

UPDATING NUMBERS | PUBLISHED ON 18 MAY 2023

VYS- Upgrade FY'23 and FY'24

VYS.ASX | VYSARN LIMITED | INDUSTRIALS | ENGINEERING & CONSTRUCTION
PRICE
A\$0.12/sh
TARGET PRICE
A\$0.20/sh
 (FROM A\$0.12/sh)

RECOMMENDATION
BUY
 (UNCHANGED)

ANALYST
HARRY STEVENSON
 HSTEVENSON@EUROZHARTLEYS.COM

Event

Vysarn has provided an upgrade to FY'23 earnings, implying a stronger entry run-rate into FY'24 across the whole business.

Pentium Hydro now forecast to deliver 2H'23 EBITDA of \$7.5m (up from previous guidance of \$6.1m EBITDA).

The company is now forecast to deliver NPBT of \$6.0m to \$6.5m in FY'23; 22% upgrade to previous guidance of \$5.1m NPBT.

As flagged at the AGM in November first half operating results were impacted by demobilisation and remobilisation of part of the fleet to tier 1 clients (BHP, FMG, Roy Hill) on long dated better margin contracts. As a result 2H'23 EBITDA of \$7.5m could be base case run rate earnings for FY'24 (though we have taken a conservative approach to forecasting). We flag commentary at the half suggesting VYS potentially double shifting part of the fleet from March 2024 (which could imply further upgrades to our FY'24 forecasts as they stand).

Impact

FY'23 Forecasts

- EBITDA \$12.0m (previously \$10.3m)
- EBIT of \$6.7m of (previously \$5.5m)
- EBT \$6.3m (previously 5.1m)

Action

We have increased our **Price Target to \$0.20/sh**; which reflects our view of FY'24 free cash flow potential.

Multiples based valuations are useful shortcut to a price target; though can be troublesome when companies are grouped with a bucket of peers that are trading at generally deflated valuations. As a broad idea mining services valuations (in terms of EV/EBITDA multiples) continue to trade at 50% discount to 6x average and overtime we expect re-rate across the sector. We also believe VYS's long term business model as it transitions towards water consultant/management business should warrant a premium to capital intensive businesses it is currently grouped with, we have attempted to address this below.

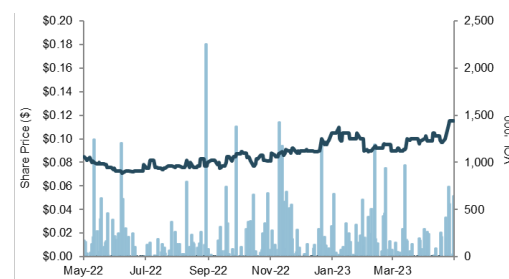
Management is quietly pulling together unique range of services (consultancy, contractor and ownership) which could over time yield significant value to investors on execution in a combined group.

Catalyst

- Expansion of VYS position in the water vertical.
- FY'23 Results.

Vysarn Ltd			
Share Price	0.12	A\$/sh	
Price Target	0.20	A\$/sh	
Valuation (DCF)	0.26	A\$/sh	
WACC	10.0%		
Terminal Growth	2.5%		
Shares on issue	422	m	
Market Capitalisation	48.5	A\$m	
Enterprise Value	52.4	A\$m	
Cash (1H'23)	7.1	A\$m	
Debt* (1H'23)	11.0	A\$m	
Key Financial Metrics	2022A	2023F	2024F
Revenue (A\$m)	46.3	63.2	71.9
EBITDA (A\$m)	9.1	12.0	15.1
EBIT (A\$m)	4.6	6.7	9.0
Reported NPAT (A\$m)	2.9	6.3	7.7
Normalised NPAT (A\$m)	2.9	4.4	6.2
Gross Cashflow (A\$m)	8.3	11.3	13.5
Capex (A\$m)	-5.0	-4.5	-4.5
Op. Free Cashflow (A\$m)	3.4	6.4	6.9
Revenue Growth (%)	79%	37%	14%
EBITDA Growth (%)	81%	32%	26%
Norm. NPAT Growth (%)	260%	na	na
Normalised EPS (Ac)	0.7	1.5	1.8
Norm. EPS growth (%)	2.6	1.2	0.2
PER (x)	16.9	7.7	6.3
EV:EBITDA (x)	5.8	4.4	3.5
EV:EBIT (x)	11.5	7.8	5.8
DPS (Ac)	0.00	0.00	0.00
Dividend Yield (%)	0.0%	0.0%	0.0%
Net Cash (A\$m)*	-4.8	-1.8	5.2
Net Debt:Equity (%)	17%	5%	-12%

Performance



Source: Euroz Hartleys

Year to 30 June	2022A	2023F	2024F	Year to 30 June	2022a	2023F	2024F
FINANCIAL STATEMENTS				PERFORMANCE RATIOS			
Income Statement				Growth & Margins			
Revenue	46.3	63.2	71.9	Revenue Growth	79%	37%	14%
(-) COGS	-31.4	-41.9	-44.2	EBITDA Growth	81%	32%	26%
GP	14.9	21.4	27.7	EBIT Growth	192%	46%	35%
(-) OPEX	-6.1	-9.4	-12.6	Normalized Net Profit Growth	260%	na	na
(+) Other income	0.3	0.0	0.0	EBITDA margin	20%	19%	21%
EBITDA	9.1	12.0	15.1	EBIT margin	10%	11%	13%
(-) D&A	-4.5	-5.3	-6.0	Normalized net profit margin	6%	na	11%
EBIT	4.6	6.7	9.0	Effective tax rate	30%	0%	13%
(-) Net Fin.	-0.5	-0.4	-0.1	Liquidity			
(+/-) Other	0.0	0.0	0.0	Capex/depreciation (x)	1.1	0.9	0.7
EBT	4.1	6.3	8.9	Current ratio (x)	1.0	0.9	1.2
(+/-) Tax	-1.2	0.0	-1.2	Quick ratio (x)	-0.1	-0.1	0.2
NPAT	2.9	6.3	7.7	Receivable days	47.2	45.0	50.0
(+/-) Abnormal, P-T	0.0	-1.9	-1.5	Payable days	60.1	60.1	55.0
Normalised NPAT	2.9	4.4	6.2	Risk Measures			
Cashflow Statement				Dividend Cover (x)	9.6	15.8	72.6
NPAT	2.9	6.3	7.7	Payout ratio (%)	0.1	0.1	0.0
(+) D&A	4.5	5.3	6.0	Net interest cover (x)	9.6	15.8	72.6
(-) Lease expense	0.0	-0.3	-0.3	Net debt/equity (%)	17%	5%	-12%
(-) Gain on bargain pur	0.0	0.0	0.0	Returns			
(-) Tax expense/benefit	1.0	0.0	0.0	Return on Invested Capital	8%	10%	13%
(+) Share Based Payments	0.0	0.0	0.0	Return on Assets	6%	8%	13%
(+/-) Other	0.0	0.0	0.0	Return on Equity	10%	13%	18%
Gross Cashflow	8.3	11.3	13.5	SHARE DATA/VALUATION			
(-) Capital Expenditure	-5.0	-4.5	-4.5	Share Data			
(-) Change in WC	0.1	-0.4	-2.1	Issued shares (m)	392.0	395.3	398.6
Operating Free Cashflow	3.4	6.4	6.9	Weighted ave shares (m)	389.5	393.6	398.6
(-) Transactions	-2.5	-3.4	0.0	Fully diluted shares (m)	422.0	422.0	422.0
(+) issue of Shares	0.0	0.0	0.0	Basic EPS (c)	0.7	1.1	1.6
(+) PP&E Disposal	0.4	0.0	0.0	YoY change (%)	718%	52%	41%
(-) Transactions costs	0.0	0.0	0.0	Fully diluted EPS (c)	0.7	1.0	1.5
(+/-) Other	0.7	0.0	0.0	YoY change (%)	719%	53%	42%
Net Cashflow	2.0	3.0	6.9	Fully diluted normalised EPS (c)	0.7	1.5	1.8
BoP Net Cash	-6.8	-4.8	-1.8	YoY change (%)	256%	119%	24%
(+) Net Cashflow	2.0	3.0	6.9	Dividend/share (c)	0.0	0.0	0.0
(+) AASB16 Adj.	0.0	0.0	0.0	Franking (%)	100%	100%	100%
EoP Net Cash	-4.8	-1.8	5.2	Gross cashflow/share (c)	2.1	2.9	3.4
Balance Sheet				NBV/share (c)	7.2	8.7	10.6
Cash	5.7	6.7	7.7	NTA/Share (c)	7.2	8.7	10.6
Receivables	6.0	7.8	9.8	Valuation			
Inventories	3.6	4.6	5.4	PER (Basic) (x)	15.8	10.4	7.3
Assets held for sale	0.0	0.0	0.0	PER (Fully diluted) (x)	17.0	11.1	7.8
Prepayments	0.5	0.5	0.5	PER (Fully diluted, normalized) (x)	16.9	7.7	6.3
Other Assets	1.2	1.2	1.2	P/CFPS (x)	5.4	4.0	3.4
Total Current Assets	17.0	20.8	24.6	Price/NBV (x)	1.6	1.3	1.1
Plant and equipment	31.7	31.1	29.8	Price/NTA (x)	1.6	1.3	1.1
Right of use asset	0.6	0.6	0.3	Dividend Yield (%)	0%	0%	0%
Other Assets	0.0	2.9	2.9	EV/EBITDA (x)	5.8	4.4	3.5
Total Non-current Assets	32.3	34.6	33.1	EV/EBIT (x)	11.5	7.8	5.8
Total Assets	49.2	55.4	57.7	EV/Revenue (x)	3.5	2.5	1.9
Borrowings	5.5	4.4	1.1				
Payables	6.2	8.4	8.6				
Employee liabilities	0.8	1.2	1.6				
Lease liability	0.3	0.3	0.3				
Total Current Liabilities	13.1	14.4	11.5				
Borrowings	4.4	3.5	0.8				
Lease liability	0.3	0.3	0.3				
Deferred tax liability	2.9	2.9	2.9				
Total Non-current Liabilities	8.1	6.7	4.1				
Total Liabilities	21.2	21.1	15.6				
Net Assets	28.1	34.3	42.1				
Issued capital	19.5	19.5	19.5				
Reserves	0.6	0.6	0.6				
Retained Earnings	8.0	14.3	22.1				
Total Equity	28.1	34.3	42.1				

Analysis

Figure 1: Earnings Forecasts

FY	Units	FY'22	1H'23	2H'23F	2023F	Old	\$	%	2024F	2025F	2026F
Drilling Services	A\$m	45.6	22.0	26.0	48.0	48.6	-0.6	0.0	55.0	55.0	55.0
Other	A\$m	0.7	5.7	9.5	15.2	16.2	-1.0	-0.1	16.9	18.8	19.0
Revenue	A\$m	46.3	27.7	35.5	63.2	64.8	-1.6	0.0	71.9	73.8	73.9
EBITDA	A\$m	9.1	4.2	7.7	12.0	10.3	1.7	0.2	15.1	15.7	15.8
EBITDA margin	%	0.2	0.2	0.2	0.2	0.2	na	na	0.2	0.2	0.2
(-) D&A	A\$m	-4.5	-2.4	-2.9	-5.3	-4.8	-0.5	0.1	-6.0	-5.8	-5.5
EBIT	A\$m	4.6	1.8	4.8	6.7	5.5	1.2	0.2	9.0	9.9	10.3
(-) Net Finance	A\$m	-0.5	-0.2	-0.2	-0.4	-0.4	0.0	0.1	-0.1	-0.1	-0.1
(+/-) Other	A\$m	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
EBT	A\$m	4.1	1.6	4.7	6.3	5.1	1.1	0.2	8.9	9.8	11.2
(+/-) Tax	A\$m	-1.2	-1.7	0.0	0.0	0.0	0.0	na	-1.2	-2.9	-3.3
Reported NPAT	A\$m	2.9	-0.1	4.4	4.4	3.6	0.8	0.2	6.2	6.9	7.8
Normalised Npat	A\$m	2.9	1.6	4.7	6.3	5.1	1.1	0.2	7.7	6.9	7.8
EBITDA Margin		0.2	0.2	0.2	0.2	0.2	na	na	0.2	0.2	0.2

Source: EZL

Other services (Yield Test Pumping, Project Engineering, Consultancy)

- We have pushed through adjustments to forecasts reflecting FY'23 Guidance.
- In our view FY'24 drilling EBITDA forecasts are somewhat conservative; 2'23 run rate implies \$15m EBITDA; our forecast builds in 90% utilisation on 2H'23.
- We hold out long term drilling services earnings forecasts flat at \$55m assuming no further growth capex to the business given focus on consultancy.

Figure 2: Simplified Segment build up.

	1H'23	2H'23	FY'23	Run Rate	FY'24 Forecast
Segment EBITDA					
Drilling	na	7.5	na	15.0	13.7
Other	na	1.2	na	2.5	4.0
OVH	-1.5	-1.0	-2.5	-2.5	-2.6
Group					
EBITDA	4.3	7.7	12.0	15.0	15.1
Depreciation	-2.4	-2.9	-5.3	-5.8	-6.0
EBIT	1.8	4.8	6.7	9.7	9.0
Interest	-0.2	-0.2	-0.4	-0.4	-0.1
EBT	1.6	4.7	6.3	9.4	8.9
Segment EBIT Estimates					
Drilling	na	3.6	na	7.2	5.1
Consulting	na	1.2	na	2.5	4.0
Total	na	4.8	na	9.7	9.0
*OVH/Depreciation allocated to Drilling					

Source: EZL Estimates

Other services (Yield Test Pumping, Project Engineering, Consultancy)

Valuation

The following is simplistic way of considering FY'24 free cash potential of business; which in the context is \$46m market capitalisation and \$5m net cash position by end of FY'24 is very strong.

Figure 3:

Forecast		2024	2024
EBITDA	\$m	15.1	15.1
convert 90% /100%	\$m	13.6	15.1
Capital required*	\$m	-4.5	-4.5
Leases	\$m	-0.3	-0.3
Interest	\$m	-0.1	-0.1
Tax	\$m	-1.4	-1.4
Free cash	\$m	7.3	8.8
Free cash per share	\$/sh	0.019	0.022
Free cashflow 10%	\$/sh	0.19	0.22
Net cash(debt) per share	\$/sh	0.01	0.01
Theoretical share price	\$/sh	0.20	0.23

Source: EZL

- Our \$4.5m capital assumption assumes no growth.
- We drive our PT on 90% cash conversion, VYS historically converts 100% or \$0.23/sh
- We forecast FY'24 net-cash position of \$5.2m (1H'23 net-debt \$3.9m).

While the following considers SOTP valuation on a multiples basis:

Figure 4:

Segment	\$m	Earnings	Multiple	Implied Value \$m
Drilling	12.0	EBITDA	3	36
Other	4.0	EBIT	10	39.9
Net Cash FY'24				5
SOTP				81
Implied \$/sh				0.19

Source: EZL

*we have allocated OVH and depreciation against drilling business.

Other services (Yield Test Pumping, Project Engineering, Consultancy)

3x EBITDA multiple (inline with DDH) and 10x EBIT multiple average of sector consultants and contractors drives a \$0.19/sh PT on FY'24 forecasts.

Figure 5: Contractors/Consultants

Ticker	Last	Last price	EV	EV/EBIT	
				FY'23	FY'24
Capital Light					
WOR	Worley Limited	16.42	7954.7	15.1	13.3
GNG	Gr Engineering	1.91	256.8	7.9	7.5
MND	Monadelphous	13.02	1159.5	15.7	12.9
DOW	Downer EDI	3.66	3938.2	12.9	10.6
GNP	Genus Plus Limited	0.94	166.7	9.3	4.9
DUR	Duratec Limited	0.93	191.6	6.7	5.6
CVL	Civmec Limited	0.75	427.4	5.2	4.9
SXE	Southern Cross	0.67	114.9	4.1	4.0
JLG	John Lyng Group	6.63	1651.1	17.0	15.3
Average				10.4	8.8

Source: EZL

We continue to see value in the underlying business and expect VYS to re-rate on delivery of long term strategy.

BUY

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Vysarn Limited (VYS.ASX) | Price A\$0.12 | Target price A\$0.20 | Recommendation Buy;

Price, target price and rating as at 18 May 2023 (not covered)*

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