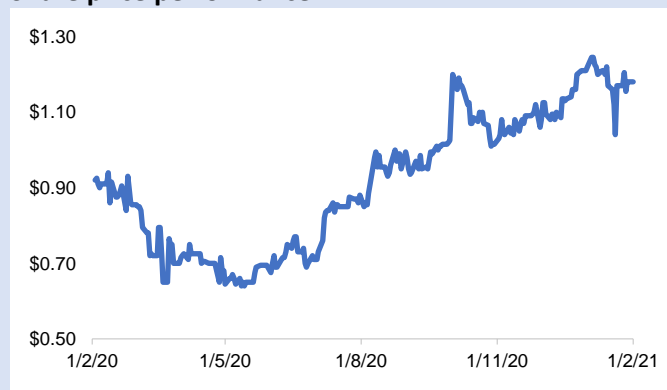
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	222.4	341.6	341.6	328.9
EBITDA (\$M)	11.3	27.1	30.3	31.6
Reported NPAT (\$M)	(7.2)	16.6	19.0	19.7
Adjusted NPAT (\$M)	5.4	16.6	19.0	19.7
Reported EPS (c)	(4.7)	10.3	11.7	10.1
Adjusted EPS (c - FD)	(4.7)	10.8	12.3	10.6
Adjusted EPS growth (%)	(205.3)	(329.2)	13.6	(14.0)
Adjusted P/E (x)	(25.0)	10.9	9.6	11.2
Dividend (c/sh)	6.0	8.1	9.7	10.9
Gross yield (%)	7.3	8.9	10.7	12.0
Net yield (%)	5.1	6.2	7.5	8.4
ROIC (%)	(96.2)	202.2	195.5	306.8

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 Guidance Update

On 2nd February 2021, GR Engineering Services Ltd (GNG) announced a guidance update for FY21 with the following highlights:

- Full year revenue guidance for FY21 is forecasted to be in the range of \$340 to \$360 million;
- Previously FY21 Revenue was expected to be \$280 million to \$300 million;

GNG Managing Director, Geoff Jones, stated “GR Engineering has been able to build on its strong finish to FY20 and is forecasting record revenue for FY21 with improved EBITDA margins.

The pipeline of ongoing and near-term prospective projects remains solid and provides revenue and earnings visibility beyond FY21. The balance sheet has been strengthened and this has been underpinned by strong cash generation in the first half of FY21”

Earnings changes

For the FY21 guidance update, GNG is expecting full year revenue in the range of \$340M to \$360M, which is 10% above the market consensus of \$310.6M. Hence, we expect positive earnings revisions of 10% for FY21 and future periods.

Valuation

We are initiating on GNG with a 12-month price target to \$1.31 and a BUY 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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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

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

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

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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Valuation Methodology

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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)