Duratec Limited (ASX: DUR)

Initiation of Coverage: Buy, $1.50 TP

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Moelis Australia

Duratec Limited (DUR-AU) – Buy – Price: $1.27; TP: $1.50

We initiate coverage on Duratec Limited (DUR), with a Buy rating and $1.50 12-month target price.

Overview: National, tech-enabled asset maintenance experts with specialist Defence and engineering credentials

Investment thesis:

1. **Specialist Defence asset maintenance work underpins company's near term opportunities arising from growing proportional Defence budget spend and reestablished Defence priority**: DUR is a preferred contractor with trusted relationships, national accreditation, and strong track record of project delivery across a spread of large and small asset maintenance and remediation of assets, especially in Defence. Medium to long term visibility on sustainment spend at GDP plus growth in context of national Defence bolstering bodes well for a preferred contractor with excellent win rates in sizeable $17b TAM.
2. **Growing recurring maintenance order book**: management targeting growing master service agreement (MSA) work and look to double recurring work profile. Currently ~13% of revenue and targeting 20-30% as business builds profile in this line of work, especially in the O&G segment bolstered by WPF acquisition last year.
3. **Strong industry tailwinds with expanding asset base, sunk capex, and ageing infrastructure,** continued outsourcing trend, all necessary upkeep to maintain asset life and utility. Compliance is an additional regulatory demand driver of DUR's specialist capability. DUR's market share is underpenetrated (<1% TAM) in a variety of very large addressable market segments with ample runway to continue its strong growth (DUR 14-yr 34% revenue CAGR to FY23).
4. **Solid free cash generation and net cash:** FY24e FCF yield of 7.0% as we see cash build in the business to underpin future growth. Self performing specialist asset maintenance drives strong revenue generation on ready workforce as well as enables favourable margin comparison against peers.
5. **Undemanding valuation**: trades at 16% discount to domestic peers with 22% FY23-25e EPS CAGR (MAe). DUR offers strong earnings growth, Defence specialisation, strong margin, and growing share in stable markets – with effective management of labour intensity – which in our view positions the business well to continue on its growth trajectory.

We initiate coverage with a Buy rating and $1.50/share 12-month target price, which is based on our 8.5x FY24e EV/EBIT valuation, rolled forward at the cost of equity, less estimated NTM dividends.

Summary Information

Investment Summary	
Rating	Buy
Target Price	$1.50
Stock Price (at 16 Nov 23)	$1.27
Estimated Return (12 months)	+21.9%

Capital Structure Summary	
Fully Diluted Shares	248.0
Market Capitalisation	314.9
Less: Cash	(68.6)
Plus: Debt	15.3
Plus: Leases	7.5
Enterprise Value	269.2

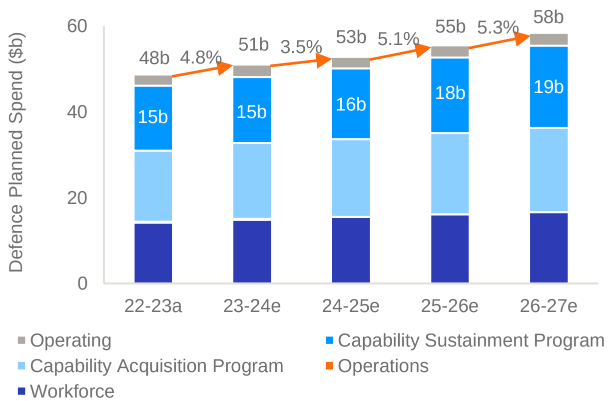
Summary	FY23a	FY24e	FY25e	FY26e
Revenue	492	554	608	635
Growth	*59%*	*13%*	*10%*	*5%*
EBITDA	38	45	53	56
Margin	*7.7%*	*8.0%*	*8.7%*	*8.8%*
EBIT	29	35	42	45
NPAT (underlying)	20	24	29	31
EPS (underlying, diluted, cps)	8.2	9.6	11.6	12.5
Growth				
DPS (cps)	4.0	4.8	5.8	5.8
Dividend Yield	*3.2%*	*3.8%*	*4.6%*	*4.6%*
EV/EBITDA	7.1x	6.0x	5.1x	4.8x
P/E	15.5x	13.2x	10.9x	10.2x

Source: Company, MA Moelis Australia, Factset.

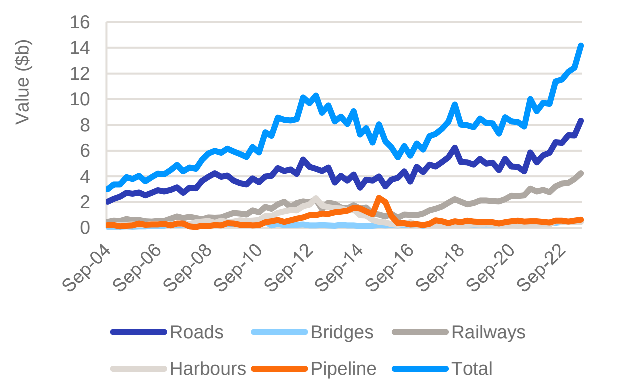
Investment Thesis In 6 Charts

Rapidly growing defence-specialist asset maintenance contractor with robust market tailwinds, strong margins, and earnings growth with attractive valuation vs peers

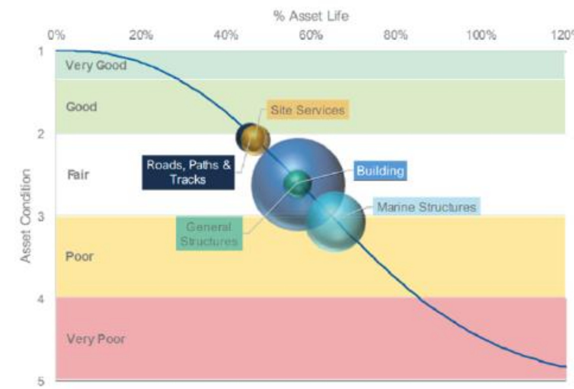
Defence spend underpins key segment growth



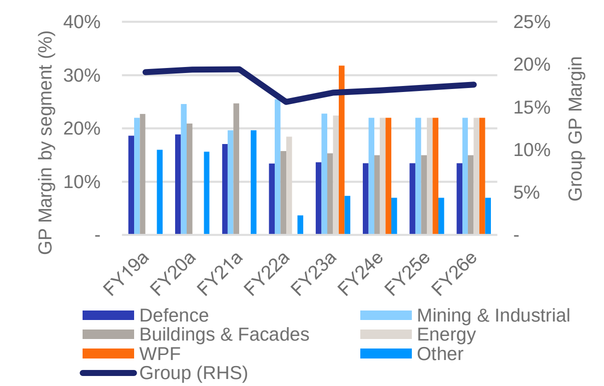
Expanding asset base, growing outsource trend



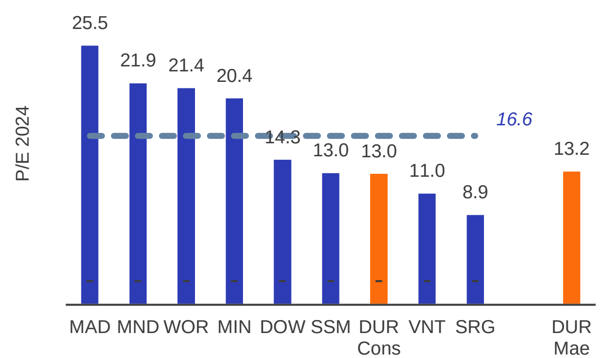
Maintaining efficacy in ageing asset base



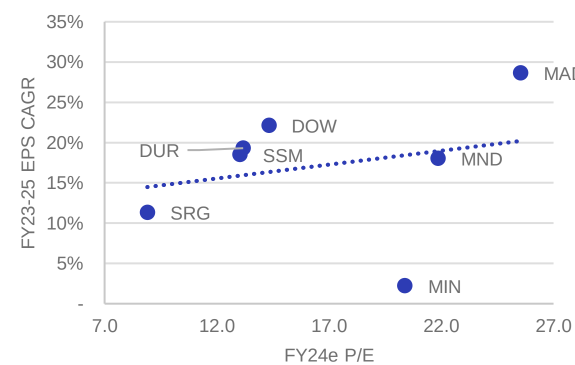
Strong margin business



Attractive valuation vs peers



Strong earnings growth



Source: Companies, MA Moelis Australia, Factset, ABS, Commonwealth Government Budget Papers.

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Company Snapshot

MA

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Company Overview

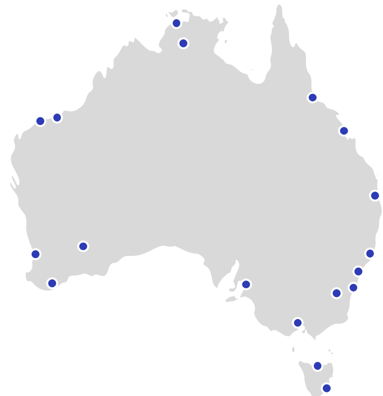
Asset maintenance with national footprint and specialist Defence focus

Overview:

- DUR is a domestic provider of asset maintenance services, specialising in protecting and extending the life of a range of assets and asset refurbishment.
- National specialist contractor providing and delivering long term, innovative solutions to clients. Expertise in providing assessment, protection, remediation, and refurbishment services to a broad range of assets, especially steel and concrete infrastructure.
- The business has a national footprint and true regional presence with 22 office locations nationally including all States and Territories with a workforce of 1,173 employees (Jun'23 end), having undertaken 1,944 projects in FY23.
- Headquartered in Wangara, Western Australia. Offices in Perth, Kalgoorlie, Karratha, Albany, and Port Hedland in WA; Sydney, Newcastle, and Nowra in NSW; Brisbane and Townsville in Qld; Melbourne in Vic, Darwin, NT, Canberra, ACT, and Launceston in Tasmania.
- Self-performing contractor, with a large team of professionals with extensive industry experience in both technical services and project delivery.
- 3D capture and modelling technology and predictive analysis tools enables proactive diagnosis of asset condition, integrity, and degradation. DUR has developed innovative durable, cost effective, fit-for-purpose solutions for ongoing operational requirements. Typically delivered as part of responsive works, scheduled works, or performance-based programmes, to protect and extend asset life.
- Key sectors serviced by DUR include:
  - Defence (47% FY23 revenue); Natural Resources and Energy (Mining and Industrial 18%, Energy 13%); Utilities and Other (6%); Buildings and Façade (16%).

National coverage with regional reach and ready workforce

1,944
Projects undertaken in FY23



1,173
Employees

22
● Office locations

Sectors Serviced

Sector	Description
Defence (47% FY23 revenue)	Various Defence assets
Buildings and Facades (16%)	Commercial buildings
	Residential (high-rise) buildings
	Heritage structures
Natural Resources (Mining and	Mining
Industrial 18%, Energy 13%)	Oil & gas
Industrial and Utilities	Power & energy
(Other Revenue 6%)	Marine
	Pipelines
	Transport
	Water and wastewater

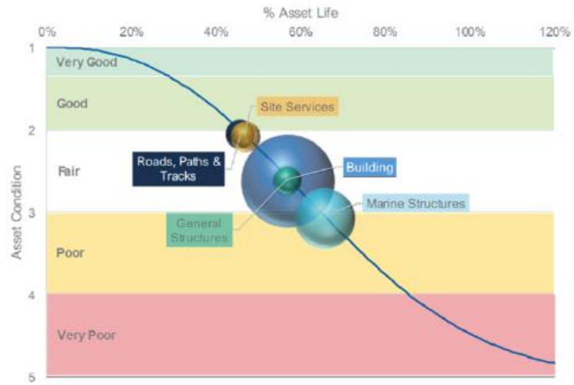
Source: Company, MA Moelis Australia.

Services provided by Duratec

Asset life extension on growing asset base

- Client engagement and contract wins are primarily via 1) early contractor involvement (ECI) including proactive client identification, continuous industry engagement to promote capabilities, targeted client education, bespoke solutions, specialist technical services; 2) direct tendering; 3) established long term contractual relationships including master service agreements (MSA), and reimbursable contracts. End-to-end service and delivery allows greater value chain capture associated with life of an asset, from assessment and ECI to complete remediation and refurbishment.
- Technical Services Division: 30+ specialist corrosion and civil engineers including ECI. National Defence Division: 160+ personnel, including 25+ project managers and 30+ engineers; 100+ separate Defence projects in FY23 across 30+ Defence bases.
- Building and Cladding Team: façade condition assessment and full façade restoration, including original and replacement cladding.
- Dundee Rock JV (DDR) established in 2017 (DUR 49% interest, equity accounted). Engagement of indigenous contractors with training and upskill and provision of work opportunities.
- Majority of revenue generated by providing various types of asset protection, remediation and refurbishment services on a schedule of rates, target costing or fixed price basis, with minimal exposure to capital construction/procurement. Work is awarded under specific contracts, master service agreements and/or purchase orders.
- DUR is usually directly engaged by asset owner/operator; a small percentage of services is subcontractor services.
- Revenue is diversified by client, contract size, geography, with ~2,000 projects in FY23, with top 5 clients accounting for a majority of revenue.
- Maintenance work in the orderbook is typically within 12 months, providing dynamic pricing opportunities and inflation hedging, balanced by longer term larger contracts.

Extending asset life from ECI to remediation and refurbishment



Operating Model – End-to-End Service

Client Assets

Require protection, maintenance, remediation and refurbishment to extend asset life and utility. Often located in extreme or corrosive environments.

Asset Classes

Defence infrastructure

Process and non-process mineral, energy, power infra

Commercial and residential high rise buildings

Infrastructure (bridges, marine, transport, water, pipeline, electrical)

ECI & Direct Tendering

Proactive identification of assets

Targeted client education process

Product / service knowledge and development of specific solutions.

Specialist Technical Services Division and Spatial Integration Division.

Direct Tendering establishing long term relationships via Master Service Agreements.

Conventional open tendering

National Presence

Asset Protection Services

Concrete repair

High performance coatings

Acid protection

Active fire systems

Waterproofing

Remediation and Refurbishment Services

Structural strengthening, concrete repair

Cladding replacement, façade refurbishments

Electrical upgrades

Fuel upgrades, expansions

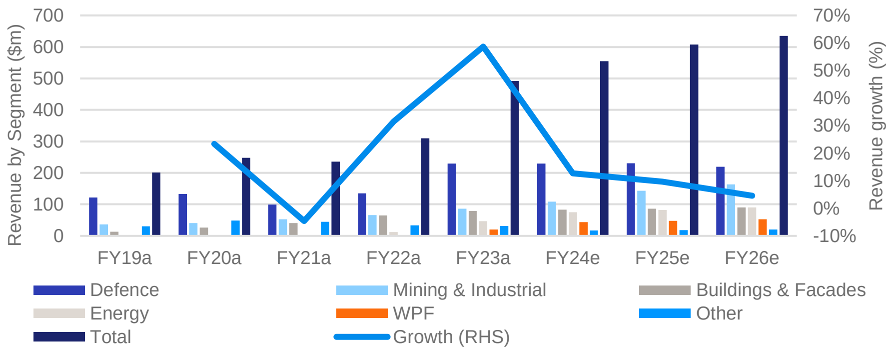
Abrasive blasting and coating

Source: Company, MA Moelis Australia.

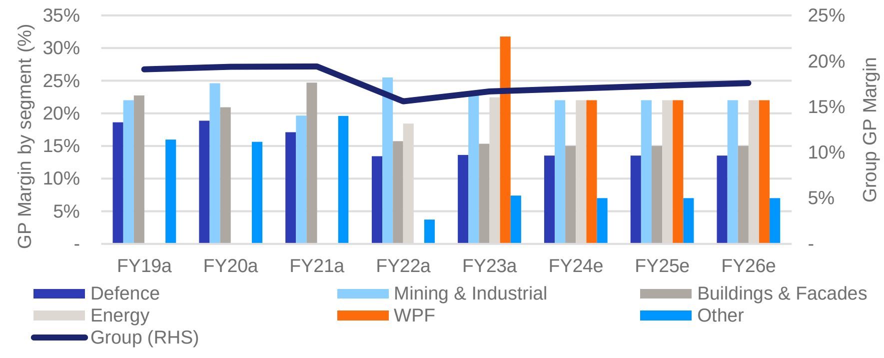
Company Snapshot

We forecast growing share in stable markets as well as expanding segment margins through the forecast period

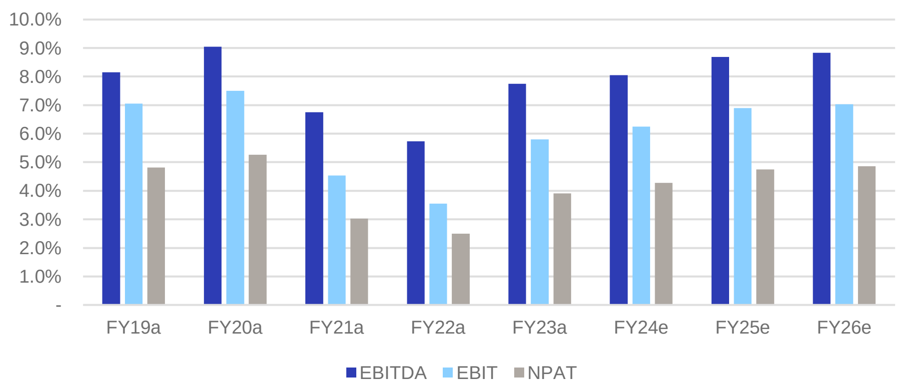
Segment Revenue Growth



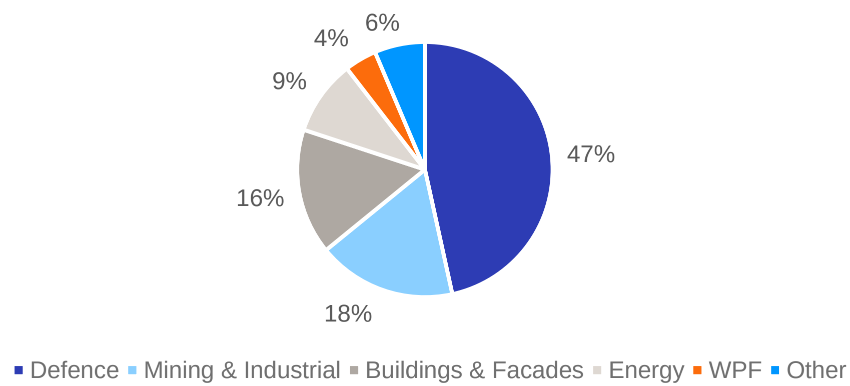
Segment Margin stable in forecast period



Margin expansion at group level



Stable growth in Defence, B&F; cyclical exposure in Resources, Energy



Source: Company, MA Moelis Australia.

Competitive Position

Ample runway for growth in $68b addressable market with strong competitive advantage

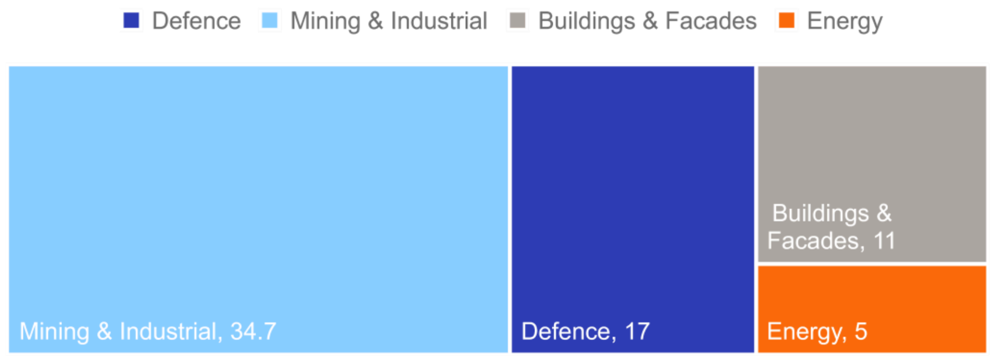
Competitive Advantage: key strengths and points of differentiation

1. National footprint with scale with 22 offices and ~1,200 strong workforce;
2. Engineering expertise, technical knowledge and capability including early contractor involvement (ECI), and especially in Defence specialisation with significant number of dedicated Defence offices and personnel including HOTO engineers;
3. Technology enablement and edge: MEnD Consulting (subsidiary consultancy firm) with specialist remediation engineers that provide asset inspection and assessment through concrete diagnostic tools, proprietary 3D reality modelling including drone aerial and underwater surveys, bespoke defect identification tool (AnnoView) for automated drive through inspections and defect audits; including record of asset information for planning, condition assessment; key difference in the DUR service offering; it provides strong lead generation, as well as enables higher-margin revenue over non-consulting clients, and serves as a client retention tool;
4. Longstanding and diverse client relationships in combination with growing book of recurring revenue; and
5. Federal Safety accreditation.

Key competitors:

- **Defence:** St Hilliers, McConnell Dowell, BARPA Construction Services.
- **Buildings and Facades:** Freyssinet Australia, RM Watson Pty Ltd; Built (NSW) Holdings P/L, Eptec Group.
- **Infrastructure and Natural Resources:** Freyssinet Australia, Resource Development Group Ltd, SRG Global Ltd, Monadelphous Group Ltd, Altrad Services APAC, Marine & Civil Maintenance Pty Ltd, Kaefer Integrated Services Australia, Eptec Group, SPC Engineering, TAMS Group.

Growing Share of Large $68b Addressable Market



Competitors

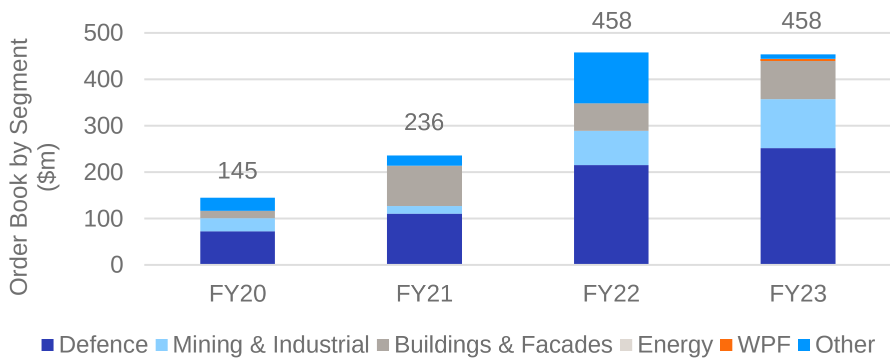
Monadelphous · SRG Global · McConnell Dowell · Freyssinet · Built · StHilliers · Eptec · KAEFER – When it counts, count on us.

Source: Company, MA Moelis Australia.

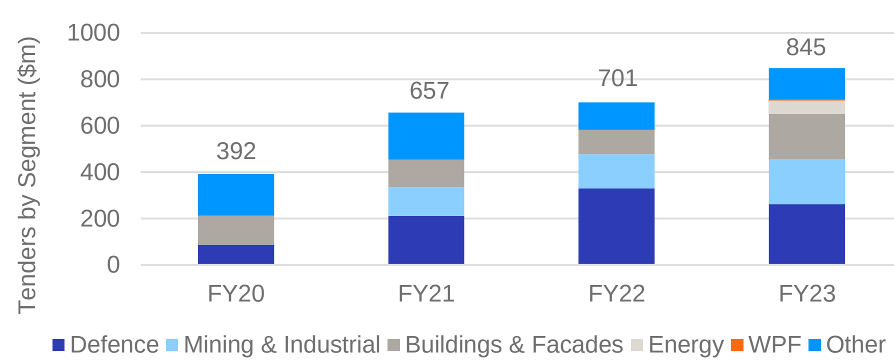
Order Book, Tenders and Pipeline

Defence underpins order book and near term revenue, while growing recurring revenue supports FY24e growth

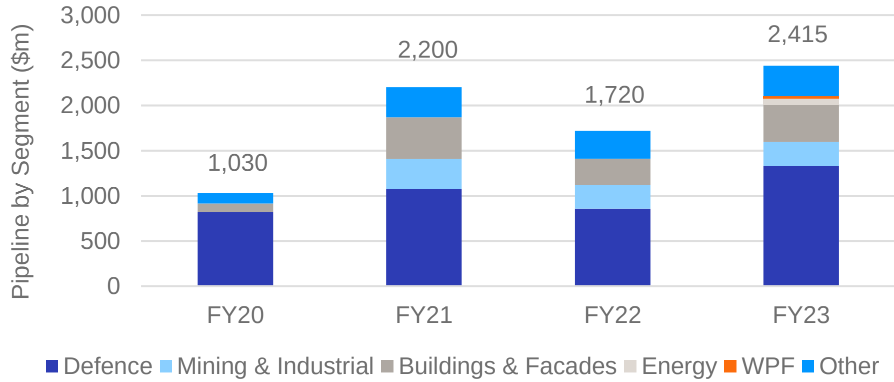
Order Book



Tenders



Pipeline



Order Book by Segment, % - Defence underpins, M&I and Energy growing

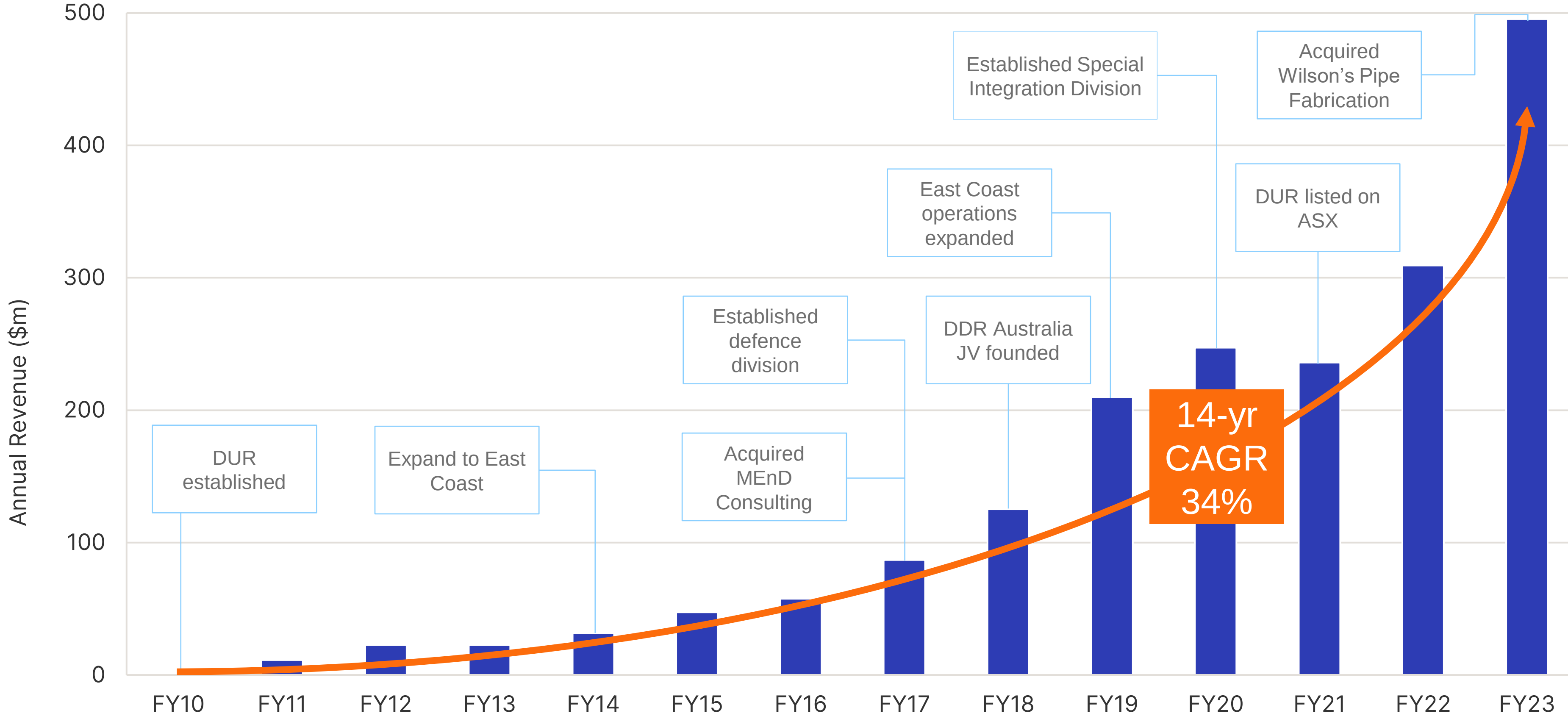
- Order book at Jul'23 end is $458m, flat on the order book at the end of FY22a. Main weighting to Defence (55%) and Mining and Industrial (23%), with Buildings and Facades also increased proportion (18%) of the book. Order book does not include MSA work estimated at ~10% of revenue.
- FY24e revenue (cons)/order book is 0.8x covered.
- Tendered work at Jul'23 end totalled $850m, +21% vs pcp, with growth in Mining & Industrial, Buildings & Facades, and Energy segments, while Defence segment tenders were lower than prior the prior year. Identified pipeline totalled ~$2.5b, and +40% vs pcp, driven by growth in identified pipeline in the Defence and Buildings & Facades segments.

Source: Company, MA Moelis Australia. Order book, tenders, and pipeline are at respective FY end.

Company History

Long history of strong top line revenue growth of 34% CAGR since 2010 establishment

Timeline



Source: Company, MA Moelis Australia.

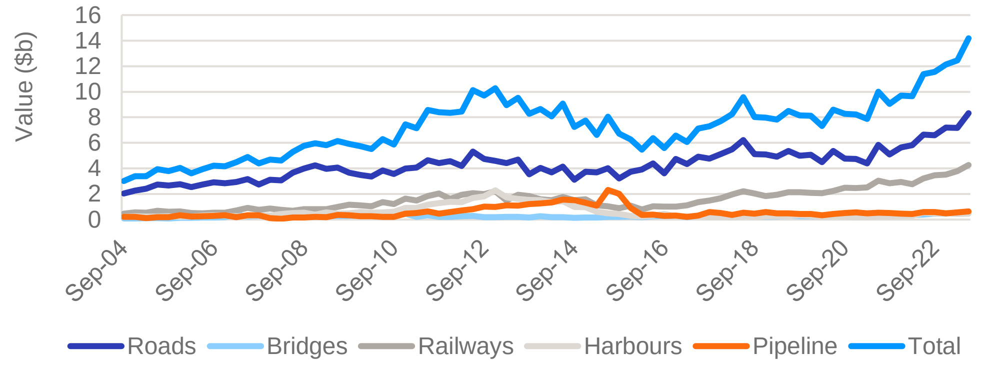
02

Demand

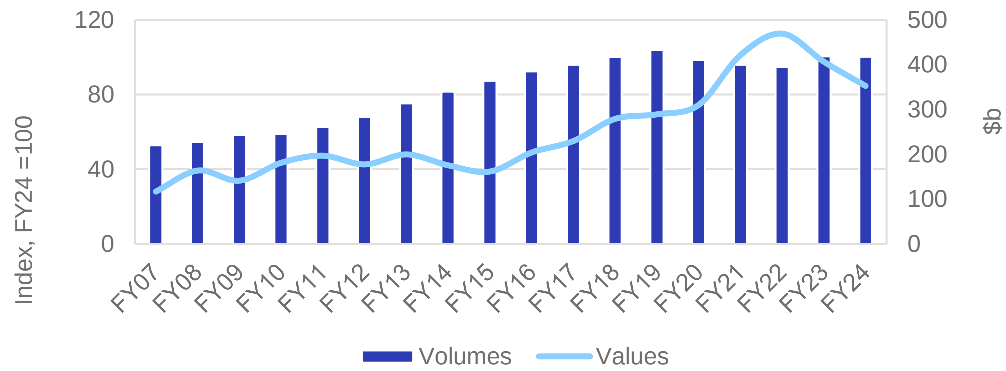
Expanding and ageing asset base requires remediation and refurbishment to maintain effective asset and extend asset lives

- **Demand drivers**
  - **Asset age and location:** ageing asset base requires increasing level of sustaining maintenance and refurbishment. Ageing impacts structural integrity, compliance, and performance.
  - **Growing asset base:** steel and concrete structures especially metropolitan high rise, industrial and natural resources infrastructure and general civil infrastructure require protection, ongoing maintenance, remediation, and/or refurbishment.
  - **Remediation and refurbishment of poor original buildings works:** addressing defects including design deficiencies, inadequate quality control during construction.
  - **Regulation:** increasingly stricter building codes require greater technical expertise to maintain compliance.
  - **Asset capability and capacity expansion:** upgrades, structural strengthening, scale expansion to meet growing demand for increased utilisation and new loading. Extending asset life is preferred over the demolition or abandonment of asset.

Expanding Asset Base



Resources Maintaining Production Levels



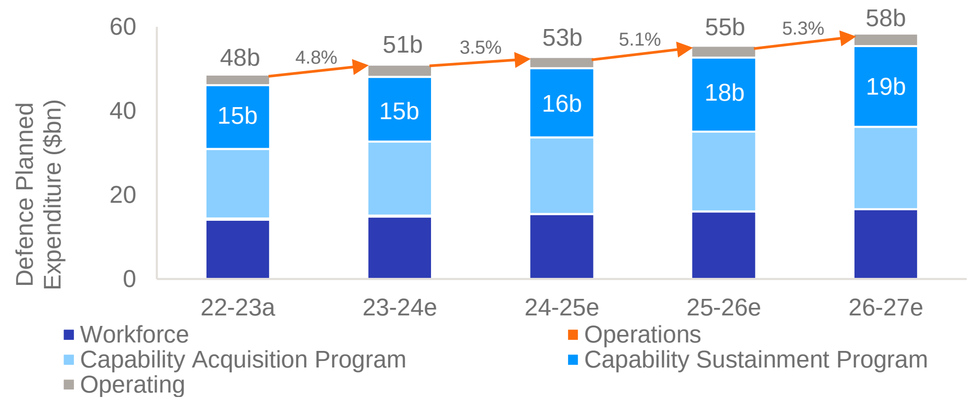
Source: Company, MA Moelis Australia, ABS, Department of Industry, Science, Resources.

Demand - Defence

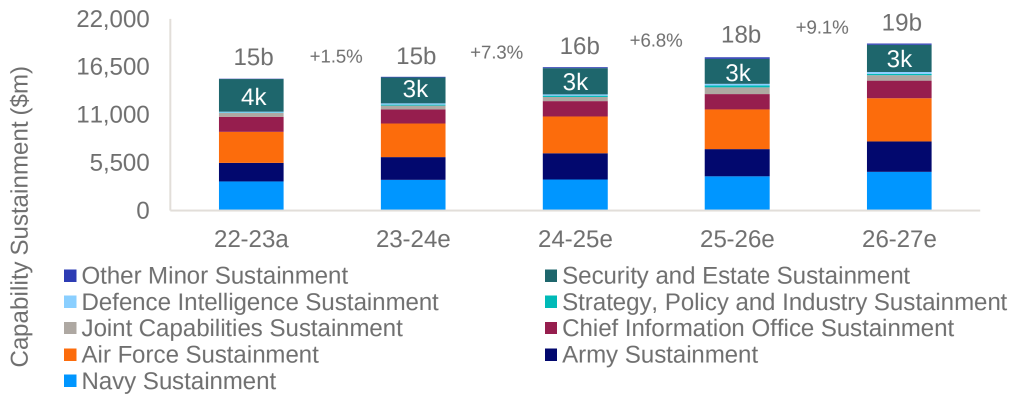
Reprioritised Federal government budget spending with longer term demand underpinned by increased GDP proportion spend

- **Defence planned expenditure expected to grow at CAGR of 4.7%** to an estimated $58b in FY27e or ~2.3% of GDP. The capability sustainment program is expected to be $19.1b, or **~1/3 of total planned Defence spend in FY27e** at current estimates, with FY23-27e expenditure CAGR of 6.1%.
- Some $8.3b in total Defence planned expenditure is across approved major/medium enterprise estate and infrastructure program projects, with ~54% by value still to be completed. About $1.7b spend in FY24 is budgeted. On average we estimate 2.7 years to complete on existing approved major projects (*Budget Papers*).
- **Major Defence projects work** currently on foot and performed by DUR include:
  - RAAF Base Tindal Fuel Facility ($110m, ~60% completed)
  - HMAS Stirling Oxley Wharf extension ($40m, ~70% completed)
  - HMAS Coonawarra Harbour Works ($100m, ~15% completed).
- **National Defence Strategic Review (DSR)** underpins longer term demand.
  - Key relevant headlines include $9b for nuclear powered submarine program through AUKUS and $3.8b to enhance northern base infrastructure.
  - DSR has also reprioritised upgrades to base facilities, including **priority to Northern Australia for defence posturing**.
  - Initial reprioritisation to be expanded in first National Defence Strategy in 2024. Defence spending as proportion of GDP will lift above current trajectory to be 0.2% higher by 2032-33, or ~$30b over 6 years beyond the forward estimates.

Defence Planned Expenditure



Capability Sustainment – growth above Planned Expenditure



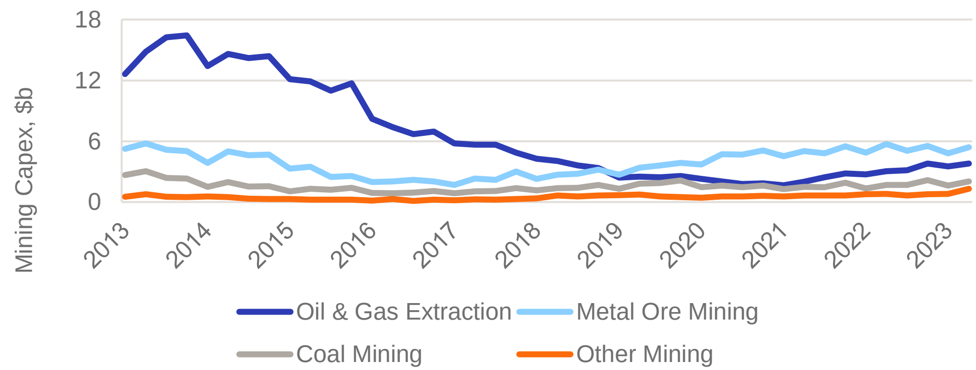
Source: Company, MA Moelis Australia, Federal Government Budget Papers.

Demand – Mining & Industrial

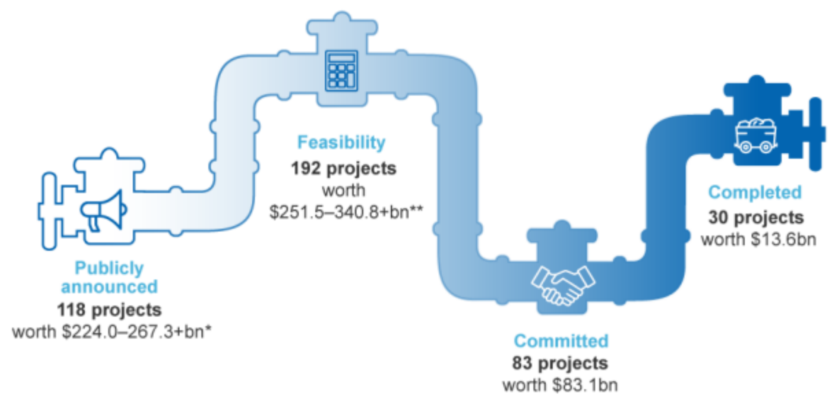
Significant historical investment in productive capacity coupled with improving capex spend

- Installed production capacity increases and ageing infrastructure will drive expected uplift in maintenance expenditure. Exploration, production and maintenance expenditure are all expected to increase in future years. Resources and energy capital expenditure reached record levels in 2013-2014, primarily driven by O&G sector spend with strong contribution from metal ore and coal mining capex levels. Recent trends indicate increasing capex levels, with the O&G sector likely emerging from trough levels.
- Mining production facilities are exposed to weather conditions and corrosive environments, causing asset fatigue and reduction in structural integrity and safety, driving demand for maintenance services in the natural resources industry.
- Maintenance spend on resources and heavy industry estimated to be ~$7.4b in FY24. Mining and resources investment over coming years expected to be driven by asset owners maintaining and repairing resources as asset lifespans reach midlife and beyond. With increased production over the past decade, the required level of sustaining capital expenditure is likely to be higher than before to maintain increased levels of production.
- Major Resources and Energy projects pipeline include 80+ projects at the committed stage worth $83b with a further 192 projects at feasibility stage worth $250b-$341b. Recently completed projects total $13b in expenditure to add to future maintenance requirements on an expanding asset base.
- Australian resources industry capital expenditure has been increasing in recent years, +11.6% for Jun'23 quarter vs pcp to $12.8b. Forward expectations are for similar expenditure in FY24. Spending on buildings and structure is now growing steadily, though spend on plant and machinery had accounted for rising share of total spend in last five years.
- Rising trend for exploration spend is supported by commodity prices and energy transition minerals demand.

Mining capex – sunk investment in infrastructure



Major Resources and Energy Projects Pipeline



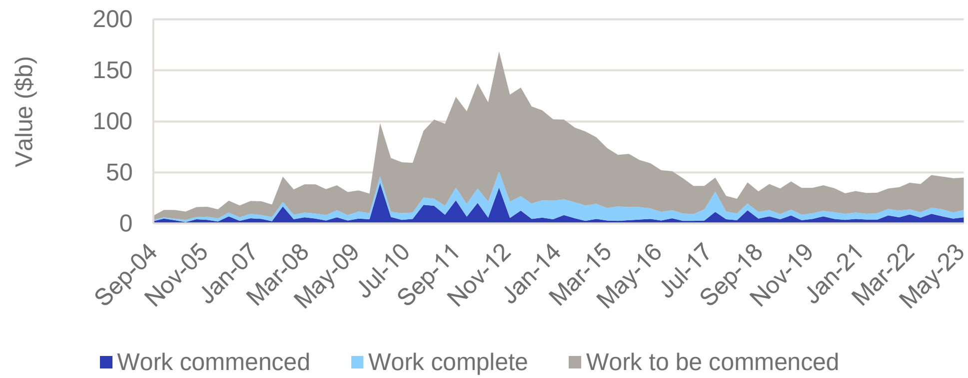
Source: Company, MA Moelis Australia, ABS, Department of Industry, Science, Resources.

Demand – Energy including Oil & Gas

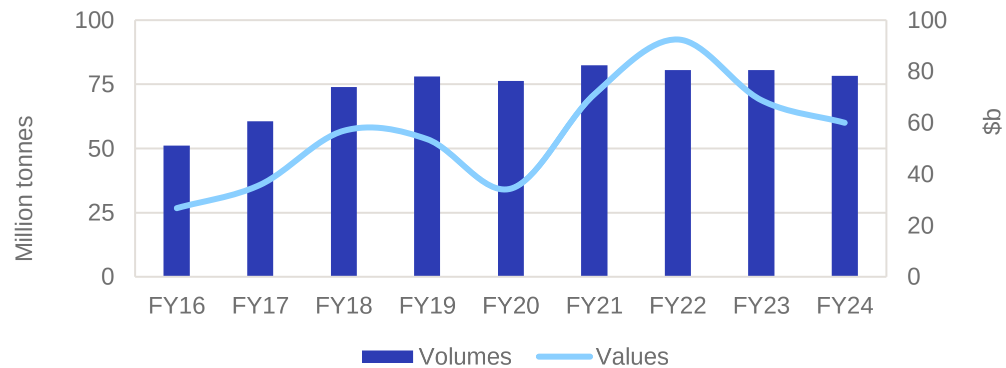
O&G largest contributor to recent decade of investment with WPF acquisition to take advantage of future energy project pipeline

- Exploration, production, maintenance expenditure all expected to continue near term increasing trends. Maintenance spend requirements are supported by the increasing age of installed production capacity, which observed its peak in 2013-14, and has recovered in recent history from trough in 2017. O&G is a growth sector for the broader DUR business and via MSAs from FY24 onwards.
- DUR acquired Wilson's Pipe Fabrication for $18m in October 2022 (comprising $9m upfront consideration and $9m contingent payment). WPF has a 25 year operational history of sustained profitability providing integrated engineering services solutions to the oil and gas industry including site services and fabrication and recurring maintenance work. Long standing (15+ year) relationships and direct service agreements with O&G clients including Santos and Vermillion.
- Several very large planned gas projects, notably Scarborough, Pluto expansion, and Crux LNG, all situated in WA. Other notable investments progressing to feasibility stage include LNG import terminal in Geelong, Vic, and Glenaras gas project in Queensland.
- 18 O&G projects at the feasibility stage, with an estimated value of ~$55b. Recently completed projects totalled some $2.4b expenditure in 2022.
- New gas pipelines supporting near term asset base expansion include inland WA (Pluto-KGP interconnector), APA East Coast Grid Expansion (Stage 2 construction), and Western Outer Ring Main.

Oil and gas sector capital expenditure



Australian LNG exports



Source: Company, MA Moelis Australia, ABS.

Demand – Building & Facades, Other including Transport, Water

Building and Facades segment strong historical growth (4-yr 55% revenue CAGR) offsets cyclical exposure

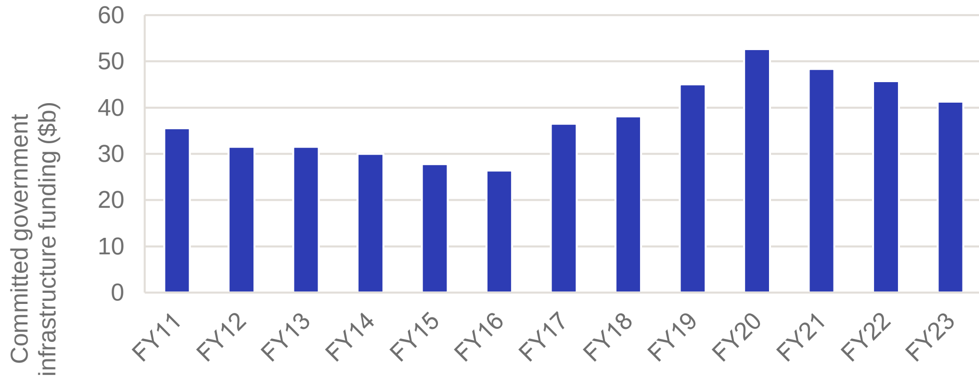
Infrastructure

- Increasing level of capital expenditure has led to an increase in outsourced maintenance spend in the past five years. Maintenance spend on infrastructure is an estimated $27.7b in FY24, growing at an implied 3.0% CAGR.
- While total infrastructure commitments have moderated, projected outlay over the next Federal Government term is expected to remain higher than the FY22 budget. A strong focus remains on transport infrastructure, headlined by $2.2 billion for the Suburban Rail Loop East. The most recent Budget also broadened the focus across the infrastructure sector, including an additional $2.4 billion for the NBN fibre rollout expansion.
- Specific areas of focus for DUR include Australia's vast road network incorporating many road bridges, many of which have been constructed using reinforced concrete. Deterioration potentially has affected asset integrity and assets require maintenance and inspection to ensure they are safe and reliable.

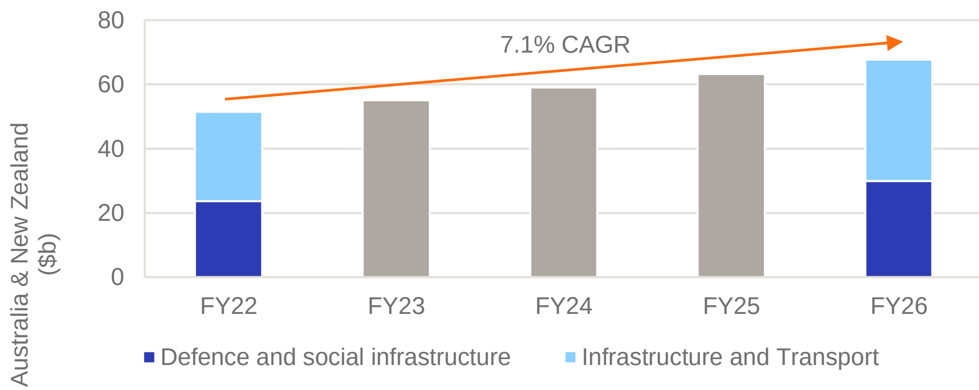
Building & Facades

- Buildings and facades require ongoing maintenance and refurbishments to maintain structural integrity, with demand driven by concerns over historical construction quality as well as compliance with building codes. Facilities management in Australia expected to grow at 1.2% p.a. through to FY24. Current industry revenue is estimated ~$10.6bn.
- Wide ranging defects include building cladding, fire protection, water proofing, roof and rainwater disposal, structural, and other. DUR has been steadily growing B&F segment, with some ~3,400 residential apartment buildings across Australia with combustible cladding requiring remediation.

Committed Government Infrastructure Spending



Growing Market and Continuing Outsourced Maintenance Decision



Source: Company, MA Moelis Australia, Infrastructure Partnerships, BIS Oxford Economics.

MA

03

Earnings Estimates

MA

Our 22% FY23-25e EPS CAGR outlook is supported by: 1) Defence contracts wins; 2) continued MSA growth; 3) sustained mining and energy demand coupled with WPF acquisition

Key Earnings Estimates

							Growth on pcp			23-25
Profit & Loss ($m)	**FY23a**	**1H24e**	**2H24e**	**FY24e**	**FY25e**	**FY26e**	***FY24e***	***FY25e***	***FY26e***	**CAGR**
Revenue	**492.0**	**267.9**	**286.4**	**554.4**	**607.8**	**635.1**	***+13%***	***10%***	***+5%***	***+11%***
EBITDA	**38.1**	**21.1**	**23.6**	**44.6**	**52.8**	**56.1**	***+17%***	***+18%***	***+6%***	***+18%***
EBITDA margin	*7.7%*	*7.9%*	*8.2%*	*8.0%*	*8.7%*	*8.8%*	*+30 bps*	*+65 bps*	*+14 bps*	
D&A	(9.6)	(4.8)	(5.2)	(10.0)	(10.9)	(11.4)	*+4%*	*+10%*	*+5%*	
EBIT	**28.5**	**16.2**	**18.4**	**34.6**	**41.9**	**44.6**	***+21%***	***+21%***	***+7%***	***+21%***
EBIT margin	*5.8%*	*6.1%*	*6.4%*	*6.2%*	*6.9%*	*7.0%*	*+45 bps*	*+65 bps*	*+14 bps*	
Net interest expense	(0.2)	(0.3)	(0.4)	(0.8)	(0.7)	(0.5)	*+247%*	*-6%*	*-23%*	
PBT	**28.3**	**15.9**	**18.0**	**33.9**	**41.2**	**44.1**	***+20%***	***+22%***	***+7%***	***+21%***
Tax	(8.5)	(4.8)	(5.4)	(10.2)	(12.4)	(13.2)	*+20%*	*+22%*	*+7%*	
NPAT (Underlying)	**19.8**	**11.1**	**12.6**	**23.7**	**28.8**	**30.9**	***+20%***	***+22%***	***+7%***	***+21%***
NPAT margin	*4.0%*	4.2%	4.4%	4.3%	4.7%	4.9%	*+25 bps*	*+47 bps*	*+12 bps*	
EPS (Underlying, Diluted) (¢)	**0.078**	**0.045**	**0.051**	**0.096**	**0.116**	**0.125**	***+24%***	***+21%***	***+7%***	***+22%***
DPS (¢)	0.040	0.023	0.025	0.048	0.058	0.058	*+20%*	*+21%*	-	***+21%***
Yield	3.7%			3.8%	4.6%	4.6%	*+63 bps*	*+80 bps*	-	
Valuation Metrics (x)										
EV/EBITDA	7.1			6.0	5.1	4.8				
EV/EBIT	9.4			7.8	6.4	6.0				
P/E	16.3			13.2	10.9	10.2				

- Strong recent growth (FY23a revenue +59%) on top of impressive history of growth (14-yr 34% revenue CAGR). FY23 EBITDA growth was +114% vs pcp, with EPS +170%.
- Expanding profit margin over the forecast horizon demonstrating operating leverage as business builds scale.
- EBITDA margin function of segment contract mix, with growing MSA; we have not yet factored in new potential Defence contract wins in FY26, which would be incrementally positive.
- No quantitative FY24 guidance provided. Management expects solid revenue growth in FY24, and considers it is well positioned for growth with increased tendering effort and prospects in all sectors. Overall pipeline supports DUR's growth objectives.
- Order book at $458m at Jul'23 end. MSA work is not included in the order book and was $60-70m of FY23 revenue and targeting 20%+ annual growth. Tendered work at Jul'23 end totalling ~$850m, and identified pipeline totalled ~$2.5b.
- We estimate FY24e NPAT of $23.7m and FY25e NPAT of $28.8m.
- Our estimates imply FY23-25e EBIT and EPS CAGR of 21% and 22%, respectively.

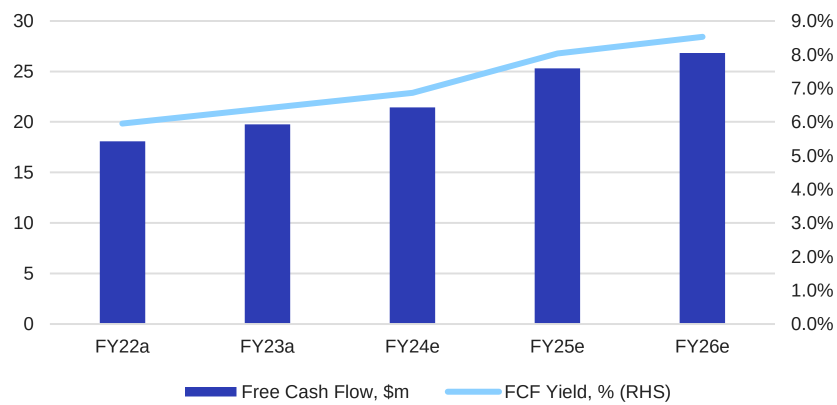
Source: Company, MA Moelis Australia.

Cash Flow

Strong cash flow generation and free cash flow yield with modest capex requirements

- The business generates strong free cash conversion of EBITDA. We forecast cash build from robust high single digit FCF yield over the forecast horizon.
- Cash generation, combined with $45m facility headroom, supports growth strategy, which is expected to be supplemented opportunistically by acquisitions.
- Sustaining capital expenditure is modest at an estimated 2-3% of sales.
- We assume dividend payout ratio of ~50% (stated payout policy range of 30-50%).

FCF Generation



Key Financial Estimates

Cash Flow ($m)	FY23a	FY24e	FY25e	FY26e
EBITDA	**38**	**45**	**53**	**56**
Net Interest	(0)	(1)	(1)	(1)
Tax	(7)	(10)	(12)	(13)
Δ in Working Capital	16	5	5	5
Other	(13)	-	-	-
Operating Cash Flow	**35**	**39**	**45**	**47**
Capex	(13)	(15)	(17)	(18)
Acquisitions	(10)	-	-	-
Divestments	0	-	-	-
Other	0	-	-	-
Investing Cash Flow	**(22)**	**(15)**	**(17)**	**(18)**
Equity Raised	-	-	-	-
Dividends Paid	(5)	(13)	(14)	(14)
Net Borrowings	1	(3)	(2)	(2)
Other	-	-	-	-
Financing Cash Flow	**(5)**	**(16)**	**(18)**	**(19)**
FX / Non-Cash items	-	-	-	-
Change in Cash	**8**	**8**	**11**	**12**
Free Cash Flow	**20**	**21**	**25**	**27**

Cash Flow Metrics	FY23a	FY24e	FY25e	FY26e
FCF/Share ($)	**0.08**	**0.09**	**0.10**	**0.11**
Price/FCPS (x)	15.6	14.6	12.4	11.7
Free Cash Flow Yield (%)	6.4%	6.9%	8.0%	8.5%
GOCF Conversion (%)	108.6%	111.6%	109.4%	108.9%
Capex/Sales (%)	2.6%	2.7%	2.8%	2.8%
Capex/Depreciation (x)	1.4	1.5	1.6	1.6

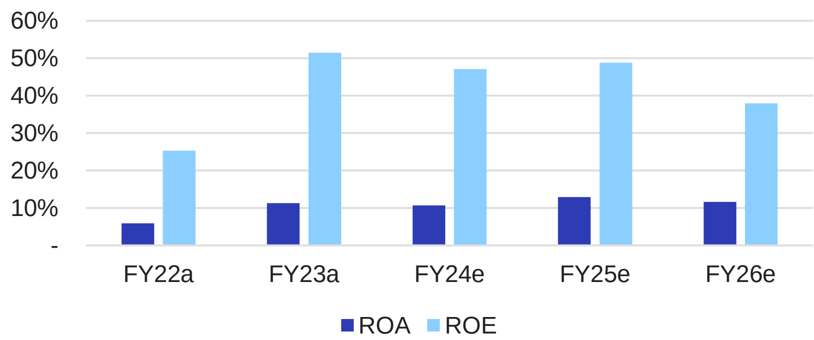
Source: Company, MA Moelis Australia.

Balance Sheet

Asset-light business with net cash balance sheet and war chest to support growth

- Strong cash balance of $66m at Jun'23 end. Net cash at Jun'23 end of $48m, which in our view readily supports growth. Asset and equipment finance represents $15m of the debt, with the balance of $3m in leases.
- Total facilities of the group stand at $105m, comprising $35m multi option facility, $20m overdraft, $18m asset finance, and $30m facility. $45m was undrawn at Jun'23.
- Asset and capital light business; other assets and other liabilities comprise mostly contract asset and contract liabilities.
- We note strong forecast ROE of 40%+ and very strong ROIC.

Strong Performance Ratios



Key Financial Estimates

Balance Sheet ($m)	FY23a	FY24e	FY25e	FY26e
Cash	66	74	86	98
Current Receivables	60	68	67	69
PPE	26	33	42	51
Intangibles	15	15	15	15
Other	45	50	50	50
Total Assets	**212**	**241**	**260**	**283**
Current Payables	82	94	98	104
ST Debt	7	-	-	-
LT Debt	11	23	23	23
Provisions	12	13	14	14
Other	54	53	54	54
Total Liabilities	**166**	**183**	**188**	**194**
Net Assets	**46**	**58**	**72**	**89**
Equity & Reserves	29	29	29	29
Retained Profits	17	29	43	60
Shareholders' Equity	**46**	**58**	**72**	**89**
Total Equity	**46**	**58**	**72**	**89**

Performance Ratios	FY23a	FY24e	FY25e	FY26e
ROA	11.3%	10.5%	11.5%	11.4%
ROE	51.5%	45.6%	44.3%	38.3%
ROIC	(279.3%)	1,088.9%	379.6%	278.7%
Net Debt (Cash) ($m)	(48)	(52)	(63)	(76)
Net Debt/EBITDA (x)	(1.3)	(1.2)	(1.2)	(1.3)
ND/(ND + Equity) (%)	2,659.1%	(825.7%)	(686.0%)	(570.6%)
Interest Cover (x)	131.5	45.9	59.4	82.5

Source: Company, MA Moelis Australia.

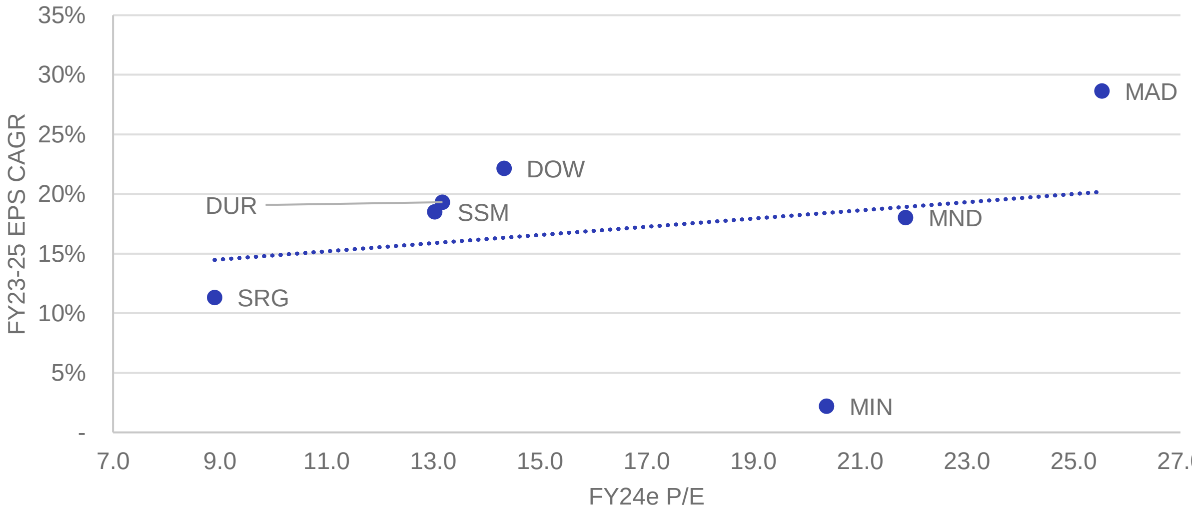
Valuation and Target Price

04

Valuation & Target Price

DUR trades at a 16% discount to domestic peers with strong 22% FY23-25e EPS CAGR

- We initiate coverage of DUR with a 12-mth target price of $1.50/share. Our valuation methodology uses an 8.5x EV/FY24e EBIT multiple, rolled forward at the cost of equity less dividends.
- Our $1.50 TP implies 15.6x FY24/e P/E (cf. domestic peer average of 15.8x and Small Industrials (ex financials) of 21.0x). DUR trades at a 16% discount to domestic peers despite 22% FY23-25e EPS CAGR, compared to 18% average among domestic peers.
- Strong management, deep customer relationships, specialist defence focus, national platform, supplemented by opportunistic acquisition are keys to continued growth. We note cyclicality and competition are potential risks to the thesis.
- DUR has no direct ASX listed comps. We use a basket of engineering and construction, asset and facilities maintenance services, and mining and energy services businesses as peers. We note international peers trade at an average 20.4x FY24/e P/E with 17% FY23-25e EPS CAGR compared to domestic peers at 15.8x and 18%, respectively. We further note the limitation in any comparison with international peers as well as local peers due to differing mix of services as well as scale and scope of operations.



Valuation & Summary

Investment Summary	
EV/EBIT valuation per share	1.37
Valuation grown at cost of equity	1.55
Less: Forecast 12-month dividends	(0.05)
12 month share target price	**1.50**
12-month yield	3.8%
12-month capital return	18.1%
12-month total return	**21.9%**
Rating	**Buy**

Source: Company, MA Moelis Australia, Factset.

Valuation & Target Price (continued)

DUR offers strong EPS growth at a 16% discount to domestic peers

- DUR compares favourably to its domestic peer group on FY24e NPAT margin (MAe 4% vs peer average 3%) and FY23-25 EPS CAGR (MAe 22% vs domestic peer average of 18%). Trades at 16% discount to domestic peer average FY24 P/E, noting the favourable comparison in EPS CAGR and NPAT margin.
- International peers have the benefit of scale and diversification, trading at higher P/Es due to higher forecast EPS CAGR and NPAT margins.

Consensus Trading Comparables

Ticker	Company name	Last price ($)	Mkt cap ($m)	EV ($m)	EV/EBITDA (x)		P/E (x)		EPS CAGR (%)	NPAT margin (%)
					FY24	FY25	FY24	FY25	FY23-25	FY24
DUR	**Duratec (MAe)**	**1.27**	**315**	**269**	**7.8**	**6.4**	**13.2**	**10.9**	**22%**	**4%**
ASX										
DOW	Downer EDI	4.00	2,686	4,105	13.3	10.9	25.5	20.4	22%	2%
MAD	Mader Group	6.49	1,298	1,349	9.4	6.6	20.4	15.0	29%	7%
MND	Monadelphous Group	14.45	1,400	1,311	10.5	9.2	21.9	18.6	18%	3%
SRG	SRG Global	0.66	344	388	4.0	3.7	8.9	7.9	11%	4%
SSM	Service Stream	0.92	564	651	5.3	4.8	13.0	11.0	18%	2%
VNT	Ventia Svc Grp	2.80	2,395	2,951	6.0	5.6	11.0	10.3	11%	3%
	Average		**1,448**	**1,793**	**7.5**	**6.6**	**15.8**	**13.2**	**18%**	**3%**
	Median		**1,349**	**1,330**	**6.0**	**5.5**	**13.7**	**11.0**	**18%**	**3%**
International										
ACM^	AECOM	87.11	18,516	21,309	13.3	12.2	20.5	17.8	16%	8%
EXP^	Exponent	77.22	5,990	5,820	23.7	22.6	37.3	33.7	10%	22%
FLR^	Fluor	37.79	9,865	8,466	8.5	7.5	13.8	12.6	34%	3%
218^	PERSOL Holdings	237.10	5,614	5,272	6.8	5.9	13.9	12.5	29%	3%
TTE^	Tetra Tech	158.23	12,909	14,375	18.2	16.4	27.5	24.3	11%	8%
HO-^	Thales	137.20	48,015	49,253	9.9	9.0	16.6	15.1	11%	9%
DG-^	VINCI	109.04	108,426	144,396	7.6	7.2	12.8	12.0	10%	7%
	Average		**29,905**	**35,556**	**12.6**	**11.5**	**20.4**	**18.3**	**17%**	**8%**
	Median		**12,909**	**14,375**	**9.9**	**9.0**	**16.6**	**15.1**	**11%**	**8%**

Source: Company, MA Moelis Australia, Factset.

05

Risks

Risk	Commentary
Client concentration and key client risk	The company's work on sites owned or operated by the Department of Defence comprise a substantial part of the company's order book. Any substantial breach to the specifications or requirements of the Department of Defence would have a significant impact on the company's current and future financial performance as it would impact the continued level of work by the company on Defence sites.
Attracting and retaining key personnel	The company depends on the expertise and experience and network of its personnel as its primary assets. The company's ability to attract and retain personnel is correlated to its ability to deliver on its project commitments. Failure to attract or retain employees may have a negative impact on existing operations and future growth prospects of the company and adversely affect its financial performance.
Safety	The company's operations involve risk to personnel and property including working at heights and working with dangerous or harmful substances which could give rise to liability to DUR, including under OHS laws. Industrial accidents may occur and could affect financial performance, impact the company's reputation, growth prospects, and financial performance.
Termination for convenience	Many of the company's customer contracts, supply contracts, and leases entitle a counterparty to terminate at convenience.
Litigation	Disputes can arise during project execution including payment disputes which may impact the profitability of the project or disputes with employees. Claims may have an adverse impact on Company reputation and/or growth prospects, operating results, and financial performance, and ability to win future work.
Counterparty risk and key suppliers, subcontractors	Delay or failure of counterparties to pay debts or other obligations may have a material adverse impact on company's financial performance. The company works with a number of key suppliers and subcontractors to enable its service delivery. Delay in supply or failure by subcontractor to complete work may lead to revenue loss and increased costs.
Major projects	Failure to assess and manage project risks may result in cost overruns and may result in loss making projects. Key assessments on time and cost include productivity rates, weather, availability and cost of raw materials, equipment, and labour.
Regulatory risk	The company and its services are subject to various laws and regulations which are subject to change and which could adversely affect the company's financial performance.
Increased competition from new and existing participants	The company operates in competitive markets. Increased competition may impact the company's ability to maintain growth rates and may cause it to lose share to competitors which would reduce earnings and affect financial performance.

Source: Company, MA Moelis Australia

Appendix

06

Board and Key Management

Name & Position	Summary Of Experience
Martin Brydon *Non-Executive Chairman* (0.0% shareholder)	• More than 30 years' experience in Australian construction materials and building product industries. • Former CEO and Managing Director of Adelaide Brighton Ltd (ABC.ASX). • Current Non-Executive Director of Fletcher Building Ltd (FBU.ASX).
Robert (Phil) Harcourt *Executive Director – Managing Director* (9.6% shareholder)	• More than 50 years' experience in civil and structural engineering industry. • Founder of Duratec in 2010. • Former CEO of Savcor Finn Pty Ltd and COO of Savcor Group Ltd.
Chris Oates *Executive Director – General Manager* (10.7% shareholder)	• More than 25 years' experience in remediation and construction industries. • GM responsible for WA and NT, involved in securing and delivering projects across numerous sectors including Department of Defence.
Krista Bates *Non-Executive Director* (0% shareholder)	• More than 25 years' experience as a lawyer and is principal of KB Corporate Advisor. • Other listed company directorships in last three years include Auscann Group Holdings Ltd (AC8.ASX) and Neurotech International Ltd (NTI.ASX).
Gavin Miller *Non-Executive Director* (0.0% shareholder)	• More than 30 years' experience of financial and commercial experience in various industries including manufacturing, utilities, and civil construction.

Source: Company, MA Moelis Australia.

Major Projects

Project Name	Segment	Value, $m	% complete	Completion Date (est.)
Central Park Building Recladding	Buildings	63	63%	2H CY24
RAAF Base Tindal Fuel Facility	Defence	110	57%	2H CY24
Western Sydney Airport Fuel Ring Main	Energy	50	89%	2H CY23
HMAS Stirling Oxley Wharf Extension	Defence	39.5	70%	1H CY24
BHP Berth C&D Remediation	Mining and Industrial	48	24%	1H CY25
HMAS Coonawarra Harbour Works	Defence	100	14%	1H CY25
Total		**410.5**		

Source: Company, as at August 2023.

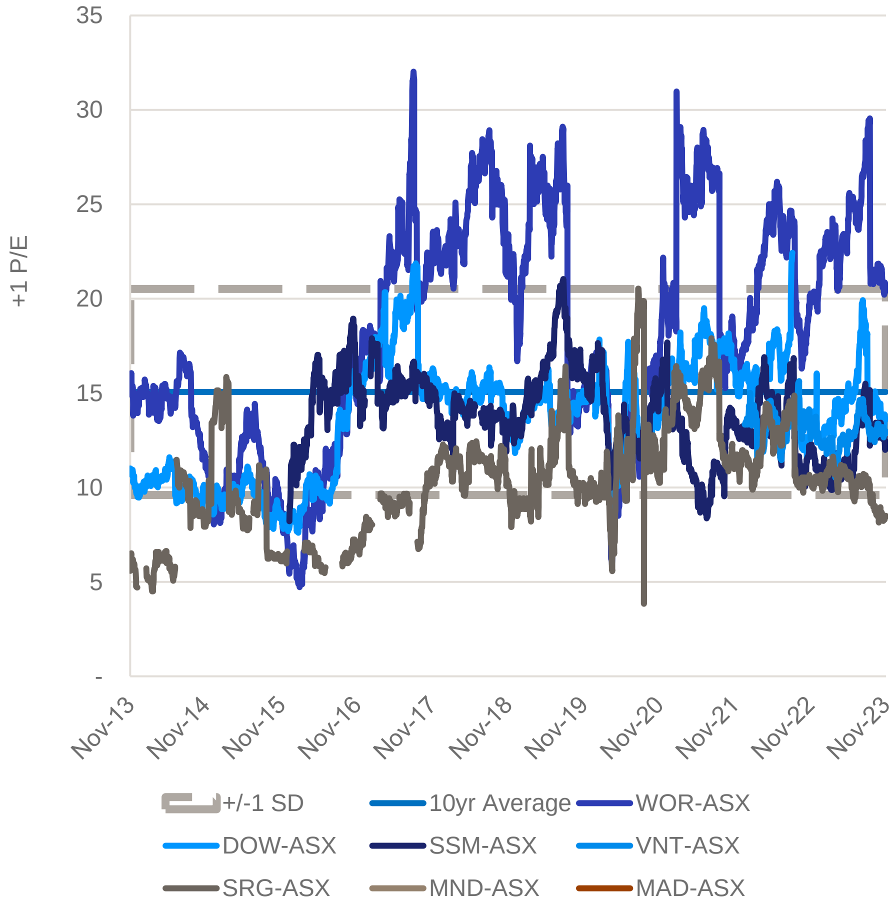
Select Contract Announcements

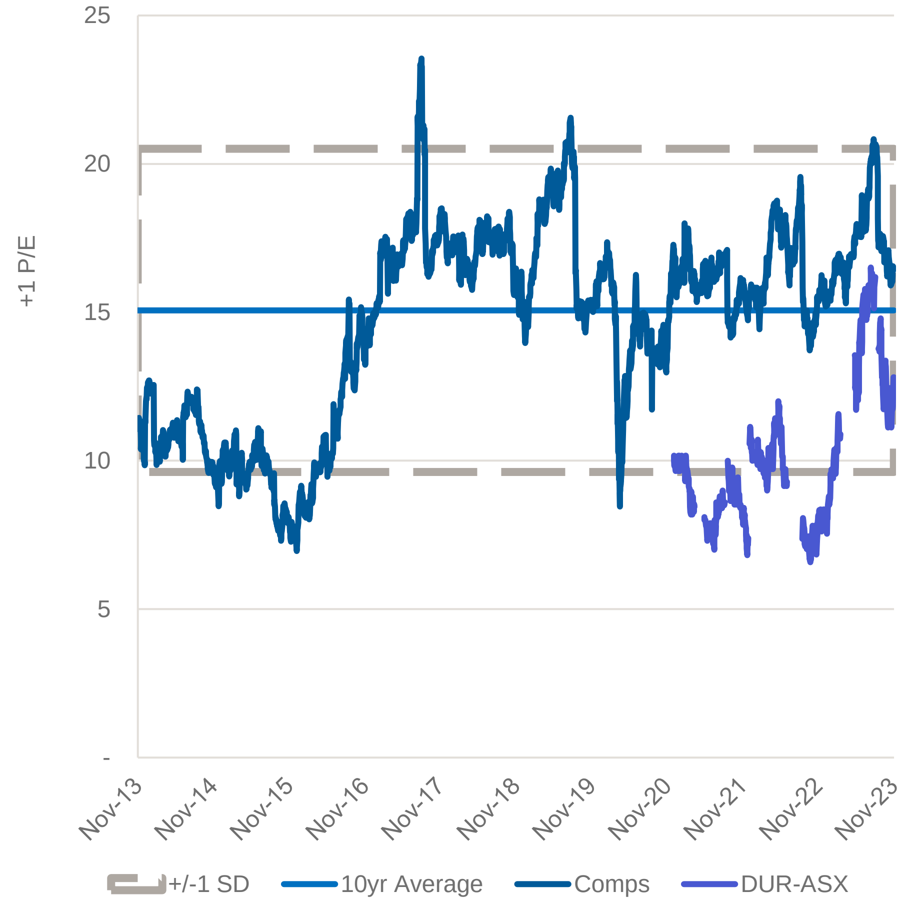
Date	Segment	Client	Project	Location	Work	Value, $m	Duration, mths	Start	End
9-Jun-22	Defence	Department of Defence, Australia	Australian Defence Force Academy	ACT	Builidng asset refurbishment works	11	20	Apr-22	Dec-23
9-Jun-22	Defence	Department of Defence, Australia	Russell Offices	ACT	Builidng asset refurbishment works	6.5	20	Apr-22	Dec-23
9-Jun-22	Defence	Department of Defence, Australia	RAAF Edinburgh	SA	airside facility refurbishment works	1.7	20	Apr-22	Dec-23
9-Jun-22	Defence	Department of Defence, Australia	Lavarack Barracks	Qld	Builidng asset refurbishment works	2.3	20	Apr-22	Dec-23
9-Jun-22	Defence	Department of Defence, Australia	DST Group Edinburgh	SA	audio security works	1	20	Apr-22	Dec-23
20-Dec-22	Mining and Industrial (M&I)	BHP WA Iron Ore	BHP Port Facilities Berth C & D	WA, Port Hedland, Finucane Island	structural remediation	48	24	Mar-23	Feb-25
23-Jan-23	Defence	Department of Defence, Australia	Wharf and harbour basin upgrade	ND		100	23	May-23	Mar-25
8-Feb-23	Mining and Industrial (M&I)	Hamersley Iron Pty Ltd (Rio Tinto Pty Ltd)	MSA Tom Price	WA, Tom Price	Structural Integrity Remediation Tom Price	18	ND	ND	ND
8-Feb-23	Mining and Industrial (M&I)	Hamersley Iron Pty Ltd (Rio Tinto Pty Ltd)	MSA East Intercourse Island	WA, Dampier, East Intercourse Island	Structural Integrity Remediation East Intercourse Island	16	ND	ND	ND
8-Feb-23	Mining and Industrial (M&I)		MSA Other	Other	Other	6	ND	ND	ND
22-Jun-23	Mining and Industrial (M&I)	Robe River Mining Co. Pty Ltd	West Angelas		Structural integrity remediation and Bins 3-5 Life Expansion	19	22	Jun-23	Apr-25
22-Jun-23	Mining and Industrial (M&I)	Dampier Salt Ltd	Lake Macleod		jetty structural integrity bays 10 to 11.	6.8	4	Jun-23	Oct-23

Source: Company.

Peer Group Historical P/E

Discount to peer group and 10-yr average





Source: MA Moelis Australia, Factset

Disclosure Appendix

MA

RESEARCH & SALES RESPONSIBILTIES

Equities		
Bryan Johnson	Head of Sales	+612 8288 5412
Edward Day	Head of Research	+612 8288 5424
Elliot Leahey	Business Director	+612 8288 5402
Brooke Davis	Finance Executive	+612 8288 5417
Jacqui Irons	Corporate Broking	+612 8288 5427
Equities Sales & Trading		
Bryan Johnson	Head of Sales	+612 8288 5412
Aaron Payne		+612 8288 5405
Roger Gamble		+612 8288 5410
David Baker		+612 8288 5428
Jack Dyson		+612 8288 5401
Jake Rischbieth		+612 8288 5654

Real Estate		
Edward Day	Head of Research	+612 8288 5424
Murray Connellan		+612 8288 5421
Industrials		
Ronan Barratt		+612 8288 5426
Sarah Mann		+612 8288 5407
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David Meehan		+612 8288 5413
Tom Tweedie		+612 8288 5430
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Resources		
Paul Hissey		+613 8650 8626

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