

Consistent quarterly revenues continue

Millennium Services Group Ltd (ASX:MIL) has released its Q3 FY22 activities report. Revenues for the March quarter were \$65.9m (RaaS \$64.3m), benefitting from fewer Covid-related disruptions in the contracted business. Revenues were 5% below the PCP due to the loss of the QIC contract (\$28m annualised in September 2021) but just \$0.2m below Q2 FY22, highlighting the consistency of revenues quarter-to-quarter. MIL ended the quarter with net debt (including trade finance) of \$10.5m which included \$5.0m in trade finance because of the timing of staff payments over the quarter (an additional fortnights' pay amounting to \$5.6m). Our assessed peer group of people-heavy service businesses has held up well recently and now trades at an average 5.0x EV/EBITDA. MIL continues to trade at a material discount to peers at a forecast 2.3x FY22 EV/EBITDA. The average peer multiple would imply a share price of \$1.10/share. With generally long-term three-five-year contracts in place with tier-one players, we see no reason why a multiple closer to the peer average is not achievable.

Business model

MIL is a human services business with a focus on the essential services of cleaning and security, bidding for predominantly long-term contracts that have annual contract adjustments to protect MIL from movements in labour resource costs. Additional volumes over and above those contracted can be gained from ad-hoc services, which represent ~15% of group revenues at a higher average margin. 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 to demonstrate transparency in these important areas (which most large private companies can't achieve) will be key in this push.

Revenue consistency shines through

Adjusting for the QIC contract loss in September 2021, the quarterly revenues both on a contracted and ad-hoc basis are incredibly consistent quarter-to-quarter despite some Covid-related disruptions. The same should be the case on a year-to-year basis and with at least three-year contracts in place, aids in the profitable management of the business. This is a key advantage MIL has from a business model perspective relative to some of our assessed peers.

Relative EV/EBITDA implies a \$1.10 valuation

Our assessed peer group average FY22 EV/EBITDA multiple implies a \$1.10/share valuation for MIL (5.0x EV/EBITDA), and we see no reason why this business does not deserve peer-average multiples given average contract length (three-five years), relative working capital intensity and market opportunities. Selected peers include Service Stream (ASX:SSM), GNG Engineering (ASX:GNG), Lycopodium (ASX:LXL), Southern Cross Electrical (ASX:SXE) and Ashley Services (ASX:ASH).

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

Year end	Adj. revenues	Und. EBITDA	NPAT (adj.)	EPS (adj.) (c)	P/E (x)	EV/Sales (x)
06/20a	257.3	4.0	2.0	0.04	nm	0.21
06/21a	273.7	11.6	2.2	0.05	9.4	0.08
06/22e	263.2	11.0	3.1	0.07	6.6	0.09
06/23e	273.7	12.6	5.5	0.12	3.8	0.08

Source: Company data, RaaS estimates for FY22e and FY23e

Human Services

28th April 2022

Share Details

ASX code	MIL
Share price	\$0.45
Market capitalisation	\$21.0M
Shares on issue	45.9M
Net debt at 31-Mar-22	\$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 pressures re-emerge
- Sizable contract loss
- Wages growth above contracts clauses

Board of Directors

Stuart Grimshaw	Chairman
Royce Galea	CEO
Rohan Garnett	Non-Executive Director
Darren Perry	Non-Executive Director

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Q3FY22 Trading Update

Key takeaways from the March quarter 4C include:

- FY22 March quarter revenues were \$66.2m, slightly above our \$64.3m forecast as lockdown impacts eased through the quarter. The 5% decline relative to the PCP was due to the loss of the \$28m QIC contract in September 2021.
- Both contracted and ad-hoc revenues across the past five quarters (excluding contract losses) have been very consistent despite Covid-related impacts, highlighting the predictability of the business.
- Net cash from operating activities for the quarter (+\$0.8m) was impacted by the timing of staff payments (\$5.6m) and should balance out in Q4.

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

	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22
Sales	69.4	69.3	65.6	66.1	65.9
Contract	60.2	60.1	55.9	54.8	55.4
Ad hoc	9.2	9.2	9.7	11.4	10.5
% growth			2.0	(6.5)	(5.0)
Cash receipts	78.9	81.0	68.2	70.6	74.6
Net cash from operations	1.2	10.0	(3.6)	1.3	0.8

Source: Company announcements and RaaS estimates

Relative Valuation

We compare MIL to other listed small-cap players that rely heavily on human resources and to a lesser extent equipment to deliver their services to typically larger clients.

The table below summarises current FY22 metrics across a wide range of variables. MIL currently trades at a material (55%) discount to the FY22 EV/EBITDA peer average of 5.0x despite generally better contract terms, similar gross margins, and generally lower working capital requirements.

Exhibit 2: Peer group financial comparison – FY22 (In A\$m unless otherwise stated)

Company name	Ticker	Share price (cps)	Mkt. cap.	FY22 net debt	FY22 (f) EBITDA	FY22 (f) sales	GP%	Working capital/Sales	EV/ Sales (x)	EV/ EBITDA
Service Stream *	SSM	0.85	524	47.0	123.0	1,750	22.7	(7.2)	0.33	4.6
GR Engineering	GNG	2.03	315	(93.6)	48.5	590	12.1	(3.0)	0.38	4.6
Licopodium	LYL	5.98	237	(63.6)	29.0	245	33.0	9.5	0.71	6.0
Southern Cross Electrical	SXE	0.65	169	(49.9)	31.0	500	13.2	12.8	0.24	3.8
Ashley Services	ASH	0.73	105	4.0	19.0	400	16.0	4.5	0.27	5.7
AVERAGE							19.4	3.3	0.38	5.0
Millennium	MIL	0.45	21	4.3	11.0	263	15.0	0.7	0.09	2.3

Sources: Company financials, RaaS estimates *Pro-forma

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 revenues) 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 negative 0.5% between FY17 and FY21F, the cleaning sector will grow by a CAGR of 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 lost the \$28m QIC cleaning contract from October 2021 but gained ~\$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 \$10.5m as at March 2021 (include trade finance), 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 \$12.8m.
- Gross margins are back to "targeted" levels and based on extensive historical and peer analysis we feel these margins are sustainable at 14.5%-15%.

Exhibit 3: Financial Summary (In A\$m unless otherwise stated)

Millennium Services (ASX.MIL)						Share price (27 April 2022)						A\$	0.450				
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	131.7	131.5					
Revenue	294.7	257.3	273.7	263.2	273.7	EBITDA	2.4	1.7	7.0	4.7	6.7	4.3					
Gross profit	30.1	30.8	40.8	39.4	41.1	EBIT	(0.0)	(1.8)	4.7	2.0	4.4	2.1					
GP margin %	10.2%	12.0%	14.9%	15.0%	15.0%	NPAT (normalised)	(1.7)	2.0	2.5	0.9	2.7	1.2					
Underlying EBITDA	0.1	4.0	11.6	11.0	12.6	Minorities (AT)	0.0	0.0	0.0	0.0	0.0	0.1					
Depn	(8.8)	(5.9)	(4.9)	(4.5)	(4.4)	NPAT (reported)	(0.8)	2.8	1.9	0.3	1.9	1.2					
Minorities (AT)	0.0	0.0	0.0	0.1	0.1	EPS (normalised)	nm	0.061	0.041	0.007	0.041	0.026					
EBIT	(8.7)	(1.9)	6.8	6.5	8.3	EPS (reported)	nm	0.061	0.041	0.007	0.041	0.026					
Interest	(2.5)	(3.2)	(1.8)	(0.8)	(0.5)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	(3.2)	5.3	(1.6)	(1.7)	(2.3)	Imputation											
NPAT	(14.3)	0.3	3.4	4.0	5.5	Operating cash flow	na	na	na	na	na	na					
Adjustments	(4.4)	1.7	(1.2)	(0.8)	0.0	Free Cash flow	na	na	na	na	na	na					
Adjusted NPAT	(18.7)	2.0	2.2	3.1	5.5	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	99.6	100.9					
NPAT (reported)	(45.5)	16.5	17.4	3.1	5.5	Security	23.7	20.2	27.2	29.7	32.1	30.5					
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	131.7	131.5					
EBITDA (inc cash rent/JK)	0.1	19.4	29.3	10.1	11.7	Gross profit	17.0	13.8	21.7	19.1	21.0	18.4					
Interest	(2.5)	(3.2)	(1.8)	(0.8)	(0.5)	Underlying GP Margin %	12.6%	11.3%	16.1%	13.8%	15.9%	14.0%					
Tax	(0.9)	0.5	(0.1)	(1.7)	(2.3)	Operating Costs											
Working capital changes	2.2	(16.6)	12.9	(9.8)	(0.5)	Employment	8.3	16.4	15.9	9.4	8.8	8.6					
Operating cash flow	(1.1)	0.1	40.3	(2.3)	8.4	Other	5.5	4.9	6.2	5.0	5.5	5.5					
Mtce capex	(1.3)	(2.2)	(2.2)	(1.8)	(1.9)	Exceptional	0.9	9.2	7.3	-	-	-					
Free cash flow	(2.4)	(2.1)	38.1	(4.1)	6.5	Total costs	14.7	12.1	14.8	14.4	14.3	14.1					
Growth capex	0.0	0.0	0.0	0.0	0.0	EBITDA	2.4	1.7	7.0	4.7	6.7	4.3					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA margin %	1.7%	1.1%	4.4%	3.4%	5.1%	3.3%					
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	(6.1)	4.5	EBITDA margin %		0.0%	1.6%	4.3%	4.2%	4.6%					
Equity	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(2.9%)	(0.7%)	2.5%	2.5%	3.0%					
Debt drawdown/(repay)	(3.6)	1.6	(21.4)	(1.0)	(3.0)	NPAT margin (pre significant items)		(6.4%)	0.8%	0.8%	1.2%	2.0%					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		27.1	34.6	0.3	4.3	-0.1					
Net cash flow for year	(8.7)	(3.0)	14.6	(7.1)	1.5	Net debt/EBITDA (x)	(x)	314.9 x	8.6 x	0.0 x	0.4 x	0.0 x					
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	42.7%	63.5%	11.5%	125.8%	1.8%					
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	EBIT interest cover (x)	(x)	n/a	n/a	0.3x	0.1x	0.1x					
Cash	2.7	1.8	7.3	(3.2)	(1.8)	ROA		nm	(3.5%)	11.6%	12.7%	17.2%					
Accounts receivable	19.5	29.8	18.0	24.7	25.7	ROE		nm	nm	nm	nm	nm					
Inventory	0.8	1.2	1.1	1.0	1.0	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	-0.17	-0.05					
Total current assets	24.2	35.3	28.7	22.5	24.9	Working capital		-1.8	14.8	1.9	11.7	12.2					
PPE	11.4	8.6	7.0	5.2	3.7	WC/Sales (%)		(0.6%)	5.7%	0.7%	4.4%	4.4%					
Goodwill	7.5	7.5	7.5	8.5	8.5	Revenue growth		nm	(12.7%)	6.4%	(3.8%)	4.0%					
Right of use asset	0.0	2.9	3.0	3.0	3.0	EBIT growth pa		nm	nm	(463.7%)	(3.6%)	27.5%					
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	25.4	23.8	Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9					
Total Assets	43.4	61.9	54.9	47.9	48.7	EPS Reported	cps	nm	0.359	0.379	0.068	0.120					
Accounts payable	22.2	16.3	17.3	14.0	14.6	EPS Normalised/Diluted	cps	nm	0.043	0.048	0.068	0.120					
Short term debt	29.8	36.4	5.5	0.0	0.0	EPS growth (norm/dil)		nm	nm	11%	43%	75%					
Provisions	26.1	22.4	22.6	19.9	20.7	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Lease liabilities/other	0.0	0.8	5.5	7.9	4.9	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Total current liabilities	78.0	76.0	50.9	41.8	40.2	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	9.4	6.6	3.8						
Total long term liabilities	1.8	5.8	6.2	5.2	4.2	PE market		18	18	18	18						
Total Liabilities	79.8	81.8	57.1	47.0	42.3	Premium/(discount)		nm	(47.8%)	(63.5%)	(79.1%)						
Net Assets	(36.4)	(19.9)	(2.3)	0.9	6.4	EV/EBITDA		555.2	13.7	1.8	2.3	1.6					
Share capital	19.0	19.0	19.1	19.1	19.1	FCF/Share	cps	(4.535)	(4.535)	83.023	(13.950)	14.169					
Reserves	(8.4)	(8.5)	(8.3)	(8.3)	(8.3)	Price/FCF share		(9.922)	(9.922)	0.542	(3.226)	3.176					
Retained Earnings	(46.9)	(30.3)	(13.1)	(9.8)	(4.3)	Free Cash flow Yield		(10.1%)	(10.1%)	184.5%	(31.0%)	31.5%					
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	(36.4)	(19.9)	(2.4)	0.9	6.4												

Source: RaaS



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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