



Mitchell Services (MSV)

BUY: Momentum continues in Q3

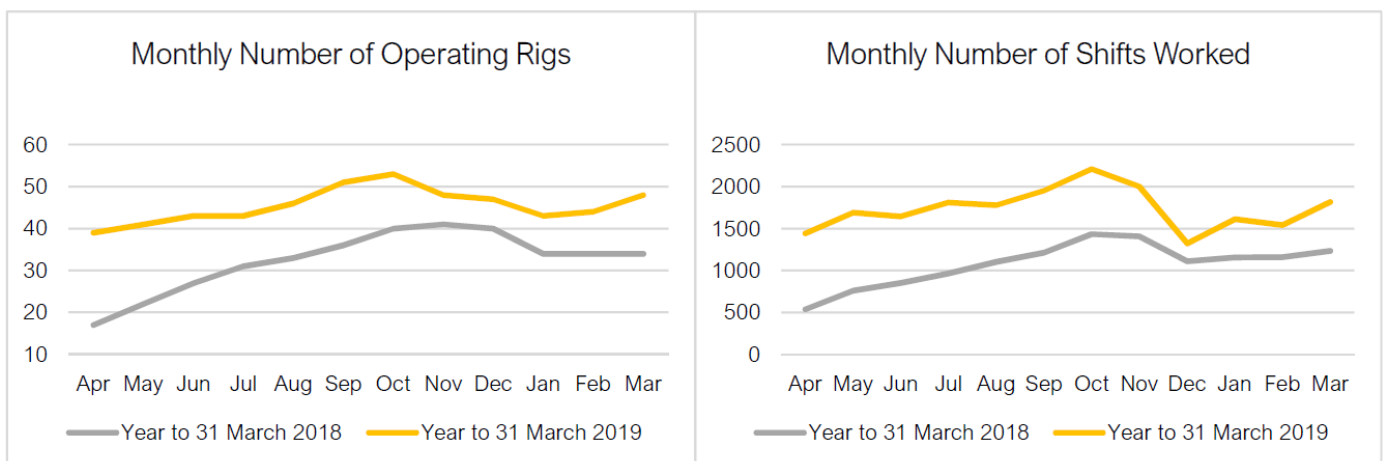
Announcement highlights

Management have delivered a very solid Q319 result, with revenues and EBITDA both showing very strong lifts in what is seasonally the slowest quarter. While activity levels were much stronger, what the result also demonstrates is: (1) rapidly increasing operating leverage; and (2) benefits of pricing decisions taken through H119. The cycle is improving, and Mitchell's are best placed to capture the upside. BUY maintained, PT 10cps, in our view the shares can benefit from this positive update today.

Wilson's' view

Initial analysis

- Revenues grew +75% y/y to \$25.9m, as average rigs rose +32% to 45.0 and shifts +40%.
- EBITDA margins lifted from negative territory to 15.9%. While these were down from c22.5% in H1, these were also reflective of the seasonal slowdown.
- Cash conversion was a solid 80%, as the company also incurred mobilisation expenses for new contracts commenced in the quarter, BHP Olympic Dam and KCGM Mount Charlotte.
- The company added 3 new underground rigs in the quarter, increasing net debt by \$2.4m to \$4.9m. Average pricing for an underground rig is \$1m. These were already factored into our forecasts.



Earnings implications

None at this stage, forecasts maintained. Mitchell's are on track to meet our existing H219 EBITDA estimate of \$8.8m and revenues of \$55m. We look for FY19 EBITDA of \$23m on revenues of \$118m.

Investment view

An expansion of exploration and production appears set to drive earnings higher for Mitchell's, as major mining customers benefit from record cash generation. A fundamentally re-shaped market presents itself, with the withdrawal of major global drilling competitors paving the way for further market share gains, while the pricing cycle remains in its infancy. In our view the current share price remains an attractive entry point for a business with material potential upside to earnings as the cycle gains momentum; an improvement in debt structure, cash flows and balance sheet strengthening; and as potential for corporate activity unfolds. BUY, 10cps PT.

Wilson's Equity Research

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