

Revenues on track as lockdowns ease

Millennium Services Group Ltd (ASX:MIL) has released its Q2 FY22 activities report. Revenues for the December quarter were \$66.2m (RaaS \$64.7m), benefitting from higher “ad-hoc” services. Revenues were 6% below the PCP due to the loss of the QIC contract (\$28m annualised) but above Q1 FY22 as lockdown impacts eased. While no trading update was given, the adjusted cash-flow numbers look to be in-line with our H1 FY22 PBT estimates. H1 FY22 will include a number of abnormals relating to NZ government grants (\$0.8m), the cost of retaining staff during lockdowns (\$0.6m), transaction/due diligence costs (\$0.8m) and final staff payments relating to the QIC contract loss (\$1.2m). MIL ended the half with net debt of \$8.5m after the recent Codee acquisition (\$1.1m) and the net abnormals, providing ample room for further accretive acquisitions. MIL and our assessed peer group have held up well recently, down an average 4% and 2% respectively since the beginning of November. As a result, MIL continues to trade at a material discount to peers at a forecast 2.5x FY22 EV/EBITDA against a peer average of 4.6x. The average peer multiple would imply a share price of \$1.15/share.

Business model

MIL is a human services business, bidding for predominantly fixed-rate contracts with opportunities for volume gains and ad-hoc services, across the essential services of cleaning and security for durations of three-five years with large corporates. Satisfying contractual obligations utilising a vast workforce and procuring consumables for the jobs within the contracted price is 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.

Q2FY22 cash flow read-through to H1 FY22 result

Adjusting reported cash flow (-\$3.1m) for a number of abnormals (net \$1.3m) and the timing of customer payments (working capital - \$3.6m) supports our profit before tax (PBT) estimate of \$1.7m. Abnormals relate to a \$0.8m NZ government grant, offset by transaction and due diligence costs (\$0.8m), the cost of not standing down staff during lockdowns (\$0.6m) and termination payments relating to the loss of the QIC contract (\$1.2m). Net debt (\$8.5m) remains low despite these abnormals and the payment for 49% of Codee Cleaning Services (\$1.1m).

Valuation between \$1.15 (relative multiple) and \$1.60 (DCF)

The peer group average FY22 EV/EBITDA multiple implies a \$1.15/share valuation for MIL (4.6x EV/EBITDA), and we see no reason why this business does not deserve peer average multiples given average contract length, relative working capital intensity and market opportunities. As a sense check, our DCF valuation sits around \$1.60/share, incorporating modest medium-term and terminal-growth assumptions.

Historical earnings and RaaS estimates (In A\$m unless otherwise stated)

Year end	Adj. Revenue	Und. EBITDA	NPAT (adj.)	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	2.2	0.05	11.7	0.10
06/22e	263.2	10.4	2.3	0.05	11.1	0.08
06/23e	276.4	12.4	5.7	0.12	4.5	0.07

Source: Company data, RaaS estimates for FY22e and FY23e

Human Services

31st January 2022

Share Details

ASX code	MIL
Share price	\$0.56
Market capitalisation	\$26.0M
Shares on issue	45.9M
Net debt at 31-Dec-21	\$8.5M
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 include government, education and 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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Q2FY22 Trading Update

Key takeaways from the recent 4C and implications for our forecasts include:

- FY22 December quarter revenue was \$66.2m, slightly above our \$64.7m forecast and solid given the tail-end in lockdowns of shopping malls across the group's client base.
- Both contracted and ad-hoc revenue across the past five quarters adjusted for COVID impacts and contract losses are very consistent, highlighting the predictability of the business.
- Net cash from operating activities for the half (-\$3.1m) needs to be adjusted for the timing of customer payments (\$3.6m), staff payments associated with the end of the QIC contract (\$1.2m), transaction and due diligence costs (\$0.8m), the cost of not standing down staff in lockdowns (\$0.6m) and a NZ government lockdown-related grant (\$0.8m). On an adjusted basis cash-flow numbers are in-line with our existing H1 FY22 PBT estimates.

Exhibit 1: MIL quarterly sales history (In A\$m unless otherwise stated)

	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22
Sales	70.7	69.4	69.3	65.6	66.2
Contract	59.2	60.2	60.1	55.9	54.8
Ad hoc	11.5	9.2	9.2	9.7	11.4
% growth					-6.3%
Cash receipts		78.9	81.0	68.2	70.6
Net cash from operations		1.2	10.0	-4.4	1.2

Source: Company financials and RaaS estimates

Outlook and 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 \$11.7b (cleaning) and \$9.8b (investigation and security services), according to IBISWorld. In the cleaning business (~70% of MIL revenue) MIL has less than 2% market share in a market where the top-four 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's three-year growth strategy will look to use the current balance sheet, ASX listing and trading history to increase "value-add" services, participate in industry rationalisation, and use technology such as rostering and traffic flow systems and robotics to improve operating efficiencies.
- The acquisition of 49% of Codee Cleaning Services in December 2021 overlays industry consolidation with an increasing focus on ESG.
- MIL will lose the \$28m QIC cleaning contract from October 2021, but gain ~\$6m from a new contract with Westfield Southland. Our numbers factor a "right sizing" of the cost base to limit the damage of this contract loss.
- Net debt was just \$8.5m at December 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. MIL has undrawn banking facilities of ~\$14m.
- Gross margins are back to "targeted" levels and based on extensive historical and peer analysis we feel these margins are sustainable at management's targeted 14-14.5% range.

Exhibit 2: Financial Summary (In A\$m unless otherwise stated)

Millennium Services (ASX.MIL)						Share price (31 January 2022)						A\$	0.560				
Profit and Loss (A\$m)						Interim (A\$m)						H120	H220	H121	H221	H122F	H222F
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	Revenue	135.1	146.8	159.7	138.7	131.8	131.5					
Revenue	294.7	257.3	273.7	263.2	276.4	EBITDA	2.4	1.7	7.0	4.6	4.5	5.9					
Gross profit	30.1	30.8	39.0	38.1	40.1	EBIT	(0.0)	(1.8)	4.8	2.0	2.2	3.7					
GP margin %	10.2%	12.0%	14.3%	14.5%	14.5%	NPAT (normalised)	(1.7)	2.0	2.6	0.8	1.2	2.3					
Underlying EBITDA	0.1	4.0	11.6	10.4	12.4	Minorities (AT)	0.0	0.0	0.0	0.0	0.0	0.1					
Depn	(8.8)	(5.9)	(4.9)	(4.5)	(3.9)	NPAT (reported)	(0.8)	2.8	1.9	0.3	(0.0)	2.3					
Minorities (AT)	0.0	0.0	0.0	0.1	0.1	EPS (normalised)	nm	0.061	0.042	0.006	(0.001)	0.050					
EBIT	(8.7)	(1.9)	6.8	6.0	8.6	EPS (reported)	nm	0.061	0.042	0.006	(0.001)	0.050					
Interest	(2.5)	(3.2)	(1.8)	(0.9)	(0.5)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	(3.2)	5.3	(1.6)	(1.5)	(2.4)	Imputation											
NPAT	(14.3)	0.3	3.4	3.6	5.7	Operating cash flow	na	na	na	na	na	na					
Adjustments	(4.4)	1.7	(1.2)	(1.3)	0.0	Free Cash flow	na	na	na	na	na	na					
Adjusted NPAT	(18.7)	2.0	2.2	2.3	5.7	Divisionals	H120	H220	H121	H221	H122F	H222F					
Abnormals (net)	(26.8)	14.5	15.2	0.0	0.0	Cleaning	111.4	102.0	107.9	109.0	107.9	105.1					
NPAT (reported)	(45.5)	16.5	17.4	2.3	5.7	Security	23.7	20.2	27.2	29.7	23.9	26.4					
Cash flow (A\$m)						(Other)	-	24.6	24.7	-	-	-					
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	Total Revenue	135.1	146.8	159.7	138.7	131.8	131.5					
EBITDA (inc cash rent/JK)	0.1	19.4	29.3	9.5	11.5	Gross profit	17.0	13.8	19.9	19.1	18.9	19.2					
Interest	(2.5)	(3.2)	(1.8)	(0.9)	(0.5)	Underlying GP Margin %	12.6%	11.3%	14.8%	13.8%	14.4%	14.6%					
Tax	(0.9)	0.5	(0.1)	(1.5)	(2.4)	Operating Costs											
Working capital changes	2.2	(16.6)	12.9	(0.9)	(0.1)	Employment	8.3	16.4	16.2	9.1	8.6	7.8					
Operating cash flow	(1.1)	0.1	40.3	6.3	8.4	Other	5.5	4.9	6.2	6.4	5.8	5.5					
Mtce capex	(1.3)	(2.2)	(2.2)	(2.4)	(2.5)	Exceptional	0.9	9.2	9.5	1.0	-	-					
Free cash flow	(2.4)	(2.1)	38.1	3.9	5.9	Total costs	14.7	12.1	12.9	14.5	14.4	13.3					
Growth capex	0.0	0.0	0.0	0.0	0.0	EBITDA	2.4	1.7	7.0	4.6	4.5	5.9					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA margin %	1.7%	1.1%	4.4%	3.3%	3.4%	4.5%					
Other	(2.7)	(2.5)	(2.1)	(2.0)	(2.0)	Margins, Leverage, Returns		FY19A	FY20A	FY21A	FY22F	FY23F					
Cash flow pre financing	(5.1)	(4.6)	36.0	1.9	3.9	EBITDA margin %		0.0%	1.6%	4.3%	4.0%	4.5%					
Equity	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(2.9%)	(0.7%)	2.5%	2.3%	3.1%					
Debt drawdown/(repay)	(3.6)	1.6	(21.4)	(1.0)	(3.0)	NPAT margin (pre significant items)		(6.4%)	0.8%	0.8%	0.9%	2.1%					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)	27.1	34.6	0.3	-3.7	-7.6						
Net cash flow for year	(8.7)	(3.0)	14.6	0.9	0.9	Net debt/EBITDA (x)	(x)	314.9 x	8.6 x	0.0 x	-0.4 x	-0.6 x					
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	42.7%	63.5%	11.5%	98.8%	56.9%					
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	EBIT interest cover (x)	(x)	n/a	n/a	0.3x	0.2x	0.1x					
Cash	2.7	1.8	7.3	4.8	5.7	ROA		nm	(3.5%)	11.6%	11.1%	16.1%					
Accounts receivable	19.5	29.8	18.0	20.7	21.7	ROE		nm	nm	nm	nm	nm					
Inventory	0.8	1.2	1.1	1.0	1.1	ROIC		nm	nm	nm	nm	nm					
Other current assets	1.2	2.5	2.2	0.0	0.0	NTA (per share)		-0.95	-0.60	-0.21	-0.18	-0.06					
Total current assets	24.2	35.3	28.7	26.5	28.5	Working capital		-1.8	14.8	1.9	2.7	2.9					
PPE	11.4	8.6	7.0	5.8	5.3	WC/Sales (%)		(0.6%)	5.7%	0.7%	1.0%	1.0%					
Goodwill	7.5	7.5	7.5	8.5	8.5	Revenue growth		nm	(12.7%)	6.4%	(3.8%)	5.0%					
Right of use asset	0.0	2.9	3.0	3.0	3.0	EBIT growth pa		nm	nm	(463.7%)	(11.6%)	43.2%					
Deferred tax asset	0.2	7.4	8.5	8.5	8.5	Pricing		FY19A	FY20A	FY21A	FY22F	FY23F					
Other	0.1	0.1	0.1	0.1	0.1	No of shares (y/e)	(m)	45.9	45.9	45.9	45.9	45.9					
Total non current assets	19.1	26.5	26.2	25.9	25.4	Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9					
Total Assets	43.4	61.9	54.9	52.5	53.9	EPS Reported	cps	nm	0.359	0.379	0.050	0.124					
Accounts payable	22.2	16.3	17.3	19.0	19.9	EPS Normalised/Diluted	cps	nm	0.043	0.048	0.050	0.124					
Short term debt	29.8	36.4	5.5	0.0	0.0	EPS growth (norm/dil)		nm	nm	11%	5%	146%					
Provisions	26.1	22.4	22.6	20.0	20.9	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Lease liabilities/other	0.0	0.8	5.5	8.5	5.3	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Total current liabilities	78.0	76.0	50.9	47.4	46.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Long term debt	0.0	0.0	2.1	1.1	(1.9)	Dividend imputation		30	30	30	30	30					
Other non current liabs	1.8	5.8	4.1	4.1	4.1	PE (x)		nm	11.7	11.1	4.5						
Total long term liabilities	1.8	5.8	6.2	5.2	2.2	PE market		18	18	18	18	18					
Total Liabilities	79.8	81.8	57.1	52.6	48.3	Premium/(discount)		nm	(35.0%)	(38.2%)	(74.8%)						
Net Assets	(36.4)	(19.9)	(2.3)	(0.1)	5.6	EV/EBITDA		613.9	14.9	2.2	2.1	1.5					
Share capital	19.0	19.0	19.1	19.1	19.1	FCF/Share	cps	(4.535)	(4.535)	83.023	3.472	12.940					
Reserves	(8.4)	(8.5)	(8.3)	(8.3)	(8.3)	Price/FCF share		(12.347)	(12.347)	0.675	16.131	4.328					
Retained Earnings	(46.9)	(30.3)	(13.1)	(10.7)	(5.0)	Free Cash flow Yield		(8.1%)	(8.1%)	148.3%	6.2%	23.1%					
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	(36.4)	(19.9)	(2.4)	0.0	5.7												

Source: RaaS estimates



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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