

28 January 2021

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HRL Holdings Limited

Consumer & Professional Services

UNDERPERFORM

HRL A\$0.15 **TARGET PRICE A\$0.11**

HRL provides sampling, laboratory testing and data management services across Australia and New Zealand. Our customers operate within the food, environmental, occupational hygiene and construction industries.

Company Data

Number of shares	493.8M
Market Capitalisation	\$ 71.6M
Free float (%)	49.1
12-month high/low	\$0.16/\$0.07
Average Daily Turnover (\$m)	0.0014
% S&P/ASX200	0.00
DDM Ranking	NA
% All Ordinaries	0.00
GICS Industry Group	Consumer & Professional Services

Source: FactSet, Barclay Pearce Capital

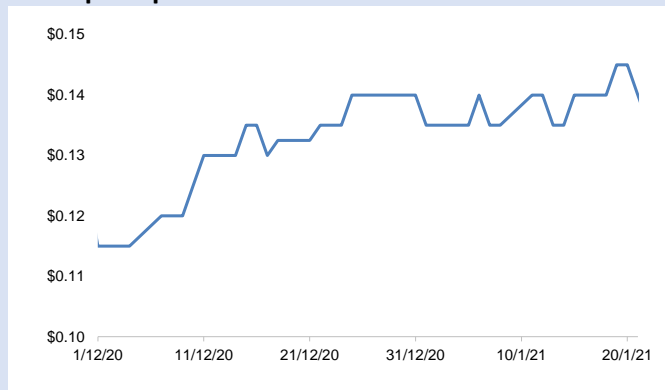
Earnings Summary (AUD)

Year end Adjusted EPS - c	2020A	2021F	2022F	2023F
Revenue (\$M)	32.8	33.4	35.9	41.5
EBITDA (\$M)	5.9	7.2	8.3	9.7
Reported NPAT (\$M)	-2.5	1.6	3.4	4.4
Adjusted NPAT (\$M)	2.5	2.3	3.5	4.4
Reported EPS (c)	-	-	-	-
Adjusted EPS (c - FD)	-0.5	0.5	0.7	0.9
Adjusted EPS growth (%)	-64.3	-190.0	55.6	28.6
Adjusted P/E (x)	-29.0	32.2	20.7	16.1
Dividend (c/sh)	0.0	0.0	0.0	0.0
Gross yield (%)	0.0	0.0	0.0	0.0
Net yield (%)	0.0	0.0	0.0	0.0
ROIC (%)	9.0	8.5	13.4	14.7

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 Trading Update

On 28th January 2021, HRL Holdings Limited (HRL) provided an update on its results for the half year ended 31 December 2020 with the following highlights:

- Consistent revenues with prior period despite COVID headwinds in Q1;
- Strong revenue growth across the food laboratory divisions;
- Lower revenues from HAZMAT and Geotech but recovering well through Q2;
- Maintained profitability through a challenging period; and
- All business units well placed moving into the second half.

	H1 FY21 \$000's	H1 FY20 \$000's	% change
Revenues	16,359	16,288	0.4%
Underlying EBITDA	3,535	3,080	14.8%
Underlying NPAT	1,415	1,056	34.0%
Operating cash flows generated ²	3,232	3,940	-18.0%
Net cash/(debt)	533	(3,665)	
Working capital ³	796	810	-1.7%
Statutory profit/(loss) after tax ¹	460	(2,728)	

Market Outlook for FY21

Laboratory

- Food testing levels to be driven by normal primary production factors;
- Enviro testing likely to take time to recover in line with the wider economy; and
- Remaining divisions focused on new opportunities (organic and M&A).

HAZMAT

- Cautiously optimistic of NZ revenues building back through the year; and
- Government clients offers some stability to workloads.

Software

- Ongoing feature development to expand target market; and
- Business development activities returning post COVID interruptions.

Geotech

- Current market outlook is improving with an increasing level of tender activity; and
- Opportunities may present through infrastructure projects.

Joint Ventures

- Food Lab progressing well through laboratory accreditations and customer development. Trading to commence in CY2021; and
- CAIQTest Pacific to continue momentum gained over past 12 months.

Earnings changes

For the half year results, HRL reported an underlying EBITDA up +15% on pcp. However, HRL reported \$16.4M in revenue which is in line with prior period despite the impacts of COVID. These are both in line with market expectations, hence we do not expect any significant earnings revisions.

Valuation

We are initiating on HRL with a 12-month price target of \$0.11 and an UNDERPERFORM 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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Valuation Methodology

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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)