

Ausgroup (AUSG SP)

Energy & Petrochemicals - Oil & Gas Services

Market Cap: USD82.8m

Neutral (Maintained)

 Target Price: **SGD0.15**

 Price: **SGD0.16**

The Worst Is Over But Valuations Remain High

 Macro

 Risks

 Growth

 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	0.57m/0.41m
Cons. Upside (%)	-6.3
Upside (%)	-4.5
52-wk Price low/high (SGD)	0.10 - 0.38
Free float (%)	77
Share outstanding (m)	740
Shareholders (%)	
Ezion Holdings	17.8
Wang Yu Huei	5.1

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(47.7)	36.5	(4.9)	(35.9)	(54.5)
Relative	(36.9)	28.8	3.7	(22.0)	(47.6)

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With Port Melville now being able to begin commercial operations, the wait is finally over. Maintain NEUTRAL, with a SGD0.15 TP (from SGD0.11, 4.5% downside) based on 0.75x P/NTA. Our EPS forecasts are adjusted by -3%/13%/14% as we pencil in higher marine base earnings in FY17F(Jun)/FY18F. We remain cautious, preferring not to overestimate the marine base growth as the Australian offshore oil & gas scene remains muted.

- ◆ **1QFY16 still at breakeven level.** AusGroup's 1QFY16 PATMI of AUD0.3m was an improvement from its large core net loss in 4QFY15, but this took a 47% QoQ surge in revenue. On its AUD121m of engineering services revenue, the segment's profit was only at AUD1.9m, implying a mere 1.55% net margin. Although the orderbook stands at a still-healthy AUD389.9m, at such a margin, its value-add to the group is limited. The company has finally secured the approval to operate the marine base commercially, which is a positive development.
- ◆ **Both core industries are facing headwinds.** AusGroup's primary markets in mineral and energy are both still in the doldrums, and as it is operating in one of the highest labour-cost markets in the world, we do not expect the offshore industry to see a quick rebound. This may limit the near-term earnings growth of the marine base.
- ◆ **Cost-cutting measures necessary with c.AUD50m overheads.** With the consolidation of the marine base, AusGroup's fixed costs are now in the AUD50m range, before financing costs. This essentially consumes 79% of our gross profit forecast for FY16F. Management is targeting cost cuts of up to AUD10m.
- ◆ **Better investment options out there.** While certain investors may like AusGroup for the high volatility of its stock and speculative action, we prefer companies with a stronger earnings base and higher cash flow and visibility. Names like Ezion (EZI SP, BUY, TP: SGD1.60) and Triyards (ETL SP, BUY, TP: SGD0.94) come to mind. Both trade at about 0.5x P/BVs and at 3-6x P/Es. The investment thesis on AusGroup, in our view, remains premised on the marine base contributions overwhelming the low returns stemming from its lacklustre engineering services business.

Forecasts and Valuations	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total turnover (AUDm)	302	427	493	522	539
Reported net profit (AUDm)	(11.9)	6.2	5.6	11.2	12.0
Recurring net profit (AUDm)	(26.6)	(12.3)	(1.4)	4.2	12.0
Recurring net profit growth (%)	(457.0)	(53.8)	(88.7)	na	185.2
Recurring EPS (AUD)	(0.05)	(0.02)	(0.00)	0.01	0.02
DPS (AUD)	0.000	0.000	0.000	0.002	0.002
Recurring P/E (x)	na	na	na	27.8	9.8
P/B (x)	0.52	0.48	0.47	0.45	0.43
P/CF (x)	na	4.48	na	6.19	5.19
Dividend Yield (%)	0.0	0.0	0.0	1.0	1.0
EV/EBITDA (x)	na	7.6	10.3	7.3	7.0
Return on average equity (%)	(6.4)	2.8	2.3	4.4	4.5
Net debt to equity (%)	net cash	53.2	65.2	59.7	54.0
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Additional Notes

Figure 1: Quarterly results in review

Figures in AUD'000	1QFY15	4QFY15	1QFY16	QoQ	YoY	Remarks
Revenue	130,533	90,602	132,747	47%	2%	
Cost of sales	(117,520)	(69,798)	(117,574)	68%	0%	R&D tax credit of AUD22m in 4QFY15 offset by AUD12m of WIP impairments led to apparent increase in gross profit in 4QFY15.
Gross profit	13,013	20,804	15,173	-27%	17%	
Other income	806	1,017	299	-71%	-63%	
Other operating costs	(5,516)	(8,288)	(7,392)	-11%	34%	Impairment loss taken on AusGroup's Singapore facility (AUD2.9m) and staff redundancy costs in 4QFY15.
Administrative expenses	(4,580)	(4,591)	(5,904)	29%	29%	QoQ increase due to restructuring and transformation costs.
Marketing, distribution expenses	(499)	(489)	(714)	46%	43%	
Share of associates/JV	0	0	0	nm	nm	
Profit from operations	3,224	4,933	1,462	-70%	-55%	
Finance costs	(824)	(3,498)	(1,238)	-65%	50%	Large finance cost in 4QFY15 largely due to medium-term notes issued and an AUD0.8m fee for refinancing of the Wingate facility.
Profit before tax	2,400	1,435	224	-84%	-91%	
Income tax expense	430	(1,174)	248	nm	-42%	
Minority interest	0	5	(124)	nm	nm	
PATMI	2,830	266	348	31%	-88%	
Exceptional gains / (losses)	0	6,480	0			Net exceptional gains from the large quantum of R&D tax credits in 4QFY15, offset by impairments to WIP and asset values.
Core PATMI	2,830	(6,214)	348	nm	-88%	Core net loss in 4QFY15.
Gross Margin	10.0%	23.0%	11.4%			Without tax credit and WIP impairment, gross margin in 4QFY15 would have been c.11.9%.
EBITDA Margin	4.1%	6.2%	2.5%			
Net Margin	2.2%	0.3%	0.3%			

Source: Company data, RHB

Financial Exhibits

Profit & Loss (AUDm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total turnover	302	427	493	522	539
Cost of sales	(298)	(368)	(430)	(451)	(464)
Gross profit	5	59	63	72	76
Gen & admin expenses	(26)	(20)	(23)	(24)	(24)
Selling expenses	(2)	(2)	(3)	(3)	(3)
Other operating costs	3	(19)	(24)	(21)	(22)
Operating profit	(20)	19	14	24	26
Operating EBITDA	(6)	31	27	38	38
Depreciation of fixed assets	(11)	(10)	(11)	(12)	(12)
Amortisation of intangible assets	(4)	(2)	(2)	(2)	-
Operating EBIT	(20)	19	14	24	26
Other recurring income	(15)	(22)	(7)	(7)	-
Interest expense	(3)	(7)	(6)	(7)	(7)
Exceptional income - net	15	18	7	7	-
Pre-tax profit	(23)	8	7	17	19
Taxation	11	(2)	(1)	(4)	(5)
Minority interests	-	(0)	(1)	(2)	(2)
Profit after tax & minorities	(12)	6	6	11	12
Reported net profit	(12)	6	6	11	12
Recurring net profit	(27)	(12)	(1)	4	12

Source: Company data, RHB

Cash flow (AUDm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Operating profit	(20)	19	14	24	26
Depreciation & amortisation	14	12	13	14	12
Change in working capital	(5)	(15)	(27)	(8)	(4)
Other operating cash flow	(20)	4	-	-	-
Operating cash flow	(30)	20	(0)	30	34
Interest received	1	1	-	-	-
Interest paid	(3)	(7)	(6)	(7)	(7)
Tax paid	(3)	11	(1)	(4)	(5)
Cash flow from operations	(36)	25	(8)	19	22
Capex	(5)	(55)	(25)	(13)	(14)
Other investing cash flow	45	(35)	-	-	-
Cash flow from investing activities	41	(90)	(25)	(13)	(14)
Dividends paid	-	-	-	-	(1)
Shares repurchased	-	(0)	-	-	-
Proceeds from issue of shares	35	-	-	-	-
Increase in debt	(7)	67	25	-	-
Other financing cash flow	0	-	-	-	-
Cash flow from financing activities	28	67	25	-	(1)
Cash at beginning of period	12	41	39	31	37
Total cash generated	33	2	(8)	6	8
Forex effects	(0)	1	-	-	-
Implied cash at end of period	44	44	31	37	44

Source: Company data, RHB

Financial Exhibits

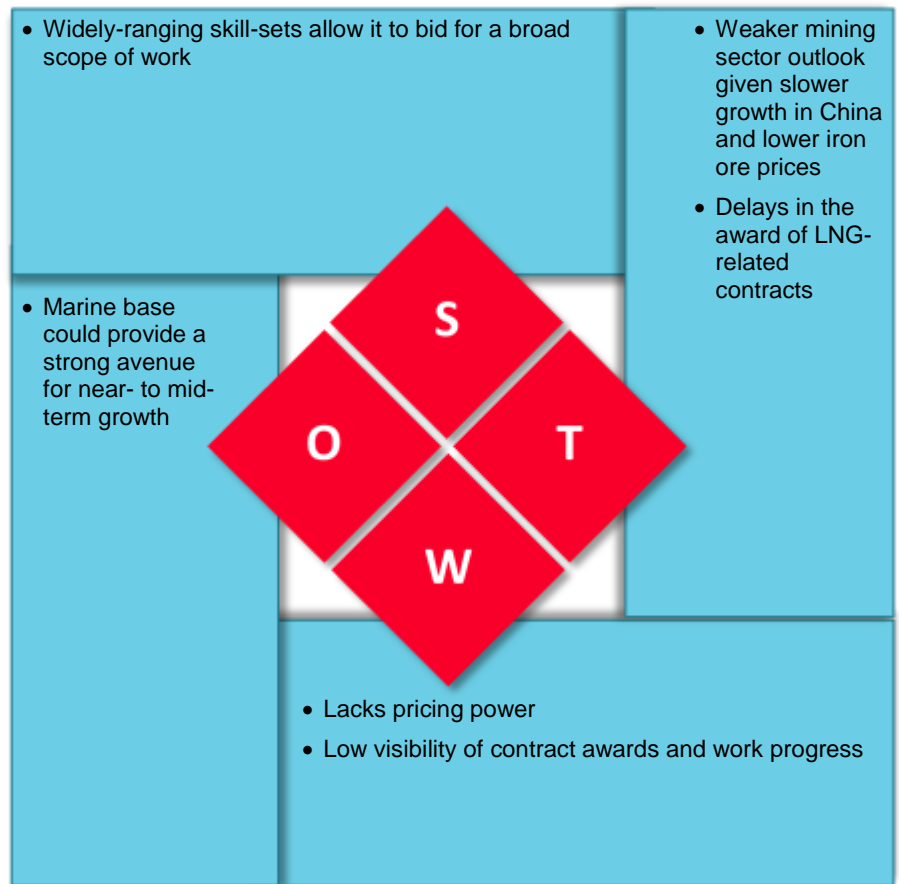
Balance Sheet (AUDm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total cash and equivalents	41	39	31	37	44
Inventories	6	8	9	10	10
Accounts receivable	151	189	229	243	251
Other current assets	0	-	-	-	-
Total current assets	198	236	269	290	306
Tangible fixed assets	61	182	196	197	198
Intangible assets	24	108	106	103	103
Total other assets	18	17	17	17	17
Total non-current assets	103	307	319	318	319
Total assets	301	543	589	608	625
Short-term debt	2	10	35	35	35
Accounts payable	70	115	129	136	140
Other current liabilities	12	16	16	16	16
Total current liabilities	84	141	180	187	191
Total long-term debt	18	157	157	157	157
Other liabilities	3	4	4	4	4
Total non-current liabilities	21	161	161	161	161
Total liabilities	105	302	341	347	351
Share capital	100	128	128	128	128
Retained earnings reserve	92	97	102	114	124
Other reserves	4	17	17	17	17
Shareholders' equity	196	242	247	259	270
Minority interests	-	(0)	0	2	4
Other equity	-	0	0	(0)	0
Total equity	196	241	248	260	274
Total liabilities & equity	301	543	589	608	625

Source: Company data, RHB

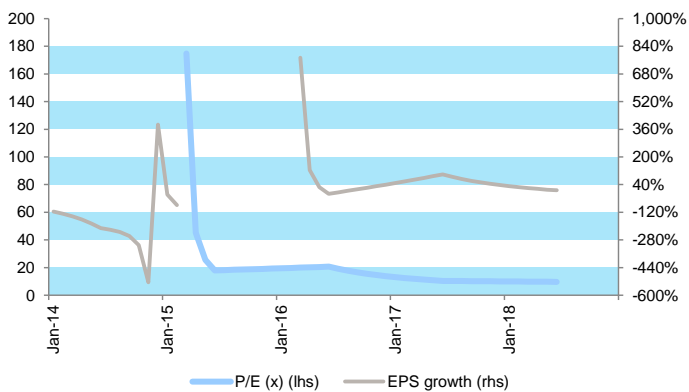
Key Ratios (AUD)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Revenue growth (%)	(48.1)	41.3	15.3	6.0	3.3
Operating profit growth (%)	(211.6)	0.0	(27.5)	73.8	9.4
Net profit growth (%)	(222.3)	0.0	(9.0)	99.3	6.8
EPS growth (%)	(212.1)	0.0	(13.1)	99.3	6.8
BVPS growth (%)	(16.0)	8.0	2.3	4.5	4.2
Operating margin (%)	(6.5)	4.4	2.8	4.5	4.8
Net profit margin (%)	(3.9)	1.4	1.1	2.1	2.2
Return on average assets (%)	(3.9)	1.5	1.0	1.9	1.9
Return on average equity (%)	(6.4)	2.8	2.3	4.4	4.5
Net debt to equity (%)	(10.8)	53.2	65.2	59.7	54.0
DPS	0.000	0.000	0.000	0.002	0.002
Recurrent cash flow per share	(0.07)	0.04	(0.01)	0.03	0.03

Source: Company data, RHB

SWOT Analysis

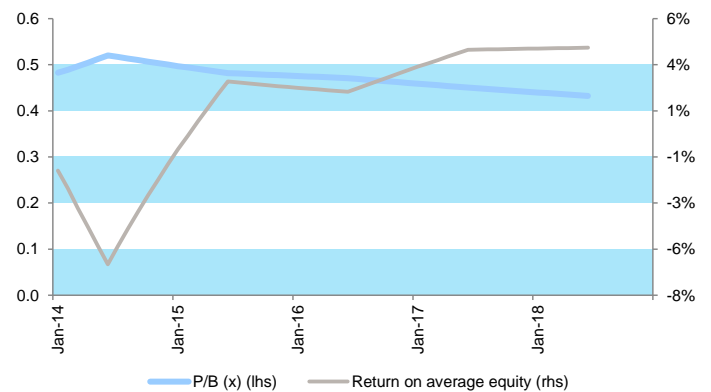


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

AusGroup is an energy and resources specialist which provides fabrication, precision machining, construction and integrated services to natural resource development companies in Australia.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-01	Neutral	0.11	0.11
2015-05-14	Neutral	0.25	0.23
2015-02-11	Neutral	0.28	0.29
2014-11-11	Neutral	0.36	0.35
2014-09-01	Sell	0.38	0.42
2014-07-23	Sell	0.35	0.45
2014-05-08	Sell	0.36	0.44
2014-02-14	Neutral	0.25	0.25
2013-12-18	Neutral	0.18	0.18
2013-12-11	Sell	0.21	0.23

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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a) -

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