

# Investors' Corner

Citiplace, Perth  
for ASA, May 2023  
Convenor: Mark Dixon



## Citiplace - Emergency Procedure

- ▶ If smoke is detected, or fire alarm is raised, follow exit signs
- ▶ Upon evacuating the building, meet at ***designated area***
- ▶ Do not use lift in an emergency
- ▶ **Designated area**
  - ▶ Turn right from the Citiplace Centre and proceed over the bridge to the pond area past the Art Gallery, if safe to do so.
  - ▶ Regroup there for head count if safe to do so.
  - ▶ If emergency personnel instruct differently then follow their directions.

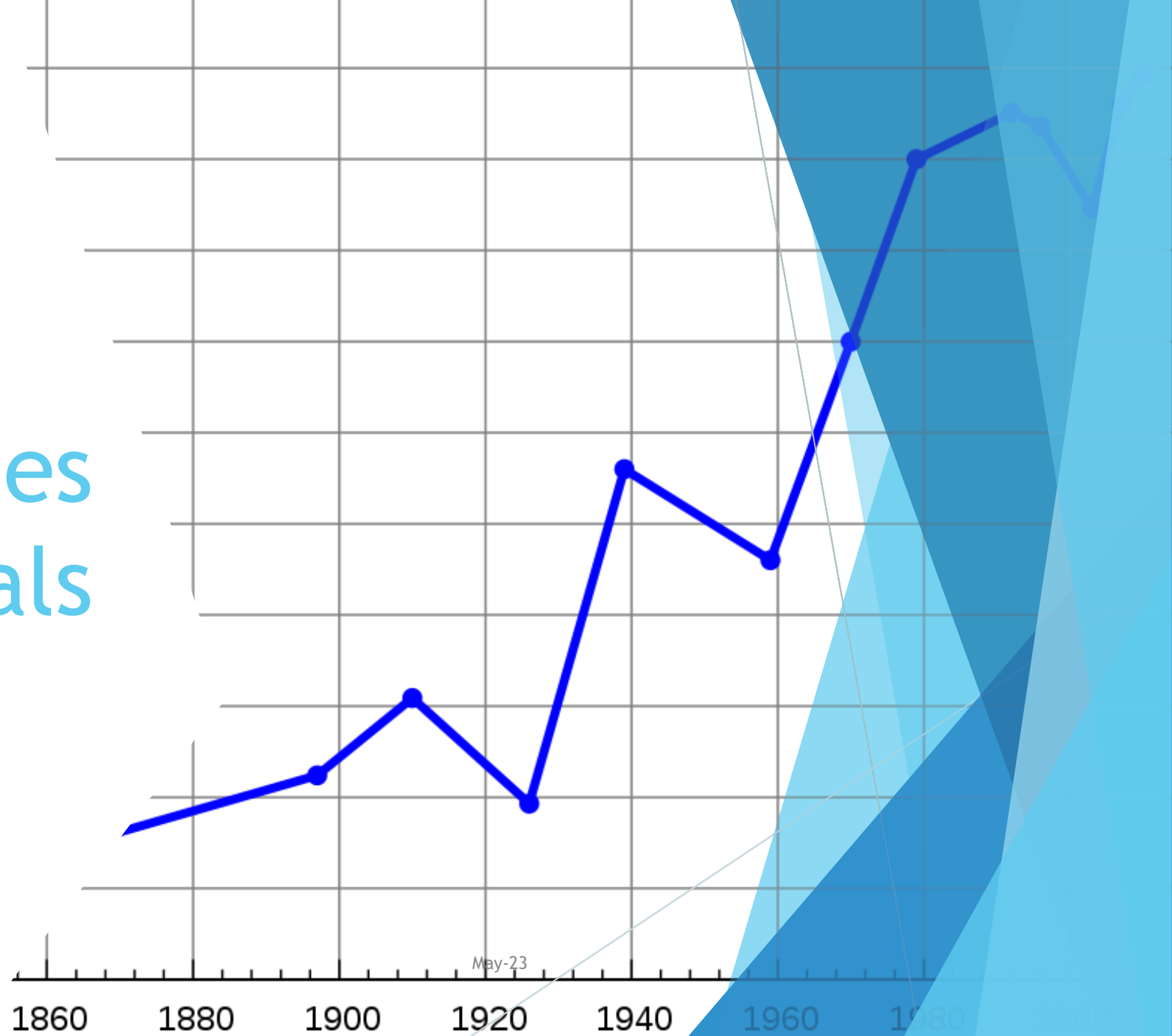
# Disclaimer

- ▶ The Australian Shareholders' Association (ASA) has provided the facilities for this meeting to provide general information about the ASA and to stimulate interest in financial markets.
- ▶ The ASA is not licensed to give financial advice.
- ▶ Presentations made here are not designed to provide any specific investment advice to any person present.
- ▶ The ASA does not accept any responsibility to inform you of any matter that subsequently comes to our notice that may affect any of the information discussed.
- ▶ Anyone wishing to act on any matter discussed should seek independent advice from a licensed financial adviser.

# Agenda

- ▶ Intro – welcome, emergency procedure, disclaimer
- ▶ Peter Scales – Macro-technical
- ▶ Kenneth Beer - on Duratec Limited (DUR)
- ▶ John Ellis - ASX chart comparison tool
- ▶ Additional material for the group
- ▶ Next meeting – 15<sup>th</sup> June
- ▶ Close ~ 11:55 am

# Peter Scales Macro-Technical



# Kenneth Beer, on Duratec (DUR)



# **DURATEC LIMITED**

Specialising in the protection and remediation of steel and concrete

**Author:** Kenneth Beer

**Date Prepared:** May 2023

# DISCLAIMER

**Warning:** Past performance is not a reliable indicator of future performance. While this document is based on information from sources considered reliable, its accuracy and completeness cannot be guaranteed. Those acting upon such information do so entirely at their own risk.

This document contains forward-looking projections. Forward-looking projections provided in this document are based on assumptions and contingencies which are subject to change without notice.

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**Disclosure:** This document was prepared solely by the Author.

**Author Interests:** The Author holds ordinary shares in the company referred to in this document and the holdings may change during the life of this document.



# CORPORATE SNAPSHOT

National leader with experienced board and management

## Capital Structure

ASX code	DUR
Shares on issue	243.7m
Share price as at 27 February 2023	72.0c
Market capitalisation as at 27 February 2023	\$175.4m
Net cash as at 31 December 2022	\$60.4m

## Duratec Limited Board

Martin Brydon	Chairman
Phil Harcourt	Managing Director
Chris Oates	Executive Director
Gavin Miller	Non-Executive Director
Dennis Wilkins	Company Secretary

## Share Price and Volume – 12 months



## Substantial Shareholders

James Robert Giumelli and related entities, including Ertech (19.4%)	21.8%
Directors and Key Management Personnel (KMP)	34.9%

# BUSINESS OVERVIEW

Leading Australian engineering, construction and remediation contractor

## What we do:

Specialist technical expertise in upgrading and extending the life and use of infrastructure in multiple market segments.

## Key business drivers:

- Aged infrastructure
- Poor original construction (defects)
- Asset capacity expansion
- Growing asset market
- Stricter building codes

## Key market segments supporting long-term growth:

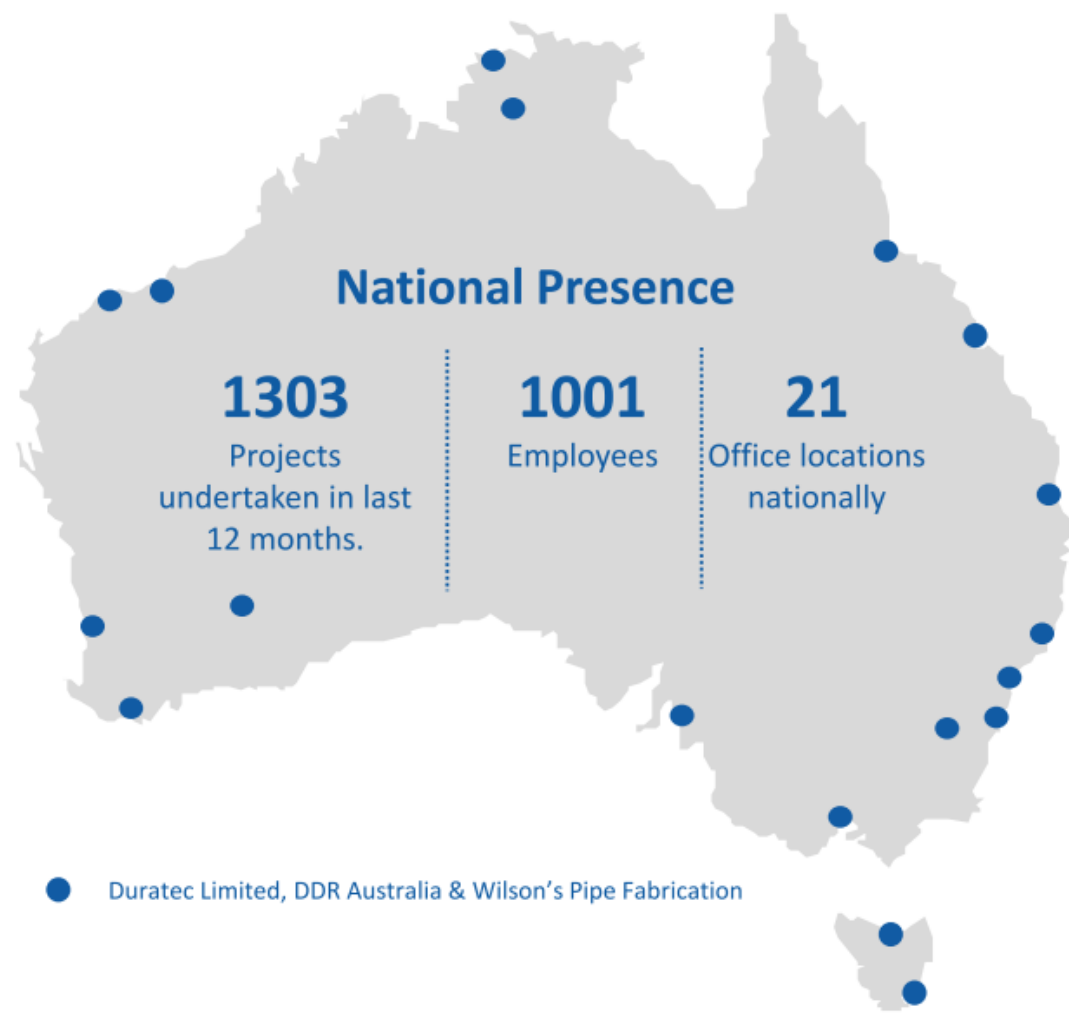
- Defence
- Building & Façade
- Mining & Industrial
- Other – Power & Energy, Oil & Gas, Marine, Transport and Water Infrastructure

## Business investments

**DDR Australia Pty Ltd** – Duratec 49% owned equity accounted investment is a leading majority Aboriginal-owned contractor in Defence and resources (IPP-funded opportunities).

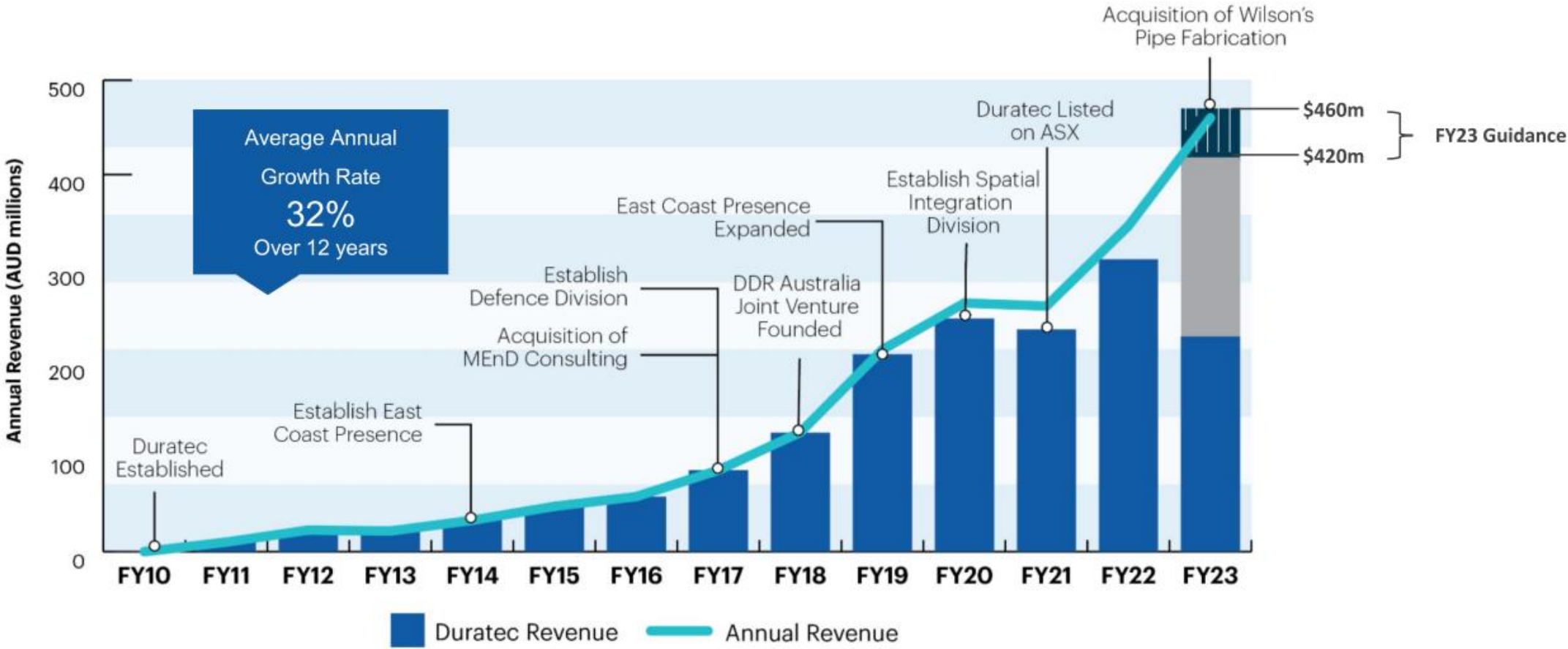
**Wilson's Pipe Fabrication Pty Ltd** - Duratec 100% owned oil & gas maintenance, fabrication and mechanical contractor.

**MEnD Consulting Pty Ltd** - Duratec 100% owned specialised engineering, 3D spatial and corrosion consultant.



# BUSINESS HISTORY

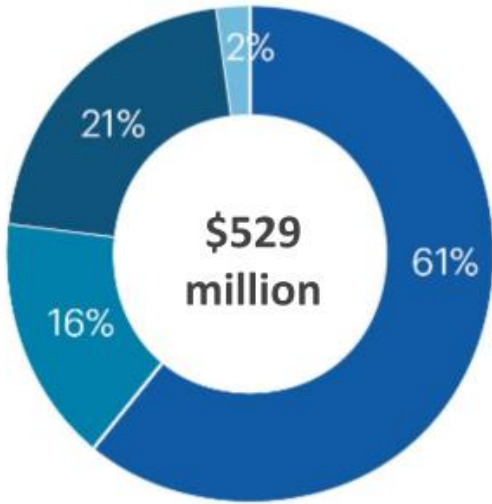
## Duratec's Historic Growth



# ORDER BOOK AND PIPELINE

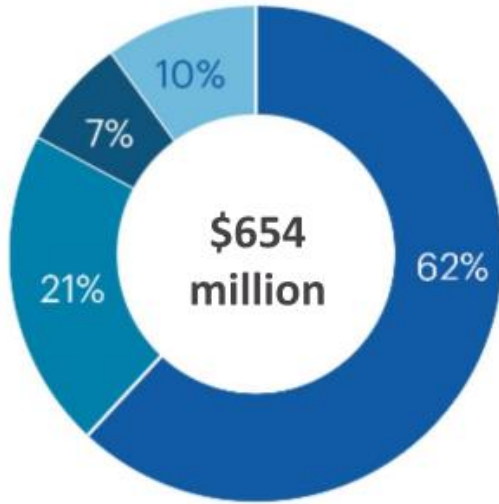
Diversified across industry sector and geographies, and growing

Order Book



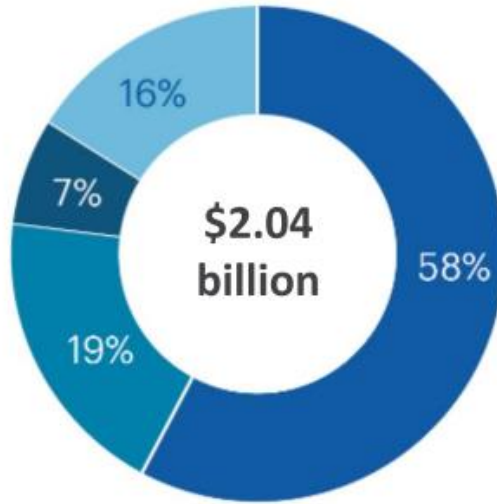
Up from \$450m  
at 24 February 2022

Tenders



Up from \$550m  
at 24 February 2022

Pipeline



Up from \$1.6b  
at 24 February 2022

■ Defence   ■ Buildings & Facades   ■ Mining & Industrial   ■ Other

## ASX ANNOUNCEMENT

18 November 2022

### DURATEC PROVIDES FY23 GUIDANCE

Australian engineering, construction, and remediation contractor Duratec Limited (**Duratec**) (ASX: DUR) is pleased to issue guidance regarding the financial results of the Company for the full year ended 30 June 2023. The guidance is based upon the earnings from year-to-date work delivered plus the Company's forward forecast assumptions of the earnings from current works and new works yet to be won and expect to be delivered by the end of the financial year.

Duratec's revenue is expected to be in the range of \$420m to \$460m, delivering a forecast EBITDA of \$32m to \$35m. These forecasts include an 8-month contribution from the recently acquired Wilson's Pipe Fabrication business.

In FY22, Duratec reported revenue of \$310m and EBITDA of \$19.3m.

Our current orderbook remains strong at \$383m, tenders of \$690m and our pipeline, comprising tenders and identified opportunities, is \$1.93bn. These values exclude our continually increasing contribution from service agreements which add between \$40m-60m annually and the contribution from Wilson's Pipe Fabrication.

# ASX ANNOUNCEMENT

20 December 2022

## DURATEC SECURES \$48M WHARF REMEDIATION CONTRACT

### Highlights

- Duratec secures major contract with BHP WA Iron Ore (**BHP WAIO**).
- The project works will be undertaken at the BHP WAIO Port Facilities Berth C & D at Finucane Island.
- Project awarded follows a successful competitive tender (following early engineering input by Duratec's technical engineering team).
- Work will commence immediately, with a start on site scheduled for March 2023.
- Projects anticipated completion is February 2025.
- Project award supports Duratec's strong orderbook.
- Duratec orderbook of \$420 million and tendered works of \$664 million within an overall \$1.96 billion pipeline of tangible opportunities.



# ASX ANNOUNCEMENT

23 January 2023

## DURATEC SECURES \$100M WHARF AND HARBOUR BASIN UPGRADE CONTRACT

### HIGHLIGHTS

- Duratec secures \$100m wharf and harbour basin upgrade project with the Department of Defence
- The project award follows a successful competitive tender process
- Site work will commence May 2023, with an expected completion date in March 2025
- The project award supports Duratec's strong orderbook of \$530 million and \$593 million in tendered works, and an overall pipeline of tangible opportunities worth \$1.84 billion

# ASX ANNOUNCEMENT

08 February 2023

## MINING & INDUSTRIAL SEGMENT UPDATE

### Highlights

- Duratec secures \$40m in Mining & Industrial (**M&I**) segment work in January 2023
- M&I project awards for January 2023, included \$34m in Master Service Agreement (**MSA**) projects with Hamersley Iron Pty Ltd (**Rio Tinto**)
- Strengthened M&I orderbook at \$124m, representing 23% of Duratec's overall orderbook
- Overall company orderbook of \$549m, with \$586m in tenders. Duratec is currently tracking an overall pipeline of tangible opportunities worth \$1.89b



# ASX ANNOUNCEMENT

24 April 2023

## DURATEC UPGRADES FY23 GUIDANCE

Australian engineering, construction, and remediation contractor Duratec Limited (**Duratec** or the **Company**) (ASX: DUR) announces an upgrade of guidance for revenue and normalised EBITDA for FY23. The revised revenue range is now expected to be between \$465m and \$495m and normalised EBITDA \$36m to \$39m, up from of \$420m to \$460m and \$32m to \$35m (respectively) announced to the ASX on 28 February 2023.

The Company's 2H FY23 performance has been stronger than previously forecast, as a direct result of the Company's ability to convert key project awards to delivery in better-than-expected timeframes and a strong growth and profit contribution from Wilson's Pipe Fabrication. As such there has been a significant improvement to the 2H FY23 result, which is now reflected in the upgraded guidance.

In FY22, the Company reported revenue of \$310m and normalised EBITDA of \$19.3m.

The Company's current orderbook remains strong at \$495m, tenders of \$748m and pipeline, comprising tenders and identified opportunities, is \$2.6bn. The Company's cash generation remains effective and in line with the Company's expectations.

# Company Valuation

The method used to value a company is Discounted Cash Flow (DCF) which is based on three online courses by Professor Daniel Wolfenzon, Columbia University in New York City:

1. Introduction to Corporate Finance,
2. Free Cash Flow Analysis and
3. Risk and Return.

<https://www.edx.org/professional-certificate/columbiacorporate-finance>

DCF analysis uses free cash flows (FCFs) which are the cash flows produced by operating assets after all investments are funded. FCFs are available to pay debt and distribute to equity owners. The value of operating assets is the present value of their future FCFs. The value of equity is the value of all assets less the value of debt.

# Discounted Cash Flow (DCF)

DCF is widely used by analysts to determine what an investor should pay for equity in a company. DCF applies the time value of money, i.e. money received today is worth more than money received in the future, because money received today can be invested. The discount rate used is the rate of return expected by an investor. DCF requires free cash flows (FCFs) to be estimated many years into the future. To estimate future FCFs requires estimates of net operating profit, adjusted for non cash items such as depreciation and amortisation; capital expenditure and working capital for many years into the future. To estimate net operating profit requires estimates of revenue, direct cost of goods and/or services sold, and indirect, or overhead operating expenses, for many years into the future. These estimates introduce a significant risk of error in the DCF method of valuing equity in a company.

# Use past financial statements 1/3

<b><u>Revenue (\$'000)</u></b>	<b>FY2022</b>	<b>FY2021</b>	<b>FY2020</b>
Defence	134,929	98,768	132,748
Mining & Industrial	74,929	52,923	40,511
Buildings & Facades	64,673	39,852	25,585
<b><u>Other Segments</u></b>	<b>35,472</b>	<b>44,166</b>	<b>48,439</b>
<b>Total revenue</b>	<b>310,003</b>	<b>235,709</b>	<b>247,283</b>
<b><u>Cost of sales</u></b>	<b>(261,598)</b>	<b>(189,901)</b>	<b>(199,364)</b>
<b>Gross profit</b>	<b>48,405</b>	<b>45,808</b>	<b>47,919</b>
Gross margin	15.6%	19.4%	19.4%
Dividends received	1,510	1,505	367
Rental income	349	312	206
Interest received	95	110	262
Sundry income	90	216	38
<b><u>Gain on disposal of plant and equipment</u></b>	<b>288</b>	<b>218</b>	<b>1</b>
<b>Total other income</b>	<b>2,332</b>	<b>2,361</b>	<b>874</b>

## Use past financial statements 2/3

Employee benefits expense	(27,760)	(24,739)	(19,500)
Administration expense	(5,940)	(4,879)	(6,888)
<u>Occupancy expense</u>	(1,141)	(1,081)	(1,098)
<b>Operating expenses excluding Finance costs</b>	<b>(34,841)</b>	<b>(30,699)</b>	<b>(27,486)</b>
Initial Public Offering expense	-	(2,472)	(717)
Gain on disposal of associate	-	151	-
Impairment	-	-	(9)
Equity accounted investment results	1,873	769	1,791
<b><u>EBITDA</u></b>	<b>17,769</b>	<b>15,918</b>	<b>22,372</b>
Depreciation and amortisation expense	(6,779)	(5,227)	(3,825)
<b><u>EBIT</u></b>	<b>10,990</b>	<b>10,691</b>	<b>18,547</b>
Finance costs	(788)	(659)	(587)
<b><u>Profit before income tax expense</u></b>	<b>10,202</b>	<b>10,032</b>	<b>17,960</b>
Income tax expense	(2,441)	(2,901)	(4,949)
<b><u>Profit after income tax expense</u></b>	<b>7,761</b>	<b>7,131</b>	<b>13,011</b>

# Use past financial statements 3/3

	FY2022	FY2021	FY2020
Trade and other receivables	29,998	29,139	19,597
Contract assets	16,661	7,576	6,249
Inventories	317	376	273
Other current assets	1,380	1,139	966
Property, plant and equipment	18,823	16,846	10,259
Trade and other payables	39,426	38,992	34,932
Property lease liabilities	1,557	1,299	1,163
Contract liabilities	41,690	19,356	15,681
Provisions	6,824	4,792	4,934

## Estimate future revenue growth and financial ratios

	FY2025	FY2024	FY2023
Defence sales growth on prior corresponding period	2.25%	1.5%	74.5%
Mining & Industrial sales growth on prior corresponding period	2.25%	1.5%	54.7%
Buildings & Facades sales growth on prior corresponding period	2.25%	1.5%	23.7%
Other Segments sales growth on prior corresponding period	2.25%	1.5%	37.3%
Cost of sales to Total revenue ratio	0.83	0.83	0.83
Operating expenses excluding Finance costs to Total revenue ratio	0.11	0.11	0.11
Trade and other receivables days-on-hand	30	30	25
Inventory days-on-hand	0.80	0.75	0.33
Revenue to Contract and Other assets ratio	0.04	0.04	0.03
Fixed asset turnover	17.5	19.8	23.8
Trade and other payables days-on-hand	58	58	54
Other current liabilities to Revenue ratio	0.12	0.12	0.11

## Use revenue growth and financial ratios to estimate future financial performance 1/2

<b>Profit after tax excluding Interest received and Finance costs (NOP*)</b>	<b>FY2025</b>	<b>FY2024</b>	<b>FY2023</b>
Revenue from Defence	249,306	243,820	235,386
Revenue from Mining & Industrial	122,759	120,058	115,904
Revenue from Buildings & Facades	84,741	82,876	80,009
<u>Revenue from Other Segments</u>	51,581	50,446	48,701
<b>Total revenue</b>	<b>508,387</b>	<b>497,200</b>	<b>480,000</b>
Cost of sales	(421,961)	(412,676)	(399,170)
<b>Total other income excluding Interest received</b>	808	808	808
<b>Operating expenses excluding Finance costs</b>	(55,923)	(54,692)	(54,538)
<u>Equity accounted investment results</u>	1,880	1,880	1,880
<b>EBIT</b>	<b>33,191</b>	<b>32,520</b>	<b>28,980</b>
<u>Income tax expense</u>	(9,957)	(9,756)	(8,694)
<b>NOP*</b>	<b>23,234</b>	<b>22,764</b>	<b>20,286</b>



## Use revenue growth and financial ratios to estimate future financial performance 2/2

### Change in Net Fixed Assets (ΔNFA)

Property, plant and equipment

**ΔNFA**

### Change in Net Operating Working Capital (ΔNOWC)

Trade and other receivables

Inventories

Contract assets and Other current assets

Operating current assets

Trade and other payables

Other current liabilities

Operating current liabilities

Net operating working capital

**ΔNOWC**

### Free Cash Flow (FCF)

**FCF = NOP\* - ΔNFA - ΔNOWC**

**FY2025**

**FY2024**

**FY2023**

29,051

34,111

21,507

**3,940**

**12,604**

**2,684**

41,785

40,754

35,354

483

442

404

20,335

19,888

13,837

62,604

61,084

49,595

66,862

65,391

59,435

61,006

59,664

53,538

127,868

125,055

112,973

(65,264)

(63,971)

(63,378)

**(1,293)**

**(593)**

**(11,952)**

**20,587**

**10,753**

**29,554**

May 2024

Australian Shareholders Association 2024 ASA use only

# Net debt, market value of equity and Capital Asset Pricing Model

## Net debt:

Cash and cash equivalents

Borrowings

Net debt (ND)

## Market value of equity:

Number of ordinary shares

Share price

Market value of equity (E)

## Capital Asset Pricing Model (CAPM):

Beta equity ( $\beta_E$ ) (from CommSec)

Company tax rate (t)

Beta asset ( $\beta_A$ ) =  $\beta_E / [1 + (1 - t) * (ND/E)]$

Risk-free rate ( $r_f$ ) (30 year Treasury bond rate)

ASX total (reinvest dividends) return, past 30 years, per year ( $r_m$ )

Market risk premium (MRP) =  $r_m - r_f$

Rate of return expected by an investor ( $r_A$ ) ( =  $r_f + \beta_A * MRP$  )

31-Dec-22

\$60,403,000

\$12,686,000

-\$47,717,000

## ASX 200 All Ordinaries

Number of years 30

Investment in 1991 \$10,000

Investment in 2022 \$154,477

Average annual return 9.554%

240,573,404

\$0.935

16-May-23

\$224,936,133

0.75

16-May-23

30%

0.88

4.035%

16-May-23

9.554%

5.515%

8.90%

# Calculate value per share

## Operating assets:

Terminal growth rate (g)

1.0%

Perpetuity method terminal value at EOFY2025 ( = FCF \* (1 + g) / (r<sub>A</sub> - g) )

\$263,331,427

Present value of terminal value at EOFY2022

\$203,922,079

Present value of free cash flows from EOFY2023 to EOFY2025 at EOFY2022

\$52,149,829

Value of operating assets

\$256,071,908

## Non operating assets

Net debt

-\$47,717,000

Value of non operating assets

\$47,717,000

## Valuation:

Value of operating and non operating assets

\$303,788,908

Number of ordinary shares

240,573,404

Value per share

\$1.26

## Forecast Investor KPIs

	FY2025	FY2024	FY2023
EPS* cents	9.7	9.5	8.4
P/E	9.7	9.9	11.1
Earnings yield	10.3%	10.1%	9.0%
FCF/share cents	8.6	4.5	12.3
Payout ratio	0.52	0.48	0.47
Dividend cents	5.0	4.5	4.0
Dividend yield	5.4%	4.9%	4.2%
EPS* excludes Interest received and Finance costs			

# STACK MART MARKET

ASX chart  
comparison  
tool - John Ellis

90110

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May-23

# John's ASX analysis tools

The analysis tools that John demonstrated today are available at:

<https://www2.asx.com.au/investors/investment-tools-and-resources/analysis-tools>

# Stockmarket Game

## League table - ASA Perth City Group

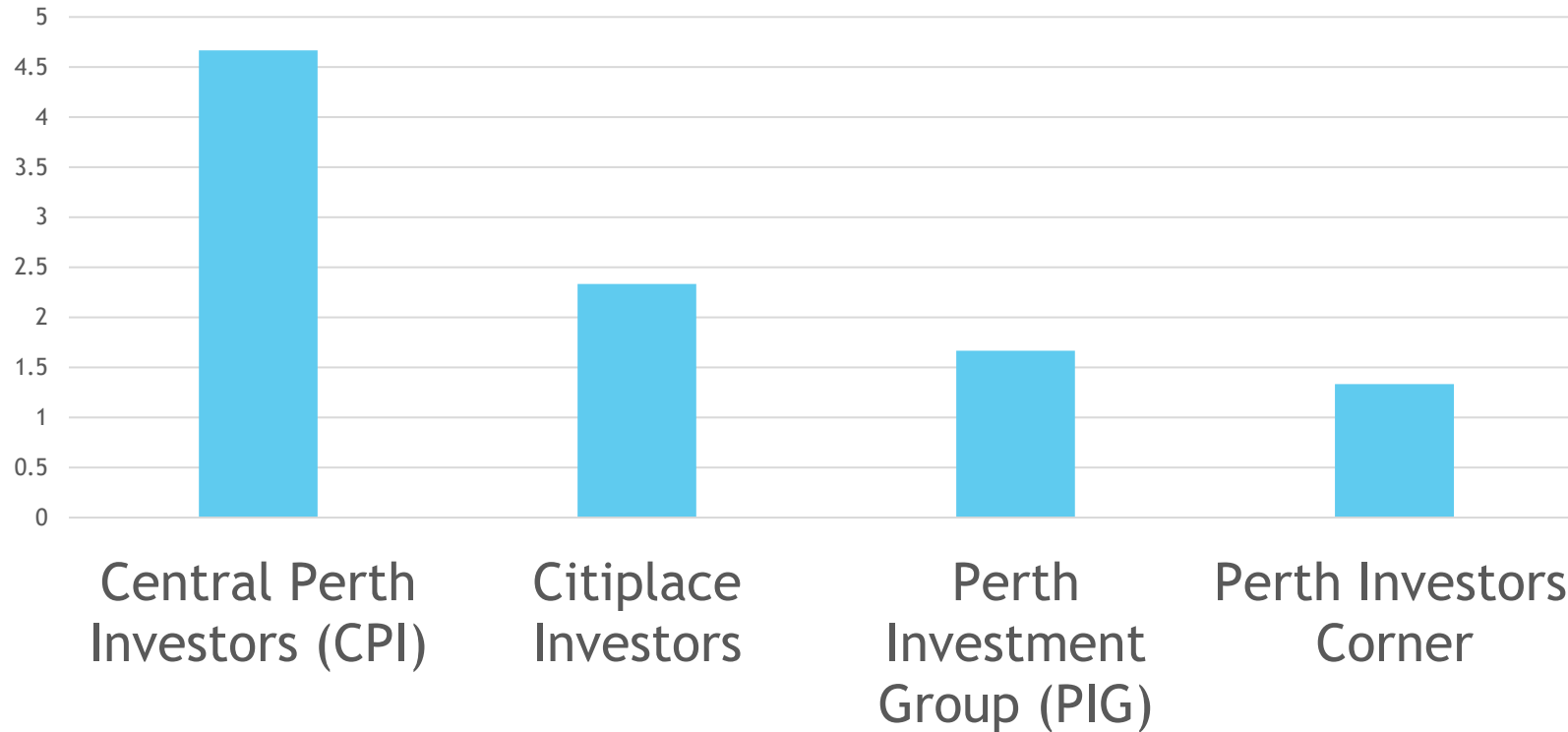
Rank 228 - Average portfolio value : \$49,461.79



#	Participant user name	Portfolio value
1	Mark Dixon (Mark Dixon)	\$49,466.20
2	Aiming For Gains (Charlie Surace)	\$49,457.38
3	SPUTZ (Carl Sputore)	\$50,000.00

# Potential Name Change

Support for each proposed name



11 votes lodged; 7 to 9 regular attendees lodged no opinion. So, I plan to keep the existing name till there is a stronger desire to change it.



# Additional Material for the group

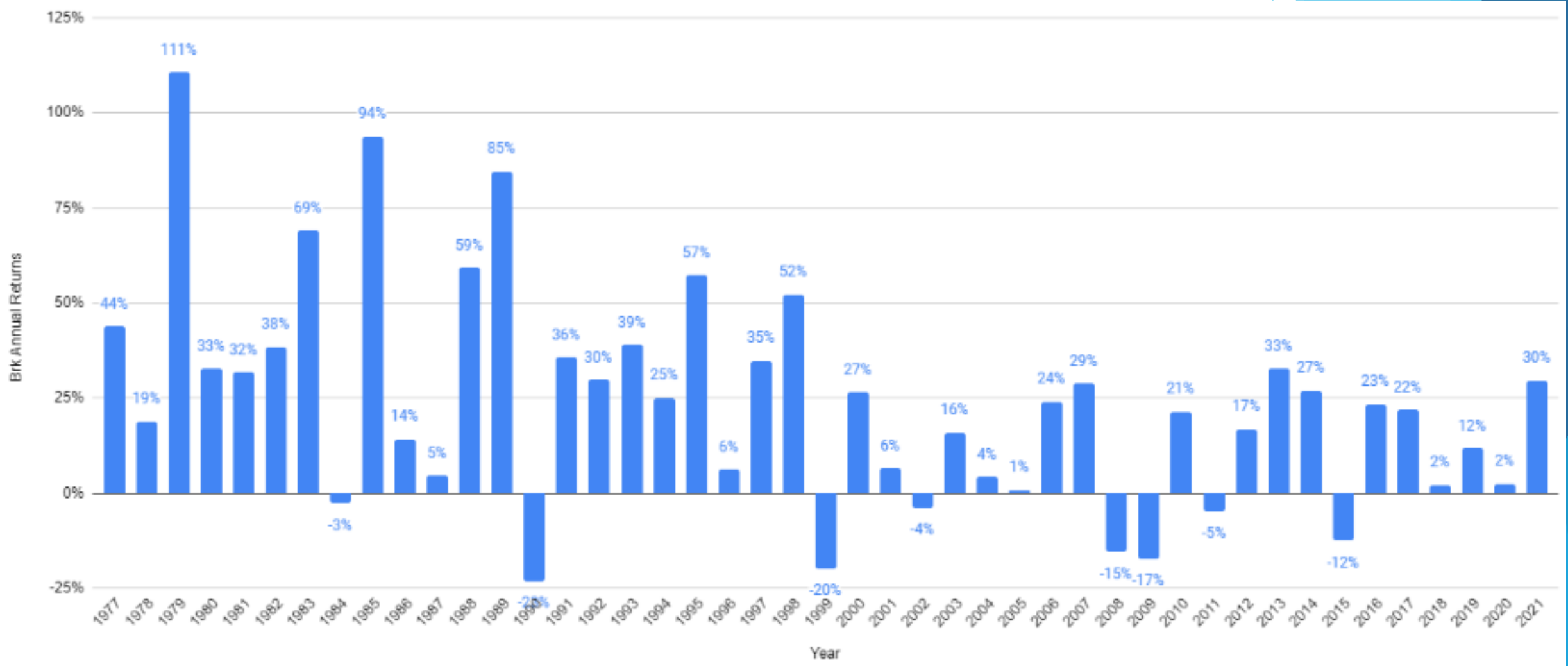
what are other  
words for  
extra material?



surplus, overkill, limit,  
something extra, remainder,  
excess, extra, spare, leftovers,  
superfluity



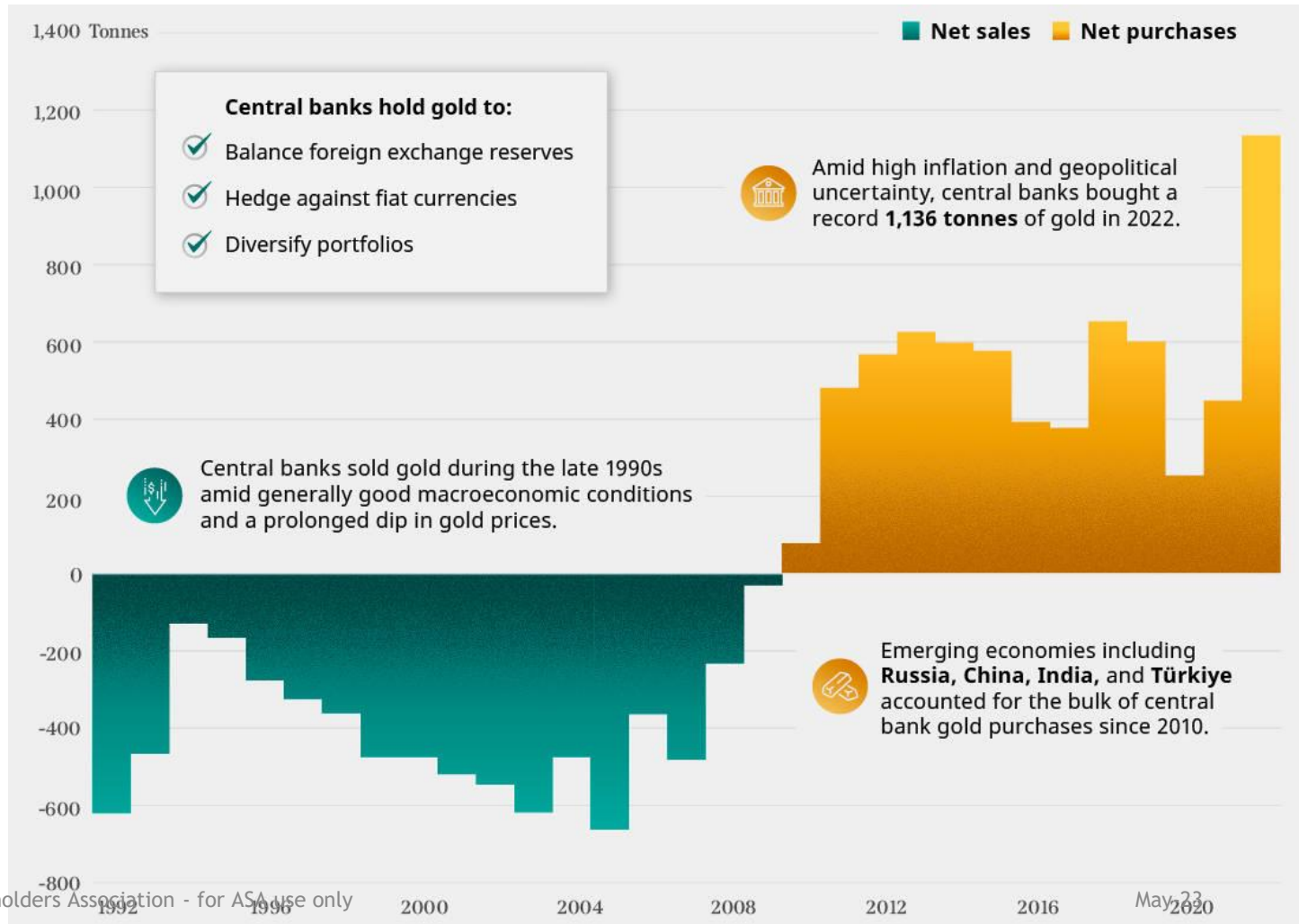
# Berkshire Hathaway Annual Returns



Australian Shareholders Association - for ASA use only

Source: kunaldesai.blog

# 30 Years of Central Bank Gold Demand



Australian Shareholders Association - for ASA use only

Source: VisualCapitalist.com

# Announcements

- ▶ ASA and ASX announcements and events can be found at <https://www.australianshareholders.com.au/> and <https://www.asx.com/>
- ▶ Allocation of proxies to ASA
- ▶ *Equity* magazine available in digital (PDF) format.

# Close

- ▶ **Next meeting:** Thursday, 15<sup>th</sup> June 10 am, Citiplace.
- ▶ **Other ASA groups:**
  - ▶ Nedlands Discussion - 25 May 2023
  - ▶ Perth South of the River - 26 May 2023 (Bull Creek)
  - ▶ Perth Member's Meeting - 6 June 2023 (State Library)