

Tracking to forecast

Millennium Services Group Ltd (ASX:MIL) has released a quarterly activity report for the March 2021 quarter, with key trends generally in-line with our current assumptions. Debt has continued to reduce with \$2.5m paid down during the quarter and March 31 net debt sitting at \$8.7m or 0.9x our FY21f EBITDA. The level of ad hoc revenue has declined as a % of sales from the elevated levels of 1H21, which drove the 1H21 earnings beat on the back of a statutory GP% of 14.8%. Our 2H21 assumptions call for 14.4% GP margins and lower sales relative to 1H21. Q421 revenue only needs to reach \$60.4m to achieve our current revenue estimates following \$64.3m, \$70.7m and \$69.4m for the first three quarters of FY21 respectively. Cash generation was \$1.19m for the quarter despite some timing issues, putting the group well on track to achieve our cash flow estimates. In the relatively early stages of a strategic reset with a qualified pipeline of ~\$532m over the next 18-months, our numbers only assume a fraction of this pipeline. Looking forward we are expecting lower underlying 2H21 NPAT relative to 1H21, but a significant improvement on the pcp, driven by the same drivers as 1H21 (lower costs & higher gross margins) together with lower interest expense. On the valuation front MIL is trading on a forecast EV/EBITDA multiple of 3.0x FY21, well below the likes of selected peers SXE, BSA, SSM and ASH. Our DCF valuation is unchanged at \$1.60/share with a higher bond yield offset by a lower beta assumption as debt levels continue to decline. There remains significant room to move on beta assumptions and earnings in the form of contract wins and/or acquisitions.

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 for the first 9-months sets up easy target for Q421

The first three quarters of FY21 have respectively delivered revenue of \$64.3m, \$70.7m and \$69.4m by our estimates. To achieve our 2H21 statutory revenue forecast of \$130m MIL only needs to deliver Q421 revenue of \$60.6m. From an earnings perspective we have 2H21 EBITDA of \$4.5m, well below 1H21 (\$7.0m) due to the lower GP% and revenue assumptions. With debt levels now 0.9x FY21f EBITDA the group is well positioned to grow.

Valuation remains \$1.60/share with some minor adjustments

Our numbers are unchanged and our DCF remains at \$1.60/share with some minor adjustments. We have increased our 10-year bond assumptions to 2.0% (from 1.4%) but reduced our beta from 1.3x to 1.2x to reflect lower leverage risk. There remains room to move this rate lower as sustainable earnings are delivered. Updating peer comparison data MIL is trading on an EV/EBITDA multiple well below the likes of SXE, BSA, SSM and ASH despite a management structure and balance sheet poised for growth.

Historical earnings and RaaS Advisory estimates

Year end	Adj Revenue (A\$m)	Und. EBITDA (A\$m)	NPAT adjusted (A\$m)	EPS (adj) (c)	P/E (x)	EV/Sales (x)
06/19a	294.7	0.1	(18.7)	nm	0.0	0.19
06/20a	257.3	4.0	2.0	0.04	nm	0.24
06/21e	265.0	11.5	2.4	0.05	11.5	0.14
06/22e	278.3	11.8	4.1	0.09	6.8	0.12
06/23e	292.2	12.5	5.9	0.13	4.7	0.10

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

Human Services

28th April 2021

Share details

ASX Code	MIL
Share price (27 Apr)	\$0.60
Market Capitalisation	\$30.0M
Shares on issue	45.9M
Net Debt at 31 Mar '21	\$8.7M
Free float	~31.5%

Share performance (12 months)



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.
- Wage growth above levels recoverable by contract.
- Fail to get workforce to embrace new rostering systems

Board of Directors

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

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Exhibit 1: Financial Year Financial Summary

Millennium Services Group (ASX:ML)						Share price (27 April 2021)						A\$	0.60						
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	130.0	EBITDA	(2.4)	2.5	2.4	1.7	7.0	4.5
Gross profit	30.1	30.8	38.7	40.5	41.8	EBIT	(6.7)	(2.0)	(0.0)	(1.8)	4.7	2.2	NPAT (normalised)	(5.2)	(9.2)	(1.7)	2.0	2.5	1.0
GP margin %	10.2%	12.0%	14.6%	14.6%	14.3%	Minorities	0.0	1.0	2.0	3.0	4.0	5.0	NPAT (reported)	(8.7)	(10.1)	(0.8)	2.8	1.4	1.0
Underlying EBITDA	0.1	4.0	11.5	11.8	12.5	EPS (normalised)	nm	nm	nm	0.061	0.030	0.022	Amort	0.0	0.0	0.0	0.0	0.0	0.0
Depn	(8.8)	(5.9)	(4.6)	(4.8)	(3.0)	EPS (reported)	nm	nm	nm	0.061	0.030	0.022	EBIT	(8.7)	(1.9)	6.9	7.0	9.5	
Interest	(2.5)	(3.2)	(1.8)	(1.2)	(1.0)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000	Tax	(3.2)	5.3	(1.6)	(1.7)	(2.5)	
Tax	(3.2)	5.3	(1.6)	(1.7)	(2.5)	Imputation							NPAT	(14.3)	0.3	3.5	4.1	5.9	
NPAT	(14.3)	0.3	3.5	4.1	5.9	Operating cash flow	na	na	na	na	na	na	Adjustments	(4.4)	1.7	(1.1)	0.0	0.0	
Adjusted NPAT	(18.7)	2.0	2.4	4.1	5.9	Free Cash flow	na	na	na	na	na	na	Abnormals (net)	(26.8)	14.5	17.4	0.0	0.0	
NPAT (reported)	(45.5)	16.5	19.8	4.1	5.9	Divisionals	H119	H219	H120	H220	H121	H221	NPAT (reported)	(45.5)	16.5	19.8	4.1	5.9	
Cash flow (A\$m)						Cleaning	125.4	115.9	111.4	102.0	107.9	108.1	Security	28.4	25.1	23.7	20.2	27.2	21.9
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	(Other)	-	-	-	24.6	24.7	-	Total Revenue	153.7	141.0	135.1	146.8	159.7	130.0
EBITDA (inc cash rent)	0.1	3.3	10.6	10.8	11.5	Gross profit	13.0	17.1	17.0	13.8	19.9	18.7	EBITDA	(2.4)	2.5	2.4	1.7	7.0	4.5
Interest	(2.5)	(3.2)	(1.8)	(1.2)	(1.0)	Underlying GP Margin %	8.5%	12.2%	12.6%	11.3%	14.8%	14.4%	EBITDA margin %	(1.6%)	1.8%	1.7%	1.1%	4.4%	3.5%
Tax	(0.9)	0.5	0.0	(1.7)	(2.5)	Operating Costs							Margins, Leverage, Returns	FY19A	FY20A	FY21F	FY22F	FY23F	
Working capital changes	2.2	(16.6)	8.9	(0.2)	(0.3)	Employment	10.1	8.6	8.3	16.4	16.2	9.0	EBITDA margin %		0.0%	1.6%	4.4%	4.2%	4.3%
Operating cash flow	(1.1)	(16.0)	17.7	7.7	7.6	Other	8.8	7.0	5.5	4.9	6.2	5.2	EBIT margin %		(2.9%)	(0.7%)	2.6%	2.5%	3.2%
Misc capex	(1.3)	(2.2)	(2.3)	(2.5)	(2.6)	Exceptional	- 3.5	- 0.9	0.9	- 9.2	- 9.5	-	NPAT margin (pre significant items)		(6.4%)	0.8%	0.9%	1.5%	2.0%
Free cash flow	(2.4)	(18.2)	15.4	5.2	5.0	Total costs	15.4	14.6	14.7	12.1	12.9	14.2	Net Debt (Cash)		27.1	34.6	9.9	5.1	0.7
Growth capex	0.0	0.0	0.0	0.0	0.0	EBITDA	(2.4)	2.5	2.4	1.7	7.0	4.5	Net debt/EBITDA (x)	(x)	314.9 x	8.6 x	0.9 x	0.4 x	0.1 x
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA margin %	(1.6%)	1.8%	1.7%	1.1%	4.4%	3.5%	ND/ND+Equity (%)	(%)	42.7%	63.5%	99.0%	441.1%	(7.1%)
Other	(2.7)	(2.5)	(2.5)	(2.5)	(2.5)	Margins, Leverage, Returns	FY19A	FY20A	FY21F	FY22F	FY23F	EBIT interest cover (x)	(x)	n/a	n/a	0.3x	0.2x	0.1x	
Cash flow pre financing	(5.1)	(20.7)	12.9	2.7	2.5	EBIT margin %		0.0%	1.6%	4.4%	4.2%	4.3%	ROA		nm	(3.5%)	11.2%	11.1%	14.2%
Equity	0.0	0.0	0.0	0.0	0.0	NPAT margin %		(2.9%)	(0.7%)	2.6%	2.5%	3.2%	ROE		nm	nm	nm	nm	nm
Debt	(3.6)	1.6	(20.0)	(2.0)	(3.0)	NPAT margin (pre significant items)		(6.4%)	0.8%	0.9%	1.5%	2.0%	ROIC		nm	nm	nm	nm	nm
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		27.1	34.6	9.9	5.1	0.7	NTA (per share)		-0.95	-0.60	-0.16	-0.08	0.05
Net cash flow for year	(8.7)	(19.1)	(7.1)	0.7	(0.5)	Net debt/EBITDA (x)	(x)	314.9 x	8.6 x	0.9 x	0.4 x	0.1 x	Working capital		-1.8	14.8	5.9	6.0	6.3
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	42.7%	63.5%	99.0%	441.1%	(7.1%)	WC/Sales (%)		(0.6%)	5.7%	2.2%	2.2%	2.2%
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	EBIT interest cover (x)	(x)	n/a	n/a	0.3x	0.2x	0.1x	Revenue growth		nm	(12.7%)	3.0%	5.0%	5.0%
Cash	2.7	1.8	6.6	9.3	10.8	ROA		nm	(3.5%)	11.2%	11.1%	14.2%	EBIT growth pa		nm	nm	(471.3%)	1.7%	34.7%
Accounts receivable	19.5	29.8	21.1	22.1	23.2	ROE		nm	nm	nm	nm	nm	Pricing		FY19A	FY20A	FY21F	FY22F	FY23F
Inventory	0.8	1.2	1.3	1.2	1.3	ROIC		nm	nm	nm	nm	nm	No of shares (y/e)	(m)	45.9	45.9	45.9	45.9	45.9
Other current assets	1.2	2.5	7.8	8.3	9.8	NTA (per share)		-0.95	-0.60	-0.16	-0.08	0.05	Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9
Total current assets	24.2	35.3	36.8	40.9	45.1	Working capital		-1.8	14.8	5.9	6.0	6.3	EPS Reported	cps	nm	0.359	0.431	0.089	0.129
PPE	11.4	8.6	7.2	5.9	5.6	WC/Sales (%)		(0.6%)	5.7%	2.2%	2.2%	2.2%	EPS Normalised/Diluted	cps	nm	0.043	0.052	0.089	0.129
Goodwill	7.5	7.5	7.5	7.5	7.5	Revenue growth		nm	(12.7%)	3.0%	5.0%	5.0%	EPS growth (norm/dil)		nm	nm	21%	70%	45%
Right of use asset	0.0	2.9	2.9	2.9	2.9	EBIT growth pa		nm	nm	(471.3%)	1.7%	34.7%	DPS	cps	0.000	0.000	0.000	0.000	0.000
Deferred tax asset	0.2	7.4	7.4	7.4	7.4	Pricing		FY19A	FY20A	FY21F	FY22F	FY23F	DPS Growth		n/a	n/a	n/a	n/a	n/a
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	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Total non current assets	19.1	26.5	25.2	23.9	23.5	Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9	Dividend imputation		30	30	30	30	30
Total Assets	43.4	61.9	61.9	64.8	68.6	EPS Reported	cps	nm	0.359	0.431	0.089	0.129	PE (x)		nm	nm	11.5	6.8	4.7
Accounts payable	22.2	16.3	16.5	17.3	18.2	EPS Normalised/Diluted	cps	nm	0.043	0.052	0.089	0.129	PE market		18	18	18	18	18
Short term debt	29.8	36.4	0.0	0.0	0.0	EPS growth (norm/dil)		nm	nm	21%	70%	45%	Premium/(discount)		nm	(36.2%)	(62.4%)	(74.1%)	
Provisions	26.1	22.4	22.4	22.4	22.4	DPS	cps	0.000	0.000	0.000	0.000	0.000	EV/EBITDA		635.3	15.4	3.2	2.8	2.3
Lease liabilities/other	0.0	0.8	0.8	0.8	0.8	DPS Growth		n/a	n/a	n/a	n/a	n/a	FCF/Share	cps	(4.535)	(4.535)	59.469	15.578	15.219
Total current liabilities	78.0	76.0	39.7	40.6	41.4	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	Price/FCF share		(13.229)	(13.229)	1.009	3.852	3.942
Long term debt	0.0	0.0	16.5	14.4	11.4	Dividend imputation		30	30	30	30	30	Free Cash flow Yield		(7.6%)	(7.6%)	99.1%	26.0%	25.4%
Other non current liabs	1.8	5.8	5.8	5.8	5.8	PE (x)		nm	nm	11.5	6.8	4.7							
Total long term liabilities	1.8	5.8	22.3	20.2	17.2	PE market		18	18	18	18	18							
Total Liabilities	79.8	81.8	62.1	60.8	58.6	Premium/(discount)		nm	(36.2%)	(62.4%)	(74.1%)								
Net Assets	(36.4)	(19.9)	(0.1)	4.0	9.9	EV/EBITDA		635.3	15.4	3.2	2.8	2.3							
Share capital	19.0	19.0	19.0	19.0	19.0	FCF/Share	cps	(4.535)	(4.535)	59.469	15.578	15.219							
Reserves	(8.4)	(8.5)	(8.5)	(8.5)	(8.5)	Price/FCF share		(13.229)	(13.229)	1.009	3.852	3.942							
Retained Earnings	(46.9)	(30.3)	(10.5)	(6.5)	(0.5)	Free Cash flow Yield		(7.6%)	(7.6%)	99.1%	26.0%	25.4%							
Minorities	0.0	0.0	0.0	0.0	0.0														
Total Shareholder fun	(36.4)	(19.9)	(0.1)	4.0	9.9														

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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AFSL 456663

Effective Date: 26th November 2018



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