Research as a Service

Millennium Services Group Ltd

FY21 result & outlook

State, sector and services optionality

Human Services

18th August 2021

Millennium Services Group Ltd (ASX:MIL) has delivered an FY21 result in-line with expectations given recent 4C/1H21 commentary/results. To reiterate the highlights include underlying sales growth of 6.4%, underlying gross profit +32% and underlying EBITDA +190% to $11.6m. Net debt ended the year at just $0.3m thanks to JobKeeper, the earnings improvement and a ~$12m release in working capital with days receivables down to ~22 days. FY22 looks to be a year of consolidation, with COVID-related (higher margin), adhoc services expected to slow while the $28m QIC cleaning/security contract will end October 2021, resulting in a $0.5m NPAT hit in FY22 all else equal. The group is finalising a new 3-year growth strategy under new leadership incorporating the appropriate organisational structure. Increasing the integrated service capabilities and diversifying into underweight states (VIC) and sectors (education and government) are likely to be high on the list, and the group has the balance sheet to execute. Current COVID lockdowns do not appear to be materially impacting trading, with 63% of the cleaning business in states/countries without lockdown (WA, QLD, SA and NZ). Valuation remains well supported at current levels with our selected peer average FY21 EV/EBITDA multiple 5.2x against the current MIL multiple of 2.2x. An average peer multiple would see a MIL share price closer to $1.30/share with optionality for new contracts/acquisitions.

Business model

MIL is essentially a human services business, bidding for predominantly fixed rate contracts with opportunities for volume gains and adhoc services, across the essential services of cleaning & security for durations of 3-5 years with large corporates. Satisfying contractual obligations utilising a vast workforce and procuring consumables for the jobs within the contacted price is the 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.

3-year growth strategy to reveal where to from here

With the profit improvement program all but complete and a "sustainable" earnings base established the focus now moves to growth options, particularly in the light of the QIC contract loss. Management is in the final stages of formulating a 3-year growth strategy which will influence balance sheet use, capital management and the extent of growth on offer in what are very fragmented markets but also markets open to complimentary service offerings. Our numbers only imply modest (~5% of existing sales) contract wins into FY23.

Valuation between $1.30 (relative multiple) and $1.60 (DCF)

As mentioned above a peer group average FY21 EV/EBITDA multiple implies a $1.30/share valuation for MIL, and we see no reason why this business does not deserve average multiples. As a sense check, our DCF valuation sits around $1.60/share, incorporating modest growth and a RFR much higher than the current 10-year bond rate.

Historical earnings and RaaS Advisory estimates

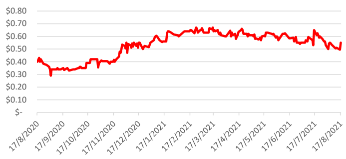
Year end	Adj Revenue (A$m)	Und. EBITDA (A$m)	NPAT adjusted (A$m)	EPS (adj) (c)	P/E (x)	EV/Sales (x)
06/20a	257.3	4.0	2.0	0.04	nm	0.23
06/21a	273.7	11.6	3.6	0.08	7.1	0.09
06/22e	258.6	10.0	3.3	0.07	7.7	0.06
06/23e	271.5	11.7	5.1	0.11	5.0	0.04

Source: Company data, RaaS Advisory Estimates for FY22e and FY23e

Share details

ASX Code	MIL
Share price	$0.55
Market Capitalisation	$25.0M
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 including Government, Education & 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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FY21 financial results

MIL has reported numbers in-line with RaaS estimates, well flagged via the 1H21 interim result and recent 4C cash flow updates and commentary. Key highlights of the result include:

- FY21 sales were $273m, up 6.8% on FY20, with Q1 COVID impacted at $64m and Q2-Q4 sales at very similar levels around ~$70m.
- Gross margins improved over both halves relative to the PCP on the back of the profit improvement plan, rollout of the Time & Attendance system and higher margin adhoc sales.
- Operating costs were lower relative to the PCP in 1H21 on the back of cost reductions but higher in 2H21 due to the timing of bonus payments.
- Net debt ended the year at just $0.3m, down from $34.6m in the PCP thanks to Job Keeper, improved earnings and working capital improvements.
- A reduction in receivables saw working capital release ~$12m in cash flow, and while some of this is timing related WC/sales is back to FY17-FY19 levels.

Abnormals relate to net JobKeeper payments while adjustments relate to costs or income considered "one-off" in nature and include advisor fees, customer COVID relief packages and EBA reversals (mainly FY20).

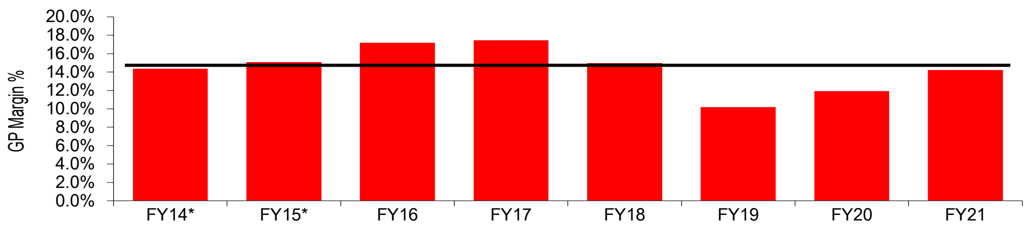
Excluding Job Keeper the underlying EBIT of MIL improved significantly over FY21, from a loss of $1.8m at the NPAT line to a profit of ~$6.8m.

Exhibit 1: MIL FY21 earnings summary by half year

Variable	1H20	1H21	% Chg	2H20	2H21	% Chg
Sales	135.1	135.0	0%	122.2	138.7	13%
Cleaning	111.4	107.9	(3%)	102.0	109.0	7%
Security	23.7	27.2	15%	20.2	29.7	46%
Gross Profit	17.0	19.9	17%	13.8	19.1	39%
GP%	12.6%	14.8%	17%	11.3%	13.8%	22%
Operating Costs	14.7	12.9	(12%)	12.1	14.5	20%
EBITDA	2.4	7.0	198%	1.7	4.6	174%
Depreciation	2.4	2.3		3.5	2.6	
EBIT	0.0	4.8		-1.8	2.0	
Abnormals	0.0	13.8		14.5	0.0	
Adjustments	0.9	0.7		0.8	-0.5	
Adjusted NPAT	-0.8	3.2		2.8	0.3	
Reported NPAT	-0.8	17.0		17.3	0.3	
Net Debt	36.8	3.1		34.6	0.3	

Source: Company financials & RaaS Analysis

Exhibit 2: MIL historical gross profit %



Source: Company financials

Outlook & Investment Case

FY21 ex JobKeeper now provides a sustainable base from which to forecast following a number of years of restructuring. Key assumptions with regards to outlook are detailed below:

- The group operates in markets worth an estimated $11.7bn (Cleaning) and $9.8bn (Investigation & Security Services) according to IBIS. In the cleaning business (~70% of MIL revenue) MIL has less than 2% market share in a market where the top-4 largest players have less than 10% of the market, offering significant market share opportunities.
- A recent IBISWorld report on the Australian cleaning sector suggests following CAGR growth of -0.5% between FY17 and FY21F, the cleaning sector will grow by a CAGR 3.6% between FY22 and FY26 on the back of a COVID recovery and a trend to more regular and comprehensive cleans.
- The group is in the final stages of developing a 3-year growth strategy incorporating the appropriate organisational structure. This is key to growth prospects, use of the current balance sheet and ultimately the relative share price "rating".
- MIL will lose the $28m QIC Cleaning contract from October 2021, making growth options all the more important.
- Net debt was just $0.3m in June 2021, completely reshaping the balance sheet from year ago levels and providing a solid base from which to grow and/or acquire while looking at capital management options.
- Gross margins are back to "targeted" levels and based on extensive historical and peer analysis we feel these margins are sustainable at managements targeted 14%-14.5% range.
- The underlying cost base will be "right sized" for the loss of the QIC business, somewhat offsetting the revenue/gross profit decline, but this is not always possible.

Exhibit 3: MIL divisional earnings forecasts

	2020A	2021A	2022F	2023F	2024F
Sales	**257.3**	**273.7**	**258.6**	**271.5**	**285.1**
Cleaning	213.3	216.9	207.8	218.2	229.1
Security	44.0	56.8	50.8	53.3	56.0
Gross Profit	**30.8**	**39.0**	**37.7**	**39.4**	**41.3**
GP%	12.0%	14.3%	14.6%	14.5%	14.5%
Operating Costs	26.8	27.4	27.7	27.7	28.3
EBITDA	4.0	11.6	10.0	11.7	13.0
Depreciation	5.9	4.9	4.5	3.9	3.9
EBIT	**-1.9**	**6.8**	**5.5**	**7.7**	**9.1**
Interest expense	3.2	1.8	0.8	0.5	0.4
Tax expense	-5.3	1.6	1.4	2.2	2.6
Adjustments	1.7	0.2	0.0	0.0	0.0
Adjusted NPAT	**2.0**	**3.6**	**3.3**	**5.1**	**6.1**
Abnormals	14.5	13.8	0.0	0.0	0.0
Reported NPAT	16.5	17.4	3.3	5.1	6.1

Source: Company financials & RaaS estimates

Peer Comparison

Our assessed peer group for MIL rely on a mix of human resources and consumables to deliver services, typically under contract, mostly on a fixed rate basis. These companies are people heavy and rely on the efficient management & utilisation of these people to deliver contracted outcomes and derive an acceptable return.

In the following table we present a "cut-down" peer group comparison using consensus and/or guidance to piece together FY21 estimates. This comparison will be more relevant once all peers have delivered their FY21 earnings and provided FY22 outlook comments.

Exhibit 4: Peer Group financial comparison – FY20

Company Name	Ticker	Share price (cps)	Mkt Cap (A$m)	FY21 Net Debt (A$m)	FY21(f) EBITDA (A$m)	FY21(f) Sales (A$m)	GP%	Working Capital/Sales	EV/ sales (x)	EV/ EBITDA
Service Stream *	SSM	0.90	369	(15.6)	80.3	804	22.7%	(7.2%)	0.44	4.4
GR Engineering	GNG	1.56	242	(44.9)	28.7	385	10.5%	0.8%	0.51	6.9
Licopodium	LYL	4.70	187	(68.9)	22.0	160	15.7%	9.5%	0.74	5.3
BSA Limted	BSA	0.29	125	(34.9)	21.0	486	11.6%	(2.9%)	0.19	4.3
Southern Cross Electrical	SXE	0.51	126	(53.3)	20.6	415	16.0%	9.5%	0.18	3.6
Ashley Services	ASH	0.50	72	5.1	11.0	337	4.5%	3.2%	0.23	7.0
AVERAGE							**13.5%**	**2.2%**	**0.38**	**5.2**
Millennium *	MIL	0.55	25	0.3	11.6	274	14.3%	0.7%	0.09	2.2

Sources: Company financials, RaaS estimates *Actuals

Looking at MIL against our selected peer group using FY21 metrics we would highlight:

- MIL's gross margin is now just above the group average;
- On key valuation metrics MIL:
  - Is trading at an EV/EBITDA multiple of 2.2x, well below the group average of 5.2x and the lowest in the peer group;
  - Trading at a forecast EV/sales of 0.09x FY21 against the peer groups 0.38x;
- Working capital requirements for the peer group are low, averaging 2.2% of sales. MIL is well below the peer group average at 0.7%.

DCF valuation

We derive a DCF valuation for MIL of $1.60/share or A$74m enterprise value, with the following key assumptions:

- WACC of 10.8% incorporating a beta of 1.25x and a risk-free rate of 2.0%. In theory the recurring and essential services nature of the MIL business should attract a lower beta than 1.25x, and we believe there is upside if growth options can be delivered;
- Medium-term growth rate beyond our forecast period of 3.0%;
- Terminal growth rate of 2.2%;
- Sustainable gross margins of 14.5%;
- A base FY22 revenue base (ex-COVID & QIC contract) of $260m;
- Longer-term working capital to sales of 1.0%;
- Capex to sales of 0.9% against 0.8% in FY20 & FY21.

Exhibit 5: MIL Base Case DCF valuation

Parameters	Outcome
Discount Rate / WACC	10.8%
Beta	1.25x
Terminal growth rate assumption	2.2%
Sum of PV	43.2
PV of terminal Value	30.7
PV of Enterprise	73.9
Debt (Cash)	0.3
Net Value - Shareholder	73.6
No of shares on issue	45.9
NPV	**$1.60**

Source: RaaS estimates

Exhibit 6: Financial Year Financial Summary

Millennium Services (MIL.AX)					
Profit and Loss (A$m)					
Y/E 30 June	**FY19A**	**FY20A**	**FY21A**	**FY22F**	**FY23F**
Revenue	294.7	257.3	273.7	258.6	271.5
Gross profit	30.1	30.8	39.0	37.7	39.4
GP margin %	10.2%	12.0%	14.3%	14.6%	14.5%
Underlying EBITDA	0.1	4.0	11.6	10.0	11.7
Depn	(8.8)	(5.9)	(4.9)	(4.5)	(3.9)
Amort	0.0	0.0	0.0	0.0	0.0
EBIT	(8.7)	(1.9)	6.8	5.5	7.7
Interest	(2.5)	(3.2)	(1.8)	(0.8)	(0.5)
Tax	(3.2)	5.3	(1.6)	(1.4)	(2.2)
NPAT	(14.3)	0.3	3.4	3.3	5.1
Adjustments	(4.4)	1.7	0.2	0.0	0.0
Adjusted NPAT	**(18.7)**	**2.0**	**3.6**	**3.3**	**5.1**
Abnormals (net)	(26.8)	14.5	13.8	0.0	0.0
NPAT (reported)	**(45.5)**	**16.5**	**17.4**	**3.3**	**5.1**
Cash flow (A$m)					
Y/E 30 June	**FY19A**	**FY20A**	**FY21A**	**FY22F**	**FY23F**
EBITDA (inc cash rent/JK)	0.1	19.4	29.3	9.1	10.7
Interest	(2.5)	(3.2)	(1.8)	(0.8)	(0.5)
Tax	(0.9)	0.5	(0.1)	(1.4)	(2.2)
Working capital changes	2.2	(16.6)	12.9	2.2	0.0
Operating cash flow	**(1.1)**	**0.1**	**40.3**	**9.1**	**8.1**
Mtce capex	(1.3)	(2.2)	(2.2)	(2.3)	(2.4)
Free cash flow	**(2.4)**	**(2.1)**	**38.1**	**6.7**	**5.6**
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0
Other	(2.7)	(2.5)	(2.1)	(2.0)	(2.0)
Cash flow pre financing	(5.1)	(4.6)	36.0	4.7	3.6
Equity	0.0	0.0	0.0	0.0	0.0
Debt drawdown/(repay)	(3.6)	1.6	(21.4)	(2.0)	(3.0)
Net Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	**(8.7)**	**(3.0)**	**14.6**	**2.7**	**0.6**
Balance sheet (A$m)					
Y/E 30 June	**FY19A**	**FY20A**	**FY21A**	**FY22F**	**FY23F**
Cash	2.7	1.8	7.3	10.1	10.7
Accounts receivable	19.5	29.8	18.0	17.3	18.1
Inventory	0.8	1.2	1.1	1.0	1.0
Other current assets	1.2	2.5	2.2	0.0	0.0
Total current assets	*24.2*	*35.3*	*28.7*	*28.3*	*29.9*
PPE	11.4	8.6	7.0	5.7	5.2
Goodwill	7.5	7.5	7.5	7.5	7.5
Right of use asset	0.0	2.9	3.0	3.0	3.0
Deferred tax asset	0.2	7.4	8.5	8.5	8.5
Other	0.1	0.1	0.1	0.1	0.1
Total non current assets	*19.1*	*26.5*	*26.2*	*24.9*	*24.3*
Total Assets	43.4	61.9	54.9	53.2	54.2
Accounts payable	22.2	16.3	17.3	18.6	19.5
Short term debt	29.8	36.4	5.5	0.0	0.0
Provisions	26.1	22.4	22.6	19.6	20.6
Lease liabilities/other	0.0	0.8	5.5	9.9	6.9
Total current liabilities	*78.0*	*76.0*	*50.9*	*48.0*	*46.9*
Long term debt	0.0	0.0	2.1	0.1	(2.9)
Other non current liabs	1.8	5.8	4.1	4.1	4.1
Total long term liabilities	*1.8*	*5.8*	*6.2*	*4.2*	*1.2*
Total Liabilities	79.8	81.8	57.1	52.2	48.1
Net Assets	**(36.4)**	**(19.9)**	**(2.3)**	**1.0**	**6.1**
Share capital	19.0	19.0	19.1	19.1	19.1
Reserves	(8.4)	(8.5)	(8.3)	(8.3)	(8.3)
Retained Earnings	(46.9)	(30.3)	(13.1)	(9.7)	(4.6)
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**(36.4)**	**(19.9)**	**(2.4)**	**1.0**	**6.1**

Share price (17 Aug 2021)					**A$**	**0.550**
Interim (A$m)	**H119**	**H219**	**H120**	**H220**	**H121**	**H221**
Revenue	153.7	141.0	135.1	146.8	159.7	138.7
EBITDA	(2.4)	2.5	2.4	1.7	7.0	4.6
EBIT	(6.7)	(2.0)	(0.0)	(1.8)	4.8	2.0
NPAT (normalised)	(5.2)	(9.2)	(1.7)	2.0	2.6	0.8
Minorities	0.0	1.0	2.0	3.0	4.0	5.0
NPAT (reported)	(8.7)	(10.1)	(0.8)	2.8	3.2	0.3
EPS (normalised)	nm	nm	nm	0.061	0.070	0.007
EPS (reported)	nm	nm	nm	0.061	0.070	0.007
Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000
Imputation						
Operating cash flow	na	na	na	na	na	na
Free Cash flow	na	na	na	na	na	na
Divisionals	**H119**	**H219**	**H120**	**H220**	**H121**	**H221**
Cleaning	125.4	115.9	111.4	102.0	107.9	109.0
Security	28.4	25.1	23.7	20.2	27.2	29.7
(Other)	-	-	-	24.6	24.7	-
Total Revenue	**153.7**	**141.0**	**135.1**	**146.8**	**159.7**	**138.7**
Gross profit	13.0	17.1	17.0	13.8	19.9	19.1
Underlying GP Margin %	8.5%	12.2%	12.6%	11.3%	14.8%	13.8%
Operating Costs						
Employment	10.1	8.6	8.3	16.4	16.2	9.1
Other	8.8	7.0	5.5	4.9	6.2	6.4
Exceptional	- 3.5	- 0.9	0.9	- 9.2	- 9.5	-
Total costs	**15.4**	**14.6**	**14.7**	**12.1**	**12.9**	**15.5**
EBITDA	**(2.4)**	**2.5**	**2.4**	**1.7**	**7.0**	**3.6**
EBITDA margin %	(1.6%)	1.8%	1.7%	1.1%	4.4%	2.6%
Margins, Leverage, Returns		**FY19A**	**FY20A**	**FY21A**	**FY22F**	**FY23F**
EBITDA margin %		0.0%	1.6%	4.3%	3.9%	4.3%
EBIT margin %		(2.9%)	(0.7%)	2.5%	2.1%	2.9%
NPAT margin (pre significant items)		(6.4%)	0.8%	1.3%	1.3%	1.9%
Net Debt (Cash)		27.1	34.6	0.3	-9.9	-13.6
Net debt/EBITDA (x)	(x)	314.9 x	8.6 x	0.0 x	-1.0 x	-1.2 x
ND/ND+Equity (%)	(%)	42.7%	63.5%	11.5%	90.8%	69.1%
EBIT interest cover (x)	(x)	n/a	n/a	0.3x	0.1x	0.1x
ROA		nm	(3.5%)	11.6%	10.1%	14.4%
ROE		nm	nm	nm	nm	nm
ROIC		nm	nm	nm	nm	nm
NTA (per share)		-0.95	-0.60	-0.21	-0.14	-0.03
Working capital		-1.8	14.8	1.9	-0.3	-0.3
WC/Sales (%)		**(0.6%)**	**5.7%**	**0.7%**	**(0.1%)**	**(0.1%)**
Revenue growth		nm	(12.7%)	6.4%	(5.5%)	5.0%
EBIT growth pa		nm	nm	(463.7%)	(19.0%)	41.4%
Pricing		**FY19A**	**FY20A**	**FY21A**	**FY22F**	**FY23F**
No of shares (y/e)	(m)	45.9	45.9	45.9	45.9	45.9
Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9
EPS Reported	cps	nm	0.359	0.378	0.071	0.110
EPS Normalised/Diluted	cps	nm	0.043	0.078	0.071	0.110
EPS growth (norm/dil)		nm	nm	80%	-9%	55%
DPS	cps	0.000	0.000	0.000	0.000	0.000
DPS Growth		n/a	n/a	n/a	n/a	n/a
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Dividend imputation		30	30	30	30	30
PE (x)			nm	7.1	7.7	5.0
PE market		18	18	18	18	18
Premium/(discount)			nm	(60.8%)	(57.1%)	(72.3%)
EV/EBITDA		608.6	14.8	2.2	1.5	1.0
FCF/Share	cps	(4.535)	(4.535)	83.023	14.650	12.287
Price/FCF share		(12.127)	(12.127)	0.662	3.754	4.476
Free Cash flow Yield		(8.2%)	(8.2%)	151.0%	26.6%	22.3%

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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

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Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application from if needed.

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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)
In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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