

## Contract loss more than in the price

Millennium Services Group Ltd (ASX:MIL) has announced the loss of the QIC cleaning and security contract worth \$28m or 10% of FY21 underlying revenue. Management has estimated an annualised \$0.5m NPAT impact from the contract loss, which implies a relatively low gross margin contract and the ability to reduce operating costs associated with the contract. We have adjusted our numbers accordingly, resulting in ~10% revenue and NPAT/EPS downgrades over the forecast period. We just recently upgraded sales and earnings by a similar magnitude on a stronger Q4FY21 underlying sales base flowing through the forecast period. Not renewing a low margin 24-year contract/relationship may imply some tightening in competitive pressures in the sector, but we are confident our gross margin assumptions (~14.5%) imply a competitive industry structure. Converting some of the \$532m qualified pipeline at group margins now increases in importance but has been impacted by COVID induced decision delays. Valuation remains compelling despite the contract loss, with a forecast FY22 PE of 5.4x, EV/EBITDA 1.5x and free cash flow yield of 35%. The group was effectively debt free at June 30 and is well placed to pursue growth.

### Business model

MIL is essentially a human services business, bidding for predominantly fixed rate contracts with opportunities for volume gains and ad hoc services, across the essential services of cleaning & security for durations of 3-5 years with large corporates. Satisfying contractual obligations utilising a vast workforce and procuring consumables for the jobs within the contacted price is the key to profitability. Historically focusing on cleaning and security services within major shopping centres, MIL is looking to de-risk the retail exposure by moving into new sectors including Aviation, Aged care, Education and Government. An increased focus on compliance (Fair Work, Modern Slavery Act and Labour Hire regulations) and utilising the ASX listed nature of the business will be key prongs.

### Revenue loss mitigated by low margin and cost offsets

For the \$28m revenue loss (~10% of FY21) to translate into just an annualised \$0.5m NPAT hit for MIL (~10% of our prior FY22 estimate) implies a low margin contract and the ability to adjust supporting operating costs accordingly. As a result our upgrades put through late July 2021 from a Q4FY21 revenue beat have been offset by the loss of the QIC cleaning and security contract.

### 100% upside based on FY21 peer EV/EBITDA multiples

Peers for financial comparison with MIL are businesses that rely on human resources to deliver contracted or project work, operate on low gross profit margins (15%-20%), typically deal with larger customers than themselves and are small cap in nature. Stocks with consensus earnings that fit this bill include NWH, MAH, SSM, BSA, GNG and LYL. The average FY21 EV/EBITDA for this group is 4.8x against our assessed EV/EBITDA for MIL of 2.0x. A similar multiple for MIL would imply a share price closer to \$1.20, before any re-rate of the peer group.

Year end	Adj Revenue (A\$m)	Und. EBITDA (A\$m)	NPAT adjusted (A\$m)	EPS (adj) (c)	P/E (x)	EV/Sales (x)
06/20a	257.3	4.0	2.0	0.04	nm	0.22
06/21e	273.7	11.5	4.4	0.09	5.3	0.08
06/22e	258.5	11.4	4.2	0.09	5.4	0.07
06/23e	271.4	12.3	5.4	0.12	4.2	0.05

Source: Company data, RaaS Advisory Estimates for FY21e, FY22e and FY23e

## Human Services

2<sup>nd</sup> August 2021

### Share details

ASX Code	MIL
Share price (intraday)	\$0.48
Market Capitalisation	\$23.0M
Shares on issue	45.9M
Net Debt at Jun 30 '21	\$0.0M
Free float	~31.5%

### Share performance



### Upside Case

- Converting a portion of the \$532m qualified pipeline over the next 18-months
- Successfully diversify industry exposure to including Government, Education, Aged Care and Commercial
- Re-commence dividend payments

### Downside Case

- Competitive margin pressure re-emerges
- Wages growth above levels recoverable by contract
- Fail to get workforce to embrace new rostering systems

### Board of Directors

Stuart Grimshaw	Chairman
Scott Alomes	CEO
Rohan Garnett	Non-Executive Director
Darren Perry	Non-Executive Director

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\*The author owns shares

**Exhibit 1: Financial Year Financial Summary**

Millennium Services (MIL.AX)						Share price (2 Aug 2021)						A\$	0.500				
Profit and Loss (A\$m)						Interim (A\$m)						H119	H219	H120	H220	H121	H221
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	Revenue	153.7	141.0	135.1	146.8	159.7	138.6					
Revenue	294.7	257.3	273.7	258.5	271.4	EBITDA	(2.4)	2.5	2.4	1.7	7.0	4.5					
Gross profit	30.1	30.8	39.8	37.9	39.4	EBIT	(6.7)	(2.0)	(0.0)	(1.8)	4.8	2.1					
GP margin %	10.2%	12.0%	14.5%	14.7%	14.5%	NPAT (normalised)	(5.2)	(9.2)	(1.7)	2.0	2.6	1.1					
Underlying EBITDA	0.1	4.0	11.5	11.4	12.3	Minorities	0.0	1.0	2.0	3.0	4.0	5.0					
Depn	(8.8)	(5.9)	(4.6)	(4.6)	(4.0)	NPAT (reported)	(8.7)	(10.1)	(0.8)	2.8	3.2	1.1					
Amort	0.0	0.0	0.0	0.0	0.0	EPS (normalised)	nm	nm	nm	0.061	0.070	0.024					
EBIT	(8.7)	(1.9)	6.9	6.8	8.3	EPS (reported)	nm	nm	nm	0.061	0.070	0.024					
Interest	(2.5)	(3.2)	(1.6)	(0.8)	(0.5)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	(3.2)	5.3	(1.6)	(1.8)	(2.3)	Imputation											
NPAT	(14.3)	0.3	3.7	4.2	5.4	Operating cash flow	na	na	na	na	na	na					
Adjustments	(4.4)	1.7	0.7	0.0	0.0	Free Cash flow	na	na	na	na	na	na					
<b>Adjusted NPAT</b>	<b>(18.7)</b>	<b>2.0</b>	<b>4.4</b>	<b>4.2</b>	<b>5.4</b>	<b>Divisionals</b>	<b>H119</b>	<b>H219</b>	<b>H120</b>	<b>H220</b>	<b>H121</b>	<b>H221</b>					
Abnormals (net)	(26.8)	14.5	13.8	0.0	0.0	Cleaning	125.4	115.9	111.4	102.0	107.9	115.9					
<b>NPAT (reported)</b>	<b>(45.5)</b>	<b>16.5</b>	<b>18.2</b>	<b>4.2</b>	<b>5.4</b>	Security	28.4	25.1	23.7	20.2	27.2	22.7					
<b>Cash flow (A\$m)</b>						(Other)	-	-	-	24.6	24.7	-					
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	Total Revenue	<b>153.7</b>	<b>141.0</b>	<b>135.1</b>	<b>146.8</b>	<b>159.7</b>	<b>138.6</b>					
EBITDA (inc cash rent/JK)	0.1	19.4	34.3	10.4	11.3	Gross profit	13.0	17.1	17.0	13.8	19.9	19.9					
Interest	(2.5)	(3.2)	(1.6)	(0.8)	(0.5)	Underlying GP Margin %	8.5%	12.2%	12.6%	11.3%	14.8%	14.3%					
Tax	(0.9)	0.5	0.0	(1.8)	(2.3)	Operating Costs											
Working capital changes	2.2	(16.6)	6.7	2.4	(0.3)	Employment	10.1	8.6	8.3	16.4	16.2	10.2					
<b>Operating cash flow</b>	<b>(1.1)</b>	<b>0.1</b>	<b>39.4</b>	<b>10.3</b>	<b>8.2</b>	Other	8.8	7.0	5.5	4.9	6.2	5.2					
Mtce capex	(1.3)	(2.2)	(2.4)	(2.3)	(2.4)	Exceptional	- 3.5 -	0.9	0.9	9.2	9.5	-					
<b>Free cash flow</b>	<b>(2.4)</b>	<b>(2.1)</b>	<b>37.0</b>	<b>7.9</b>	<b>5.7</b>	Total costs	<b>15.4</b>	<b>14.6</b>	<b>14.7</b>	<b>12.1</b>	<b>12.9</b>	<b>15.4</b>					
Growth capex	0.0	0.0	0.0	0.0	0.0	<b>EBITDA</b>	<b>(2.4)</b>	<b>2.5</b>	<b>2.4</b>	<b>1.7</b>	<b>7.0</b>	<b>4.5</b>					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA margin %	(1.6%)	1.8%	1.7%	1.1%	4.4%	3.2%					
Other	(2.7)	(2.5)	(2.5)	(2.5)	(2.5)	Margins, Leverage, Returns		<b>FY19A</b>	<b>FY20A</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>					
Cash flow pre financing	(5.1)	(4.6)	34.5	5.4	3.2	EBITDA margin %		0.0%	1.6%	4.2%	4.4%	4.5%					
Equity	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(2.9%)	(0.7%)	2.5%	2.6%	3.0%					
Debt drawdown/(repay)	(3.6)	1.6	(29.0)	(2.0)	(3.0)	NPAT margin (pre significant items)		(6.4%)	0.8%	1.6%	1.6%	2.0%					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		27.1	34.6	0.1	-5.4	-8.6					
<b>Net cash flow for year</b>	<b>(8.7)</b>	<b>(3.0)</b>	<b>5.5</b>	<b>3.4</b>	<b>0.2</b>	Net debt/EBITDA (x)	(x)	314.9 x	8.6 x	0.0 x	-0.5 x	-0.7 x					
<b>Balance sheet (A\$m)</b>						ND/ND+Equity (%)	(%)	42.7%	63.5%	4.9%	68.3%	52.0%					
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	EBIT interest cover (x)	(x)	n/a	n/a	0.2x	0.1x	0.1x					
Cash	2.7	1.8	7.3	10.8	11.0	ROA		nm	(3.5%)	11.7%	12.1%	14.4%					
Accounts receivable	19.5	29.8	21.9	21.0	22.1	ROE		nm	nm	nm	nm	nm					
Inventory	0.8	1.2	1.3	1.1	1.2	ROIC		nm	nm	nm	nm	nm					
Other current assets	1.2	2.5	0.0	0.0	0.0	NTA (per share)		-0.95	-0.60	-0.20	-0.11	0.01					
<b>Total current assets</b>	<b>24.2</b>	<b>35.3</b>	<b>30.5</b>	<b>32.9</b>	<b>34.3</b>	Working capital		-1.8	14.8	8.1	5.7	6.0					
PPE	11.4	8.6	7.3	6.0	5.5	WC/Sales (%)		<b>(0.6%)</b>	<b>5.7%</b>	<b>3.0%</b>	<b>2.2%</b>	<b>2.2%</b>					
Goodwill	7.5	7.5	7.5	7.5	7.5	Revenue growth		nm	(12.7%)	6.4%	(5.5%)	5.0%					
Right of use asset	0.0	2.9	2.9	2.9	2.9	EBIT growth pa		nm	nm	(469.9%)	(0.5%)	20.9%					
Deferred tax asset	0.2	7.4	7.4	7.4	7.4	Pricing		<b>FY19A</b>	<b>FY20A</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>					
Other	0.1	0.1	0.1	0.1	0.1	No of shares (y/e)	(m)	45.9	45.9	45.9	45.9	45.9					
<b>Total non current assets</b>	<b>19.1</b>	<b>26.5</b>	<b>25.2</b>	<b>24.0</b>	<b>23.4</b>	Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9					
<b>Total Assets</b>	<b>43.4</b>	<b>61.9</b>	<b>55.8</b>	<b>56.9</b>	<b>57.7</b>	EPS Reported	cps	nm	0.359	0.395	0.092	0.118					
Accounts payable	22.2	16.3	15.1	16.5	17.3	EPS Normalised/Diluted	cps	nm	0.043	0.095	0.092	0.118					
Short term debt	29.8	36.4	0.0	0.0	0.0	EPS growth (norm/dil)		nm	nm	119%	-3%	29%					
Provisions	26.1	22.4	23.7	20.6	21.6	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Lease liabilities/other	0.0	0.8	5.5	6.1	2.6	DPS Growth		n/a	n/a	n/a	n/a	n/a					
<b>Total current liabilities</b>	<b>78.0</b>	<b>76.0</b>	<b>44.4</b>	<b>43.2</b>	<b>41.5</b>	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Long term debt	0.0	0.0	7.4	5.4	2.4	Dividend imputation		30	30	30	30	30					
Other non current liabs	1.8	5.8	5.8	5.8	5.8	PE (x)		nm	5.3	5.4	4.2						
<b>Total long term liabilities</b>	<b>1.8</b>	<b>5.8</b>	<b>13.2</b>	<b>11.2</b>	<b>8.2</b>	PE market		18	18	18	18						
<b>Total Liabilities</b>	<b>79.8</b>	<b>81.8</b>	<b>57.6</b>	<b>54.4</b>	<b>49.7</b>	Premium/(discount)		nm	(70.7%)	(69.8%)	(76.5%)						
<b>Net Assets</b>	<b>(36.4)</b>	<b>(19.9)</b>	<b>(1.8)</b>	<b>2.5</b>	<b>7.9</b>	EV/EBITDA		581.9	14.2	2.0	1.5	1.2					
Share capital	19.0	19.0	19.0	19.0	19.0	FCF/Share	cps	(4.535)	(4.535)	80.596	17.300	12.439					
Reserves	(8.4)	(8.5)	(8.5)	(8.5)	(8.5)	Price/FCF share		(11.024)	(11.024)	0.620	2.890	4.020					
Retained Earnings	(46.9)	(30.3)	(12.3)	(8.0)	(2.5)	Free Cash flow Yield		(9.1%)	(9.1%)	161.2%	34.6%	24.9%					
Minorities	0.0	0.0	0.0	0.0	0.0												
<b>Total Shareholder funds</b>	<b>(36.4)</b>	<b>(19.9)</b>	<b>(1.8)</b>	<b>2.5</b>	<b>7.9</b>												

Source: RaaS Advisory



# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**

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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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