

The risk/return equation continues to widen

Metarock Group Ltd (ASX:MYE) has released a quarterly activity report which while having a number of moving parts points to a widening risk/return equation (to the return side) in our view as restructuring continues while key contracts are yet to hit the numbers. From a return basis the share price continues to slide, offering further upside on unchanged earnings and multiple assumptions, the potential recoupment of Crinum remediation costs continues to increase (now >\$30m, up from \$18m), net capex is slowing and below our forecast run rate for FY23, and FY23 guidance is unchanged for now. Risks centre around an inability to recover Crinum costs (we are only assuming 30% of the total), a sale of excess equipment below book value (unlikely given the A\$, coal price strength and age of equipment), further ramp-up delays at Cook (already considered in recent guidance) and a counter claim by the Crinum mine owner. The only change to our numbers is a \$10m increase in debt relating to additional Crinum costs incurred over the quarter. We continue to apply peer FY22 EV/EBITDA multiples to MYE FY23 and FY24 revised earnings estimates implying a valuation of \$0.62/share and \$1.25/share respectively. Our DCF, as a sense check, is \$1.00/share. PP&E had a book value of ~\$110m at June 2022, providing significant NTA/valuation support.

Business model

MYE provides a range of contracted services and equipment hire to major underground metallurgical coal operators (roadway development, conveyor installation, longwall relocation and maintenance, supply and installation of underground ventilation control devices) and metalliferous hard rock operators (mine development, raise boring, shotcreting, cable bolting and production drilling) via the acquisition of PYBAR. More recently, the group has sought to move into mine operations to operate mines in its own right for asset owners with limited underground experience. Such operations are longer-term in nature providing repeatable revenue at higher margins relative to contracting.

Q1 FY23 trading update sees increase in debt due to Crinum

Net debt excluding invoice financing facilities has increased from \$60m in June 2022 to \$75m in September 2022 as an additional \$10m in Crinum remediation costs were incurred. A second tranche payment for the Wilson acquisition added a further \$3.3m to debt as forecast. We still expect net debt to finish the year around \$53m assuming modest (30%) recovery of Crinum costs and asset sales totalling \$25m, together with positive operating cash flow. It should be noted Q1 FY23 includes none of these offsets, likely losses at PYBAR and little contribution from the higher margin Cook contract.

Valuation between \$0.62/share (FY23) to \$1.25/share (FY24)

Our preferred valuation methodology for MYE is multiple-based given the number of long-listed mining services companies on the ASX. We apply FY22 peer adjusted EV/EBITDA multiples to MYE's FY23 and FY24 earnings as they are more reflective of recent contracts at full production. The result implies a valuation of \$0.62/share using FY23 estimates and \$1.25/share using FY24. Our DCF as a reference is \$1.00/share.

Historical earnings and RaaS estimates (in \$A unless otherwise stated)

Year end	Revenue (adj.)	EBITDA (rep.)	NPATA (adj.)	EPS (adj.) (c)	P/E (x)	Dividend yield (%)	EV/EBITDA (x)
06/21a	233.1	22.3	6.3	0.06	3.3	15.8	(0.2)
06/22e	452.7	38.6	7.0	0.06	3.4	0.0	2.2
06/23e	565.0	38.1	(4.7)	(0.04)	(5.3)	0.0	2.1
06/24e	586.5	56.3	7.6	0.06	3.3	15.8	1.0

Source: Company data; RaaS Advisory estimates for FY23f and FY24f

Mining Services

8 November 2022

Share Details

ASX code	MYE
Share price (7-Nov)	\$0.19
Market capitalisation	\$24.7M
Shares on issue	130.2M
Net debt at 30-Sep-22	\$75.1M
Free float	~52.4%

Share Performance



Upside Case

- Delivering on \$1.3b order book
- Meeting new Cook schedules
- Delivering on PYBAR acquisition

Downside Case

- Lower metallurgical coal prices/lower activity
- Long-term technological advancements in non-blast furnace steel making
- Safety issues at key mines

Board of Directors

Colin Bloomfield	Non-Executive Chairman
Paul Green	Managing Director
Andrew Watts	Non-Executive Director
Julie Whitcombe	Non-Executive Director
Gabriel Meena	Non-Executive Director
Paul Rouse	Non-Executive Director

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Q1 FY23 Trading Update

MYE has released a September 2022 quarter activity report which includes the following information regarding trading relative to RaaS forecasts:

- Cash receipts of \$144m against RaaS H1 FY23 revenue estimate of \$262m, implying revenue is on track;
- Notional EBITDA before working capital movements of \$2.4m against a H1 FY23 RaaS estimate of \$16.5m. The half-yearly skew may be more to the 2H than currently forecast as a result;

Exhibit 1: MYE Q1 FY23 EBITDA reconciliation

Parameters	A\$m
Cash flow from operating activities	(9.0)
add tax paid	0.0
add interest paid	1.4
add abnormal Crinum costs	10.0
add other abnormal costs	0.0
Notional Q1 FY23 EBITDA before WC movements	2.4

Source: Company announcements and RaaS estimates

- Closing net debt excluding invoice financing of \$75m against \$60m at June 30 2022. The increase is attributable to an additional \$10m in Crinum remediation costs (now totalling \$28m) and \$3.3m in a second tranche payment relating to the Wilson acquisition which was expected.

We still expect net debt to end the year around \$53m driven by excess equipment sales and modest assumptions around Crinum cost recovery (\$12m against >\$30m in costs incurred), expected predominantly in 2H FY23.

Exhibit 2: MYE net debt reconciliation, FY22 to FY23

Parameters	A\$m
Net debt as @ 30 June 2022 (ex-invoicing facility)	60.0
add Crinum recovery	(12.0)
add equipment sale	(25.0)
add operating cash flow	(10.5)
less capex	37.0
less Wilson tranche 2	3.3
Debt as June 2023	52.8
PP&E as at June 2022	110
Debt/adj. EBITDA	1.4x

Source: RaaS estimates

- Capex spend of \$7.2m against a full year RaaS forecast of \$37m for FY23 (or \$9.2m/quarter), offering some upside depending on the refurbishment requirements of excess equipment;
- Further information on the recently awarded Narrabri contract with Whitehaven Coal (ASX:WHC) for underground coal services. While no value has been disclosed the contract has a term of two years with a further two-year option. This contract is included in recent FY23 guidance but assumes a slow-ramp-up given the current labour market;
- A new \$50m-\$55m 11.5-month contract for PYBAR with Malabr Resources at their Maxwell Underground Mine, contributing ~\$25m in FY23 and ~\$25m in FY24 and included in the recently revised FY23 guidance numbers; and
- The receivership of a PYBAR client (Cromarty Resources) at the Thalanga mine owing MYE \$5.7m in debtors and WIP, together with a further \$1.5m in latent condition works, both set to be claimed for under administration.

Current Guidance

FY23 guidance

Current guidance calls for:

- Revenue between \$530m-\$580m; and
- EBITDA between \$34m-\$40m.

While not specifically guided we expect:

- Gross capex spend to decline from the previous \$50m guidance as additional Crinum equipment will not be required (currently assuming \$37m and could be on the high side given Q1 FY23 capex);
- The likelihood of equipment sales in preference to a sale and lease back (we have assumed \$25m), likely to be Q3 FY23; and
- The prospect of recouping some or all of the ~\$30m in Crinum remediation costs (RaaS is forecasting \$12m) under contract terms.

All the above has implications for the level of depreciation (less assets to depreciate) and debt into FY24, with management aiming to get debt/EBITDA back to 1.0x (RaaS has 1.4x at year-end).

FY24 and beyond

While no specific guidance has been provided for FY24, key changes relative to previous guidance relates to the removal of the Crinum contract. Based on the previous FY23 guidance, if we remove the implied Crinum contribution and assume a full year's contribution from Cook, our current FY24 estimates should hold true, particularly considering new contracts at Narrabri and Malabar.

The Cook contract is four years in duration with a two-year option, and as a result we view FY24 numbers as sustainable well into FY28, hence our numbers remain elevated medium-term.

Peer Comparison

Our assessed peer group for MYE relies on a mix of human resources and equipment to deliver services, typically under contract, mostly on a fixed-rate basis and predominantly across the mining services space. These companies are people-heavy and rely on the efficient management and utilisation of people and equipment to deliver contracted outcomes and derive an acceptable return.

We have only included companies under A\$1b market cap, with most under A\$500m.

The table below summarises the peer group financials for FY22 and MYE for FY23 and FY24 given these are the first year's earnings derived from the capex and debt incurred in FY22 to execute these contracts. The highlighted stocks represent the three highest-rated stocks according to our relative matrix and are key to our relative valuation approach.

Exhibit 3: Peer group financial comparison – FY22 metrics (MYE FY23)

Company name	Ticker	Share price (cps)	Mkt. cap. (A\$m)	FY22 net debt (A\$m)	FY22(f) EBITDA (A\$m)	FY22(f) sales (A\$m)	EBITDA %	Working capital/sales %	EV/ EBITDA (x)	EV/ EBIT (x)
NRW Holdings	NWH	2.52	1,131	66.6	272.4	2,407	11.3	4.2	4.4	7.6
Emeco Holdings	EHL	0.78	408	245.0	239.3	754	31.7	4.3	2.7	5.4
Macmahon	MAH	0.14	302	215.5	220.0	1,700	12.9	10.3	2.4	5.1
DDH1 *	DDH	0.85	363	16.6	112.8	507	22.3	33.4	3.4	5.0
MACA Limited	MLD	1.07	366	194.9	150.9	1,651	9.1	10.0	3.7	9.0
GR Engineering	GNG	2.21	343	-97.8	56.4	652	8.7	-1.1	4.3	4.5
Licopodium	LYL	6.85	272	-99.4	32.4	229	14.2	25.5	5.3	5.7
Mitchell Services	MSV	0.37	83	39.2	31.7	213	14.9	11.0	3.8	26.5
AVERAGE			408				15.6	12.2	3.8	6.0
Top-3 rated average										
Metarock (FY22)	MYE	0.18	23	60.0	31.8	453	7.0	9.6	2.6	8.2
Metarock (FY23)	MYE	0.18	23	53.3	30.7	565	5.4	9.6	2.5	nm
Metarock (FY24)	MYE	0.18	23	29.7	47.8	587	8.1	9.6	1.1	3.3

Sources: Company financials, RaaS estimates; Prices as at 31 October 2022; *Pro-forma; #Ex-MSV

Looking at selected peer group FY22 metrics (against MYE's FY22-FY24) we would highlight MYE:

- Is one of only two stocks to be < \$100m market cap;
- Has lower-than-average EBITDA margins, impacted by the recent PYBAR acquisition;
- MYE EBITA margins and multiples are distorted by a significant depreciation charge near-term;
- FY23(f) EV/EBITDA metrics (adjusted for AASB16) are 36% below peer group FY22 metrics (2.4x vs 3.7x); and
- FY24(f) EV/EBITDA metrics (adjusted for AASB16) are 71% below peer group FY22 metrics (1.1x vs 3.7x).

This continues on from the strong operating metrics of the sector over the past three years where we estimate CAGR sales growth of 31%, CAGR EBITDA growth (ex-AASB16) of 15% and CAGR EBIT growth of 15%.

Capex spend relative to depreciation has increased significantly, from 0.9x in FY20 to 1.6x in FY22, setting the sector up for further growth in the future.

Peer Group Relative Multiple Valuation

Given the number of comparable ASX-listed peers, their extensive listed track record and analyst coverage, we prefer a relative multiple valuation approach for MYE. To establish the appropriate "relative" (premium or discount) we have used our seven-variable matrix with four qualitative and three quantitative measures. Our analysis suggests MYE deserves a premium to the peer group, so our reference multiple is the average of the highest-rated three stocks in our assessed peer group.

Based on FY22 metrics this equates to an EV/EBITDA of 3.7x (we provide EV/EBIT multiples but believe MYE's high depreciation charge distorts this comparison) and apply these multiples to MYE's FY23 and FY24 metrics as these years are more reflective of ongoing earnings under the recently won mine operation contracts and the PYBAR acquisition. The resulting valuation on an EV/EBITDA basis translates to \$0.62/share (FY23) and \$1.25 (FY24) depending on what year is selected. We have not valued excess franking credits which currently equate to \$0.16c/share.

Exhibit 4: MYE valuation under various scenarios

	MYE @ 0.175c	Peer average	Top-3 rated*	Top rated	Comments
EV/EBIT					
Multiple	n.m.	6.0x	7.3x	9.0 x	
FY23	\$0.20	n.m.	n.m.	n.m.	Distorted by high depre in FY23
FY24		\$0.65	\$0.80	\$1.00	
EV/EBITDA					
Multiple	2.0x	3.8x	4.6x	5.2x	
FY23	\$0.175	\$0.62	\$0.80	\$1.00	Only six months of Cook
FY24		\$1.25	\$1.60	\$1.80	Cook at full production, >PYBAR
Blended (50%)					
FY23	nm	n.m.	n.m.	n.m.	
FY24		\$0.95	\$1.20	\$1.40	

Source: Company financials and RaaS estimates; * NRW, EHL, MLD

Exhibit 5: MYE Financial Year Summary

Metarock Group (MYE.ASX)						Share price (7 November 2022)							A\$	0.190
Profit and Loss (A\$m)						Interim (A\$m)		H121A	H221A	H122A	H222A	H123F	H223F	
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	Revenue	110.9	122.2	178.4	274.3	262.0	303.0		
Revenue	292.7	233.1	452.7	565.0	586.5	EBITDA	9.8	12.5	15.2	23.4	16.5	21.6		
Other Income	1.3	0.8	3.2	0.0	0.0	EBIT	3.8	6.3	4.2	5.9	(3.3)	2.7		
Operating Costs	262.7	210.0	410.9	526.9	530.2	NPATA (normalised)	2.3	3.9	2.1	4.8	(4.4)	(0.2)		
Underlying EBITDA	28.6	22.3	38.6	38.1	56.3	Abnormals	0.0	0.0	(6.8)	(8.4)	(10.0)	12.0		
Depn	(11.1)	(12.2)	(28.5)	(38.7)	(40.2)	NPAT (reported)	2.3	3.9	(5.8)	(6.7)	(16.9)	9.8		
Amort	0.0	0.0	(4.3)	(4.5)	(3.5)	EPS (normalised)	0.022	0.037	0.017	0.039	(0.034)	(0.002)		
EBIT	17.5	10.1	5.8	(5.1)	12.6	EPS (reported)	0.022	0.037	(0.047)	(0.055)	(0.130)	0.075		
Interest	(0.8)	(1.1)	(4.0)	(6.0)	(5.5)	Dividend (cps)	0.008	0.023	0.000	0.000	0.000	0.000		
Tax	(5.1)	(2.8)	0.9	2.0	(3.0)	Imputation	100%	100%	100%	100%	100%	100%		
NPAT	11.7	5.9	2.7	(9.2)	4.1	Operating cash flow	na	na	na	na	na	na		
Adjustments	0.0	0.4	4.3	4.5	3.5	Free Cash flow	na	na	na	na	na	na		
Adjusted NPATA	11.7	6.3	7.0	(4.7)	7.6	Divisionals	H121A	H221A	H122A	H222A	H123F	H223F		
Abnormals (net)	0.0	0.0	(15.2)	2.0	0.0	Contracting	110.9	122.2	125.0	142.0	132.0	143.0		
Statutory NPAT	11.7	5.9	(12.5)	(7.2)	4.1	Mine Operations	0	0	10.0	10.0	20.0	45.0		
Cash flow (A\$m)						Hard Rock (PYBAR)	-	-	43.4	122.3	110.0	115.0		
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	Total Revenue	110.9	122.2	178.4	274.3	262.0	303.0		
EBITDA (inc cash rent)	25.6	16.0	33.3	32.7	50.3	Operating Costs								
Interest	(0.8)	(1.1)	(4.0)	(6.0)	(5.5)	Contract Disbursements	14.2	16.3	34.9	66.5	65.5	75.8		
Tax	(5.5)	(3.0)	(2.3)	0.0	4.5	Personnel	83.0	89.3	123.3	174.1	169.0	194.7		
Working capital/other	9.7	1.2	(12.8)	(2.2)	13.4	Office	3.6	3.5	5.4	7.9	8.0	8.0		
Operating cash flow	29.1	13.2	14.2	24.5	62.7	Other	1.0	0.8	1.3	4.0	3.0	3.0		
Mtce capex	(6.0)	(6.0)	(17.0)	(28.0)	(28.0)	Other income	(1.2)	(0.7)	(0.1)	(1.7)	(1.5)	0.0		
Free cash flow	23.1	7.2	(2.8)	(3.5)	34.7	Total costs	100.6	109.1	164.8	250.7	244.0	281.4		
Growth capex	(2.3)	(1.3)	(23.4)	(9.0)	1.6	EBITDA	10.2	13.1	13.6	23.6	18.0	21.6		
(Acquisitions)/Disposals	(3.8)	0.0	(13.7)	0.0	0.0	EBITDA margin %	9.2%	10.7%	7.6%	8.6%	6.9%	7.1%		
Other	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns		FY20A	FY21A	FY22A	FY23F	FY24F		
Cash flow pre financing	17.0	5.9	(39.9)	(12.5)	36.3	EBITDA margin %		9.8%	9.6%	8.5%	6.7%	9.6%		
Equity	0.0	0.0	0.0	0.0	0.0	EBIT margin %		6.0%	4.3%	1.3%	-0.9%	2.1%		
Debt	0.0	0.0	24.5	(10.0)	(8.0)	EBIT margin (pre significant items)		4.0%	2.7%	1.5%	-0.8%	1.3%		
Net Dividends paid	(6.1)	(4.7)	(2.2)	0.0	(1.3)	NPAT margin (pre significant items)		4.0%	2.7%	1.5%	-0.8%	1.3%		
Net cash flow for year	10.9	1.2	(17.7)	(22.5)	27.0	Net Debt (Cash)	-	25.36	-	24.18	60.01	53.33	29.72	
Balance sheet (A\$m)						Net debt/EBITDA (x)	(x)	-0.9 x	-1.1 x	1.6 x	1.4 x	0.5 x		
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	ND/ND+Equity (%)	(%)	nm	nm	16.0%	20.1%	4.3%		
Cash	25.4	24.4	5.2	1.9	17.5	EBIT interest cover (x)	(x)	0.0x	0.1x	0.7x	n/a	0.4x		
Accounts receivable	49.1	40.4	86.0	86.1	89.4	ROA		25.5%	7.6%	2.7%	(1.8%)	4.6%		
Inventory	6.3	6.4	21.1	25.1	26.0	ROE		15.8%	7.8%	3.2%	(12.1%)	5.2%		
Other current assets	0.0	1.2	12.3	0.0	0.0	ROIC		11.4%	2.4%	(19.0%)	(9.7%)	4.6%		
Total current assets	80.7	72.4	124.7	113.1	132.9	NTA (per share)		0.59	0.59	0.32	0.28	0.33		
PPE	22.4	22.9	110.7	91.3	86.0	Working capital		21.2	22.4	37.9	42.1	43.8		
Goodwill	12.2	12.3	44.1	39.6	36.1	WC/Sales (%)		7.2%	9.6%	8.4%	7.5%	7.5%		
Right of use asset	14.5	14.0	19.6	19.6	19.6	Revenue growth		29.7%	(20.4%)	94.2%	24.8%	3.8%		
Deferred tax asset	7.9	7.5	0.0	0.0	0.0	EBIT growth pa		49.6%	(42.4%)	(42.7%)	n/a	(344.2%)		
Other	0.0	0.0	0.0	6.0	0.0	Pricing		FY20A	FY21A	FY22A	FY23F	FY24F		
Total non current assets	57.0	56.8	174.5	156.6	141.8	No of shares (y/e)	(m)	105.4	107.0	123.0	130.7	130.7		
Total Assets	137.7	129.2	299.2	269.7	274.7	Weighted Av Dil Shares	(m)	105.4	107.0	123.0	130.7	130.7		
Accounts payable	34.1	24.4	69.2	69.0	71.6	EPS Reported	cps	0.111	0.055	(0.102)	(0.055)	0.031		
Short term debt	0.0	0.2	44.2	34.2	26.2	EPS Normalised/Diluted	cps	0.111	0.058	0.057	(0.036)	0.058		
Invoice financing	0.0	0.0	18.8	16.6	18.2	EPS growth (norm/dil)		48%	-47%	-3%	n/a	-262%		
Lease liabilities/other	16.5	19.5	45.1	35.3	41.2	DPS	cps	0.060	0.030	0.000	0.000	0.030		
Total current liabilities	50.6	44.2	177.4	155.0	157.2	DPS Growth		50%	-50%	-100%	n/a	n/a		
Long term debt	0.0	0.0	21.0	21.0	21.0	Dividend yield		31.6%	15.8%	0.0%	0.0%	15.8%		
Other non current liabs	13.1	9.9	17.6	17.6	17.6	Dividend imputation		100	100	100	100	100		
Total long term liabilities	13.1	9.9	38.6	38.6	38.6	PE (x)		1.7	3.3	3.4	5.3	3.3		
Total Liabilities	63.8	54.0	216.0	193.6	195.8	PE market		15.0	15.0	15.0	15.0	15.0		
Net Assets	73.9	75.2	83.2	76.0	78.8	Premium/(discount)		(88.6%)	(78.3%)	(77.6%)	(135.4%)	(78.2%)		
Share capital	61.0	64.3	87.9	87.9	87.9	EV/EBITDA		(0.2)	(0.2)	2.2	2.1	1.0		
Reserves	(19.8)	(22.5)	(23.4)	(23.4)	(23.4)	FCF/Share	cps	19.74	5.14	-22.54	-11.11	25.88		
Retained Earnings	32.2	33.4	18.7	11.5	14.3	Price/FCF share		0.96	3.70	-0.84	-1.71	0.73		
Minorities	0.5	0.0	0.0	0.0	0.0	Free Cash flow Yield		83.8%	22.1%	(111.6%)	42.2%	136.2%		
Total Shareholder funds	73.9	75.2	83.2	76.0	78.8									

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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Effective Date: 6th May 2021

About Us

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities
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If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR’s internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren’t satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

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