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GNP, Initial Impression; 1H 2023 In line, Outlook Robust

GNP.ASX | GENUSPLUS GROUP LIMITED | INDUSTRIALS

PRICE
A\$ 0.91

TARGET PRICE
A\$ 1.39
(FROM A\$ 1.39)

RECOMMENDATION
BUY
(FROM BUY)

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Event

- GNP has reported half year results with the following highlights.

Impact

- Revenue of \$225m, Normalised EBITDA of \$17.2m, normalised NPATA of \$7.8m.
- Broadly these numbers are modestly down on pcp and modestly up on 2h 2022 and in line with our expectations.
- Cash inflow from operations of \$14.4m.
- Strong orderbook of \$413m, with \$215m for delivery in 2H 2023, providing support for our forecasts.
- The tender pipeline is \$1.5b up from \$850m at the end of FY 2022, a significant increase.
- Per commentary recurring revenues continues to grow with circa \$170m in visibility for 2024.
- The macro drivers supporting Genus are gathering momentum; with specifics such as the Federal Government \$20b rewiring the Nation Plan providing a delivery framework and GNP is well placed to participate.
- Budget pricing and opportunity leads have increased to in excess of \$3b.

Action

Buy, PT \$1.39

Catalyst

- Contracts wins in the normal course
- information/clarity in relation to the way forward for the communications business, the losses in the business reduced in 1h 2023; there is more to do yet although welcome progress is being made.
- GNP is in the running for the significant Humelink 500kv Transmission Project in NSW, a significant catalyst.
- Conversion of a fair share of the \$1.5b in tendering to contacts.
- Overtime, the themes articulated below, which provide the backbone of support for our long term growth ambitions for GNP are attractive.

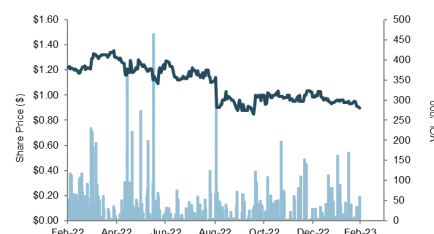
Figure 1: Market drivers



Source: GNP

Share Price	0.91	A\$/sh	
Price Target	1.39	A\$/sh	
Valuation (DCF)	1.50	A\$/sh	
WACC	9.7%		
Terminal Growth	3.0%		
Shares on issue	176.7	m	
Market Capitalisation	160.8	A\$m	
Enterprise Value	154.7	A\$m	
Cash	27.9	A\$m	
Debt (leases)	21.8	A\$m	
Key Financial Metrics	2022A	2023F	2024F
Revenue (A\$m)	450.9	450.5	495.7
EBITDA Norm (A\$m)	35.1	35.0	42.0
EBIT(A\$m)	23.2	17.6	26.2
Reported NPAT (A\$m)	13.6	13.5	17.6
Normalised NPAT (A\$m)	15.5	15.4	20.1
Gross Cashflow (A\$m)	18.8	22.1	27.1
Capex (A\$m)	-15.0	-10.0	-10.0
Op. Free Cashflow (A\$m)	-10.9	6.5	11.6
Revenue Growth (%)	40%	0%	10%
EBITDA Growth (%)	21%	-1%	29%
Norm. NPAT Growth (%)	0%	0%	0%
Normalised EPS (Ac)	8.8	8.7	11.4
Norm. EPS growth (%)	-10%	-1%	31%
PER (x)	10.3	10.4	8.0
EV:EBITDA (x)	4.7	4.8	3.7
EV:EBIT (x)	6.7	8.8	5.9
EV:Rev (x)	0.3	0.3	0.3
DPS (Ac)	1.80	2.00	3.00
Dividend Yield (%)	2.0%	2.2%	3.3%

Performance



Source: Euroz Hartleys

Income Statement	2022A	2023F	2024F	PERFORMANCE RATIOS	2022A	2023F	2024F
Revenue	450.9	450.5	495.7	Growth & Margins			
(-) OPEX	-417.9	-418.0	-453.7	Revenue Growth	40%	0%	10%
EBITDA	33.0	32.5	42.0	EBITDA Growth	21%	-1%	29%
EBITDA normalised	35.1	35.0	42.0	EBIT Growth	17%	-24%	49%
(-) D&A	-11.9	-14.9	-15.8	Normalized Net Profit Growth	0%	0%	0%
EBIT	23.2	17.6	26.2	EBITDA margin	7.3%	7.2%	8.5%
(-) Net Finance	-1.1	-1.0	-1.0	EBIT margin	5.1%	3.9%	5.3%
PBT	20.0	16.6	25.2	Normalized net profit margin	3.0%	3.0%	3.6%
(-) Tax	-6.5	-3.1	-7.6	Effective tax rate	30%	24%	30%
NPAT	13.6	13.5	17.6	Liquidity			
Normalised NPAT	15.5	15.4	20.1	Capex/depreciation (x)	1.3	0.7	0.6
Cashflow Statement	2022A	2023F	2024F	Current ratio (x)	1.4	1.5	1.6
NPAT	13.6	13.5	17.6	Quick ratio (x)	1.3	1.4	1.6
(+) D&A	11.9	14.9	15.8	Receivable days	55.7	55.7	55.7
(-) Lease Expense	-6.3	-6.3	-6.3	Payable days	63.4	58.4	58.4
(-) Gain on Disposal	-0.3	0.0	0.0	Risk Measures			
(-) Revaluation	0.5	0.0	0.0	Dividend Cover (x)	4.3	3.8	3.3
(-) Share based payments	0.0	0.0	0.0	Payout ratio (%)	23%	26%	30%
(+/-) Other	-0.5	0.0	0.0	Net interest cover (x)	21.7	17.2	25.6
Gross Cashflow	18.8	22.1	27.1	Net debt/equity (%)	-1%	-1%	-8%
(-) Capex	-15.0	-10.0	-10.0	Returns			
(-) Change in NWC	-14.7	-5.6	-5.5	Return on Invested Capital	12%	9%	12%
Operating Free Cashflow	-10.9	6.5	11.6	Return on Assets	6%	6%	7%
(-) Acquisition (net)	-21.0	-4.0	0.0	Return on Equity	15%	13%	15%
(-) Purchase of investment	0.0	0.0	0.0	SHARE DATA/VALUATION	2022A	2023F	2024F
(+) Proceeds from Disposal	1.6	0.0	0.0	Share Data			
(+) Issue of Equity	18.8	0.0	0.0	Issued shares (m)	175.8	175.8	175.8
(-) Dividend Paid	-2.8	-3.2	-3.5	Weighted ave shares (m)	165.7	175.8	175.8
(+/-) Other	-0.4	0.0	0.0	Fully diluted shares (m)	175.8	176.7	176.7
Net Cashflow	-14.7	-0.7	8.1	Basic EPS (c)	7.7	7.7	10.0
BoP Net Cash / (Debt)	14.3	0.7	1.0	YoY change (%)	-10%	-1%	31%
(+/-) Net Cashflow	-14.7	-0.7	8.1	Fully diluted EPS (c)	7.7	7.6	10.0
(+/-) AASB16 Adj.	1.1	0.9	0.9	YoY change (%)	-10%	-1%	31%
EoP Net Cash / (Debt)	0.7	1.0	10.0	Fully diluted normalised EPS (c)	8.8	8.7	11.4
Balance Sheet	2022A	2023F	2024F	YoY change (%)	-10%	-1%	31%
Cash	27.9	28.1	37.1	Dividend/share (c)	1.8	2.0	3.0
Receivables	68.9	68.8	75.7	Franking (%)	100%	100%	100%
Contract Assets	45.7	45.7	50.3	Gross cashflow/share (c)	10.7	12.6	15.4
Inventories	3.7	3.7	4.0	NBV/share (c)	53.2	59.0	67.0
Current Tax Assets	4.6	4.6	4.6	NTA/Share (c)	33.7	39.3	49.3
Other Assets	1.6	1.6	1.6	Valuation			
Total Current Assets	152.4	152.5	173.3	PER (Basic) (x)	11.8	11.9	9.1
Financial Assets	1.0	1.0	1.0	PER (Fully diluted) (x)	11.8	11.9	9.1
PP&E	17.7	21.6	24.6	PER (Fully diluted, normalized) (x)	10.3	10.4	8.0
ROUA	23.3	23.3	23.3	P/CFPS (x)	8.5	7.2	5.9
Other Assets	3.5	3.5	3.5	Price/NBV (x)	1.7	1.5	1.4
Intangible Assets	34.2	34.7	31.2	Price/NTA (x)	2.7	2.3	1.8
Total Non-Current Assets	79.6	84.1	83.6	Dividend Yield (%)	2%	2%	3%
Total Assets	232.0	236.6	257.0	EV/EBITDA (x)	4.7	4.8	3.7
Payables	72.6	66.9	72.6	EV/EBIT (x)	6.7	8.8	5.9
Contract Liabilities	12.8	12.8	12.8	EV/Revenue (x)	0.3	0.3	0.3
Borrowing	1.9	1.9	1.9				
Contigent Consideration	4.9	4.9	4.9				
Lease Liabilities	7.8	7.8	7.8				
Employee Benefits	6.5	6.5	7.0				
Provisions	1.2	1.2	1.2				
Total Current Liabilities	107.7	102.0	108.2				
Borrowing	3.3	3.3	3.3				
Contigent Consideration	0.7	0.7	0.7				
Lease Liabilities	14.2	14.2	14.2				
Deferred Tax Liabilities	10.1	10.1	10.1				
Employee Benefits	2.6	2.6	2.6				
Total Non-current Liabilities	30.8	30.8	30.8				
Total Liabilities	138.6	132.8	139.1				
Net Assets	93.4	103.7	117.9				
Issued Capital	53.8	53.8	53.8				
Reserves	-0.3	-0.3	-0.3				
Retained Earnings	40.0	50.3	64.4				
Total Equity	93.4	103.7	117.8				

We build earnings as follows:

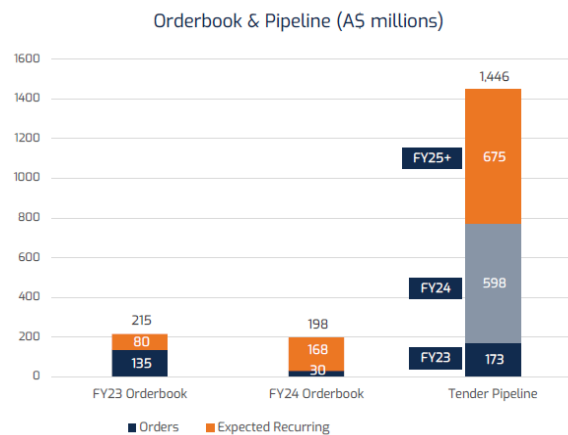
Figure 2: Earning breakdown

FY	Units	2020	2021	1H 2022	2H 2022	2022	1H 2023	2H 2023	2023	2024
		A	A	A	F	A	A	F	F	F
Revenue	A\$m	175.5	321.7	217.5	233.4	450.9	226.2	224.3	450.5	495.7
(-) OPEX	A\$m	-155.1	-294.4	-199.0	-218.9	-417.9	-211.5	-206.5	-418.0	-453.7
EBITDA	A\$m	20.4	27.3	18.5	14.5	33.0	14.7	17.8	32.5	42.0
Normalised EBITDA		20.4	32.4	19.3	15.8	35.1	17.2	17.8	35.0	42.0
(-) D&A	A\$m	-5.3	-7.4	-5.6	-6.3	-11.9	-7.3	-7.6	-14.9	-15.8
EBIT			19.9	12.9	8.2	21.1	7.4	10.2	17.6	26.2
(-) Net Finance	A\$m	-0.7	-0.7	-0.5	-0.6	-1.1	-0.7	-0.3	-1.0	-1.0
PBT	A\$m	14.5	19.2	12.4	7.6	20.0	6.7	9.9	16.6	25.2
(-) Tax	A\$m	-3.8	-5.8	-3.3	-3.2	-6.5	-0.3	-2.8	-3.1	-7.6
NPAT	A\$m	10.7	13.3	9.1	4.5	13.6	6.4	7.1	13.5	17.6
Normalised NPAT*	A\$m		13.4	9.7	5.8	15.5	7.8	7.6	15.4	20.1

Source: EH

- We are looking for a similar 2h 2023 to 1h 2023 before resumption of top line growth in 2024.
- The top line growth is supported by a base load of recurring revenue (circa \$170m), however does require some contract wins to support the growth looked for.
- The tendering pipeline is supportive:

Figure 3: Tendering pipeline



Note: Revenue from recurring works includes long term customer/Panel revenue and revenue from long term supply & maintenance contracts. It excludes supply & maintenance revenue and minor projects from repeat customers that are not on long term contracts.

Source: EH

- We see contract wins as a significant future catalyst.
- Our PT is maintained at \$1.39, capitalising 2023 forecast EBITDA at 7x; our DCF is coming out at \$1.50 assuming some fairly modest growth subsequent 2023. The opportunity is larger than what we have forecast, recognising GNP have work to win and some other moving parts, particularly around Communications, to navigate.
- Buy maintained.

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GenusPlus Group Limited (GNP.ASX) | Price A\$0.91 | Target price A\$1.39 | Recommendation Buy;

Price, target price and rating as at 27 February 2023 (not covered)*

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