

NRW HOLDINGS LIMITED (ASX: NRW): Primero takeover to deliver a step change in scale and diversity to NRW's MET pillar

BY ACE INVESTORS / 03 JUNE 2021



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By Team Ace Investors

Stock Code	ASX: NRW
Shares O/S	456.37 million
Closing Price	AUD 1.630
Market Cap	743.88 million
52 W H/L	3.190/1.490
One Year Stock Performance	-18.91%
Avg. Volume(TTM)	3.16 million
EPS(TTM)	0.159
P/E	10.1
Annual Dividend Yield	4.90%
Franking	100%
Last Dividend Ex-Date	22-Mar-21
Last Dividend Pay Date	8-Apr-21
DPS (AUD)	0.04
ROE (%)	18.77%

Company Overview

NRW Holdings Limited (“NRW” or the “Company”) is a leading, diversified provider of contract services to resources and infrastructure sectors in Australia. NRW’s geographical diversification is complemented by its delivery of a wide range of operations. These encompass civil expertise including bulk earthworks and concrete installation; contract mining and drill and blast. NRW also offers a leading original equipment manufacturing (OEM), specialist maintenance (shutdown services and onsite maintenance), industrial engineering, and innovative materials handling design capability with comprehensive additional experience for refurbishment and rebuild service for earthmoving equipment and machinery. NRW has a workforce of around 7,000 people and more than one hundred projects around Australia supporting clients across the infrastructure, resources, industrial engineering, maintenance, and urban sectors. NRW operates through four segments Civil, Mining, Drill & Blast and Minerals, Energy & Technologies:

- **Civil:** Delivery of private and public civil infrastructure projects, mine development, bulk earthworks, and commercial and residential subdivisions.
- **Mining:** Mine management, contract mining, load and haul, dragline operations, coal handling prep plants, maintenance services, and the fabrication of water and service vehicles.
- **Drill & Blast:** Provision of integrated, end-to-end production drill and blast services to the mining and civil construction sectors.
- **Minerals, Energy & Technologies (MET):** Provides integrated engineering specializing in the design, construction, and operation of resource projects, innovative materials handling products and services as well as facility maintenance and shutdown services.

Investment Rationale

- **Primero takeover to deliver a step-change in scale and diversity to NRW’s MET pillar**

The addition of Primero to the MET business represents a further diversification of the strategic platform to offer clients continuity of services across the whole lifecycle of resource projects – from early planning, design, development, construction to operations and maintenance. On 24 November 2020 NRW announced a conditional off-market offer for all the fully paid ordinary shares on issue in Primero Group Limited. The offer was declared unconditional on 3 February 2021 and later on 16th February 2021, updated the market that has received a relevant interest of more than 90% of Primero’s shares, NRW will proceed to acquire the remaining Primero shares under the compulsory acquisition provisions of the Corporations Act 2001. The compulsory acquisition will be on the same terms as the Offer, that is, \$0.275 cash and 0.106 NRW shares for every Primero share. The acquisition of Primero aligns with NRW’s strategic growth plan as its core competencies are

complementary to NRW's strategic renamed Minerals, Energy & Technologies platform. NRW's Offer provides Primero shareholders with the opportunity to receive both an attractive price and consideration comprising both cash and NRW shares. Importantly, Primero shareholders avoid a potential significantly dilutive capital raising to fund working capital required to deliver its FY21/22 contracted order book given the continued non-payment by Wartsila on the residual Barker Inlet Power Station contract monies.

- **Strong order book and pipeline provides revenue visibility in the medium-term period**

The order pipeline remains strong with the potential for further infrastructure projects to be accelerated as part of joint federal and state priorities to address the economic consequences of COVID-19. The pipeline of tenders and prospects expected to be awarded in the next 12 months has increased to \$14.1B. Order Intake in the half was just over \$1B generating an order book at the end of December of circa \$2.8B. Primero has an order book of circa 165M and holds preferred EPC contractor status across multiple projects totaling around \$1B. Besides, the company won several new contracts as follows-

- On 29th March 2021, NRW's wholly-owned subsidiary Golding Contractors Pty Ltd (Golding) received a 12-month extension to its existing Agreement with Wonbindi Coal Pty Ltd at the Baralaba North Mine. The extended contract is expected to add ~A\$120 to the existing contract.
- On 29th April 2021, NRW' wholly-owned subsidiary RCR Mining Technologies has been awarded a \$27.2m contract for the Design and Construction of a Primary Crushing Plant (PCP) at Fortescue Metals Group's (ASX: FMG) Cloudbreak mine.
- On 29th April 2021, NRW's newly acquired wholly-owned subsidiary Primero Group Limited has been awarded a A\$135m new contract for the Engineering, Procurement, and Construction (EPC) of the Coburn Minerals Sands project from Strandline Resources (ASX: STA).

1HFY21 Update: NRW has reported a solid result with revenue of \$1,168.0m compared to \$808.7M in the PCP, reflecting both the BGC Contracting acquisition and continued organic growth across the business and an EBITDA of \$132.8M versus \$103.8M, representing a 28% YoY growth. Operating EBIT was lower due to the impact of COVID-19 on projects mostly located in the Pilbara region of Western Australia. Net debt for the half reduced to \$96.5M from \$139.7M on 30 June 2020. The business generated good cash flow which supported asset finance repayments, accelerated bank debt repayments, and dividends. Capex for the period was \$27.9M of which around 50% was for new mobile plants to support growth contracts in Drill & Blast and Mining. The overall level of spend on sustaining Capex was below the expected run rate and is now not expected to exceed \$35M for the full year. The company remains in a strong financial position with a Gearing ratio sub 20% and a cash balance of \$171.4M. The Directors have declared an interim dividend of 4 cents per share compared to 2.5 cents per share in the PCP. Given the importance of the

BGC Contracting and Primero acquisitions over the last 12 months, priority was given to ensuring appropriate liquidity to support both growths from the acquisitions and organic growth. The Board has concluded that in the future the dividend payout ratio will be 40% to 60% of Normalized Net Earnings.

The company is now working closely with the Primero team to expand Minerals, Energy & Technologies (MET's) specialized capabilities which will provide leverage for the combined expertise to pursue new business initiatives across a large pipeline of opportunities. With the receipt of A\$135 EPC contract, Primero's order book now stands at A\$300M with preferred EPC contractor status across multiple projects. NRW has maintained its FY21 revenue forecast in the range of \$2.2B to \$2.3B.

ACE's Recommendation

NRW Holding limited is a leading, diversified provider of contract services to the resources and infrastructure sectors in Australia. The company has delivered significant growth over the last four years due to both sustained growth in its core markets and the successful acquisitions of Golding, RCRMT, and BGC Contracting. We believe that the company will be benefitted from increased expenditure on infrastructure projects at the state and federal level, demand for commodities, and the recently announced Primero acquisition. The addition of Primero further diversifies its serviceability to offer clients continuity of services across the whole lifecycle of resource projects – from early planning, design, development, construction to operations and maintenance. We believe that the company is well-positioned to deliver its clients given a strong order book and pipeline. The stock is now trading 49% down from its 52-week high at A\$1.630/share and offers an attractive opportunity. So, we would like to recommend a **BUY** rating on the stock.

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