

# MITCHELL SERVICES LTD (MSV)

13 February 2019

## SPLASH ALPHA REPORT

### DESCRIPTION

Mitchell Services Limited (MSV.ASX) provides exploration and mine site drilling services to the exploration, mining and energy industries, primarily in Australia.

The Company offers a range of services, including coal exploration drilling, mineral exploration drilling, mine services and large diameter drilling, coal seam gas and shale gas drilling, coal mine methane drainage and directional drilling.

### COMPANY DATA & RATIOS

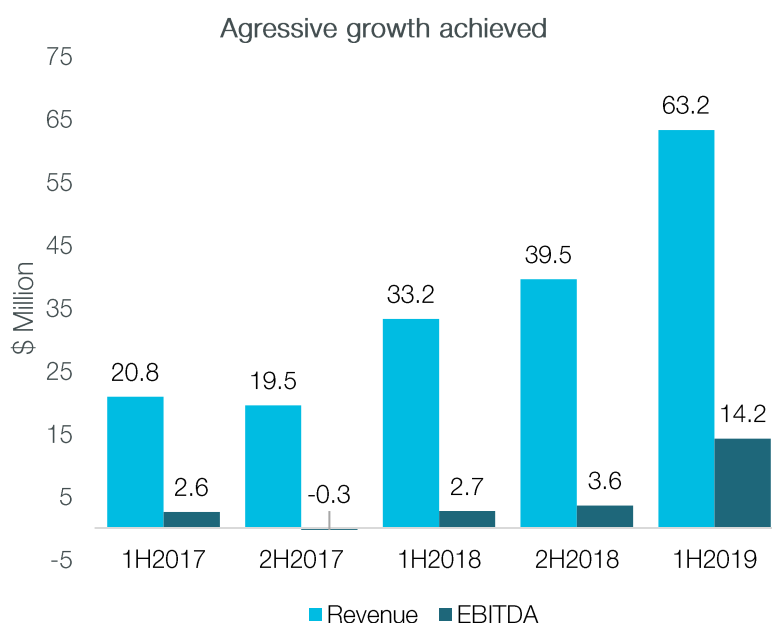
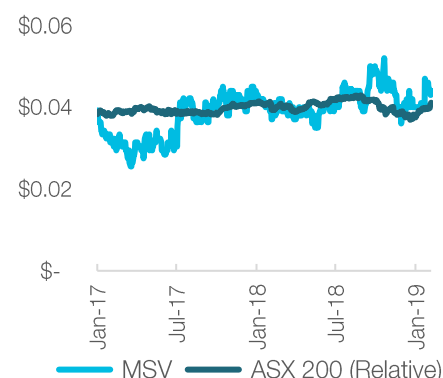
Closing price (AUD) 12.02.2019	\$0.046
Enterprise Value (\$m)	\$82.54
Market Cap (\$m)	\$79.97
Issued Capital (m)	1,738.4
12-mth price range	\$0.03 - \$0.06
GICS Sector	Diversified Metals & Mining

### KEY INVESTMENT HIGHLIGHTS

Having significantly reduced gearing, MSV is well positioned to capitalise on organic and acquisition growth opportunities. The Company retains a positive industry outlook overall with operations highly leveraged to increased rig utilisation levels.

Assuming MSV can sustain a similar run rate in 2H19 to deliver a full year FY19 EBITDA of \$22-26 million, the Company is trading on approximately 3.0x-3.6x EBITDA.

### SHARE PRICE CHART & VOLUME



Source: MSV Company Financials & BOEQ

### GOVERNANCE

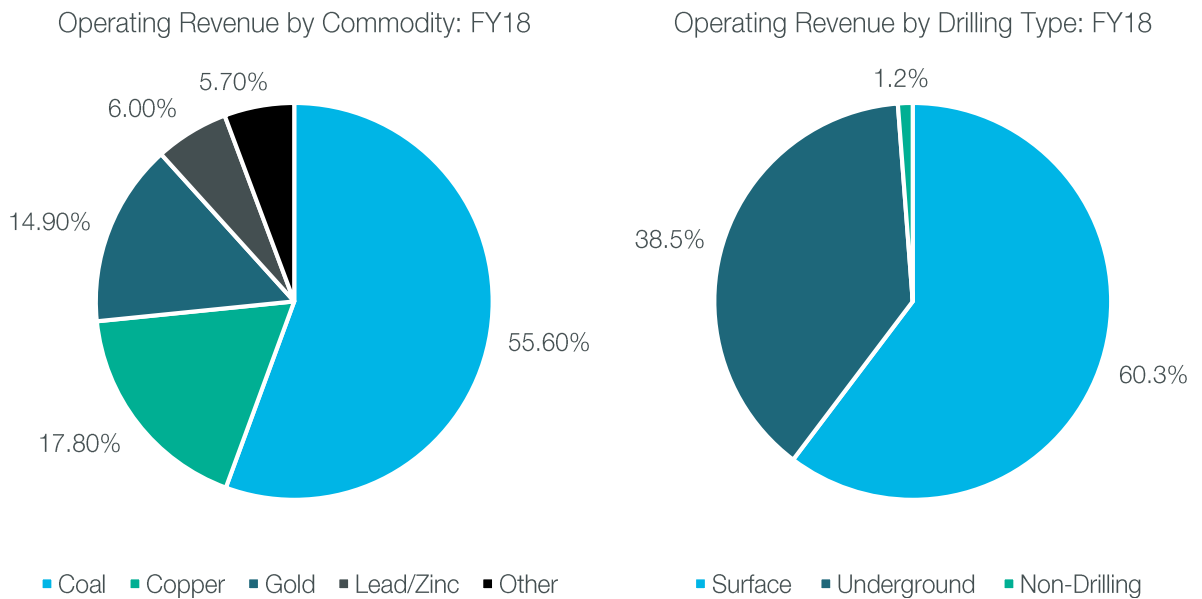
Chairman - Nathan Andrew Mitchell  
CEO - Andrew Elf  
CFO & Secretary - Greg Switala

### MAJOR SHAREHOLDERS

Mitchell Group Holdings Pty. Ltd.	11.4%
Washington H Soul Pattinson and Company Mitchell Family Investments (Qld)	10.8%
CVC Managers	8.8%
Macquarie Investment Management Ltd.	6.1%
Farjoy Pty. Ltd.	5.0%
	3.6%

## BUSINESS OVERVIEW

- Relatively diversified revenue streams by commodity, with an approximate 50/50 split between coal and minerals. Activity is primarily in surface drilling. Further details are presented in the pie charts below.
- 92% of FY18 revenues were brownfield related with predominantly long-life Tier 1 mine sites such as BHP’s Olympic Dam and Glencore’s Mount Isa sites.
- Typically, contracts are issued for a period of 2-3 years.

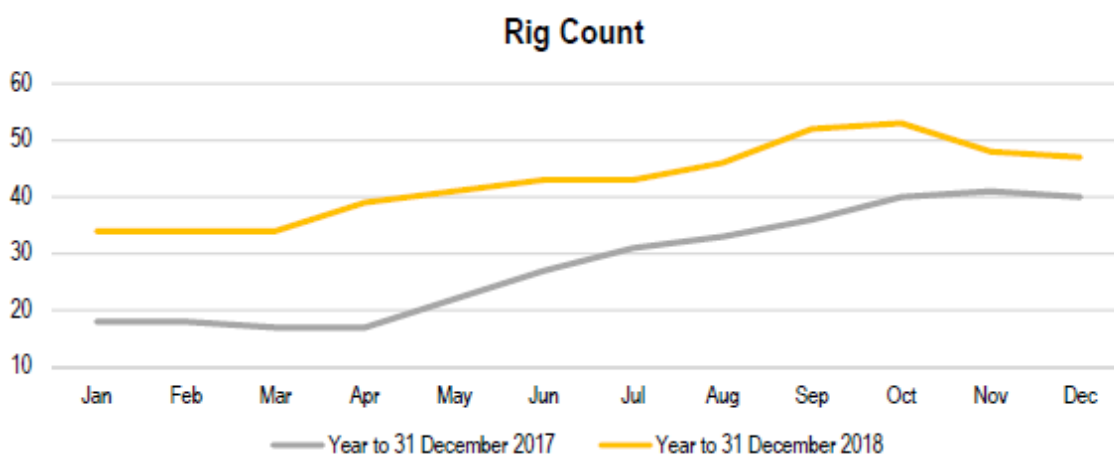


Source: MSV Company Announcements & BOEQ

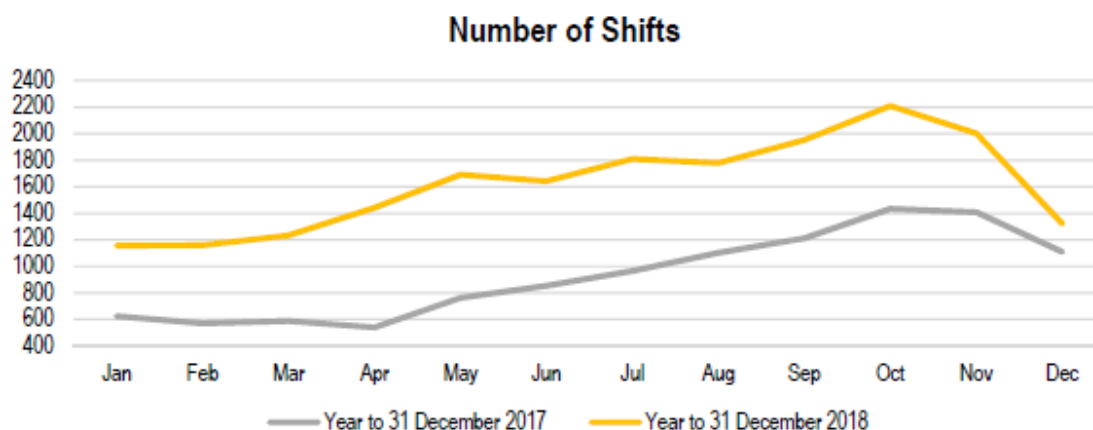
## LEVERAGE IN THE BUSINESS MODEL

MSV has a highly leveraged business model to drive revenue growth with the ability to increase:

- Rig utilisation amongst the fleet;
- The number of shifts per rig (i.e. double shifts);
- Prices received as demand increases amongst end users; and
- The number of rigs in the fleet



Source: MSV Company announcement



Source: MSV Company announcement

## FINANCIAL PERFORMANCE

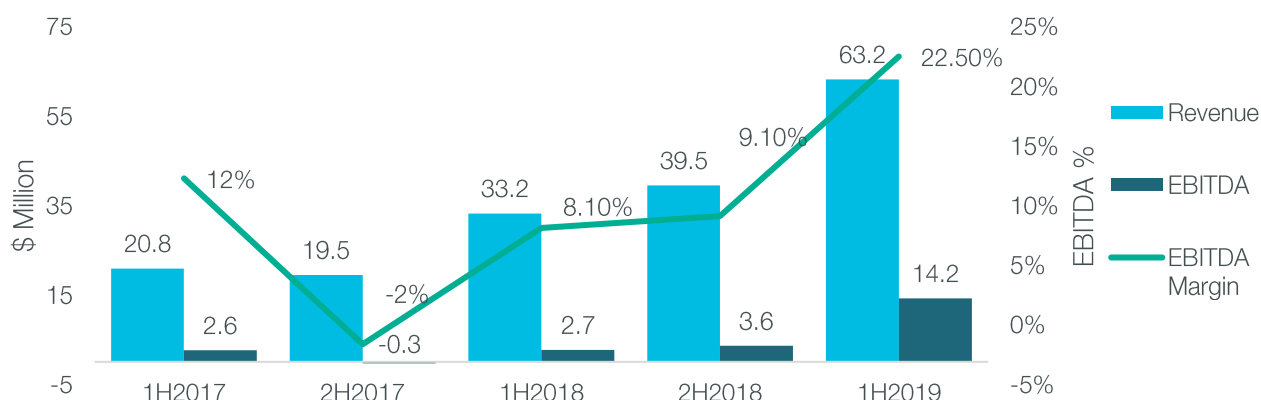
### FY18: GREEN SHOOTS APPEARED

- FY18 saw improved market conditions resulting in revenue growth of 80% compared to FY17 due to higher rig utilisation rates and increased shifts. FY18 EBITDA grew by 180% to \$6.3 million up from \$2.2 million in FY17.
- In 1H18, MSV acquired Radco Drilling for a total cash consideration of \$5.3m. The purchase price represented a valuation of approximately 2x FY17 EBITDA (FY17 revenues of \$11.6m and EBITDA of \$2.6m). The acquisition gave the Company immediate entry to underground coal drilling and gas drainage services with Tier 1 global coal clients under long term contracts. The transaction is expected to be materially EPS and EBITDA accretive in the first full financial year (FY19).

### 1HFY19: THE JAWS ARE OPENING

- 1HFY19 revenues (including the Radco acquisition) grew to \$63.2 million up more than 90% on 1H18. Comparatively, 1H19 revenues represent 87% of the total revenues received during FY18 (\$72.7 million).
- Q2FY19 results were in line with Q1FY19 which is traditionally a weak quarter suggesting continued momentum and operational strength.
- Operating cashflows of \$15.3 million for 1H19, including \$10.9 million in 2QFY19. EBITDA to operating cashflow conversion of 151% in 2QFY19 due to early payments associated with contract ramp ups. Expectation that this will normalise to a level of approximately 100%.
- 1H19 saw strong EBITDA margins of 22%, the Company considers margins above 20% to be a strong result. Margin strength achieved is attributed to lower impact of ramp up following project wins, higher productivity from increased utilisation at the right prices highlighting managements discipline. Expectation of normalised margins of circa 16-18%.
- Assuming MSV can sustain a similar run rate in 2H19 to deliver a full year FY19 EBITDA of \$22-26 million, the Company trades on approximately 3.0x-3.6x EBITDA.

Aggressive Growth: 1H19 EBITDA already greater than FY17 & FY18 combined

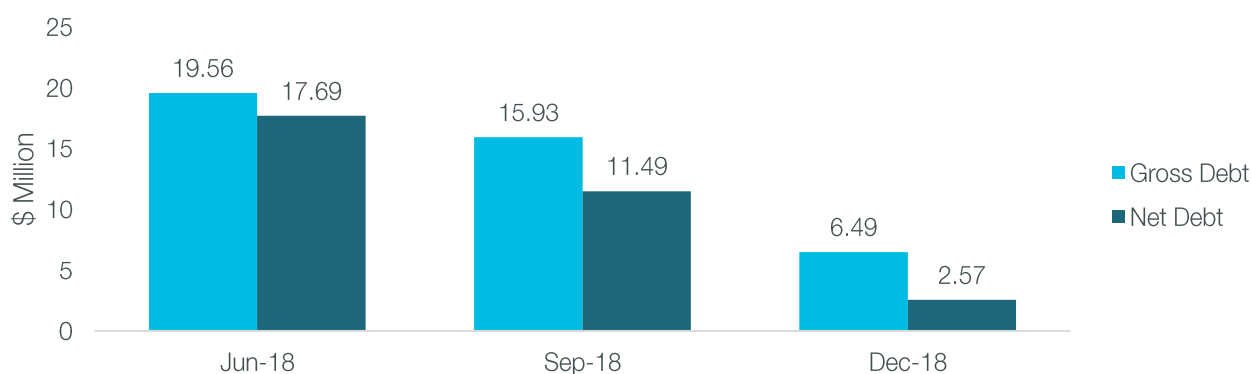


Source: MSV Company financials & BOEQ

## CAPITAL MANAGEMENT

- Strong operating cashflows to materially reduce debt by \$13 million since June 2018, including an \$8 million shareholder loan which attracted 10% interest. This is expected to drive significant interest expense savings moving forward.
- The business should reach a position of positive net cash by 30 June 2019 as reflected in the board flagging various capital management initiatives (buy back or resumption of dividends).
- MSV is now in a position of financial strength and is well positioned to take advantage of potential organic growth opportunities that align with their strategy.

### Disappearing Debt Balance



Source: Company & BOEQ

## EXPERIENCED BOARD & MANAGEMENT TEAM

- Highly experienced board and management team led by Nathan Mitchell (Exec. Chairman), Andrew Elf (CEO) & Greg Switala (CFO).
- Management have proven they are adept in timing the 'mining cycle' by buying and selling in the sector. Nathan Mitchell sold Mitchell Drilling in 2008 to AJLucas for \$150 million and subsequently re-entered the industry in 2013 through a reverse merger into Drill Torque (ASX.DTQ) which was renamed Mitchell Services.

## FINANCIALS

### BALANCE SHEET

A\$millions	1H17	FY17	1H18	FY18
Cash	0.5	0.8	3.9	1.9
Receivables	6.8	7.1	11.8	17.6
Other	2.2	2.2	6.7	6.1
Intangibles	0.0	0.0	0.0	2.0
PP&E	29.2	29.9	30.0	30.7
<b>Total Assets</b>	<b>38.7</b>	<b>40.0</b>	<b>52.4</b>	<b>58.3</b>
Trade Payables	5.6	8.0	9.9	13.2
Borrowings	14.0	15.9	18.7	19.9
Provisions + Other	0.9	1.4	1.8	4.1
<b>Total Liabilities</b>	<b>20.5</b>	<b>25.4</b>	<b>30.4</b>	<b>37.3</b>
Issued Capital	49.5	49.5	58.2	58.2
Reserves	-2.5	-2.5	-3.1	-3.1
Retained Earnings	-28.7	-32.3	-33.1	-34.1
<b>Total Equity</b>	<b>18.2</b>	<b>14.6</b>	<b>22.0</b>	<b>21.0</b>

### P&L

A\$millions	FY17	1H18	2H18	FY18
Revenue (30-Jun)	<b>40.0</b>	<b>20.8</b>	<b>51.5</b>	<b>72.4</b>
Other Income	0.3		0.3	0.3
Operating Expenses	-38.1	-18.5	-47.9	-66.4
<b>EBITDA</b>	<b>2.2</b>	<b>2.3</b>	<b>4.0</b>	<b>6.3</b>
Depn & Amortn	-5.4	-2.7	-4.9	-7.6
EBIT	-3.2	-0.4	-1.0	-1.4
Finance Costs	-1.2	-0.8	-0.9	-1.7
PBT	-4.4	-1.2	-1.9	-3.0
Tax Expense	0.0	0.0	0.7	0.7
<b>NPAT Normalised</b>	<b>-4.4</b>	<b>-1.2</b>	<b>-1.1</b>	<b>-2.3</b>
NPAT from Disc Ops	0.0	0.0	0.0	0.0
One-Off Items	0.0	0.0	0.0	0.0
NPAT Reported	-4.4	-1.2	-1.1	-2.3
EPS Normalised	-0.24	-0.08	-0.06	-0.14

### CASH FLOW

A\$millions	FY17	1H18	2H18	FY18
Receipts from Cust	40.4	28.7	35.6	64.3
Payments Suppliers	-35.7	-30.2	-33.5	-63.7
Other Income	-0.4	-0.9	-1.1	-1.9
<b>OPTG Cashflow</b>	<b>4.3</b>	<b>-2.3</b>	<b>1.0</b>	<b>-1.3</b>
Payment for PP&E	-1.9	-3.7	0.3	-3.3
Pmt for Intangibles	0.0	0.0	0.0	0.0
Other	0.0	0.0	-4.3	-4.3
<b>INVESTING Cflow</b>	<b>-1.9</b>	<b>-3.7</b>	<b>-3.9</b>	<b>-7.6</b>
Proceeds Issue	0.0	8.2	0.0	8.2
Proceeds Converts	0.0	0.0	0.0	0.0
Rel Party Loans	0.0	0.0	0.0	0.0
Net Borrowings	-2.0	-1.1	3.3	2.2
<b>FINANCING Cflow</b>	<b>-2.0</b>	<b>7.1</b>	<b>3.3</b>	<b>10.4</b>
Inc / (Dec) in CASH	0.4	1.2	0.4	1.6
CLOSING Cash	0.3	1.4		1.9

### VALUATION

	FY17	FY18
EPS Growth	NA	+42%
EPS (¢)	-0.2	-0.1
PE	NA	NA
CFPS (¢)	0.2	-0.1
DPS (¢)	0.0	0.0
Dividend Yield	0.0%	0.0%
BVPS (¢)	\$0.01	\$0.01
P / Book	4.29	3.72
NTAPS (¢)	\$0.01	\$0.01
P / NTA	4.29	4.11
EV / Revenue	2.3	1.3
EV / EBITDA	41.6	14.9
EV / EBIT	-29.1	-68.3

Source: Company Financials

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