

Contract renewals highlights stickiness

Millennium Services Group Ltd (ASX:MIL) has announced the extension of several contracts worth a combined \$150m over terms spanning two to four years. The key message here is both the general stickiness of contracts and length of contracts relative to our selected peer group. Quarterly revenue disclosures highlight that not only are contracts sticky and medium-term in duration, but they also deliver consistent revenue across quarters providing strong visibility for contract management. Our assessed peer group of people-heavy service businesses has held-up well over the last two months, declining an average of 6% and now trading on an estimated FY22 EV/EBITDA multiple of 4.6x. The MIL relative multiple to this peer group has widened to a ~65% discount or an estimated 1.7x FY22 EV/EBITDA. The average peer multiple would imply a share price of \$1.00/share. With longer than average contract terms across a diverse range of tier-one customers and a strong balance sheet, 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 keys in this push.

Customer relationships and contract terms shine through

We have highlighted from recently quarterlies the incredibly consistent revenues quarter-to-quarter despite COVID-related disruptions, and now we can highlight the generally sticky and medium-term duration of most contracts with \$150m in business renewed across four clients for periods ranging from two to four years. Such consistency, stickiness and duration aids in the profitable management of the business. This is a key advantage MIL has from a business model perspective relative to most of our assessed peers.

Relative EV/EBITDA implies a \$1.00 valuation

Our assessed peer group average FY22 EV/EBITDA multiple implies a \$1.00/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 (two-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/EBITDA (x)
06/20a	257.3	4.0	2.0	0.04	nm	12.1
06/21a	273.7	11.6	2.2	0.05	6.5	1.2
06/22f	263.2	11.0	3.1	0.07	4.5	1.7
06/23f	273.7	12.6	5.5	0.12	2.6	1.1

Source: Company data, RaaS estimates for FY22e and FY23e

Human Services

15th June 2022

Share Details

ASX code	MIL
Share price (intraday)	\$0.31
Market capitalisation	\$14.2M
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 timing RE: contracts clauses

Board of Directors

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

MIL Group Contact

Royce Galea (CEO)	+61 412 660 006
royce.galea@millenniumsg.com	

RaaS Contacts

John Burgess *	+61 410 439 723
john.burgess@raasgroup.com	
Finola Burke	+61 414 354 712
finola.burke@raasgroup.com	

*The author owns shares

Exhibit 1: Financial Summary (In A\$m unless otherwise stated)

Millennium Services (ASX.MIL)						Share price (15 June 2022)						A\$	0.310				
Profit and Loss (A\$m)						Interim (A\$m)						H120	H220	H121	H221	H122F	H222F
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Revenue	135.1	146.8	159.7	138.7	131.7	131.5					
Revenue	257.3	273.7	263.2	273.7	284.7	EBITDA	2.4	1.7	7.0	4.7	6.7	4.3					
Gross profit	30.8	40.8	39.4	41.1	42.7	EBIT	(0.0)	(1.8)	4.7	2.0	4.4	2.1					
GP margin %	12.0%	14.9%	15.0%	15.0%	15.0%	NPAT (normalised)	(1.7)	2.0	2.5	0.9	2.7	1.2					
Underlying EBITDA	4.0	11.6	11.0	12.6	13.7	Minorities (AT)	0.0	0.0	0.0	0.0	0.0	0.1					
Depn	(5.9)	(4.9)	(4.5)	(4.4)	(4.4)	NPAT (reported)	(0.8)	2.8	1.9	0.3	1.9	1.2					
Minorities (AT)	0.0	0.0	0.1	0.1	0.1	EPS (normalised)	nm	0.061	0.041	0.007	0.041	0.026					
EBIT	(1.9)	6.8	6.5	8.3	9.4	EPS (reported)	nm	0.061	0.041	0.007	0.041	0.026					
Interest	(3.2)	(1.8)	(0.8)	(0.5)	(0.4)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	5.3	(1.6)	(1.7)	(2.3)	(2.7)	Imputation											
NPAT (adj)	0.3	3.4	4.0	5.5	6.3	Operating cash flow	na	na	na	na	na	na					
Adjustments	1.7	(1.2)	(0.8)	0.0	0.0	Free Cash flow	na	na	na	na	na	na					
NPAT	2.0	2.2	3.1	5.5	6.3	Divisionals	H120	H220	H121	H221	H122F	H222F					
Abnormals (net)	14.5	15.2	0.0	0.0	0.0	Cleaning	111.4	102.0	107.9	109.0	99.6	100.9					
NPAT (reported)	16.5	17.4	3.1	5.5	6.3	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	FY20A	FY21A	FY22F	FY23F	FY24F	Total Revenue	135.1	146.8	159.7	138.7	131.7	131.5					
EBITDA (inc cash rent/JK)	19.4	29.3	10.1	11.7	12.7	Gross profit	17.0	13.8	21.7	19.1	21.0	18.4					
Interest	(3.2)	(1.8)	(0.8)	(0.5)	(0.4)	Underlying GP Margin %	12.6%	11.3%	16.1%	13.8%	15.9%	14.0%					
Tax	0.5	(0.1)	(1.7)	(2.3)	(2.7)	Operating Costs											
Working capital changes	(16.6)	12.9	(9.8)	(0.5)	(0.5)	Employment	8.3	16.4	15.9	9.4	8.8	8.6					
Operating cash flow	0.1	40.3	(2.3)	8.4	9.1	Other	5.5	4.9	6.2	5.0	5.5	5.5					
Mtce capex	(2.2)	(2.2)	(1.8)	(1.9)	(2.0)	Exceptional	0.9	9.2	7.3	-	-	-					
Free cash flow	(2.1)	38.1	(4.1)	6.5	7.2	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	(2.5)	(2.1)	(2.0)	(2.0)	(2.0)	Margins, Leverage, Returns	FY20A	FY21A	FY22F	FY23F	FY24F						
Cash flow pre financing	(4.6)	36.0	(6.1)	4.5	5.2	EBITDA margin %		1.6%	4.3%	4.2%	4.6%	4.8%					
Equity	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(0.7%)	2.5%	2.5%	3.0%	3.3%					
Debt drawdown/(repay)	1.6	(21.4)	(1.0)	(3.0)	(2.4)	NPAT margin (pre significant items)		0.8%	0.8%	1.2%	2.0%	2.2%					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		34.6	0.3	4.3	-0.1	-5.2					
Net cash flow for year	(3.0)	14.6	(7.1)	1.5	2.8	Net debt/EBITDA (x)	(x)	8.6 x	0.0 x	0.4 x	0.0 x	-0.4 x					
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	63.5%	115.5%	125.8%	1.8%	34.1%					
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	EBIT interest cover (x)	(x)	n/a	0.3x	0.1x	0.1x	0.0x					
Cash	1.8	7.3	(3.2)	(1.8)	0.9	ROA		(6.0%)	11.6%	12.7%	17.2%	18.8%					
Accounts receivable	29.8	18.0	24.7	25.7	26.7	ROE		nm	nm	nm	nm	nm					
Inventory	1.2	1.1	1.0	1.0	1.1	ROIC		nm	nm	nm	nm	nm					
Other current assets	2.5	2.2	0.0	0.0	0.0	NTA (per share)		-0.60	-0.21	-0.17	-0.05	0.03					
Total current assets	35.3	28.7	22.5	24.9	28.7	Working capital		14.8	1.9	11.7	12.2	12.6					
PPE	8.6	7.0	5.2	3.7	2.3	WC/Sales (%)		5.7%	0.7%	4.4%	4.4%	4.4%					
Goodwill	7.5	7.5	8.5	8.5	8.5	Revenue growth		(12.7%)	6.4%	(3.8%)	4.0%	4.0%					
Right of use asset	2.9	3.0	3.0	3.0	3.0	EBIT growth pa		nm	(463.7%)	(3.6%)	27.5%	13.3%					
Deferred tax asset	7.4	8.5	8.5	8.5	8.5	Pricing		FY20A	FY21A	FY22F	FY23F	FY24F					
Other	0.1	0.1	0.1	0.1	0.3	No of shares (yle)	(m)	45.9	45.9	45.9	45.9	45.9					
Total non current assets	26.5	26.2	25.4	23.8	22.6	Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9					
Total Assets	61.9	54.9	47.9	48.7	51.2	EPS Reported	cps	0.359	0.379	0.068	0.120	0.138					
Accounts payable	16.3	17.3	14.0	14.6	15.1	EPS Normalised/Diluted	cps	0.043	0.048	0.068	0.120	0.138					
Short term debt	36.4	5.5	0.0	0.0	0.0	EPS growth (norm/dil)		nm	11%	43%	75%	15%					
Provisions	22.4	22.6	19.9	20.7	21.6	DPS	cps	0.000	0.000	0.000	0.000	0.010					
Lease liabilities/other	0.8	5.5	7.9	4.9	4.8	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Total current liabilities	76.0	50.9	41.8	40.2	41.5	Dividend yield		0.0%	0.0%	0.0%	0.0%	3.2%					
Long term debt	0.0	2.1	1.1	(1.9)	(4.3)	Dividend imputation		30	30	30	30	31					
Other non current liabs	5.8	4.1	4.1	4.1	4.1	PE (x)		nm	6.5	4.5	2.6	2.2					
Total long term liabilities	5.8	6.2	5.2	2.2	(0.2)	PE market		15	15	15	15	15					
Total Liabilities	81.8	57.1	47.0	42.3	41.2	Premium/(discount)		nm	(56.8%)	(69.8%)	(82.7%)	(85.0%)					
Net Assets	(19.9)	(2.3)	0.9	6.4	10.0	EVEBITDA		12.1	1.2	1.7	1.1	0.7					
Share capital	19.0	19.1	19.1	19.1	19.1	FCF/Share	cps	(4.535)	83.023	(13.950)	14.169	15.570					
Reserves	(8.5)	(8.3)	(8.3)	(8.3)	(8.3)	Price/FCF share		(6.835)	0.373	(2.222)	2.188	1.991					
Retained Earnings	(30.3)	(13.1)	(9.8)	(4.3)	(0.8)	Free Cash flow Yield		(14.6%)	267.8%	(45.0%)	45.7%	50.2%					
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	(19.9)	(2.4)	0.9	6.4	10.0												

Source: RaaS



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License (“AFSL”) number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS’s services and includes such things as

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

Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

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 form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS’s representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR’s internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren’t satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

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.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMERS and DISCLOSURES

This report has been commissioned by Millennium Services Group Ltd and prepared and issued by RaaS Advisory Pty Ltd. RaaS Advisory has been paid a fee to prepare this report. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise.

The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2022 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.