

Turnaround ongoing and outlook encouraging

Metarock Group Ltd (ASX:MYE) is a specialist underground mining contractor across both metallurgical coal and metalliferous hard rock mining, working with most tier-1 operators in the respective spaces. Following a difficult 18 months dealing with legacy contracts that required an equity injection, asset sales and ATO payment plan, MYE appears to be coming out the other side, posting an adjusted \$49.1m EBITDA over the 12 months to December 31, and reducing net debt to \$62.8m which includes \$30m of invoice financing. Applying H1 FY24 annualised depreciation and interest charges we calculate EBITA of \$22.8m for the last 12 months, implying CY23 EV/EBITA of ~4.9x. This multiple compares favourably with a RaaS selected peer group average of 6.7x FY24f and does not take into account further debt reduction and likely lower depreciation rates due to assets sold. Management has indicated a \$4b order book across both Mastermyne (\$2.2b) and PYBAR (\$1.8b) and says it is targeting projects using an improved filter process. Most existing and future work centres around metallurgical coal and metalliferous rock (gold and copper), commodities holding up relatively well in the current environment.

Business model

MYE provides a range of contracted services and equipment hire to major underground metallurgical coal operators via Mastermyne (roadway development, conveyor installation, longwall relocation and maintenance, supply and installation of underground ventilation control devices) and metalliferous hard rock operators via PYBAR (mine development, raise boring, shotcreting, cable bolting and production drilling). Some changes in board and management have been reflected in an increased focus on risk from both a safety and contract viewpoint, with MYE saying it is now targeting clients and projects it wants to work with.

Consistent 12-month turnaround evident

MYE has delivered adjusted EBITDA of \$49.1m over the 12 months to December 31, with the contribution by quarter in a tight range of \$12.0m-\$13.5m. Reported EBITDA includes elevated demand at subsidiary Wilsons in the June half and profit on asset sales in the December half. Reported EBITA is possibly being understated by the depreciation of assets that have now been sold together with what looks to be a conservative depreciation policy relative to peers. RaaS estimates an average depreciation in years of 5.2 years for selected peers against 2.1 years for MYE in CY23. A policy closer to 5 years would see PP&E depreciation reduce to \$9m from \$19m.

Net debt could reach \$41m by June, paving way for dividends

From a starting point of \$62.8m at December 2023, RaaS believes net debt (excluding any capex associated with major project announcements) could reach \$41m by June 2024. Adjusting for debtor timing takes the balance to \$57.8m, a result similar to H1 FY24 would reduce to this to ~\$37m and adding net capex and PYBAR tranche 2 payments could see net debt around \$41m by June 2024. Debt/EBITDA would be ~0.8x and at this level we feel the board could be in a position to consider a resumption of dividend payments. A 50% payout ratio on annualised H1 FY24 EPS of ~4.80cps would imply a yield of 15.0%, all else equal.

Valuation discussion points

We see peers to MYE as other mining services companies that rely on both people and equipment to deliver contracted services to mining operators. The selected peer group RaaS use incorporates NRW (ASX:NWH), Perenti (ASX:PRN), MMA Offshore (ASX:MRM), MacMahon (ASX:MAH), GR Engineering (ASX:GNG), Lycopodium (ASX:LYL), Emeco (ASX:EHL), and Mitchell Servies (ASX:MSV). Using consensus FY24 estimates the average EV/EBITA multiple for this peer group is ~6.7x against a ~4.9x actual CY23 multiple for MYE, which incorporates a higher depreciation rate than we think is likely going forward.

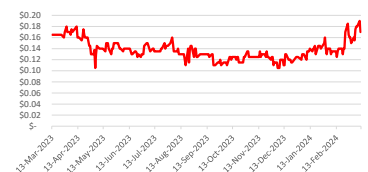
Mining Services

13 March 2024

Share Details

ASX code	MYE
Share price	\$0.17
Market capitalisation	\$52.5M
Shares on issue	308.7M
Net debt at 31-Dec-23	\$62.8M
Free float	~20%

Share Performance



Upside Case

- Delivering on current \$4.0b tender pipeline
- Drawing on M Resources relationships for new contracts
- PYBAR returns to prior earnings levels

Downside Case

- Major contract losses
- Lower metallurgical coal prices
- Low sector multiples limits valuation

Board of Directors

Jon Romcke	Executive Chairman
Jeff Whiteman	CEO/MD
Andrew Watts	Non-Executive Director
Murray Smith	Non-Executive Director
Peter Barker	Non-Executive Director

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*The analysts hold shares

MYE CY23 earnings commentary

MYE has delivered two consecutive halves of positive adjusted EBITDA and EBITA with both divisions contributing. Conditions for revenue and EBITA would appear supportive when considering the following:

- **Depreciation expense** may well be lower into H2 FY24 and FY25 on the back of asset sales through H1 FY24. MYE's current PP&E depreciation rate is around 2.1 years against a peer average of 5.2 years;
- **Interest expense** should decline in-line with lower average debt levels, which are likely to fall further into June 2024 (see Exhibit 2 below);
- The order book sits at \$466m; and
- The tender pipeline sits at around \$4.0b across both Mastermyne (\$2.2b) and PYBAR (\$1.8b).

Exhibit 1: MYE CY23 earnings summary (A\$ unless specified)

Variable (A\$000')	H2 FY23a	H1 FY24a	CY23a	Comments
Revenue	251.4	234.5	485.9	
Mastermyne	164.0	147.0	311.0	
PYBAR	87.4	87.5	174.9	
Operating Costs	227.8	209.0	436.8	
Adj. EBITDA	23.6	25.5	49.1	Excludes asset sales & elevated Wilson
Mastermyne	10.5	13.9	24.4	
PYBAR	13.0	11.6	24.6	Recovery from breakeven in H1 FY23
Depreciation	18.4	13.1	31.6	Still includes assets now sold
EBITA	5.1	12.4	17.5	Annualised \$25m
Amortisation	1.6	1.6	3.2	
EBIT	3.5	10.8	14.3	
Adjusted NPATA	(0.4)	8.3	7.9	
Reported NPATA	(10.0)	10.9	0.9	

Source: Company announcements

MYE debt reconciliation

MYE ended the year with \$62.8m in net debt including \$31.5m in invoice financing, down from \$86.6m at June 2023, aided by an asset sales improved EBITDA.

An analysis of likely incomings and outgoings over H2 FY24 presented in Exhibit 2 below suggests net debt could be as low as \$41m by June 2024 assuming:

- \$5.0m collection of receivables due to timing.
- The sale of \$4.0m in excess equipment held for sale as a current liability.
- Operating cashflow equal to that reported in H1 FY24 (\$24m EBITDA less \$4.0m in interest)
- Capex equal to H1 FY24 (\$3.2m).
- The payment of the final tranche for PYABR.

Exhibit 2: MYE net debt reconciliation, Dec-23 Jun-24

Parameters	A\$m
Net debt as @ 31 December 2023 (including-invoicing facility)	62.8
add equipment held for sale	(4.0)
add invoice timing	(5.0)
add operating cash flow = H1	(20.0)
less capex = H1	3.2
less PYBAR tranche 2 payments	4.0
Potential Net debt as June 2024	41.0
PP&E as at Dec 2023	47.9
FY24 Debt/adj. CY23a EBITDA	0.8x

Source: Company announcements, RaaS calculation based on a continuation of H1 actuals



FINANCIAL SERVICES GUIDE

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of

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