Research as a Service

RAP Report

20th February 2018

Cardno

Year 2 of a multi-year restructure

Cardno (CDD) operates an engineering consulting business, primarily in Australia and the US. Its International Development business provides management services for government aid programs. It is non-cyclical, albeit lumpy and dependent on government aid budgets. CDD's loss making period began in FY15 following an aggressive acquisition strategy and the retirement of the CEO (~20 years' service with CDD). Since then CDD has written down its assets by $402m and sold loss making and non-core businesses. Restructure and business review costs and provisions for FY16 and FY17 total $59.4m with a further restructuring charge of $3.3m in H118. The H118 result was described by the company as 'the first clean result in four years'.

Strategy

FY17 was a re-basing year for CDD and included restructuring of reporting lines, consolidation of operations, closure of loss making businesses and sale of non-core assets. Current strategy is to repair the EBITDA margin in the Americas by increasing revenue and implementing stronger pricing discipline and to reduce the cyclicality of the oil and gas division. With a re-based business the focus is to achieve organic growth and to boost growth with bolt on acquisitions that build scale (particularly in the Americas where many of the service lines as sub-scale) and to increase diversification. Expectations are for modest revenue growth and improved margins.

Outlook

FY18 EBITDA guidance of $55-$60m (up between 25%-35% on pcp) was provided at the 30 June 2017 result, confirmed at the company's H118 result release and validated by the H118 performance ($30m EBITDA). Target for FY19 is 10-15% organic growth and bolt on acquisitions. There are 42.7m shares remaining for purchase under the share buy-back scheme which is in place until March 2018. Dividends were suspended in FY15 and the board has advised that dividends will only the re-commenced if CDD does not have a better use for shareholders' funds. Losses since FY15 mean that there are limited franking credits available.

Earnings history and Consensus forecasts (A$m)

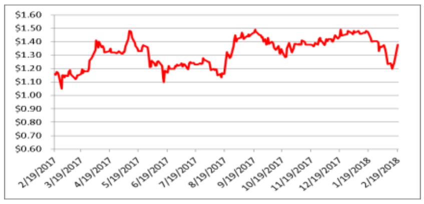
Y/E	Revenue	EBITDA	EBIT	NPAT*	DPS (c)	EPS (c)*	PE (x)	P/CF (x)	Yield (%)
6/16	1,164.4	42.0	16.2	6.2	0.0	2.5	54.8	6.0	0.0
6/17	1,182.0	44.0	27.5	19.9	0.0	4.2	32.6	(279.6)	0.0
6/18 (f)	1,195.0	n/p	n/p	26.6	0.0	5.5	24.9	n/p	0.0
6/19(f)	1,237.0	n/p	n/p	31.3	4.0	7.0	19.6	n/p	2.9

Source: Company data; Consensus for FY18 and FY19 derived from Stockopedia.com

Share details

ASX Code	CDD
Share Price	$1.38
Market Capitalisation	$655M
Number of shares	474.3m
Enterprise Value	$651M
Sector	Construction/Engineering
Free Float	97.2%

Share price performance



RaaS RAP 5-point score* = 3/5

Revenue increasing (0); EPS increasing (1), Return on Capital Employed [ROCE] (0); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(1)

Upside Case

- New CEO recruited from high quality global engineering consulting company, SMEC where he as MD. US based to reflect future directions.
- Fee for service business that does not take construction risk
- Weakening of AUD against US dollar

Downside Case

- Failure to build scale in US market
- Weakening economic conditions in key markets of Au
- Ability of company to scale up and scale down opera to changes in demand

Catalysts

- Meeting FY18 guidance
- Continued overall margin improvement

Comparative companies (Australia & NZ)

IPH, SJH, KPG, LYL

Substantial Institutional Shareholders

Crescent Capital 46.7%; Invesco 12.7%

RaaS Advisory contacts

Moira Daw +61 418 697 275
moira.daw@raasgroup.com

Finola Burke +61 414 354 712
finola.burke@raasgroup.com

*The RaaS RAP 5-point scorecard is derived from the last reported financial year's performance over the prior year. Past performance is not a guarantee of future performance.

DISCLAIMER and DISCLOSURES