

Mader Group Ltd

Maintaining earnings before global relaunch

Mader Group Ltd (ASX:MAD) is a provider of heavy mobile equipment maintenance services to the resources sector using its specialised labour force of ~1,400 employees. The group is said to be cheaper than the Original Equipment Manufacturers (OEMs) while offering greater flexibility (multiple brands), capacity (large and diverse workforce) and quality (OHS & training). MAD listed in September 2019, with founding shareholders selling 50m shares at \$1.00/share to realise a portion of their investment, provide liquidity and encourage employee ownership. Currently 90% of revenues are derived from Australia with iron ore (46%) and gold (17%) key industry exposures. As a result, activity levels and the underlying price of these commodities is a key revenue driver. The group is looking to expand both regionally in Australia and the US, is re-entering the Canadian market and actively looking at other countries. Q1FY21 was impacted by COVID related disruption (border closures impacting skilled worker movements) but less disruption in Q2 resulted in 1H21 revenue growth of 6.4% (to \$141m) and flat NPAT of \$8.7m. Group net debt was stable at \$19.9m.

Business model

MAD essentially derives revenue by charging for labour services at an hourly rate. There are a number of contract scenarios with customers offering flexible and scalable service level agreements and contracts with annual rate reviews. Profitability is determined by the internal management and allocation of human resources to these contracts. Predominantly in Australia at present the business model is to expand both regionally within Australia and the US, and into new regions, with Canada already committed. Mader Group's expansion strategy is underpinned by a two-pronged plan to expand geographically and by service offering. Mader currently offers a range of ancillary services in its most established markets. This is a range of complementary and value add services that are related to the Company's core offering of mechanical maintenance.

COVID impacts reducing through the year

Q1FY21 group sales growth was 3.8%, impacted by workforce availability as a result of COVID related border closures and lockdowns. 2HFY21 sales growth accelerated to 6.4%, implying a much stronger Q2FY21 COVID-19 related restrictions eased and the company adjusted to operate efficiently and effectively within the limits of COVID-19 impacted markets. NPAT was essentially flat for the half. Canada entry being relaunched and expected to be operational by the end of FY21 and represents a significant opportunity for MAD.

Peers are people-based service businesses

Business model peers rely on a mix of human resources and consumables to deliver services, typically under contract, mostly on a fixed rate basis. We would highlight Johns Lyng in the building space (ASX:JLG), GR Engineering (ASX: GNG) and Lycopodium (ASX: LYL) in the resources space, Service Stream (ASX:SSM) in the telco & infrastructure space, and People Infrastructure (ASX:PPE) in the broader human resources space as examples. These players operate on gross margins between 11%-20%, are capital light (working capital/sales 0%-2%) and tend to hold net cash for project bonding.

Historical earnings and ratios

Year end	Revenue (A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS c)	EV/Sales (x)	EV/EBITDA (x)	P/E (x)
06/18a	156.2	18.6	11.3	0.057	1.3	10.9	16.1
06/19a	228.6	25.3	14.9	0.075	0.9	8.0	12.2
06/20a	273.5	32.7	17.5	0.088	0.7	6.2	10.3

Source: Company data

Mining services

12th March 2021

Share details

ASX Code	MAD
Share price	\$0.90
Market Capitalisation	\$180.0M
Shares on issue	200.0M
Net debt at 31/12/2020	\$19.9M
Free float	~25%

Share performance (12 months)



Upside Case

- Less COVID-related workforce disruption
- Successful move into new regions
- Connected to the production cycle

Downside Case

- Downturn in economic activity
- Offshore entry fails to gain scale
- Poor contract pricing

Catalysts/upcoming events

- Continued evidence of COVID disruptions easing
- Canada relaunch at end of FY21

Comparable companies (Aust/NZ)

Lycopodium (ASX:LYL), Johns Lyng (ASX:JLG), GR Engineering (ASX:GNG), Service Stream (ASX:SSM), People Infrastructure (ASX:PPE)

Top 5 shareholders

Luke Mader (Founder/Exec Dir)	56.65%
Craig Burton (Non-Exec Dir)	19.90%
Carjay Investments	1.07%
Caves House Holdings	0.50%
Cedarfield Holdings	0.3%

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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