

Metarock Group Limited

Rocking FY23 guidance

Metarock Group Limited (ASX:MYE), formerly Mastermyne Group Ltd, is the leading specialist provider of critical underground metallurgical coal and metalliferous hard-rock mining services in Australia, employing almost 2,000 people at December 2021. The business has historically been focused on contracting for major operators including Anglo, S32 and Whitehaven, and still does. More recently, MYE has moved into the “whole-of-mine” (WOM) space meaning it operates the mines in its own right for mid-tier players Sojitz Blue (Crinum) and QCoal (Cook). Both these contracts are in the ramp-up phase requiring significant capex before full production by Q1 FY23. Such contracts are said to be higher margin than contracting and at least six years in duration including options. The current metallurgical coal price is supportive of both the contracting and WOM businesses with prices 350% above levels 18-months ago. To diversify the business away from coal MYE acquired underground hard-rock specialist PYBAR effective November 2021 for \$100m including assumed debt. While there are some commonalities between the businesses, they are expected to run side by side, with PYBAR benefitting from MYE’s ASX listing and balance sheet. Revenue guidance for FY22 is \$450-\$80m, rising to \$700m-750m in FY23. Similarly, EBITDA guidance for FY22 is \$37m-43m, rising to \$80m-95m in FY23, as full production is achieved.

Business model

MYE provides a range of contracted services and equipment hire to major underground metallurgical coal and more recently metalliferous hard-rock owner/operators via the acquisition of PYBAR. These services include underground roadway development, conveyor installation, longwall relocation and maintenance, and supply and installation of underground ventilation control devices. 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 revenues and earnings.

Transformational deals set to transform numbers

The \$47m PYBAR acquisition (plus assumed equipment hire leases) contributed for just two months in H1 FY22, while the seven-year WOM Crinum contract was delayed 20 weeks, and the four-to-six-year Cook Colliery contract has just been signed. Significant capex and costs have been incurred in readiness to deliver these contracts. Newly stated guidance for FY23 provides an insight into the group’s earnings potential as these contracts reach full production and PYBAR is integrated, with revenues growth of ~50% and EBITDA growth of ~120% on the revised FY22 guidance.

A number of long-time ASX- listed mining services peers

There are a number of long-ASX-listed small- to mid-cap mining services players which utilise both people and equipment to deliver on contracts in varying durations for mine owners. Peers include LYL, NWH, MAH, MLD, GNG, EHL and DDH. Based on consensus estimates in FY22 the average EV/EBITDA multiple for this group is ~3.8x and EV/EBIT 6.0x. MYE would sit well below this range based on FY23 guidance.

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

| Year end | Revenue | EBITDA adj.* | NPAT adj.* | NPAT rep. | EPS adj.* (c) | EPS rep. (c) | EV/Revenue (x)^ | EV/EBITDA (x)^ | PER (x)^ |
|----------|---------|--------------|------------|-----------|---------------|--------------|-----------------|----------------|----------|
| 06/18a | 190.5 | 15.7 | 4.86 | 5.02 | 0.05 | 0.05 | 0.85 | 10.4 | 14.2 |
| 06/19a | 225.6 | 19.3 | 7.19 | 7.41 | 0.07 | 0.10 | 0.72 | 8.4 | 10.1 |
| 06/20a | 292.7 | 28.6 | 11.56 | 11.66 | 0.11 | 0.11 | 0.56 | 5.7 | 6.5 |
| 06/21a | 233.1 | 21.5 | 5.09 | 5.88 | 0.05 | 0.05 | 0.70 | 7.6 | 14.2 |

Source: Company data; *EBITDA, NPAT and EPS adjusted for one-time, non-cash items ^calculated using current enterprise value and share price

Mining Services

11th March 2022

Share Details

| | |
|-------------------------|---------|
| ASX code | MYE |
| Share price | \$0.71 |
| Market capitalisation | \$92.4M |
| Shares on issue | 130.2M |
| Net debt at 31-Dec-2021 | \$70.2M |
| Free float | 98.9% |

Share Performance (12 months)



Upside Case

- Delivering on \$1.9b order book
- New contracts in both contracting and WOM
- Delivering on PYBAR acquisition metrics

Downside Case

- Significantly lower metallurgical coal prices
- Long-term technological advancement in steel making (key use of metallurgical coal)
- Safety issues at key mines

Catalysts

- Delivery of FY22 guidance (Aug-22)
- Further contract announcements

Comparable companies (Aust/NZ)

NRW Holdings (ASX:NWH), Maca Ltd (ASX:MLD), Emeco (ASX:EHL), DDH1 (ASX:DDH), GR Engineering (ASX:GNG), Macmahon (ASX:MAH)

Board and Management

| | |
|------------------|------------------------|
| Colin Bloomfield | Non-Executive Chair |
| Tony Caruso | Managing Director/CEO |
| Andrew Watts | Non-Executive Director |
| Gabriel Meena | Non-Executive Director |
| Julie Whitcombe | Non-Executive Director |
| Paul Rouse | Non-Executive Director |

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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

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