

Acquisition builds ESG capabilities

Millennium Services Group Ltd (ASX:MIL) has announced the acquisition of 49% of Codee Cleaning Services, an indigenous-owned business based in Perth, WA. While not material in EPS terms (we estimate 1.5%-2.0% annualised EPS accretion) it reveals a strategy of partnering with indigenous groups to grow and add value to the business while at the same time respecting the origins of the enterprise. Such moves are likely to be repeated nationally and follow-on from the group's commitment to meet the highest governance levels in terms of legal, social and ethical responsibilities, which includes the appointment of new Directors with experience in the space. The acquisition cost for 49% is \$1.1m with an estimated \$2.0m revenue and EBITDA of \$0.3m (4.5x). We have incorporated Codee into our numbers as an outside equity interest after tax. The near net cash position places MIL in a strong position to continue making acquisitions in the very fragmented cleaning and security industry, and/or other complimentary sectors. MIL continues to trade at a 50% FY22 EV/EBITDA discount to our selected peer group average (4.8x), which itself is trading at a significant discount to the ASX200. The average peer multiple would imply a share price for MIL of \$1.20/share.

Business Model

MIL is a human services business, bidding for predominantly fixed-rate contracts with opportunities for volume gains and ad hoc services, across the essential services of cleaning and security for durations of three-five years with large corporates. Satisfying contractual obligations utilising a vast workforce and procuring consumables for the jobs within the contracted price is key to profitability. Historically focusing on cleaning and security services within major shopping centres, MIL is looking to de-risk the retail exposure by moving into new sectors including aviation, aged care, education and government. An increased focus on compliance (Fair Work, Modern Slavery Act and Labour Hire regulations), and utilising the ASX-listed nature of the business, will be keys in this push.

Cementing an ESG focus

We have highlighted for some time the group's increased focus on compliance across Fair Work, the Modern Slavery Act and various Labour Hire regulations, recently employing new Directors with experience in this field, including Darren Perry, who has an extensive background in employment and industrial relations law. The acquisition of businesses like Codee is the next step, partnering with the likes of indigenous groups to grow and add value to the business, but at the same time protect the origins of why such groups were established in the first place.

Valuation between \$1.20 (relative multiple) and \$1.60 (DCF)

The peer group average FY22 EV/EBITDA multiple implies a \$1.20/share valuation for MIL (4.8x EV/EBITDA), and we see no reason why this business does not deserve peer average multiples given average contract length, relative working capital intensity, balance sheet strength and market opportunities. As a sense check, our DCF valuation sits around \$1.60/share, incorporating modest medium-term and terminal-growth assumptions.

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

Year end	Adj. Revenue	Und. EBITDA	NPAT (adj)	EPS (adj) (c)	P/E (x)	EV/Sales (x)
06/20a	257.3	4.0	2.0	0.04	nm	0.25
06/21a	273.7	11.6	2.2	0.05	13.0	0.11
06/22e	261.8	10.4	3.6	0.08	8.0	0.09
06/23e	274.9	12.1	5.5	0.12	5.2	0.07

Source: Company data, RaaS estimates for FY22e and FY23e

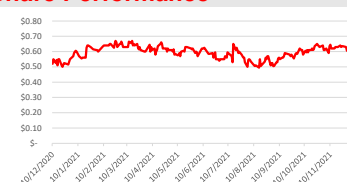
Human Services

13th December 2021

Share Details

ASX code	MIL
Share price	\$0.62
Market capitalisation	\$28.0M
Shares on issue	45.9M
Net debt at 30-Jun-21	\$0.3M
Free float	~31.5%

Share Performance



Upside Case

- Converting a portion of the tender pipeline over the next 18 months
- Successfully diversify industry exposure to include government, education and aged care
- EPS accretive/complimentary acquisitions

Downside Case

- Competitive margin pressure re-emerges
- Sizable contract loss
- Wages growth above contract clauses

Board of Directors

Stuart Grimshaw	Chairman
Scott Alomes	CEO
Rohan Garnett	Non-Executive Director
Darren Perry	Non-Executive Director

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*The author owns shares

Exhibit 1: Financial Summary (In A\$m unless otherwise stated)

Millennium Services (ASX.MIL)						Share price (10 December 2021)								A\$	0.620		
Profit and Loss (A\$m)						Interim (A\$m)						H120	H220	H121	H221	H122F	H222F
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	Revenue	135.1	146.8	159.7	138.7	130.3	131.5					
Revenue	294.7	257.3	273.7	261.8	274.9	EBITDA	2.4	1.7	7.0	4.6	4.5	5.9					
Gross profit	30.1	30.8	39.0	38.1	39.9	EBIT	(0.0)	(1.8)	4.8	2.0	2.2	3.7					
GP margin %	10.2%	12.0%	14.3%	14.6%	14.5%	NPAT (normalised)	(1.7)	2.0	2.6	0.8	1.2	2.3					
Underlying EBITDA	0.1	4.0	11.6	10.4	12.1	Minorities (AT)	0.0	0.0	0.0	0.0	0.0	0.1					
Depn	(8.8)	(5.9)	(4.9)	(4.5)	(3.9)	NPAT (reported)	(0.8)	2.8	1.9	0.3	1.2	2.3					
Minorities (AT)	0.0	0.0	0.0	0.1	0.1	EPS (normalised)	nm	0.061	0.042	0.006	0.027	0.050					
EBIT	(8.7)	(1.9)	6.8	6.0	8.3	EPS (reported)	nm	0.061	0.042	0.006	0.027	0.050					
Interest	(2.5)	(3.2)	(1.8)	(0.9)	(0.5)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	(3.2)	5.3	(1.6)	(1.5)	(2.3)	Imputation											
NPAT	(14.3)	0.3	3.4	3.6	5.5	Operating cash flow	na	na	na	na	na	na					
Adjustments	(4.4)	1.7	(1.2)	0.0	0.0	Free Cash flow	na	na	na	na	na	na					
Adjusted NPAT	(18.7)	2.0	2.2	3.6	5.5	Divisionals	H120	H220	H121	H221	H122F	H222F					
Abnormals (net)	(26.8)	14.5	15.2	0.0	0.0	Cleaning	111.4	102.0	107.9	109.0	106.4	105.1					
NPAT (reported)	(45.5)	16.5	17.4	3.6	5.5	Security	23.7	20.2	27.2	29.7	23.9	26.4					
Cash flow (A\$m)						(Other)						-	24.6	24.7	-	-	-
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	Total Revenue	135.1	146.8	159.7	138.7	130.3	131.5					
EBITDA (inc cash rent/JK)	0.1	19.4	29.3	9.5	11.2												
Interest	(2.5)	(3.2)	(1.8)	(0.9)	(0.5)	Gross profit	17.0	13.8	19.9	19.1	18.9	19.2					
Tax	(0.9)	0.5	(0.1)	(1.5)	(2.3)	Underlying GP Margin %	12.6%	11.3%	14.8%	13.8%	14.5%	14.6%					
Working capital changes	2.2	(16.6)	12.9	(0.8)	(0.1)	Operating Costs											
Operating cash flow	(1.1)	0.1	40.3	6.3	8.3	Employment	8.3	16.4	16.2	9.1	8.6	7.8					
Mtce capex	(1.3)	(2.2)	(2.2)	(2.4)	(2.5)	Other	5.5	4.9	6.2	6.4	5.8	5.5					
Free cash flow	(2.4)	(2.1)	38.1	3.9	5.8	Exceptional	0.9	9.2	9.5	1.0	-	-					
Growth capex	0.0	0.0	0.0	0.0	0.0	Total costs	14.7	12.1	12.9	14.5	14.4	13.3					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0												
Other	(2.7)	(2.5)	(2.1)	(2.0)	(2.0)	EBITDA	2.4	1.7	7.0	4.6	4.5	5.9					
Cash flow pre financing	(5.1)	(4.6)	36.0	1.9	3.8	EBITDA margin %	1.7%	1.1%	4.4%	3.3%	3.5%	4.5%					
Equity	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns	FY19A	FY20A	FY21A	FY22F	FY23F						
Debt drawdown/(repay)	(3.6)	1.6	(21.4)	(2.0)	(3.0)	EBITDA margin %		0.0%	1.6%	4.3%	4.0%	4.4%					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(2.9%)	(0.7%)	2.5%	2.3%	3.0%					
Net cash flow for year	(8.7)	(3.0)	14.6	(0.1)	0.8	NPAT margin (pre significant items)		(6.4%)	0.8%	0.8%	1.4%	2.0%					
Balance sheet (A\$m)						Net Debt (Cash)						27.1	34.6	0.3	-6.0	-9.7	
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	Net debt/EBITDA (x)	(x)	314.9 x	8.6 x	0.0 x	-0.6 x	-0.8 x					
Cash	2.7	1.8	7.3	6.2	6.9	ND/ND+Equity (%)	(%)	42.7%	63.5%	11.5%	82.2%	58.8%					
Accounts receivable	19.5	29.8	18.0	20.6	21.6	EBIT interest cover (x)	(x)	n/a	n/a	0.3x	0.2x	0.1x					
Inventory	0.8	1.2	1.1	1.0	1.0	ROA		nm	(3.5%)	11.6%	11.0%	15.4%					
Other current assets	1.2	2.5	2.2	0.0	0.0	ROE		nm	nm	nm	nm	nm					
Total current assets	24.2	35.3	28.7	27.7	29.5	ROIC		nm	nm	nm	nm	nm					
PPE	11.4	8.6	7.0	5.8	5.2	NTA (per share)		-0.95	-0.60	-0.21	-0.16	-0.04					
Goodwill	7.5	7.5	7.5	8.5	8.5	Working capital		-1.8	14.8	1.9	2.7	2.9					
Right of use asset	0.0	2.9	3.0	3.0	3.0	WC/Sales (%)		(0.6%)	5.7%	0.7%	1.0%	1.0%					
Deferred tax asset	0.2	7.4	8.5	8.5	8.5	Revenue growth		nm	(12.7%)	6.4%	(4.4%)	5.0%					
Other	0.1	0.1	0.1	0.1	0.1	EBIT growth pa		nm	nm	(463.7%)	(11.5%)	39.3%					
Total non current assets	19.1	26.5	26.2	25.9	25.4	Pricing		FY19A	FY20A	FY21A	FY22F	FY23F					
Total Assets	43.4	61.9	54.9	53.7	54.9	No of shares (y/e)	(m)	45.9	45.9	45.9	45.9	45.9					
Accounts payable	22.2	16.3	17.3	18.9	19.8	Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9					
Short term debt	29.8	36.4	5.5	0.0	0.0												
Provisions	26.1	22.4	22.6	19.8	20.8	EPS Reported	cps	nm	0.359	0.379	0.078	0.120					
Lease liabilities/other	0.0	0.8	5.5	9.5	6.3	EPS Normalised/Diluted	cps	nm	0.043	0.048	0.078	0.120					
Total current liabilities	78.0	76.0	50.9	48.2	46.9	EPS growth (norm/dil)		nm	nm	11%	63%	54%					
Long term debt	0.0	0.0	2.1	0.1	(2.9)	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Other non current liabs	1.8	5.8	4.1	4.1	4.1	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Total long term liabilities	1.8	5.8	6.2	4.2	1.2	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Total Liabilities	79.8	81.8	57.1	52.3	48.1	Dividend imputation		30	30	30	30	30					
Net Assets	(36.4)	(19.9)	(2.3)	1.3	6.8	PE (x)			nm	13.0	8.0	5.2					
						PE market		18	18	18	18	18					
Share capital	19.0	19.0	19.1	19.1	19.1	Premium/(discount)			nm	(28.0%)	(55.8%)	(71.3%)					
Reserves	(8.4)	(8.5)	(8.3)	(8.3)	(8.3)	EV/EBITDA		646.0	15.6	2.5	2.2	1.5					
Retained Earnings	(46.9)	(30.3)	(13.1)	(9.4)	(3.9)	FCF/Share	cps	(4.535)	(4.535)	83.023	8.542	12.630					
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(13.670)	(13.670)	0.747	7.259	4.909					
Total Shareholder funds	(36.4)	(19.9)	(2.4)	1.3	6.8	Free Cash flow Yield		(7.3%)	(7.3%)	133.9%	13.8%	20.4%					

Source: RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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

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