

Monadelphous

Bad news seems to be ending

Monadelphous (MND) operates two divisions - construction, where work tends to be 'one-off', and ongoing maintenance and industrial services which in the main provide recurring revenue through long term contracts. Its focus is on the resources, energy and infrastructure sectors with operations in Australia, NZ, China, PNG, Mongolia and US. In H118 MND secured \$385m in new contracts and staff numbers grew by 26% to 6,277. The H118 result saw revenue up 38.6% on pcp but margins came under pressure with the H118 EBITDA margin falling to 7.1% from 8.0% in the previous corresponding period. The engineering construction division which accounted for 54% of revenue grew revenues by 63.2% in H118.

Strategy

The key strategic priorities are to maximise returns from core markets, to build an infrastructure business and to deliver services to new overseas markets including North America (workshop and logistics facility established in Houston), Mongolia (two packages of work won at Oyu Tolgoi copper mine and expectations to win more work) and expansion of business and support services capability in Manila. The engineering division undertakes EPC contracts, using Mondium, in partnership with engineering and project management consultancy Lycopodium. New offshore revenue enhancing opportunities will be vigorously pursued and SinoStruct will be used to establish a beachhead in USA, particularly in the shale-oil market.

Outlook

Guidance at H118 result was for revenue to be up 30% on last year and commentary flagged an improving outlook for core resources market. Competition remains high and the focus is on improving productivity. No guidance was provided on profitability. Since the release of H118 result consensus earnings have increased by 0.6% in FY18 and 6.4% in FY19.

Earnings history and Consensus forecasts (A\$m)

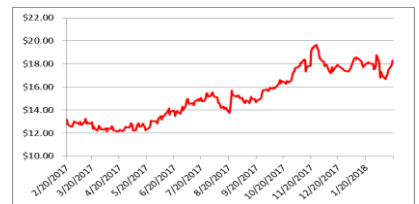
Y/E	Revenue	EBITDA	EBIT	NPAT*	DPS (c)	EPS (c)*	PE (x)	P/CF (x)	Yield (%)
6/16	1,369.0	113.6	96.6	67.0	60.0	69.0	26.6	21.9	3.3
6/17	1,249.0	98.2	83.4	57.6	54.0	58.8	31.2	15.5	2.9
6/18 (f)	1,474.0	n/p	n/p	67.2	58.3	70.8	25.9	n/p	n/p
6/19(f)	1,559.0	n/p	n/p	71.7	61.9	71.6	25.6	n/p	n/p

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

Share details

ASX Code	MND
Share Price	\$18.32
Market Capitalisation	\$1,722M
Number of shares	94.0m
Enterprise Value	\$1,516M
Sector	Construction/engineering
Free Float	93.2%

Share price performance



RaaS RAP 5-point score* = 4/5

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

Upside Case

- Track record of profitable operations
- Diversifying by product and geography
- Opportunities to build recurring revenue streams from asset management/services business

Downside Case

- Competitive market in Australia resulting in low revenue margin pressure
- Need to put cash to work
- EPC contracts add more risk as MND is held responsible for project in accordance with the brief

Catalysts

- EBIT margin improvement
- Successful offshore expansion

Comparative companies (Australia & NZ)

MAH, MLD, NWH, DCG

Substantial Institutional Shareholders

Vinva Investment Management 5.02%

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