Metarock Group Ltd

H1 FY24 Result & observations

Turnaround ongoing and outlook encouraging

Mining Services

13 March 2024

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.

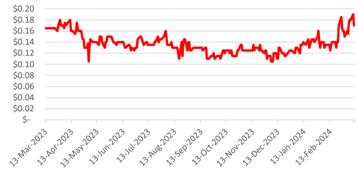
Valuation discussion points

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.

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

Company Contact

Jeff Whiteman (CEO) +61 7 4963 0400

jeff.whiteman@metarock.com.au

RaaS Contacts

John Burgess* +61 410 439 723
john.burgess@raasgroup.com

Finola Burke* +61 414 354 712
finola.burke@raasgroup.com

*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

RaaS Advisory 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: 6th May 2021

About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.
This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

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

Contact Details, BR and RaaS
BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000
RaaS. 20 Halls Road Arcadia, NSW 2159
P: +61 414 354712
E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application from if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.
We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

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.

Professional Indemnity Insurance

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.

DISCLAIMERS and DISCLOSURES

This report has been prepared and issued by RaaS Research Group Pty Ltd. RaaS Research Group has been paid a fee to prepare this report. RaaS Research Group's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Research Group and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Research Group at the time of publication. RaaS Research Group provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Research Group in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Research Group has no obligation to update the opinion unless RaaS Research Group is currently contracted to provide such an updated opinion. RaaS Research Group does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than $50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise.

The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Research Group does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Research Group shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Research Group limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.