

24 August 2021

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Monadelphous Group Limited

Industrials

BUY

MND A\$10.65 **TARGET PRICE A\$12.04**

Monadelphous Group Limited (MND) is an Australian engineering group providing construction, maintenance and industrial services to the resources, energy and infrastructure sectors. Monadelphous has two operating divisions working in Australia, with overseas operations in New Zealand, China, Papua New Guinea, Mongolia, the United States and the Philippines.

Company Data

Number of shares	94.9 M
Market Capitalisation	\$1119.1 M
Free float (%)	92.8
12-month high/low	\$15.35/\$9.14
Average Daily Turnover (\$m)	4.6478
% S&P/ASX200	0.05%
DDM Ranking	219
% All Ordinaries	0.05%
GICS Industry Group	Capital Goods

Source: FactSet, Barclay Pearce Capital

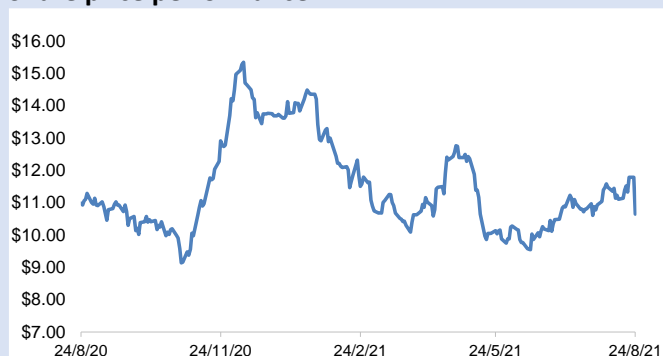
Earnings Summary (AUD)

Year end June	2021A	2022F	2023F
Revenue (\$M)	1,953.1	1,736.5	1,829.1
EBITDA (\$M)	108.7	114.7	124.6
Reported NPAT (\$M)	47.1	57.4	64.3
Adjusted NPAT (\$M)	47.1	56.6	64.1
Reported EPS (c)	49.7	63.7	69.8
Adjusted EPS (c - FD)	49.7	60.4	67.1
Adjusted EPS growth (%)	29.1	11.5	10.6
Adjusted P/E (x)	0.2	17.6	15.9
Dividend (c/sh)	45.0	48.5	54.1
Gross yield (%)	6.0	5.9	6.6
Net yield (%)	4.2	4.1	4.6
ROIC (%)	18.4	27.5	30.2

Source: Barclay Pearce Capital

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

Share price performance.



Source: FactSet, Barclay Pearce Capital

FY21 Financial Results

On 23rd August, Monadelphous Group Limited (MND) announced their results for the full year ended 30 June 2021 with the following highlights:

Performance Highlights

Period ended 30 June		FY21	FY20	CHANGE
Revenue ¹	\$M	1,953.1	1,650.8	18.3%
Engineering Construction ¹	\$M	979.0	615.9	58.9%
Maintenance & Industrial Services	\$M	976.9	1,049.8	(6.9%)
Internal Eliminations	\$M	(2.8)	(14.9)	
EBITDA ²	\$M	108.7	92.1	18.0%
EBITDA margin	%	5.6	5.6	(0.0pp)
NPAT	\$M	47.1	36.5	29.0%
EPS	cps	49.7	38.7	28.4%
DPS (fully franked)	cps	45.0	35.0	28.6%
Cash	\$M	175.7	208.3	(15.6%)

Balance Sheet

- MND ended the year with a strong cash balance of \$175.7 million;
- The average cash flow conversion rate for the two financial years ending 30 June 2020 and 20 June 2021 is a solid 87 per cent;
- The improvement in the operating environment post 30 June 2020, and the consequent increase in working capital as the Company's requirements returned to more normal levels, meant the cash flow conversion rate for the financial year ended 30 June 2021 was 35 per cent;

Operating activities

- Monadelphous made good progress on its markets and growth strategy during the year, despite the impacts and uncertainty caused by COVID-19;
- The company was awarded approximately \$950 million in new contracts and contract extensions across the resources, energy and infrastructure markets since the beginning of the financial year, including approximately \$200 million subsequent to year end;

Outlook

- The buoyant economic conditions forecast for the resources, energy and infrastructure sectors in coming years are expected to provide MND with a strong pipeline of opportunities;
- Strong commodity prices are also contributing to positive outlook for developments in lithium, gold, copper, and nickel; and
- These markets will continue to present opportunities for Monadelphous in Australia, as well as its international operations in South America, Mongolia and Papua New Guinea.

Earnings changes

For FY21, MND reported NPAT of \$47.1 million which was lower than market expectations of \$53.2M. Hence, we expect negative earnings revision of the order of 5% for future periods.

Valuation

We are updating our target price from \$13.16 to \$12.04 maintaining our 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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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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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)