

## Finishing strong

Mitchell Services appears to be coming home with a wet sail in FY20, despite some set-backs earlier in the 4<sup>th</sup> quarter, conditions appear for the large part, back to normal. On a net basis, the company is now +5 rigs from the end of Q3, meaning guidance is a lock (EBITDA \$34-36m). Most encouragingly, there appears to be no overall signs of slowdown across the company's client base, with tendering still strong and key BHP contract decision due over the next 6-8 weeks. Mitchell's stands apart from peers in our view, with a production focus (not exploration), high quality, tier 1 mining customers and increasing exposure to underground operations shielding the business during the recent market turmoil. FY21 is shaping up exceptionally well, and MSV remains a solid way to play the cycle, with >100% upside remaining to our TP. **OVERWEIGHT, TP \$1.10.**

### Key points

**Hitting guidance, but FY21 is looking good:** We see no issues in achieving the guidance range, of revenues of \$170-180m and EBITDA of \$34-36m; our forecasts sit at the bottom end. Nonetheless, with additional rigs deployed, solid tendering and expansion of existing contracts, our forecasts into FY21 are looking safe, if not conservative. Factoring in the additional c\$7m EBITDA from the Deepcore acquisition (annualising), implies just a \$4m lift in organic EBITDA. Solid cash conversion in addition could see the company declaring a more generous final dividend, while deleveraging should come through.

**Next catalysts:** BHP Olympic Dam contract tenders have been submitted and we should have a decision on whether MSV will see a decent contract expansion (+4-6 rigs) prior to results. Broader exploration programme rollout around Fosterville in Victoria see's MSV well placed, while inbound interest from the gold sector is increasing and in our view likely to push ahead from here given the gold price (40% revenue exposure for FY21E).

**No changes to forecasts, valuation stands out:** Given the growth trajectory MSV is on, and the quality of its exposures, the fact the stock is trading at just 2.7x FY21E EBITDA stands out, in our view. The business is well positioned to continue to benefit from a cyclical rebound, while the key risks of drilling are managed better by this company better than it's peers.

### Risks and catalysts

**Catalysts:** 1) Further lifts in the gold price; 2) new contract wins; 3) bolt-on acquisitions. **Key risks:** 1) Commodity price moves; 2) increasing competitive tensions; 3) weather, particularly for surface drilling (c40% of rigs).

Recommendation	<b>OVERWEIGHT</b>
12-mth target price (AUD)	<b>\$1.10</b>
Share price @ 03-Jun-20 (AUD)	\$0.47
Forecast 12-mth capital return	136.6%
Forecast 12-mth dividend yield	0.6%
<b>12-mth total shareholder return</b>	<b>137.1%</b>
Market cap	\$93m
Enterprise value	\$124m
Shares on issue	199m
Sold short	
ASX 300 weight	n/a
Median turnover/day	\$0.1m

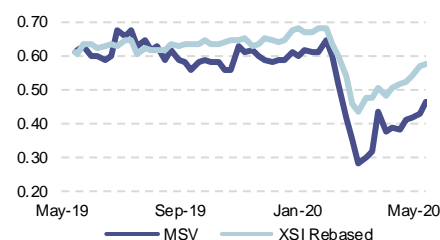
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FUNDAMENTAL  
INSIGHTS

#### 12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	16.2	662.3	675.2
Rel return (%)	2.2	672.2	680.5

#### Key changes

		16-Apr	After	Var %
<b>NPAT:</b>	<b>FY20F</b>	9.7	9.7	0.0%
<b>norm</b>	<b>FY21F</b>	13.7	13.7	0.0%
<b>(\$m)</b>	<b>FY22F</b>	20.4	20.4	0.0%
<b>EPS:</b>	<b>FY20F</b>	4.9	4.9	0.0%
<b>norm</b>	<b>FY21F</b>	6.9	6.9	0.0%
<b>(cps)</b>	<b>FY22F</b>	10.2	10.2	0.0%
<b>DPS:</b>	<b>FY20F</b>	1.1	1.1	0.0%
<b>(cps)</b>	<b>FY21F</b>	0.0	0.0	0.0%
	<b>FY22F</b>	0.0	0.0	0.0%
<b>Price target:</b>		1.10	1.10	0.0%
<b>Rating:</b>		<b>O/W</b>	<b>O/W</b>	

#### Earnings forecasts

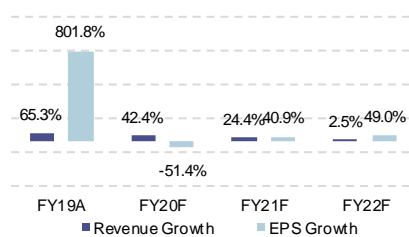
Year-end June (AUD)	FY18A	FY19A	FY20F	FY21F	FY22F
NPAT rep (\$m)	-2.3	17.4	9.7	13.7	20.4
NPAT norm (\$m)	-2.3	17.4	9.7	13.7	20.4
Consensus NPAT (\$m)			8.9	11.6	16.0
EPS norm (cps)	-0.1	1.0	4.9	6.9	10.2
EPS growth (%)	52.4	801.8	386.3	40.9	49.0
P/E norm (x)	-326.0	46.5	9.6	6.8	4.5
EV/EBITDA (x)	19.9	5.2	3.7	2.7	2.6
FCF yield (%)	-8.6	10.8	18.5	18.3	24.3
DPS (cps)	0.0	0.1	1.1	0.0	0.0
Dividend yield (%)	0.0	0.2	2.4	0.0	0.0
Franking (%)	0	100	100	0	0

Source: Company data, Wilsons estimates, S&P Capital IQ

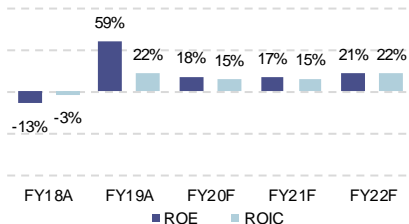
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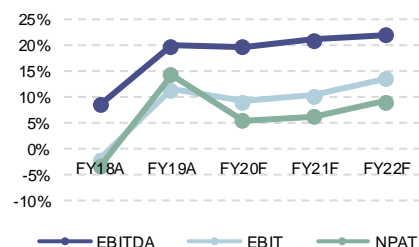
### Growth rates



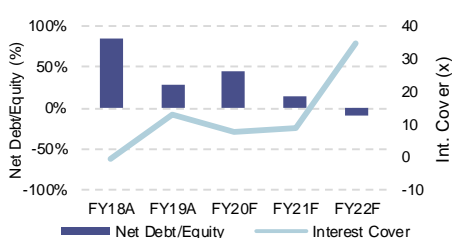
### Returns



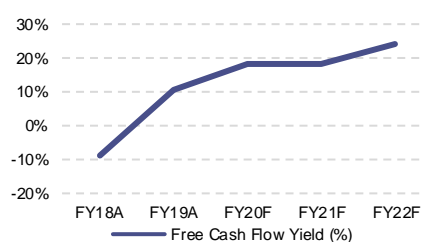
### Margin trends



### Solvency



### Free cash flow yield



### Interims (\$m)

	1H19A	2H19A	1H20A	2H20E
Sales revenue	63.3	56.9	73.0	98.1
EBITDA	14.2	9.9	14.1	19.8
EBIT	8.5	5.4	7.3	8.7
<b>Net profit</b>	<b>11.7</b>	<b>5.6</b>	<b>4.6</b>	<b>5.0</b>
<b>Norm EPS</b>	<b>0.7</b>	<b>0.3</b>	<b>2.3</b>	<b>2.5</b>
EBIT/sales (%)	13.4	9.6	10.0	8.8
Dividend (c)	0.0	0.1	0.1	0.0
Franking (%)	0.0	100.0	100.0	0.0
Payout ratio (%)	0.0	30.8	4.8	0.0
Adj payout (%)	0.0	0.0	21.6	4.4

### Key assumptions

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F
Revenue Growth (%)	68.4	30.4	22.2	80.4	65.3	42.4	77.0	27.5
EBIT Growth (%)	36.8	-38.1	-33.3	-57.4	-1,121.1	15.2	59.2	87.2
NPAT Growth (%)	269.0	-64.4	-27.1	-46.9	-842.3	-44.2	-21.3	110.0
<b>EPS Growth (%)</b>	<b>-11.2</b>	<b>-74.0</b>	<b>-30.4</b>	<b>-52.4</b>				
EBIT / Sales (%)	-30.7	-14.5	-7.9	-1.9	11.6	9.4	10.4	13.7
Tax Rate (%)	-46.2	0.0	0.0	23.2	-35.4	30.0	30.0	30.0
<b>ROA (%)</b>	<b>-16.4</b>	<b>-12.4</b>	<b>-8.0</b>	<b>-2.3</b>	<b>19.8</b>	<b>10.4</b>	<b>12.6</b>	<b>15.6</b>
<b>ROE (%)</b>	<b>-50.8</b>	<b>-26.7</b>	<b>-21.8</b>	<b>-6.5</b>	<b>37.0</b>	<b>22.8</b>	<b>25.1</b>	<b>28.6</b>

### Financial ratios

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F
PE (x)	-28.1	-108.0	-155.2	-326.0	46.5	9.6	6.8	4.5
EV/EBITDA (x)	-28.7	237.9	55.5	19.9	5.2	3.7	2.7	2.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.2	2.4	0.0	0.0
FCF yield (%)	-5.5	-5.8	-1.2	-8.6	10.8	18.5	18.3	24.3
Payout ratio (%)	0.0	0.0	0.0	0.0	10.0	22.6	0.0	0.0
Adj payout (%)	0.0	0.0	0.0	0.0	0.0	12.4	0.0	0.0

### Profit and loss (\$m)

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F
Sales revenue	25.3	33.0	40.3	72.7	120.2	171.1	212.8	218.1
EBITDA	-4.3	0.5	2.2	6.3	24.1	34.0	45.2	48.5
Depn & amort	3.4	5.3	5.4	7.6	10.2	18.0	23.1	18.6
<b>EBIT</b>	<b>-7.8</b>	<b>-4.8</b>	<b>-3.2</b>	<b>-1.4</b>	<b>13.9</b>	<b>16.0</b>	<b>22.1</b>	<b>30.0</b>
Net interest expense	0.5	1.3	1.2	1.7	1.1	2.1	2.6	0.9
Tax	3.8	0.0	0.0	-0.7	-4.5	4.2	5.9	8.7
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit (pre-sig items)</b>	<b>-12.1</b>	<b>-6.0</b>	<b>-4.4</b>	<b>-2.3</b>	<b>17.4</b>	<b>9.7</b>	<b>13.7</b>	<b>20.4</b>
Abns/exts/signif	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>-17.0</b>	<b>-6.0</b>	<b>-4.4</b>	<b>-2.3</b>	<b>17.4</b>	<b>9.7</b>	<b>13.7</b>	<b>20.4</b>

### Cash flow (\$m)

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F
EBITDA	-4.3	0.5	2.2	6.3	24.1	34.0	45.2	48.5
Interest & tax	-4.4	-1.3	-1.2	-1.0	3.5	-6.3	-8.5	-9.6
Working cap/other	4.0	0.7	3.3	-6.5	-9.4	1.5	-4.7	-2.9
<b>Operating cash flow</b>	<b>-4.7</b>	<b>-0.1</b>	<b>4.3</b>	<b>-1.3</b>	<b>18.2</b>	<b>29.1</b>	<b>32.1</b>	<b>36.1</b>
Maintenance capex	-0.5	-5.3	-5.4	-6.7	-8.2	-12.0	-15.1	-13.6
<b>Free cash flow</b>	<b>-5.1</b>	<b>-5.4</b>	<b>-1.1</b>	<b>-8.0</b>	<b>10.0</b>	<b>17.2</b>	<b>17.0</b>	<b>22.5</b>
Dividends paid	0.0	0.0	0.0	0.0	0.0	-2.1	0.0	0.0
Growth capex	-0.4	-13.5	0.0	-0.9	-1.3	-10.0	-0.2	-1.7
Invest/disposals	-10.6	6.3	0.0	-1.9	0.2	-44.0	0.0	0.0
Oth investing/finance flows	-1.2	-0.6	0.0	-0.5	0.0	-1.0	0.0	0.0
<b>Cash flow pre-financing</b>	<b>-17.2</b>	<b>-13.2</b>	<b>-1.1</b>	<b>-11.4</b>	<b>8.9</b>	<b>-40.0</b>	<b>16.8</b>	<b>20.8</b>
Funded by equity	20.2	8.5	0.0	8.8	0.0	17.0	0.0	0.0
Funded by debt	-1.5	5.2	-2.0	2.2	-10.4	37.3	0.0	0.0
Funded by cash	-1.5	-0.5	3.1	0.4	1.5	-14.3	-16.8	-20.8

### Balance sheet summary (\$m)

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F
Cash	0.5	0.5	0.8	1.9	1.6	15.9	35.2	58.2
Current receivables	7.1	6.1	7.1	17.6	22.8	23.0	26.2	26.9
Current inventories	1.9	1.3	1.3	2.3	3.0	4.0	4.1	4.0
Net PPE	18.3	27.3	26.9	30.7	35.3	89.3	87.0	86.5
Intangibles/capitalised	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2
<b>Total assets</b>	<b>47.4</b>	<b>38.6</b>	<b>40.0</b>	<b>58.3</b>	<b>70.2</b>	<b>153.3</b>	<b>175.2</b>	<b>191.9</b>
Current payables	24.6	4.8	8.0	13.2	16.2	18.8	25.3	23.2
Total debt	7.1	15.0	15.9	19.9	12.3	47.5	47.5	47.5
<b>Total liabilities</b>	<b>32.1</b>	<b>20.7</b>	<b>25.4</b>	<b>37.3</b>	<b>32.6</b>	<b>83.0</b>	<b>87.0</b>	<b>87.1</b>
<b>Shareholder equity</b>	<b>15.3</b>	<b>18.0</b>	<b>14.6</b>	<b>21.0</b>	<b>37.6</b>	<b>70.3</b>	<b>88.1</b>	<b>104.8</b>
<b>Total funds employed</b>	<b>22.3</b>	<b>33.0</b>	<b>30.6</b>	<b>41.0</b>	<b>49.9</b>	<b>117.8</b>	<b>135.6</b>	<b>152.3</b>



## Mitchell Services (MSV)

### Business description

Mitchell Services Limited, together with its subsidiaries, provides exploration and mine site drilling services to the exploration, mining, and energy industries, primarily in Australia. It offers coal exploration, mineral exploration, mine services, large diameter, coal seam gas, directional drilling services, coal mine gas drainage, and wireline services. Mitchell Services Limited was founded in 1969 and is headquartered in Seventeen Mile Rocks, Brisbane, Australia.

### Investment thesis

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.

### Revenue drivers

- Rig utilisation has reached c75% and while there is capacity to deploy more rigs (97 total) pricing is now at a key inflection point
- There is potential to undertake bolt-on M&A which would provide more rigs and access to new customers

### Margin drivers

- Pricing, shift utilisation

### Key issues/catalysts

- Contract wins.
- Potential for dividends.
- Bolt-on acquisitions.
- Further price rise announcements.

### Risk to view

- Commodity price moves, particularly coal and gold
- Increasing competitive tensions
- Weather, particularly summer conditions.
- Safety.

### Balance sheet

- Net debt of \$5m in FY19E rises to \$35m to fund Deepcore acquisition in FY20E.

### Board

- Mr Nathan Mitchell: Executive Chairman
- Mr Peter Miller: Non-Executive Director
- Robert Douglas: Non-Executive Director
- Neal O'Connor: Non-Executive Director
- Scott Tumbridge: Non-Executive Director

### Management

- Andrew Elf: CEO
- Gregory Switala: CFO & Company Secretary
- 

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