

Contract renewals highlights stickiness

Millennium Services Group Ltd (ASX:MIL) has announced the extension of several contracts worth a combined \$150m over terms spanning two to four years. The key message here is both the general stickiness of contracts and length of contracts relative to our selected peer group. Quarterly revenue disclosures highlight that not only are contracts sticky and medium-term in duration, but they also deliver consistent revenue across quarters providing strong visibility for contract management. Our assessed peer group of people-heavy service businesses has held-up well over the last two months, declining an average of 6% and now trading on an estimated FY22 EV/EBITDA multiple of 4.6x. The MIL relative multiple to this peer group has widened to a ~65% discount or an estimated 1.7x FY22 EV/EBITDA. The average peer multiple would imply a share price of \$1.00/share. With longer than average contract terms across a diverse range of tier-one customers and a strong balance sheet, we see no reason why a multiple closer to the peer average is not achievable.

Business model

MIL is a human services business with a focus on the essential services of cleaning and security, bidding for predominantly long-term contracts that have annual contract adjustments to protect MIL from movements in labour resource costs. Additional volumes over and above those contracted can be gained from ad-hoc services, which represent ~15% of group revenues at a higher average margin. Satisfying contractual obligations utilising a vast workforce and procuring consumables for the jobs within the contracted price is 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 to demonstrate transparency in these important areas (which most large private companies can't achieve) will be keys in this push.

Customer relationships and contract terms shine through

We have highlighted from recently quarterlies the incredibly consistent revenues quarter-to-quarter despite COVID-related disruptions, and now we can highlight the generally sticky and medium-term duration of most contracts with \$150m in business renewed across four clients for periods ranging from two to four years. Such consistency, stickiness and duration aids in the profitable management of the business. This is a key advantage MIL has from a business model perspective relative to most of our assessed peers.

Relative EV/EBITDA implies a \$1.00 valuation

Our assessed peer group average FY22 EV/EBITDA multiple implies a \$1.00/share valuation for MIL (4.6x EV/EBITDA), and we see no reason why this business does not deserve peer-average multiples given average contract length (two-five years), relative working capital intensity and market opportunities. Selected peers include Service Stream (ASX:SSM), GNG Engineering (ASX:GNG), Lycopodium (ASX:LXL), Southern Cross Electrical (ASX:SXE) and Ashley Services (ASX:ASH).

Historical earnings and RaaS estimates (in A\$m unless otherwise stated)

Year end	Adj. revenues	Und. EBITDA	NPAT (adj.)	EPS (adj.) (c)	P/E (x)	EV/EBITDA (x)
06/20a	257.3	4.0	2.0	0.04	nm	12.1
06/21a	273.7	11.6	2.2	0.05	6.5	1.2
06/22f	263.2	11.0	3.1	0.07	4.5	1.7
06/23f	273.7	12.6	5.5	0.12	2.6	1.1

Source: Company data, RaaS estimates for FY22e and FY23e

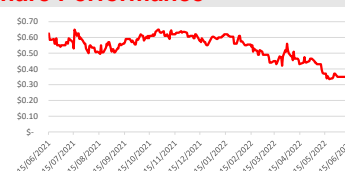
Human Services

15th June 2022

Share Details

ASX code	MIL
Share price (intraday)	\$0.31
Market capitalisation	\$14.2M
Shares on issue	45.9M
Net debt at 31-Mar-22	\$8.5M
Free float	~31.5%

Share Performance



Upside Case

- Converting a portion of the tender pipeline over the next 18 months
- Successfully diversify industry exposure to include government, education and aged care
- EPS accretive/complimentary acquisitions

Downside Case

- Competitive margin pressures re-emerge
- Sizable contract loss
- Wages growth timing RE: contracts clauses

Board of Directors

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

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*The author owns shares

Exhibit 1: Financial Summary (In A\$m unless otherwise stated)

Millennium Services (ASX.MIL)						Share price (15 June 2022)						A\$	0.310				
Profit and Loss (A\$m)						Interim (A\$m)						H120	H220	H121	H221	H122F	H222F
YE 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Revenue	135.1	146.8	159.7	138.7	131.7	131.5					
Revenue	257.3	273.7	263.2	273.7	284.7	EBITDA	2.4	1.7	7.0	4.7	6.7	4.3					
Gross profit	30.8	40.8	39.4	41.1	42.7	EBIT	(0.0)	(1.8)	4.7	2.0	4.4	2.1					
GP margin %	12.0%	14.9%	15.0%	15.0%	15.0%	NPAT (normalised)	(1.7)	2.0	2.5	0.9	2.7	1.2					
Underlying EBITDA	4.0	11.6	11.0	12.6	13.7	Minorities (AT)	0.0	0.0	0.0	0.0	0.0	0.1					
Depn	(5.9)	(4.9)	(4.5)	(4.4)	(4.4)	NPAT (reported)	(0.8)	2.8	1.9	0.3	1.9	1.2					
Minorities (AT)	0.0	0.0	0.1	0.1	0.1	EPS (normalised)	nm	0.061	0.041	0.007	0.041	0.026					
EBIT	(1.9)	6.8	6.5	8.3	9.4	EPS (reported)	nm	0.061	0.041	0.007	0.041	0.026					
Interest	(3.2)	(1.8)	(0.8)	(0.5)	(0.4)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	5.3	(1.6)	(1.7)	(2.3)	(2.7)	Imputation											
NPAT (adj)	0.3	3.4	4.0	5.5	6.3	Operating cash flow	na	na	na	na	na	na					
Adjustments	1.7	(1.2)	(0.8)	0.0	0.0	Free Cash flow	na	na	na	na	na	na					
NPAT	2.0	2.2	3.1	5.5	6.3	Divisionals	H120	H220	H121	H221	H122F	H222F					
Abnormals (net)	14.5	15.2	0.0	0.0	0.0	Cleaning	111.4	102.0	107.9	109.0	99.6	100.9					
NPAT (reported)	16.5	17.4	3.1	5.5	6.3	Security	23.7	20.2	27.2	29.7	32.1	30.5					
Cash flow (A\$m)						(Other)	-	24.6	24.7	-	-	-					
YE 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Total Revenue	135.1	146.8	159.7	138.7	131.7	131.5					
EBITDA (inc cash rent/JK)	19.4	29.3	10.1	11.7	12.7	Gross profit	17.0	13.8	21.7	19.1	21.0	18.4					
Interest	(3.2)	(1.8)	(0.8)	(0.5)	(0.4)	Underlying GP Margin %	12.6%	11.3%	16.1%	13.8%	15.9%	14.0%					
Tax	0.5	(0.1)	(1.7)	(2.3)	(2.7)	Operating Costs											
Working capital changes	(16.6)	12.9	(9.8)	(0.5)	(0.5)	Employment	8.3	16.4	15.9	9.4	8.8	8.6					
Operating cash flow	0.1	40.3	(2.3)	8.4	9.1	Other	5.5	4.9	6.2	5.0	5.5	5.5					
Mtce capex	(2.2)	(2.2)	(1.8)	(1.9)	(2.0)	Exceptional	0.9	9.2	7.3	-	-	-					
Free cash flow	(2.1)	38.1	(4.1)	6.5	7.2	Total costs	14.7	12.1	14.8	14.4	14.3	14.1					
Growth capex	0.0	0.0	0.0	0.0	0.0	EBITDA	2.4	1.7	7.0	4.7	6.7	4.3					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA margin %	1.7%	1.1%	4.4%	3.4%	5.1%	3.3%					
Other	(2.5)	(2.1)	(2.0)	(2.0)	(2.0)	Margins, Leverage, Returns	FY20A	FY21A	FY22F	FY23F	FY24F						
Cash flow pre financing	(4.6)	36.0	(6.1)	4.5	5.2	EBITDA margin %		1.6%	4.3%	4.2%	4.6%	4.8%					
Equity	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(0.7%)	2.5%	2.5%	3.0%	3.3%					
Debt drawdown/(repay)	1.6	(21.4)	(1.0)	(3.0)	(2.4)	NPAT margin (pre significant items)		0.8%	0.8%	1.2%	2.0%	2.2%					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		34.6	0.3	4.3	-0.1	-5.2					
Net cash flow for year	(3.0)	14.6	(7.1)	1.5	2.8	Net debt/EBITDA (x)	(x)	8.6 x	0.0 x	0.4 x	0.0 x	-0.4 x					
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	63.5%	11.5%	125.8%	1.8%	34.1%					
YE 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	EBIT interest cover (x)	(x)	n/a	0.3x	0.1x	0.1x	0.0x					
Cash	1.8	7.3	(3.2)	(1.8)	0.9	ROA		(6.0%)	11.6%	12.7%	17.2%	18.8%					
Accounts receivable	29.8	18.0	24.7	25.7	26.7	ROE		nm	nm	nm	nm	nm					
Inventory	1.2	1.1	1.0	1.0	1.1	ROIC		nm	nm	nm	nm	nm					
Other current assets	2.5	2.2	0.0	0.0	0.0	NTA (per share)		-0.60	-0.21	-0.17	-0.05	0.03					
Total current assets	35.3	28.7	22.5	24.9	28.7	Working capital		14.8	1.9	11.7	12.2	12.6					
PPE	8.6	7.0	5.2	3.7	2.3	WC/Sales (%)		5.7%	0.7%	4.4%	4.4%	4.4%					
Goodwill	7.5	7.5	8.5	8.5	8.5	Revenue growth		(12.7%)	6.4%	(3.8%)	4.0%	4.0%					
Right of use asset	2.9	3.0	3.0	3.0	3.0	EBIT growth pa		nm	(463.7%)	(3.6%)	27.5%	13.3%					
Deferred tax asset	7.4	8.5	8.5	8.5	8.5	Pricing		FY20A	FY21A	FY22F	FY23F	FY24F					
Other	0.1	0.1	0.1	0.1	0.3	No of shares (yle)	(m)	45.9	45.9	45.9	45.9	45.9					
Total non current assets	26.5	26.2	25.4	23.8	22.6	Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9					
Total Assets	61.9	54.9	47.9	48.7	51.2	EPS Reported	cps	0.359	0.379	0.068	0.120	0.138					
Accounts payable	16.3	17.3	14.0	14.6	15.1	EPS Normalised/Diluted	cps	0.043	0.048	0.068	0.120	0.138					
Short term debt	36.4	5.5	0.0	0.0	0.0	EPS growth (norm/dil)		nm	11%	43%	75%	15%					
Provisions	22.4	22.6	19.9	20.7	21.6	DPS	cps	0.000	0.000	0.000	0.000	0.010					
Lease liabilities/other	0.8	5.5	7.9	4.9	4.8	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Total current liabilities	76.0	50.9	41.8	40.2	41.5	Dividend yield		0.0%	0.0%	0.0%	0.0%	3.2%					
Long term debt	0.0	2.1	1.1	(1.9)	(4.3)	Dividend imputation		30	30	30	30	31					
Other non current liabs	5.8	4.1	4.1	4.1	4.1	PE (x)		nm	6.5	4.5	2.6	2.2					
Total long term liabilities	5.8	6.2	5.2	2.2	(0.2)	PE market		15	15	15	15	15					
Total Liabilities	81.8	57.1	47.0	42.3	41.2	Premium/(discount)		nm	(56.8%)	(69.8%)	(82.7%)	(85.0%)					
Net Assets	(19.9)	(2.3)	0.9	6.4	10.0	EVEBITDA		12.1	1.2	1.7	1.1	0.7					
Share capital	19.0	19.1	19.1	19.1	19.1	FCF/Share	cps	(4.535)	83.023	(13.950)	14.169	15.570					
Reserves	(8.5)	(8.3)	(8.3)	(8.3)	(8.3)	Price/FCF share		(6.835)	0.373	(2.222)	2.188	1.991					
Retained Earnings	(30.3)	(13.1)	(9.8)	(4.3)	(0.8)	Free Cash flow Yield		(14.6%)	267.8%	(45.0%)	45.7%	50.2%					
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	(19.9)	(2.4)	0.9	6.4	10.0												

Source: RaaS



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th 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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 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

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