



## Mitchell Services (MSV)

### Q2 update: Now that's how you drill

#### Announcement highlights

Overall a very solid performance in Q2/H120 from Mitchell's, as they benefit from solid operating conditions, a strengthening of the cycle and improved rig pricing. Importantly, while the acquisition of Deepcore did make a revenue contribution, after netting of fees the impact was zero at the EBITDA level, suggesting the underlying Mitchell's business has performed exceptionally well. The outlook from here is strong and we suggest this is a stock that could show a strong potential for a guidance upgrade coming into H1 results (FY20 guidance). O/W maintained, 11cps PT.

#### Wilson's' view

##### Initial analysis

- Very strong Q2 from the business and it has soundly beaten forecasts.
- The benefits of limited change out delays, no impacts from bushfires and the lack of rain has aided drilling downtime. In addition utilisation and rig pricing has picked up which also aids the performance.
- Although the acquisition of Deepcore did make a contribution, the addition at the EBITDA line nets off with transaction fees. Revenue contributed c\$5m, and backing this out is still ahead of forecasts.
- FY20 guidance remains for a "significant improvement" however expect this could strongly surprise to the upside at H1 results (26th February). We forecast Revenue of \$168m and EBITDA of \$33m for FY20.
- The lift in net debt relates to Deepcore acquisition (\$26.8m), and we had this timed for a 1 January inclusion.
- Operating cash conversion is 105% (something investors should be mindful of across the space). What was lost due to timing at 30 June (H219) being on a Sunday is gained in H120.

A\$m	Q220a	Q220e	Diff (%)	Q219a	Growth y/y %	H120a	H120e	Diff (%)	H119a	Growth y/y %
Average operating rigs	62.2	65.3	-4.7%	49.3	26.2%	58.8	60.1	-2.2%	48.0	22.5%
Number of shifts	7,642.0	6,353.8	20.3%	5,536.0	38.0%	14,069.0	12,623.8	11.4%	11,078.0	27.0%
Revenue	39.5	31.7	24.8%	32.2	22.9%	73.0	64.9	12.4%	63.2	15.6%
EBITDA	7.9	4.7	68.2%	7.2	9.5%	14.1	12.0	17.8%	14.2	-0.6%
margin	20.0%	14.8%	5.2ppt	22.4%	-2.4ppt	19.4%	18.5%	0.9ppt	22.5%	-3.1ppt
Net debt	(39.5)	(7.7)	413.8%	2.6	-1639.5%	(39.5)	(7.7)	413.8%	14.1	-380.8%
Operating cash flow	8.3	7.9	5.1%	10.9	-23.5%	14.0	11.9	18.1%	15.3	-8.5%
Cash conversion	105.5%	168.9%	na	151.0%	na	99.0%	98.8%	na	107.6%	na
Revenue per rig (annualised)	2.54	1.94	30.9%	2.61	-2.6%	2.48	2.16	15.0%	2.63	-5.7%

#### Earnings implications

None at this stage. Risk remains to the upside in our view.

#### Investment view

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 particularly as the potential for further corporate activity unfolds (M&A). We retain OVERWEIGHT, and a TP of 11cps.

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For more information please phone: 1300 655 015 or email: [publications@wilsonsadvisory.com.au](mailto:publications@wilsonsadvisory.com.au)

