



# AusGroup Limited

## (AUSG SP/5GJ)

### Finally turning around although not fully out of the woods yet

Joel Ng / 65 6202 1192 / [joel.ng@kqi.com](mailto:joel.ng@kqi.com)

- FY2020 (YE June) was a challenging year for AusGroup as clients reduced work on their facilities in Australia. It reported a full-year loss of AU\$59.5mn in FY2020, mainly from impairments of PPE and intangible assets.
- However, prospects are turning around. It recently reported a return to profitability for 2Q FY2021, and on 22 March 2021, announced that it was awarded a significant long-term maintenance contract by Chevron Australia.
- We think risk-reward is beginning to look attractive amid the mining boom in Australia and as the government continues to spend on infrastructure projects.

**AusGroup** is an Australian-based integrated solutions provider to the energy, mining, and industrial sectors. It provides maintenance, construction, access services, commissioning and handover and port & marine service. Its maintenance service segment (e.g. the maintenance contract with Chevron Australia) typically accounts for a third of normalised revenue, while the remaining business is contributed from construction, fabrication, and access services.

**Worst is over as activity picks up.** Australia's economy is growing faster than expected. After contracting 2.4% in 2020, Bloomberg consensus is forecasting Australia's economy to grow by 4.4% in 2021 and 3.2% in 2022. As a major commodity exporter, the country also stands to benefit if the global economy picks up. Most recently, the IMF is projecting a stronger recovery for the global economy, and now expects the world economy to grow by 6.0% in 2021 and 4.4% in 2022, compared to its previous forecast of 5.5% and 4.2% respectively.

**Tailwinds to provide a lift.** The following developments in Australia's mining and minerals sectors are positive for AusGroup's prospects in the next 12-24 months.

**1) Major new LNG construction projects** are now completed, and these have moved into the production phase, where maintenance services will be required to maintain safe and reliable operations for the next 40+ years, providing long term and sustainable demand for the group's service offering.

**2) Significant investment in the Resources sector** (Iron Ore, Nickel, Gold, Lithium, etc) is continuing and the group is well placed to provide the sector with fabrication services, modularised solutions, SMP, construction, commissioning, and integrated asset maintenance services.

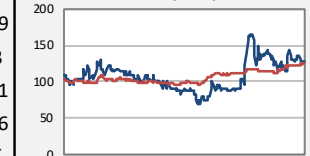
#### Not Rated

Price as of 12 Apr 21 (SGD)	0.03	<b>Performance (Absolute)</b>	
12M TP (\$)	-	1 Month (%)	3.6
Previous TP (\$)	-	3 Month (%)	31.8
Upside (%)	-	12 Month (%)	26.1

#### Trading data

Mkt Cap (\$mn)	89
Issued Shares (mn)	3,063
Vol - 3M Daily avg (mn)	50.1
Val - 3M Daily avg (\$mn)	1.6
Free Float (%)	47.7%

#### Perf. vs STI Index (Red)



#### Major Shareholders

Asdew Acquisitions	17.0%
Ezion Holdings	13.4%
Bernard Toh	11.6%

#### Previous Recommendations

**Order wins from long-term customer.** Maintenance contracts form around a third of AusGroup's normalised revenue, and hence provides a stable base compared to project-based works like construction and fabrication. On 22 March 2021, AusGroup announced a 10-year maintenance master contract with Chevron Australia. We estimate this contract alone should provide revenue of at least AU\$100mn per annum. Other project-related works should start to resume going into 2H21 as management has indicated that clients have largely delayed them since last year.

**Valuation & Action:** We expect earnings to recover going forward, with upside potential as it secures more projects and maintenance contracts. However, while we are optimistic on its prospects, we note a key overhang over the value of its Port & Marine business, which accounted for 47% of non-current assets and 26% of total assets as at end 31 Dec 2020.

We will have to closely monitor the commercialisation of its Port & Marine business given that its auditors issued a disclaimer of opinion on its FY2020 financial statements. This was mainly due to PPE and intangible assets worth AU\$38.7mn related to the Port & Marine business. This business, fully operational since 2020, had to recognise AU\$50mn of impairments in FY2020 due to a lack of activity amid the Covid-19 pandemic. On a positive note, we understand that AusGroup has taken measures to commercialise this asset and we will likely see progress over the coming quarters, which should help to allay concerns over future potential impairments.

**Risks:** Margin pressure due to competition and lower-than-expected new order wins. Potential impairments if the group is unable to successfully commercialise its Port & Marine business

**KGI's Ratings**

Rating	Definition
<b>Outperform (OP)</b>	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Neutral (N)</b>	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Underperform (U)</b>	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Not Rated (NR)</b>	The stock is not rated by KGI Securities.
<b>Restricted (R)</b>	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

**Disclaimer**

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2021. KGI Securities (Singapore) Pte. Ltd. All rights reserved.