

Trucking to an improved 2H21

Austin Engineering (ASX:ANG) is a global designer and manufacturer of consumable and capital mining equipment, together with on and offsite repair and maintenance services, with revenue derived from Asia Pacific (50% in FY20), North America (29%) and South America (21%). The group has an estimated 10% global share of the above ground mining truck body market and is also strong in excavator buckets. COVID-19 has had an impact on the North and South American markets which has resulted in significant restructuring including a 23% headcount reduction across the company in the last twelve months, and a wind down of operations in Colombia. The Asia/Pacific region remains strong and at, or near, capacity, is the key driver in FY21 NPAT guidance of “in excess of \$9m”, albeit skewed to the second half (1HFY21 NPAT was \$1.5m). New equipment sales ultimately drive the medium-term revenues of ANG with more units on the ground providing more re-fit/replacement opportunities for their truck body & bucket products. Growth opportunities also exist in expanding the product range into underground mining and entering new regions. Recently the first ever sales into Africa (Egypt) and Eastern Europe (Ukraine) were achieved. The company’s balance sheet has improved markedly over the last 4-years due to restructuring, with net debt down from \$45.9m FY18 to \$15.4m in December 2020. Excluding lease liabilities, net debt was \$5.36m at 31 December 2020.

Business model

ANG owns extensive intellectual property, supported by patents, and provides customised attachments such as truck bodies and buckets to mining companies. Austin’s products help increase operational productivity through lighter weight and longer lasting designs, which increase payloads and reduce the time between replacement and lifecycle cost, respectively. ANG also provides maintenance and repair services on a suite of mining products, including ones it has manufactured. Revenue is typically generated from a series of one-off, short-term contracts rather than longer term committed supply agreements.

Guidance for NPAT “in excess of \$9m” reiterated at H1 FY21

Management provided guidance in August 2020 for FY21 NPAT “in excess of \$9m” and reiterated this at its AGM in November and the 1H21 result in February 2021. The 1HFY21 result delivered flat revenue and underlying NPAT of \$1.5m, requiring a big 2HFY21 to hit guidance. Orders received in January and February provide confidence for 2H21, with the order book currently 90% of the level required to meet guidance. There is also confidence in converting uncommitted opportunities over and above the order book. Asia Pacific revenue increased 24% over 1H21 while North American revenue declined 58%. ANG reinstated dividends in FY20 and determined a 0.2c/share interim dividend.

Many ASX listed peers for comparison

There are many peers listed on the ASX that could be used as peers for ANG, whose business relies on contract pricing, people utilisation, the procurement and management of raw materials and exposure to general mining activity. At the smaller cap end we would highlight Swick Mining Services (ASX:SWK), Lycopodium (ASX:LYL) and GR Engineering (ASX:GNG). Multiples for mining services stocks tend to be below market due to the inherent volatility in commodity cycles and therefore earnings. The ability to pay dividends with a strong balance sheet and stable earnings offers “re-rating” potential.

Historical earnings and ratios

Year end	Revenue (A\$m)	EBITDA Adj.* (A\$m)	NPAT Adj.* (A\$m)	NPAT Rep.	EPS Adj.*(c)	EPS Rep.	EV/Sales (x)	EV/EBITDA (x)	P/E (x)
06/18a	275.1	20.3	8.0	(1.9)	0.014	(0.003)	0.4	5.3	11.2
06/19a	230.8	21.4	8.9	2.5	0.015	0.004	0.5	5.0	10.1
06//20a	230.4	22.5	8.1	4.5	0.014	0.008	0.5	4.8	11.1

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items

Mining Services

12th March 2021

Share details

ASX Code	ANG
Share price	\$0.16
Market Capitalisation	\$92.6M
Shares on issue	579.0M
Net debt at 31/12/2020	\$15.4M
Free float	88.4%

Share performance (12 months)



Upside Case

- Reduced COVID-19 impacts in Nth & Sth America
- Penetration of products into underground mining
- Expansion into new regions in Africa, Eastern Europe and South/Central America

Downside Case

- Lower production activity in iron ore, coal and gold
- Increased competition in the truck body space
- Currency conversion

Catalysts/upcoming events

- Full-year result (August 2021)
- AGM update for FY22 (November 2121)

Comparable companies (Aust/NZ)

Swick Mining Services (ASX:SWK), Lycopodium (ASX:LYL), GR Engineering (ASX:GNG)

Top 5 shareholders

Thorney Investments	24.3%
Perennial Value	15.0%
Spheria Asset Mgt.	12.3%
LIM Advisors	6.0%
Moelis Australia	5.1%

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FINANCIAL SERVICES GUIDE

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