# RAP Report

20th February 2018

# Service Stream

## Guidance for FY18 EBITDA growth of 42% to $64m

Service Stream (SSM) provides design, construction, installation and maintenance services related to infrastructure to the telecommunication and utility sectors (electricity, gas and water). It has a national presence and provides a full range of services to support the planning, construction and servicing of 6,000 mobile phone sites and 1 million NBN connections. SSM's involvement in the design and construction phases should be a positive in securing future on-going maintenance contracts.

### Strategy

SSM is a service provider offering a one-stop shop for the provision and maintenance of essential networks for the delivery of communications energy and water. Services provided by SSM's team of 1,800 staff and 2,500 contractors include access, design, build, install and service. Reported segments are Fixed Communications (48% of FY17 EBITDA) , Network Construction (38%), and Energy and Water (14%). The April 2017 acquisition of TechSafe, an independent electrical inspection company performing more than 100,000 electrical inspections and compliance audits per annum augments the energy and water division and provides a source of recurring revenue unrelated to infrastructure development.

### Interim result

On February 14, SSM reported 1H18 NPAT of $19.9m, up 52% on the prior period. EBITDA rose by 52% to $32.1m and the company announced it expected to deliver full year EBITDA of $64m, which equates to a 42% increase I EBITDA year on year. The results were struck on revenue growth of 22% to $294.1m, demonstrating positive margin expansion in the half, particularly in the fixed communication division. SSM's board increased the interim dividend by 100% to $0.03/share and announced a share buyback of up to 7.5% of the company's share capital, in the absence of finding suitable acquisitions.

### Outlook and consensus

The company has provided guidance for EBITDA of approximately $64m for FY18e and expects profit to be broadly in line with 1H18. SSM anticipates that fixed communication will experience an increase in remediation, assurance and minor projects in 2H18 to offset the pause in the NBN HFC rollout. EPS consensus (from two brokers) has increased by 11% and 19% respectively for FY18e and FY19e since the company reported its interim result.

Earnings history and Consensus forecasts (A$m)

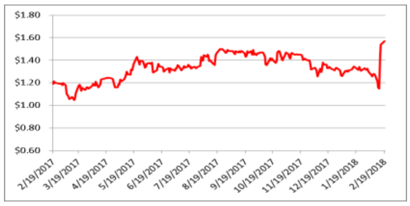
| Y/E | Revenue | EBITDA | EBIT | NPAT* | DPS (c) | EPS (c)* | PE (x) | P/CF (x) | Yield (%) |
|---|---|---|---|---|---|---|---|---|---|
| 6/16 | 437.9 | 46.5 | 39.1 | 20.0 | 2.6 | 5.1 | 31.0 | 9.9 | 1.6 |
| 6/17 | 501.5 | 49.0 | 41.5 | 28.4 | 4.5 | 7.6 | 20.6 | 11.5 | 2.9 |
| 6/18 (f) | 559.3 | n/p | n/p | 41.2 | 6.8 | 11.4 | 13.8 | n/p | 4.3 |
| 6/19(f) | 658.8 | n/p | n/p | 45.0 | 8.0 | 12.9 | 12.2 | n/p | 5.1 |

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

**Share details**

| | |
|---|---|
| ASX Code | SSM |
| Share Price | $1.57 |
| Market Capitalisation | $573M |
| Number of shares | 365.2m |
| Enterprise Value | $510M |
| Sector | Engineering Contracting |
| Free Float | 88.4% |

**Share price performance**




**RaaS RAP 5-point score* = 5/5**

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

**Upside Case**

- Diversification process and access to non-contract dependent recurring revenue streams has commenced with acquisition of TechSafe
- ~$50m cash provides a war chest for further industry consolidation via acquisitions
- Has established a position in the new energy sector

**Downside Case**

- Heavy reliance on the NBN rollout and maintenance which accounted for 50% of revenue and 59% of EBITDA in 1H18. Long pauses on the HFC rollout could impact SSM's performance.
- Dependent on third party contracts which can be cancelled with no notice and no/little compensation
- Double edged sword potentially looming with 5G

**Catalysts**

- Meeting FY18 guidance
- Customer wins

**Comparative companies (Australia & NZ)**

SXE, BSA

**Substantial Institutional Shareholders**

Thorney (21.38%)

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*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.