

Mastermyne Group Ltd

Game changing contract(s) = re-rating potential

Mastermyne Group Ltd (ASX:MYE) is the leading specialist provider of critical underground Metallurgical Coal mining services in Australia, employing over 1,150 people at December 2020. FY21 was the first down revenue/earnings year since FY16 with COVID-related shutdowns causing the biggest decline in Metallurgical Coal demand (used for steel making) and exports since at least 1971. Fast forward 12-months and demand is recovering, prices are 100% higher than the December 2020 lows and a number of “care & maintenance” mines are being re-evaluated. The recently announced \$600m+ Whole of Mine (WOM) Gregory Crinum contract for MYE is just one example, while MYE is also doing early work at Dysart East (Bengal Coal) and Cook Colliery (QCoal). These contracts are potential game changers for MYE offering 6–7 year revenue visibility, a doubling in the order book, client diversity and improved margins, a catalyst for a “re-rating”. Overlaying this company specific contract outlook is a potential “re-rating” of the Australian small to mid-cap mining services sector. We suggest the “peer group” multiple has room to expand given current commodity prices/activity and CAGR sales growth of 30%, EBITDA growth of 31%, EBIT growth of 49% and a reduction in debt/EBITDA from 1.0x to 0.6x between FY16 and FY21.

Business model

MYE provides a range of contracted services and equipment hire to major underground Metallurgical Coal owner/operators. These services include underground roadway development, conveyor installation, longwall relocation & maintenance and supply and installation of ventilators. Such services require the recruitment of human resources and efficient management of both human resources and equipment for hire. The business charges a margin on top of the cost of labour/equipment to derive revenue and earnings.

Everything in place for earnings growth and a re-rating

FY21 was the first down revenue/earnings year for MYE since FY16 as COVID-related industrial shutdowns impacted the demand for steel and therefore Metallurgical Coal. Off this reduced base, MYE is poised to deliver strong growth into FY22 and beyond, with much improved Metallurgical Coal prices driving new mining activity. The recently announced Gregory Crinum \$600m WOM contract is an example of this trend, and there are prospects of similar contract announcements near-term. This is potential game changer for MYE in terms of order book, revenue visibility, client diversity and margins.

A number of small-mid cap peers and the sector looks “cheap”

Mastermyne is a people and equipment intensive business servicing the mining sector, albeit in a very specialised service (underground Metallurgical Coal). There are a number of long ASX-listed small to mid-cap mining services companies that have similar attributes/business models which provide good historical data and relative multiple comparisons. Suggested peers include NHW, EHL, MAH, MLD, GNG, LYL and MSV in mining services and SSM and BSA outside. An analysis of key variables across both qualitative and quantitative measures suggests MYE deserves a premium rating to the average peer multiple.

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

Year end	Revenue (A\$m)	EBITDA (A\$m)	NPAT Adj. (A\$m)	EPS adj (A\$m)	PER (x)	EV/EBITDA (x)
06/17a	124.2	4.6	-1.6	-0.018	nm	nm
06/18a	201.7	16.0	5.3	0.053	17.8	6.5
06/19a	225.6	19.2	7.3	0.072	13.3	4.4
06/20a	292.7	27.3	10.3	0.098	9.7	2.7

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

Mining Services

13 August 2021

Share details

ASX Code	MYE
Share price (12 Aug)	\$1.07
Market Capitalisation	\$112.8M
Shares on issue	105.4M
Free float	52.4%

Share performance (12 months)



Upside Case

- Delivering on the current \$1.1bn order book
- New WOM contract(s) similar to the recently announced Gregory Crinum contract.
- Acquisition and/or contract wins outside of Metallurgical Coal

Downside Case

- Lower Metallurgical Coal prices reduce mining activity/increase cost focus of key customers
- LT technological advancements in steel making to the detriment of Met-Coal
- Adverse events at key mines

Catalysts/upcoming events

- FY21 result – 18th August 2021
- Further WOM contract announcements
- Sustained strength in Metallurgical coal prices

Comparable companies (Aust/NZ)

Licopodium (ASX:LYL) MACA (ASX:MLD); NRW Holdings (ASX:NWH); Mitchell Services (ASX:MSV), Macmahon (ASX:MAH)

Board of Directors

Colin Bloomfield	Chairman
Anthony Caruso	Managing Director
Andrew Watts	Non-Executive Director

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FINANCIAL SERVICES GUIDE

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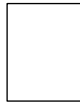
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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

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