Research as a Service

Verbrec Ltd

AGM Update

AGM update pointing to a strong year

Verbrec Limited (ASX:VBC) provides engineering, asset management, infrastructure services and training to the energy, mining, infrastructure and defence industries in Australia, New Zealand, PNG and the Pacific Islands. The company recently held its annual general meeting (AGM), and whilst providing no formal guidance other than "growth in revenue and profit", commentary was undoubtedly positive. Management released an updated sales pipeline for the remainder of the year, stating strong expected win rates at least equal to last year's 36%. When this is back calculated and annualised it equates to FY25 revenue marginally above our current forecasts, so although it doesn't lead us to upgrade, it provides comfort and confidence for our existing forecasts. Further detail was also provided on the expected growth drivers, pointing to significant revenue from ongoing Operating & Maintenance and Panel Agreement work and the upside generated by those ongoing relationships resulting in new contracts. We expect this to be complemented by leverage to the energy transition story under way in Australia and NZ. We retain our existing forecasts with FY25 revenue growth of 11% to $103.2m and EBITDA growth of 19% to $10.5m. However, the AGM commentary gives us additional comfort and confidence that VBC is well placed to deliver those forecasts. We retain our DCF valuation of $0.40/share, representing potential upside of 196% over the current share price. This is supported by further favourable financial metrics including FY25f EV/EBITDA of 3.5x, PER of 8.6x and forecast fully franked dividend yield of 5.1%. Considering our expected EPS CAGR of 34% over the forecast period to FY27, we believe VBC presents compelling value.

Business model

The business reports two divisions in Engineering and Training, with the former representing ~93% of group revenue in FY24. The engineering business is focussed on industries including energy, mining, infrastructure and defence, offering services across the whole-of-asset life including engineering, asset management, infrastructure services, operation and maintenance (O&M), and technology solutions. The training business operates in associated areas of expertise within those industries.

A combination of discipline and growth

The new management has turned the business around over the past 18 months and can now focus on growth but is doing so in a disciplined way, in our view. Lower-risk, reimbursable O&M and training projects now represent more than 72% of group revenue, unlike historically whereby problematic fixed-price construction projects had resulted in significant earnings volatility. We discuss this in detail in our 14 November Initiation of Coverage report here. The AGM commentary gives us confidence that the business continues to generate higher-quality earnings and the order book is performing strongly. In our view, the investment thesis remains fully intact.

DCF valuation of $0.40/share, unchanged

Our discounted cash-flow (DCF) valuation remains at $0.40/share and represents 196% upside potential from the current share price. Provided the business delivers its revenue growth and continues to drive sustainable profitability it can also be viewed on other financial metrics including increasingly attractive EV/EBITDA and PER multiples, with share price upside potentially driven by both earnings growth and multiple re-rating.

Earnings history and RaaS' estimates (in A$m unless otherwise stated)

Year end	Revenue	EBITDA adj.*	NPAT adj.*	EPS adj.* (c)	P/E (x)	EV/EBITDA (x)
06/23a	109.9	(2.9)	(6.4)	n.a.	n.a.	n.a.
06/24a	93.4	8.8	3.5	1.3	10.7	4.7
06/25f	103.2	10.5	5.0	1.6	8.6	3.5
06/26f	116.7	13.4	7.3	2.3	5.9	2.1
06/27f	131.8	16.8	10.0	3.1	4.3	1.1

Source: RaaS estimates for FY25f, FY26f and FY27f; Company data for historical earnings; *Adjusted for one-time and non-cash items

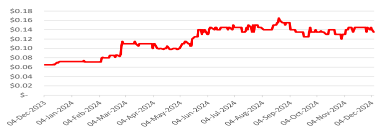
Industrials – Construction and Engineering

9 December 2024

Share Details

ASX code	VBC
Share price (6-Dec)	$0.135
Market capitalisation	$39.3M
Shares on issue	290.3M
Net cash at 30-Sep-2024	$2.0M

Share Performance (12 months)



Upside Case

- Revenue growth of ~15% p.a. ahead of forecast
- Margin expansion story plays out ahead of forecast
- Cash generation used for new growth strategies

Downside Case

- Project underperformance impacts profitability
- Macro weakness inhibiting growth
- Challenges with labour costs and availability

Catalysts

- Proof of sustainable earnings generation
- Signs of margin expansion delivery
- M&A activity (either direction)

RaaS Initiation Report

Verbrec RaaS Initiation Report 14 November 2024

RaaS Stock Take Webinar

RaaS Stock Take Webinar – Verbrec – 15 11 2024

Board and Management

Phillip Campbell	Non-Executive Chair
Matthew Morgan	Non-Executive Director
Brian O'Sullivan	Non-Executive Director
Mark Read	Chief Executive Officer
Richard Aden	Chief Financial Officer
Joel Voss	Company Secretary

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AGM Update Discussion

After a strong turnaround in FY24 whereby the company reversed a FY23 EBITDA loss of $2.9m into positive $8.8m EBITDA, the AGM commentary gives us confidence that the positive momentum continues. Management made the following statement:

> *"Our strategy is in place and active, and we are now able to grow our revenues and profits in FY2025. A substantial proportion of revenues is reliable and recurring, fuelled through long-term contracts. Our growth targeted business units, including asset management, operations and maintenance and competency training are performing strongly, and we anticipate that trend to continue."*

The company released further detail around relationship clients and the relative revenue contribution and composition by work type.

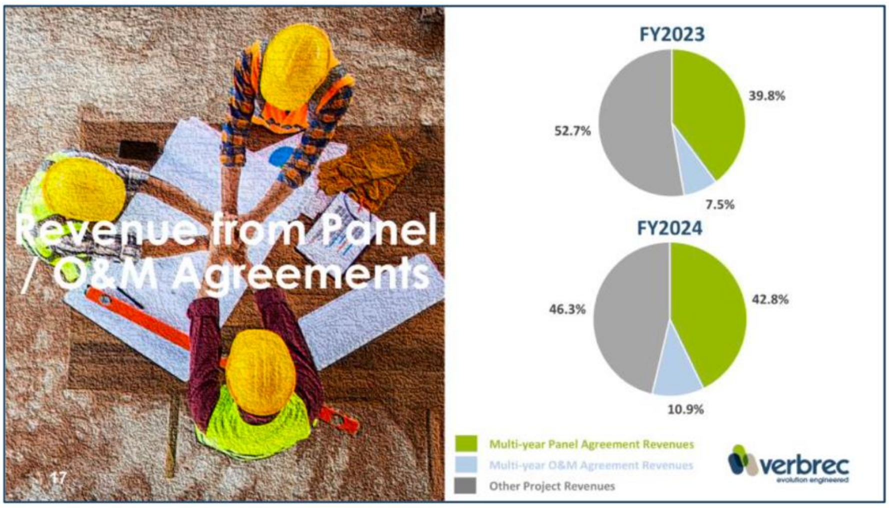
VBC's 20 key relationship clients continue to drive the majority of the revenue (68% in FY24) and the development and extension of those relationships remains at the core of the growth strategy. The clients range across the three core industry exposures of Energy & Utilities, Infrastructure & Defence, and Mining & Minerals, as illustrated in Exhibit 1

Exhibit 1: Relationship clients

Source: Company AGM CEO presentation

For the first time the company released the proportional revenue contribution from the 43 Panel Agreements and the multi-year O&M contracts, as outlined in Exhibit 2:

Exhibit 2: Revenue from Panel and O&M Agreements



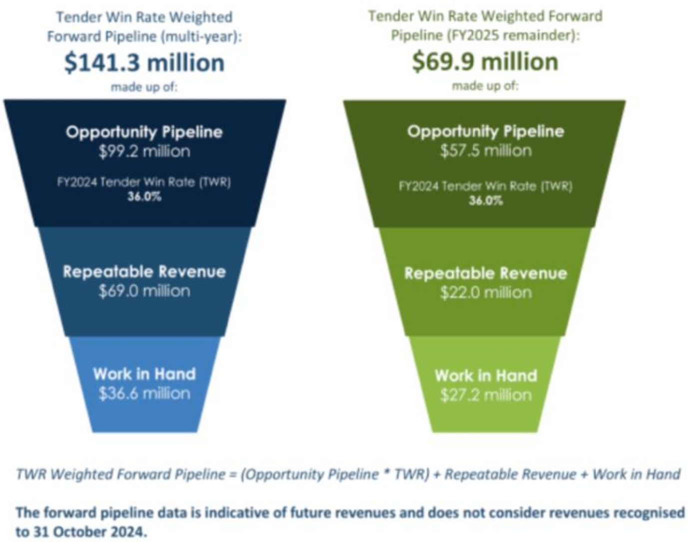
Source: Company AGM CEO presentation

These key relationship-based revenues are increasing in contribution, rising from a combined 47% in FY23 to 54% in FY24. When this is considered alongside the fact that reimbursable O&M and training projects contribution has increased from 61% to 72% (therefore by definition reducing the level of higher risk fixed and mixed priced contracts), it can be argued that the increase in relationship revenue and the structure of the contracts vastly improves the execution risk within the order book and gives confidence for a more consistent financial performance going forward.

Pipeline Provides Confidence

The company also released an updated pipeline and provided further clarity on its composition, as outlined in Exhibit 3.

Exhibit 3: Verbrec outlook



Source: Company AGM CEO presentation

Key takeaways include:

- **The FY25 year appears on track** - The expected FY25 win-rate as stated by the company of at least 36% is marginally higher than our existing forecast. The revenue "forecast" of $69.9m as stated in the pipeline for the remaining eight months of FY25, if annualised across the year (the business isn't expected to show much seasonality, although perhaps a slight skew to H2 '25 due to incremental growth) suggests revenue of ~$105m, against our existing forecast of $103.2m. This confidence is further supported by two recent announcements from the company. On the 21st of November Verbrec announced "over $25 million in revenue expected from recent Gas Market Transition and Decarbonisation project awards", and on the 6th of December it announced the award of a $4.2m Electrical System Redevelopment Project at Inner Harbour, Port Adelaide. The timing of these announcements also supports the thesis of a second half skew to FY25f revenue forecasts.
- **"Repeatable revenue" is a new metric** – This term relates to the O&M and Panel Agreements revenue, as outlined in Exhibit 4. For the first time management explained the leverage that the O&M business provides in further contract work, saying "for each $1.00 in contracted services under these multi-year agreements, Verbrec in FY24 secured $1.14 in additional ad-hoc revenue." Given the company operates more than 1,800km of gas pipelines (which we assume to represent the largest proportion of the O&M revenue), it suggests this additional revenue is likely to be ongoing in one way or another.
- **Longer-term pipeline provides less certainty due to undefined timeframes** – The longer-term pipeline looks robust but doesn't really provide much by way of forward guidance due to the timelines being undefined.

Exhibit 4: Repeatable Revenue

Verbrec
Repeatable Revenue

Verbrec Operations & Maintenance	Verbrec Panel Agreements
Multi-year operations and maintenance contracts.	Verbrec have 43 multi-year panel agreements in place with Relationship Clients.
For each $1.00 in contracted services under these multi-year agreements, Verbrec in FY2024 secured $1.14 in additional ad-hoc revenues. We consider the contracted services as work-in-hand and the additional services as Repeatable Revenue.	Difficult to represent in a traditional opportunity pipeline given the relative short timeframe from opportunity recognition to work-in-hand.
Verbrec operates over 1,800 KM of Gas Pipelines across Australia.	Revenues generated from these panel agreements is well documented, based on historic norms, these project revenues are treated as Repeatable Revenue.
Successful acquisition and integration of Energy Infrastructure Management in December 2020. Verbrec Operations and Maintenance business' FY2024 revenue is **over 94% higher** than FY2021 revenue.	Panel Agreements provide a source of predictable revenues year on year, which are more reliably secured at economically favourable terms than other ad-hoc project work.

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verbrec
evolution engineered

Source: Company AGM CEO presentation

Forecasts Remain Unchanged

As previously stated, there was no numerical guidance provided but we believe the AGM commentary was undoubtedly positive and gives us confidence in delivery of our existing FY25 forecasts. Our forecasts remain unchanged and are illustrated in Exhibit 5.

Exhibit 5: P&L forecasts and earnings (in A$m unless otherwise stated)

Year ending 30 June	FY23a	FY24a	FY25f	FY26f	FY27f
Engineering revenue	103.8	86.5	95.3	107.7	121.7
Training revenue*	6.1	6.9	7.9	8.9	10.1
Group revenue	**109.9**	**93.4**	**103.2**	**116.7**	**131.8**
EBITDA (adj.)	**(2.9)**	**8.8**	**10.5**	**13.4**	**16.8**
EBIT (adj.)	(6.2)	5.4	7.5	10.4	13.8
NPAT (rep.)	(9.5)	2.0	5.0	7.3	10.0
Abnormals (one-off items)	(3.1)	(2.8)	0.0	0.0	0.0
NPAT (adj.)**	**(6.4)**	**3.5**	**5.0**	**7.3**	**10.0**
EPS (adj.) cps	**(2.8)**	**1.7**	**1.6**	**2.3**	**3.1**

* Continuing operations, ** FY24a adjusted for tax on continuing operations NPAT
Source: Company data for actual, RaaS forecasts

DCF Valuation is $0.40/share

We retain our DCF valuation of $0.40/share. Key metrics include a discount rate of 13.0% (beta 1.5, terminal growth rate of 2.5%), as illustrated in Exhibit 6.

Exhibit 6: DCF valuation (in A$m unless otherwise stated)

Parameters	Outcome
Discount rate / WACC	13.0%
Beta	1.5
Terminal growth rate assumption	2.5%
Sum of Present Value (PV)	71.1
PV of terminal value	58.7
PV of enterprise	129.8
Net debt at 30 June 2024	2.0
Net value – shareholder	127.7
No. of shares on issue (m)	320.0
NPV per share	**A$0.40**

Source: RaaS estimates

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Exhibit 7: Financial Summary

Verbrec (VBC)					
Profit and Loss (A$m)					
Y/E 30 June	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
Revenue	109.9	93.4	103.2	116.7	131.8
EBITDA (Reported)	(6.0)	6.0	10.5	13.4	16.8
EBITDA underlying	**(2.9)**	**8.8**	**10.5**	**13.4**	**16.8**
Depn	(0.6)	(0.5)	(0.4)	(0.4)	(0.5)
Amort	(1.9)	(2.1)	(2.1)	(2.0)	(2.0)
EBIT underlying	**(6.2)**	**5.4**	**7.5**	**10.4**	**13.8**
Interest	(0.6)	(1.0)	(0.5)	(0.2)	0.1
Tax	0.4	0.4	(1.9)	(2.9)	(3.9)
NPAT (Reported)	(9.5)	2.0	5.0	7.3	10.0
Significant & non-cash items	(3.1)	(2.8)	0.0	0.0	0.0
NPAT (adj)	**(6.4)**	**3.5**	**5.0**	**7.3**	**10.0**
NPAT (Rep)	(9.5)	2.0	5.0	7.3	10.0

Cash flow (A$m)					
Y/E 30 June	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
EBITDA	(2.9)	8.8	10.5	13.4	16.8
Interest	(0.7)	(0.6)	(0.7)	(0.0)	0.0
Tax	0.0	0.0	(1.4)	(2.1)	(2.8)
Other	(0.3)	(6.2)	(1.2)	0.6	0.7
Operating cash flow	(3.9)	2.0	7.2	11.9	14.8
Mtce capex	(0.8)	(0.2)	(0.5)	(0.6)	(0.7)
Free cash flow	(4.7)	1.8	6.7	11.4	14.1
Acquisitions/Disposals	(0.5)	(0.9)	0.0	0.0	0.0
Other	0.0	(0.3)	0.0	0.0	0.0
Cash flow pre financing	(5.2)	0.5	6.7	11.4	14.1
Equity	0.0	4.0	0.0	0.0	0.0
Debt	6.0	(1.3)	(2.3)	(0.5)	(0.5)
Dividends paid	0.0	0.0	(2.0)	(2.9)	(4.0)
Net cash flow for year	0.9	3.2	2.4	7.9	9.6

Balance sheet (A$m)					
Y/E 30 June	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
Cash	4.5	4.6	7.1	15.0	24.6
Accounts receivable	15.4	13.7	15.1	17.1	19.3
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	7.7	3.4	3.8	4.3	4.6
Total current assets	27.6	23.0	27.4	37.9	50.5
PPE	1.5	1.1	1.0	1.2	1.4
Intangibles and Goodwill	12.6	10.3	10.3	10.3	10.2
Investments	0.0	0.0	0.0	0.0	0.0
Deferred tax asset	7.6	8.2	8.2	8.2	8.2
Other non current assets	4.8	5.2	5.1	5.1	5.0
Total non current assets	26.5	24.7	24.6	24.7	24.9
Total Assets	54.1	47.7	52.0	62.6	75.4
Accounts payable	14.7	7.7	10.3	11.7	13.2
Short term debt	6.8	2.3	0.0	0.0	0.0
Tax payable	0.0	0.0	0.0	0.0	0.0
Other current liabilities	14.5	10.0	10.9	16.3	22.1
Total current liabilities	36.8	20.0	21.2	28.0	35.3
Long term debt	0.0	4.3	4.3	3.8	3.3
Other non current liabs	4.0	4.2	4.2	4.2	4.2
Total non-current liabilities	4.2	8.5	8.5	8.0	7.5
Total Liabilities	41.0	28.5	29.8	36.1	42.8
Net Assets	**13.0**	**19.2**	**22.2**	**26.6**	**32.6**
Share capital	24.3	28.0	28.0	28.0	28.0
Accumulated profits/losses	(11.5)	(9.5)	(6.5)	(2.1)	3.9
Reserves	0.3	0.7	0.7	0.7	0.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**13.0**	**19.2**	**22.2**	**26.6**	**32.6**

Share price (6 December 2024)					**A$**	**0.135**
Interim (A$m)	**1H24A**	**2H24A**	**1H25A**	**2H25A**	**1H26A**	**2H26A**
Revenue	50.0	43.4	47.0	56.3	56.6	60.1
EBITDA (Unlderying)	5.0	3.8	4.8	5.7	6.5	6.9
NPAT (reported)	0.2	1.8	2.3	2.7	3.6	3.8
Minorities and adjustments	2.7 -	1.3	-	-	-	-
NPAT (normalised)	2.9	0.6	2.3	2.7	3.6	3.8

Divisions/Categories	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
Revenue					
Energy, Manufacturing & Chemical	61.9	51.1	56.8	64.1	72.5
Mining	18.2	15.5	20.0	22.6	25.5
Infrastructure & Defence	23.7	20.2	18.6	21.0	23.7
Total Engineering	**103.8**	**86.8**	**95.3**	**107.7**	**121.7**
Training	**6.1**	**6.9**	**7.9**	**8.9**	**10.1**
Total group revenue	**109.9**	**93.7**	**103.2**	**116.7**	**131.8**
Gross Profit	**26.9**	**33.4**	**37.2**	**43.5**	**50.9**
Gross Profit Margin %	**24.5%**	**35.7%**	**36.0%**	**37.3%**	**38.6%**
Sustainable Focus Areas (Revenue)					
Electrification and Storage		1.5	3.1	4.7	5.3
Gas Market Transition		9.0	11.4	14.0	16.5
Sustainable Mining		8.6	9.5	10.8	12.2
Water Security		10.0	11.1	12.5	14.2
Total Sustainable Revenue		**29.2**	**35.1**	**42.0**	**48.1**
% of Group Revenue		**33.6%**	**36.8%**	**39.0%**	**39.5%**

Margins, Leverage, Returns	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
EBITDA	(2.6%)	9.4%	10.2%	11.5%	12.8%
EBIT	(5.6%)	5.8%	7.2%	8.9%	10.5%
NPAT pre significant items	(8.7%)	2.1%	4.8%	6.3%	7.6%
Net (Debt)/ Cash	(2.3)	(2.0)	2.8	11.2	21.3
ROA	(10.7%)	10.6%	15.0%	18.2%	20.0%
ROE	(36.0%)	21.4%	24.2%	30.1%	33.8%
ROIC	(31.3%)	33.2%	32.4%	36.5%	39.9%
Working capital	0.8	6.0	4.8	5.4	6.1
WC/Sales (%)	0.7%	6.4%	4.6%	4.6%	4.6%
Revenue growth	(9.5%)	(15.1%)	10.6%	13.0%	13.0%

Pricing		**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
No of shares (y/e)	(m)	221	289	290	290	290
Weighted Av Dil Shares	(m)	225	274	320	320	320
EPS Reported	cps	(4.2)	0.7	1.6	2.3	3.1
EPS Normalised/Diluted	cps	(2.8)	1.3	1.6	2.3	3.1
EPS growth (norm/dil)		n/a	-144%	24%	47%	36%
DPS	cps	-	-	0.7	1.0	1.4
DPR		0%	0%	40%	40%	40%
Dividend yield		0.0%	0.0%	5.1%	7.5%	10.2%
PE (x)		-	10.7	8.6	5.9	4.3
EV/EBITDA		n/a	4.7	3.5	2.1	1.1
NTA/Share	cps	(1.0)	(0.7)	0.9	3.5	6.7
FCF/Share	cps	(2.1)	0.6	2.1	3.5	4.4
Price/FCF share		(6.4)	21.0	6.4	3.8	3.1
Free Cash flow Yield		(15.5%)	4.8%	15.6%	26.3%	32.7%
Cash Conversion		n/a	33.5%	68.9%	89.3%	87.8%

Source: RaaS estimates; Company data for actuals

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415, of

BR SECURITIES AUSTRALIA PTY LTD; ABN 92 168 734 530; AFSL 456663

Effective Date: 26th March 2024

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