

# Investors' Corner

Citiplace, Perth  
for ASA, 21<sup>st</sup> March 2024  
Convenor: Mark Dixon

A photograph of a fire cabinet containing a fire hose reel and a fire extinguisher. The hose is coiled on a metal reel, and the extinguisher is red and black. The cabinet is open, and the background is slightly blurred.

## Citiplace - Emergency Procedure

- ▶ If smoke is detected, or fire alarm is raised, follow exit signs
- ▶ Upon evacuating the building, meet at **designated area**
- ▶ Do not use lift in an emergency
- ▶ **Designated area**
  - ▶ Turn right from the Citiplace Centre and proceed over the bridge to the pond area past the Art Gallery, if safe to do so.
  - ▶ Regroup there for head count if safe to do so.
  - ▶ If emergency personnel instruct differently then follow their directions.

# Agenda

- ▶ Intro – welcome, emergency procedure, disclaimer
- ▶ Peter Scales – Macro-technical, with discussion
- ▶ Charlie Surace - Talga Group (TLG)
- ▶ Phil Taylor - Real estate investment trusts
- ▶ Ken Beer – Duratec Limited (DUR)
- ▶ Next meeting – 18<sup>th</sup> April
- ▶ Close ~ noon.

# Disclaimer

- ▶ The Australian Shareholders' Association (ASA) has provided the facilities for this meeting to provide general information about the ASA and to stimulate interest in financial markets.
- ▶ The ASA is not licensed to give financial advice.
- ▶ Presentations made here are not designed to provide any specific investment advice to any person present.
- ▶ The ASA does not accept any responsibility to inform you of any matter that subsequently comes to our notice that may affect any of the information discussed.
- ▶ Anyone wishing to act on any matter discussed should seek independent advice from a licensed financial adviser.



# Peter Scales — Macro- technical, with discussion

# Talga Group (TLG) -- Charlie Surace



AUSTRALIAN SHAREHOLDERS ASSOCIATION  
PRESENTATION CITY PLACE 21<sup>ST</sup> MARCH 2024

# Talga Group

Australian  
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CHARLESURACE

March 24

20/03/2024 v1.0

# DISCLAIMER

This presentation offered is for informational purposes and should not be considered as investment advice. Before making any investment decisions, it is advisable to conduct your own research. I have made an effort to present the facts to the best of my ability. Additionally,

I disclose that I am a shareholder of Talga Group.

**If you are contemplating an investment in Talga, it's crucial to take into account the potential risks involved, and Talga must meet essential milestones.**



# WHO IS TALGA

- TALGA GROUP IS A VERTICALLY INTEGRATED INNOVATION MATERIALS COMPANY THAT FOCUSES ON DEVELOPING AND PRODUCING BATTERY ANODE AND ADVANCED GRAPHITE MATERIALS.
- HEADQUARTERED IN PERTH, AUSTRALIA, AND HAS OPERATIONS ACROSS SWEDEN, GERMANY, THE UK, JAPAN, AND AUSTRALIA.

CHARLIE SURACE

20/03/2024

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# CORPORATE OVERVIEW

## Talga

### Corporate overview

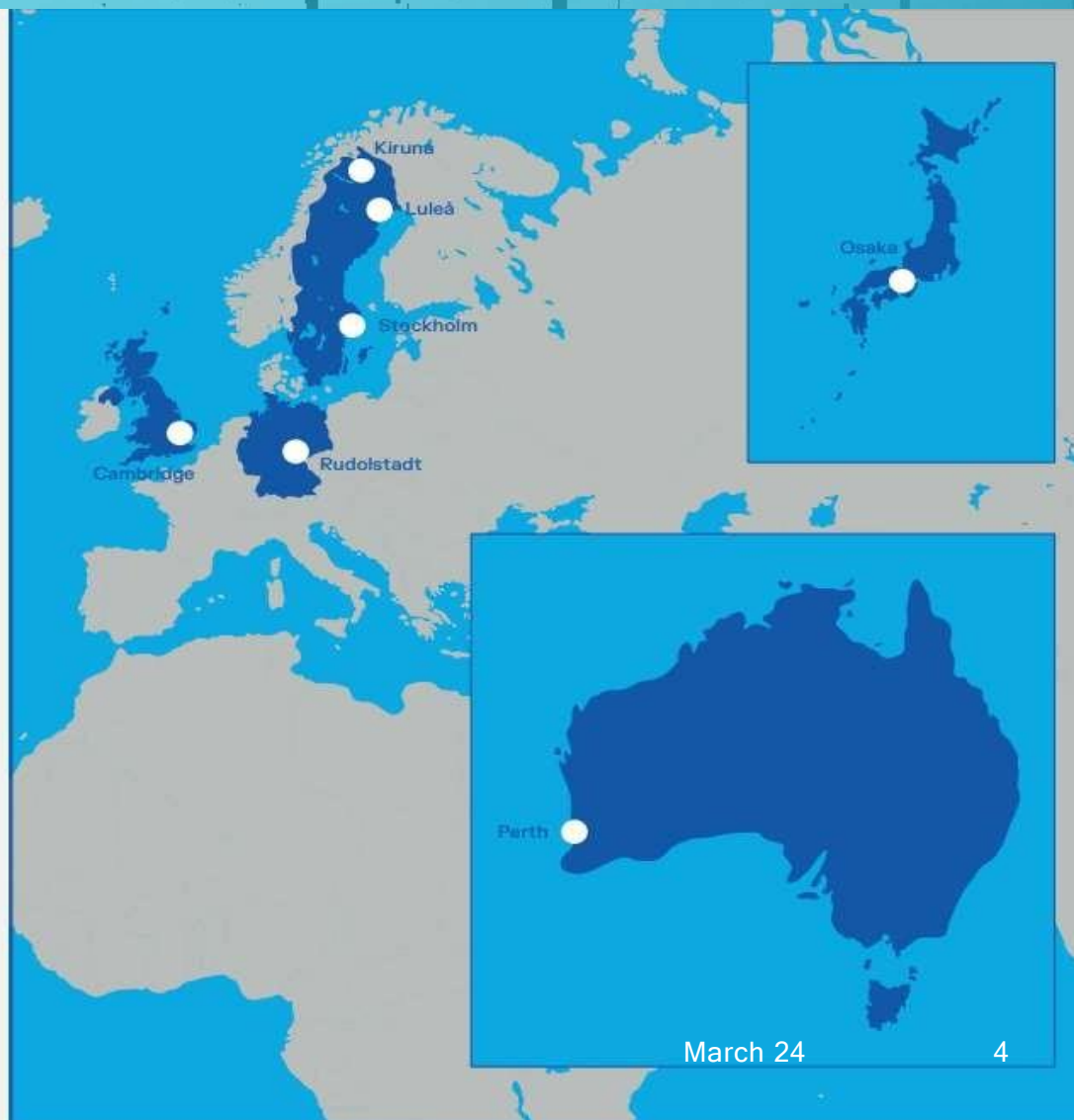
Capital Structure	
Market Capitalisation	\$231.7M
Listed Shares	379.8M
Unlisted Options	13.4M <sup>(1)</sup>
Cash as at 31 Dec 2023	\$32.9M

Major shareholders	
Pentwater Capital Management	4.2%
Mark Thompson – M Director	3.8%
UniSuper	3.1%
Yandal Investments	1.6%
Ellerston Capital	1.5%

Talga is in ASX 300. Research coverage by the following brokers:



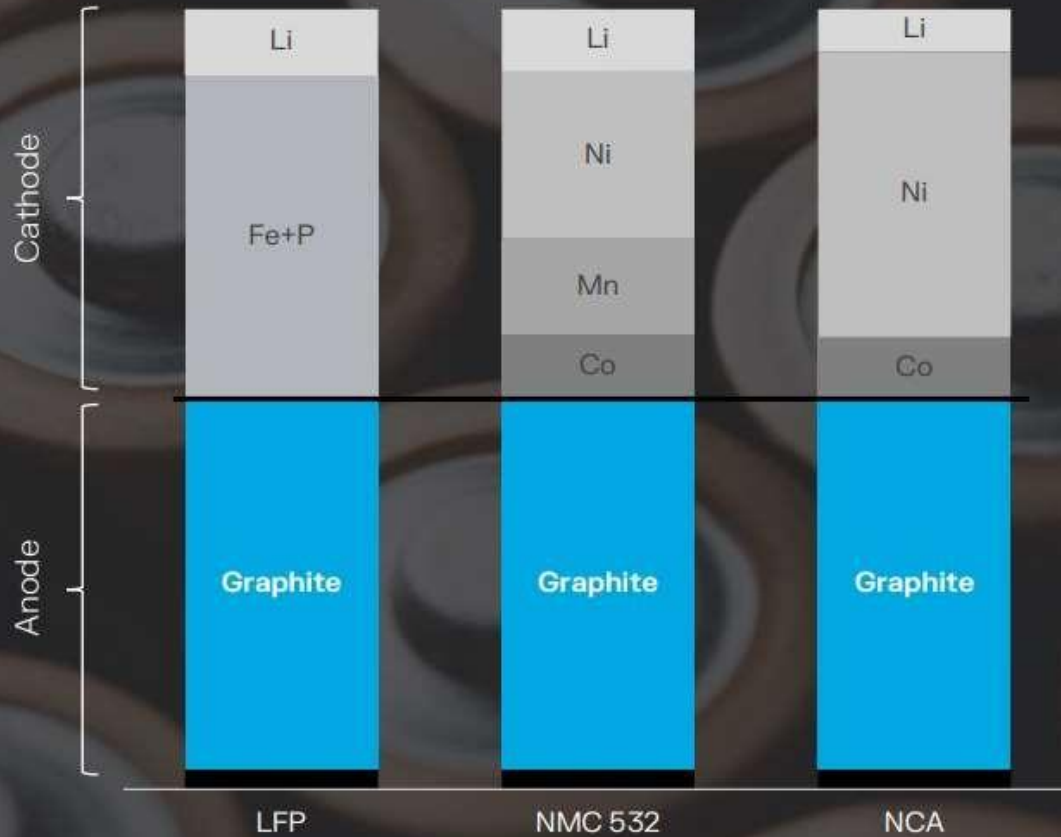
### Share price (1 year)



<sup>(1)</sup> Unlisted options include performance rights subject to vesting conditions.

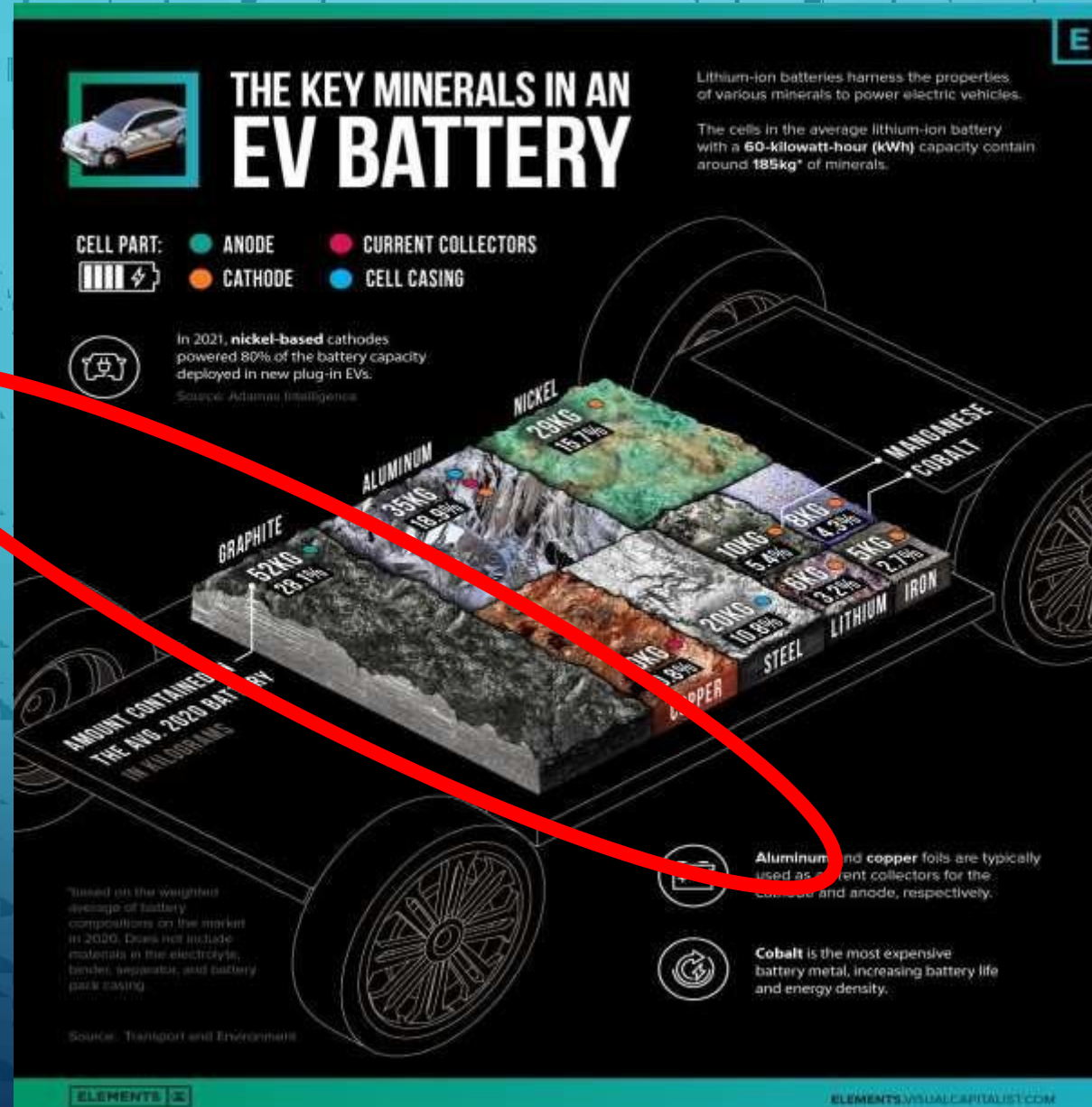
# MOST COMMON L-ION BATTERY CHEMISTRY TYPES

**Graphite** is the largest volume mineral of Li-ion cell



**!** Graphite is the anode of almost all Li-ion battery types due to performance, safety and cost

# BATTERY MINERALS



# CHINA DOMINATES THE GRAPHITE MARKET

## Geopolitical drivers for battery anode market

Current Anode Production Reliant on **China**



Natural Graphite



Spherical Graphite



Graphite Anode



New China export permits required from 1 Dec 2023



New 'Foreign Entity of Concern' rules restrict Chinese content for US subsidies



New EU regulations designate battery production CO<sub>2</sub> targets and minimum local content

# CHINA, WORLD'S TOP GRAPHITE PRODUCER, TIGHTENS EXPORTS OF KEY BATTERY MATERIAL : REUTERS

BEIJING, Oct 20 (Reuters) - China said on Friday it will require export permits for some graphite products to protect national security, springing a surprise with another bid to control critical mineral supply in response to challenges over its global manufacturing dominance.

China is the world's top graphite producer and exporter. It also refines more than 90% of the world's graphite into the material that is used in virtually all EV battery anodes, which is the negatively charged portion of a battery.

Ref: REUTERS By [Siyi Liu](#) and [Dominique Patton](#)  
October 21, 2023 3:08 AM GMT+8

# TALGA PLANS TO BE A VERTICALLY INTEGRATED MINER

Talga is building a fully **integrated, secure, cleaner** graphite anode supply chain in Europe



Talga in Sweden

# OPERATIONS LOCATION

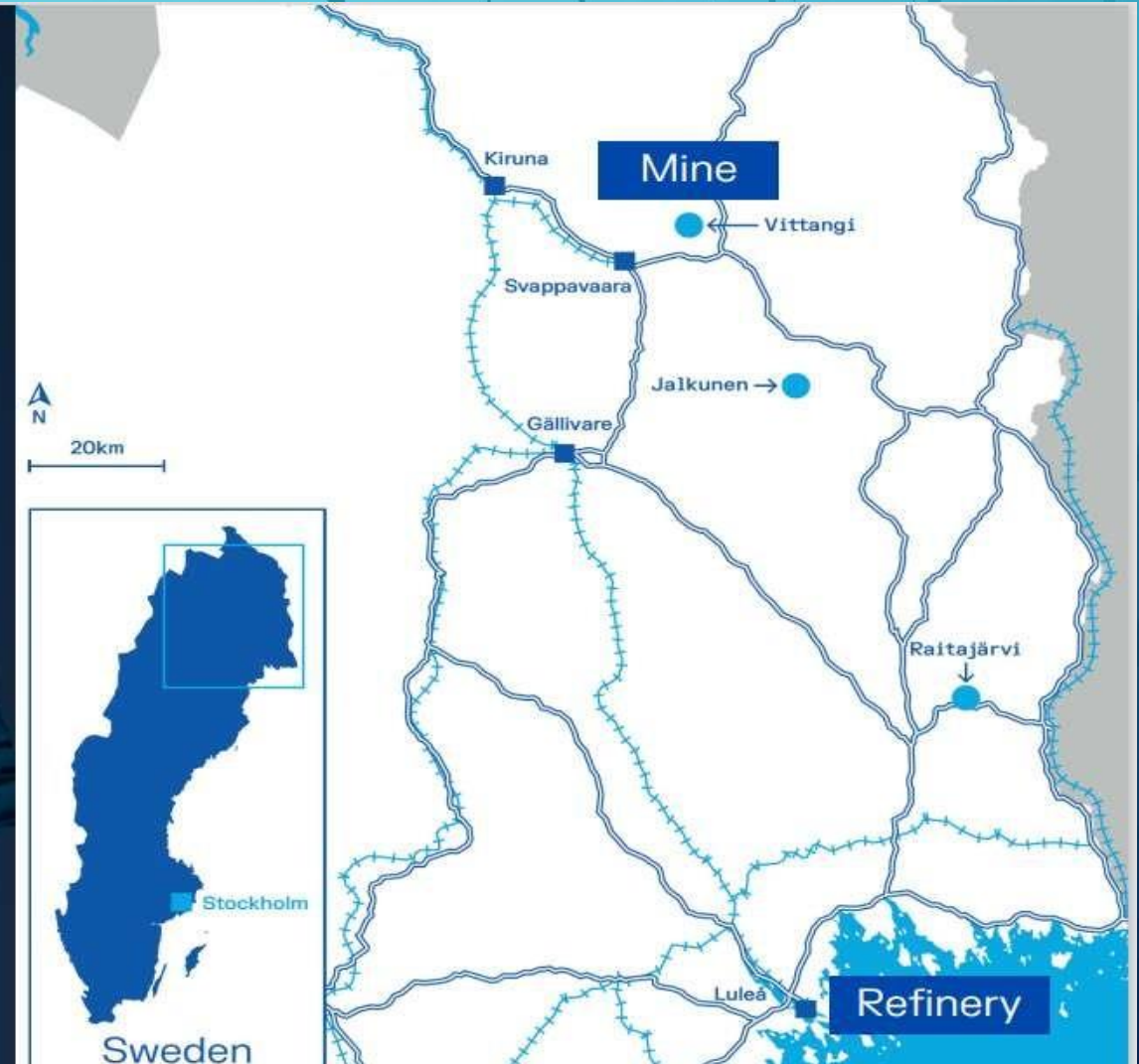
## Vittangi Anode Project north Sweden

! Integrated mine-to-anode refinery producing 19,500tpa anode (Stage 1) for 24 years

Europe's largest and highest grade graphite deposit (Vittangi): 35.0Mt at 23.8%Cg, containing 8.3Mt graphite

Advanced transport and logistics, with direct road and rail to rest of Europe (1-2 days delivery) from Luleå

Plans for major expansion to >100,000tpa anode





# EARLY PHOTO OF THE VITTANGI TRIAL MINE



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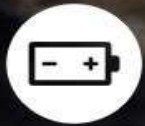
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# SUPERIOR RESOURCE AND GRADE

## Europe's largest & highest grade **natural graphite** resource



Total JORC Mineral Resources of 70.8 million tonnes to date



100% **anode size** graphite, proven in customer lithium-ion batteries



Expansion options for long term global EV demand

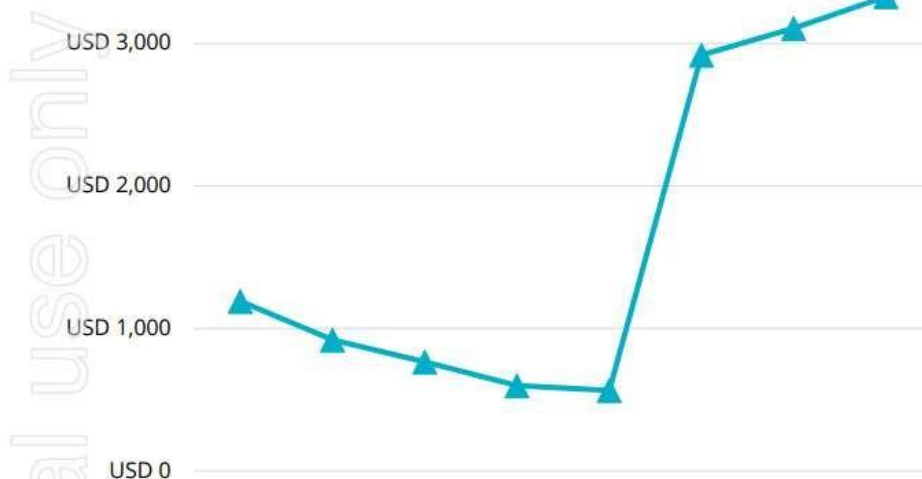


# FLAKE SIZE MATTERS REF: SARYTOGAN GRAPHITE

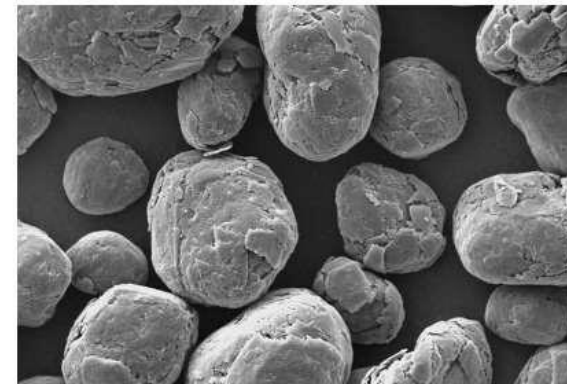
## The Market – Flake and Sphere Size



Graphite Product Prices



- Traditional industrial uses requires coarse flake graphite (e.g. refractory uses, brake linings, lubricants etc)
- Li-ion batteries require ultra-fine high-purity spherical graphite (example below)



Product	Traditional Uses					Battery Anodes		
	Coarse	Medium	Fine			Uncoated Spherical (USpG)		
Size (µm)	< 180	< 150	< 75	< 75	< 75	20	15	10
TGC (%)	94	94	94	90	80	99.95	99.95	99.95
SGA Grade and Size			✓	✓	✓			✓

Source: \*Prices are FOB China from Benchmark Mineral Intelligence September 2022, supplemented by Fine -75um 80% TGC product from Fastmarkets reported at seekingalpha.com June 2022.

# VERY COMPETITIVE ON A WORLD MARKET

## Global Cost Leader

Collective advantages enable Talga to be globally competitive low-cost anode producer



**Ultra high grade ore**



**100% anode flake (no basket of industrial products)**



**High Process yield (88%)**



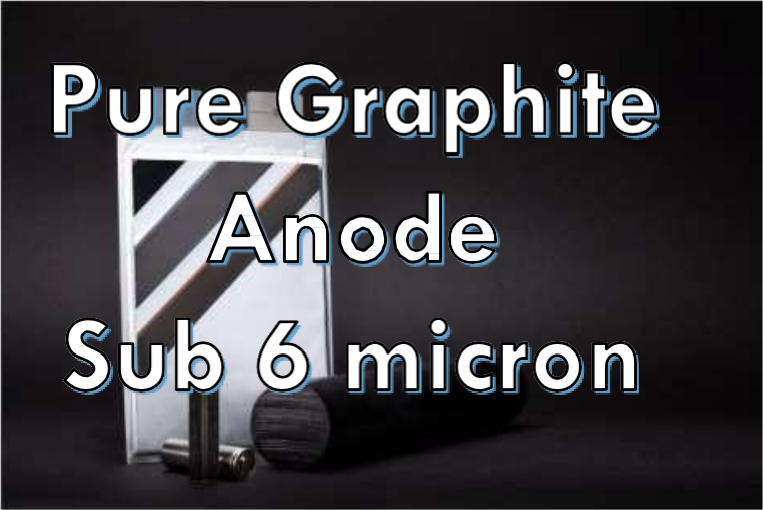
**Low cost grid power**



SEE: <sup>1</sup> ASX:TLG 23 MAY 2019. SOURCE: <sup>2</sup> BENCHMARK MINERAL INTELLIGENCE PRESENTATION: 'CHINA' REFERS TO COATED NATURAL GRAPHITE ANODE PRODUCED IN CHINA, BASED ON BULK SALES AND MID-POINT AVERAGE COSTS AS OF H1 2018. <sup>3</sup> RECRUIT REPORT: 'SYNTHETIC' REFERS TO COATED ANODE MADE FROM SYNTHETIC GRAPHITE SOURCE eg., NEEDLE COKE.

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# TALGA ACTIVE ANODE PRODUCTS

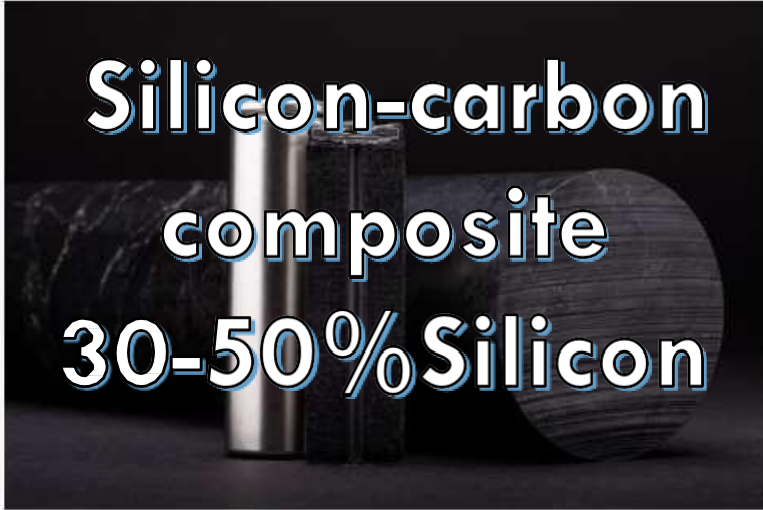


## Pure Graphite Anode Sub 6 micron

### Talnodel™-C

Talnodel™-C is made from our unique Swedish high-grade natural graphite and proprietary coating processes to offer industry-leading active anode in sub-6 micron sizes. Talnodel™-C can be tuned to application using our 100% vertical integration control, and is characterised by low ohmic resistance, low swelling and low surface area, providing outstanding fast charge and low temperature performance for electric vehicles and consumer electronics.

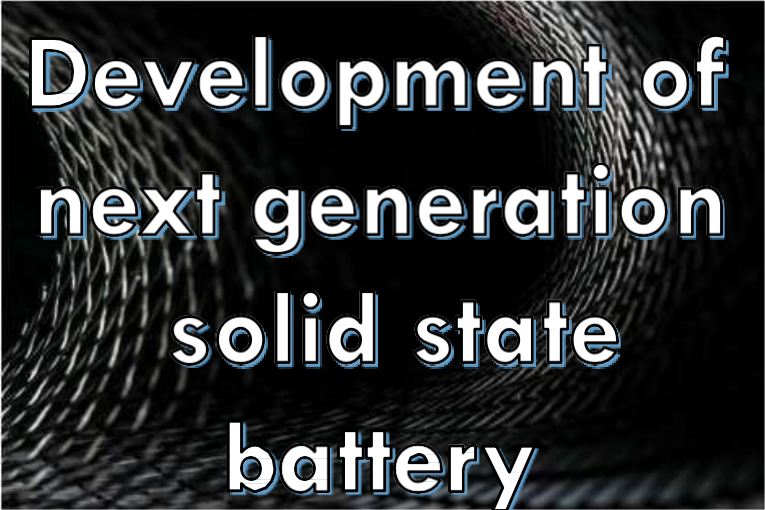
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## Silicon-carbon composite 30-50% Silicon

### Talnodel™-Si

Silicon-carbon composite (30-50% silicon) for use as an energy-boosting additive to existing commercial battery anodes. The drop-in design uses our proprietary graphene, silicon and graphite technology to enable low swelling and commercial production calendaring pressures, in a lower cost and highly scalable manufacturing process.



## Development of next generation solid state battery

### Talnodel™-E

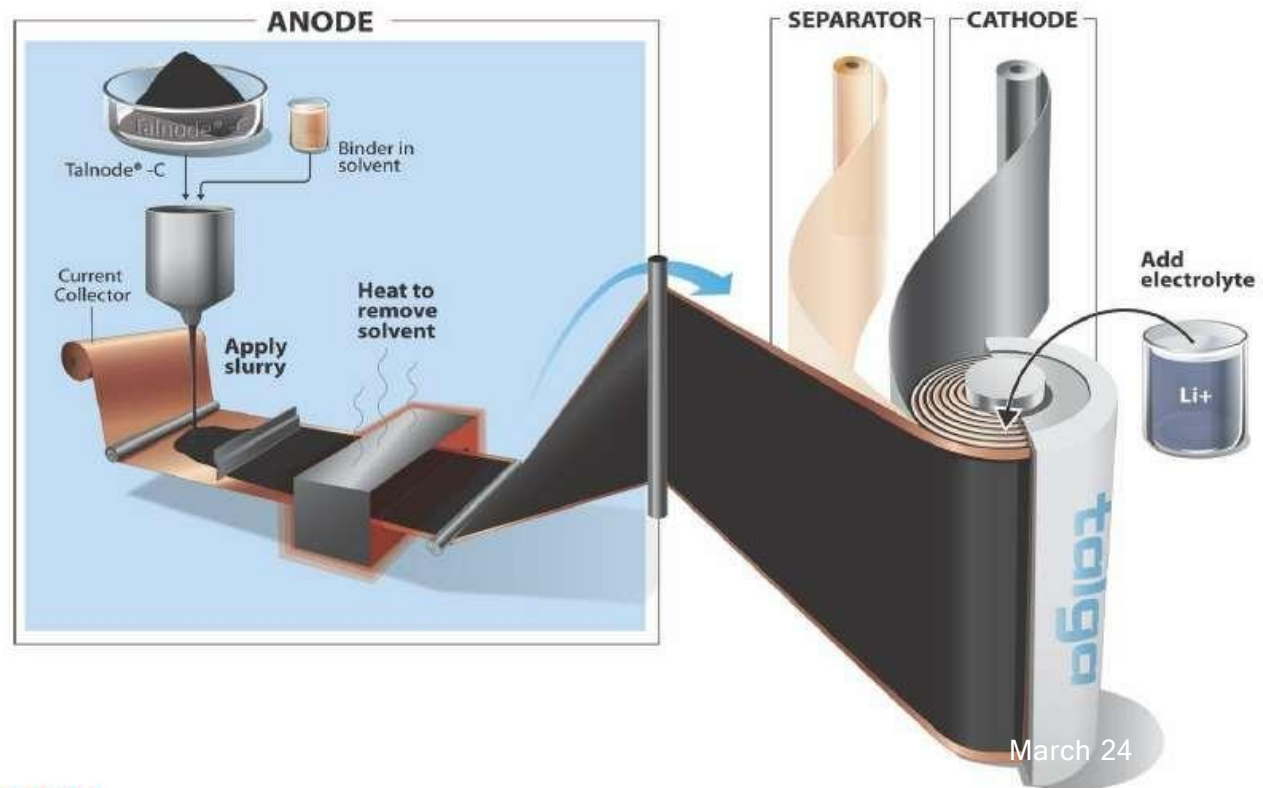
Talga's proprietary next generation graphite-metal composite anode for solid state batteries. Talnodel™-E is designed as an alternative to pure metallic lithium anodes that can cause a range of issues hindering solid state batteries including slow charge/discharge, safety of transport/production and higher manufacturing cost.

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# TALGA'S NATURAL FLAKE GRAPHITE MATCHES SYNTHETIC MATERIAL

## Anode Product: Talnode-C

FULLY COATED <math><10\mu\text{m}</math> ACTIVE ANODE POWDER READY FOR CELL MANUFACTURER USE



❄️ Freezing temperature performance

📈 High power and fast charge

🌐 Semi-synthetic properties

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# VITANGI ANODE PROJECT - PROGRESS

- Stage one preparation for refinery site at Luleå Industrial Park delivered
- Mine environmental permit approved by government.-But.....
- **Waiting on the decision by the high court from appeals review. (Third Party)\*\*\*\*\***
- Debt consortium selected, underpinned by €150 million from EIB
- A\$31 million environmental bond facility secured
- Supplier strategy includes strategic agreements with ABB and Rejlers to support development
- Customer offtakes in advanced state

## Key Project Partners



## Project financing



Target debt (60%) and equity (40%)

Debt consortium selected, underpinned by €150 million approval from European Investment Bank

Grant funding and state aid (EU and Member State level) being sought to complement debt consortium

Discussions with strategic partners for equity includes auto OEMs and industrial conglomerates

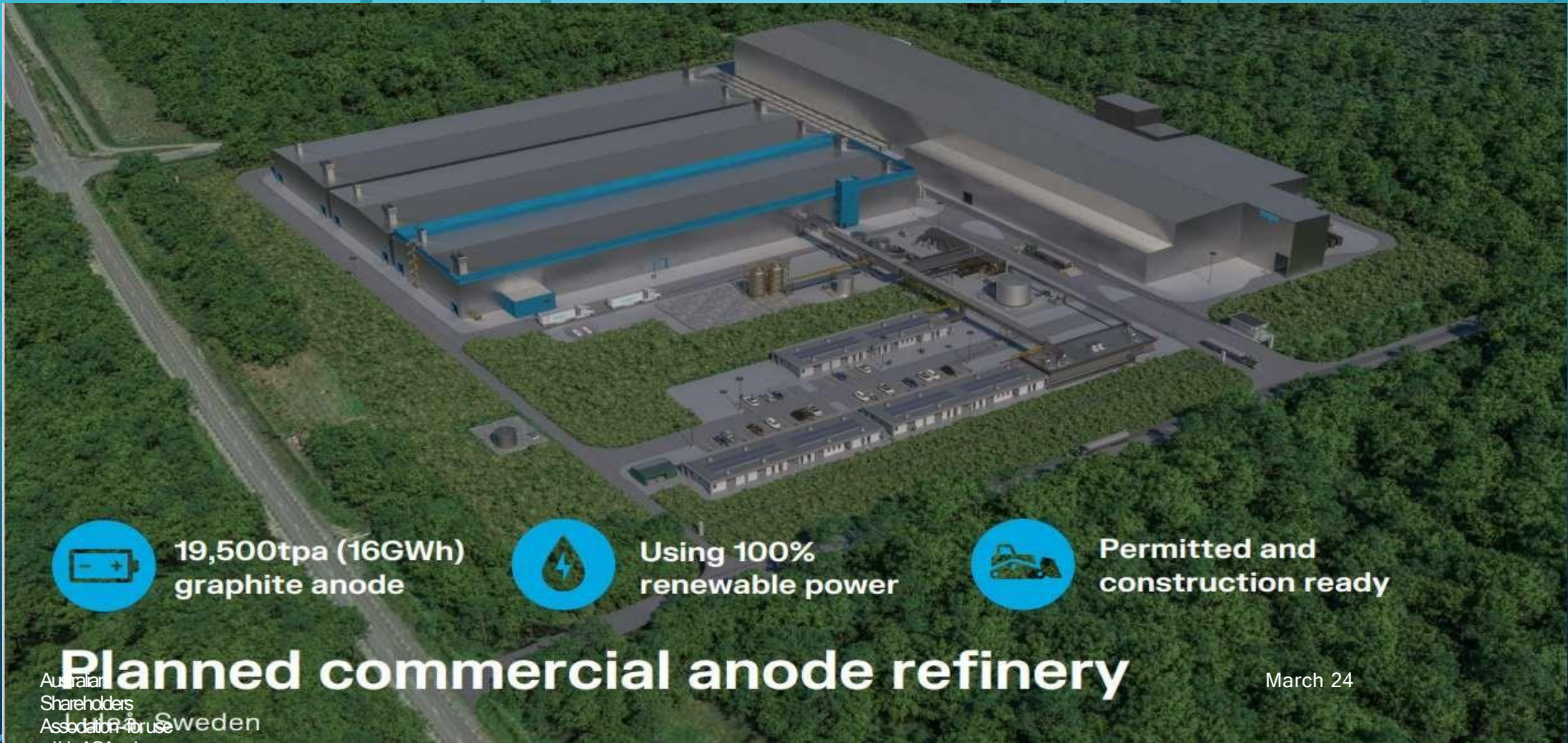
### Key Finance Partner



See: ASX:TLG 20 June and 12 September 2023, 31 January 2024. \* Note: Finalisation of Project debt facilities with the selected banking consortium remains subject to finalisation of approvals, completion of remaining due diligence and execution of definitive debt facility documentation, which are expected to include customary project financing terms and conditions. Drawdowns under the facility would be subject to customary conditions precedent.



# PLANNED LULEÅ REFINERY



**19,500tpa (16GWh)  
graphite anode**



**Using 100%  
renewable power**



**Permitted and  
construction ready**

## Planned commercial anode refinery

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Luleå, Sweden

# TALGA HAS ITS OWN RESEARCH TEAM BASED IN CAMBRIDGE UK

## 100% owned technology



In-house intellectual property & know-how



15 active patent families,  
88 applications

- Anode particle shaping & coating
- Graphite purification process
- Anode & graphene from recycling
- Silicon anode production process
- Graphene production process
- Graphene coatings, composites & functionalised additives

Asteris  
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# TALGA'S ANODE PLANT FOR TESTING AND QUALIFICATION GERMANY



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# FROM THE 2021 DFS

## Path to >100,000tpa anode production

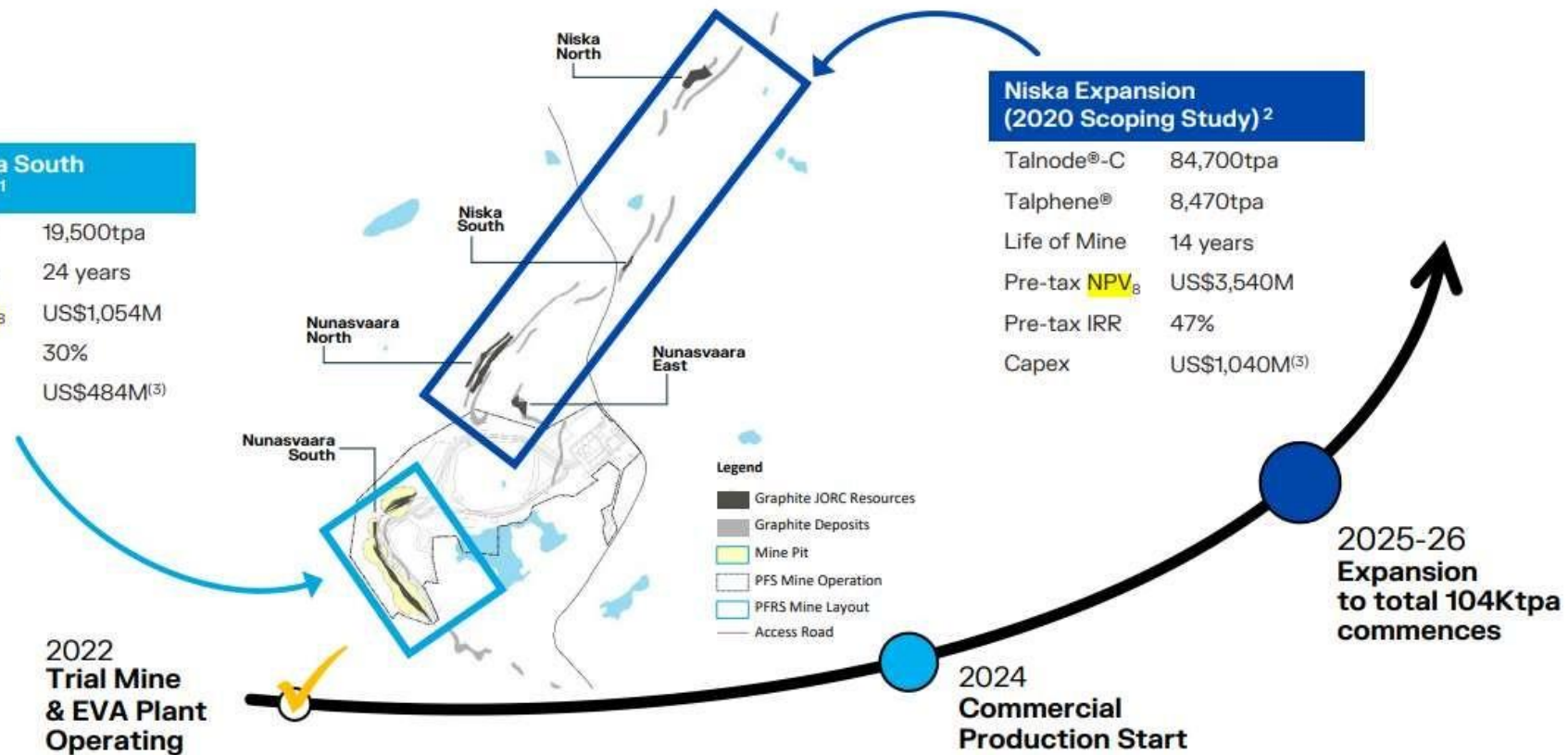
Niska adds to Vittangi to make Talga one of the largest anode producers outside China

### Nunasvaara South (2021 DFS)<sup>1</sup>

Talnode®-C	19,500tpa
Life of Mine	24 years
Pre-tax NPV <sub>8</sub>	US\$1,054M
Pre-tax IRR	30%
Capex	US\$484M <sup>(3)</sup>

### Niska Expansion (2020 Scoping Study)<sup>2</sup>

Talnode®-C	84,700tpa
Talphen®	8,470tpa
Life of Mine	14 years
Pre-tax NPV <sub>8</sub>	US\$3,540M
Pre-tax IRR	47%
Capex	US\$1,040M <sup>(3)</sup>



# TALNODE®-SI COMMERCIAL SAMPLES BEING PRODUCED AT ITS PILOT FACILITY IN RUDOLSTADT, GERMANY.

- Customer tests show significant boosts in Li-ion battery energy capacity using Talnode®-Si
- Recent customer qualification and pilot trials completed with a global EV manufacturer confirmed Talnode®-Si performance under commercial cell manufacturing conditions. **boosted battery energy capacity by ~40%. Test results to date exceed customer targets at this stage of development.**

The background features a series of concentric circles in shades of blue, creating a tunnel-like effect. In the corners, there are stylized circuit board patterns with lines and nodes.

• Thank You!



# REAL ESTATE INVESTMENT TRUSTS

-- Phil Taylor

Company	Sector	Mkt cap (\$m)	NTA Aug 23 (\$)	NTA Mar 24(\$)	Price 18 Mar	FFO 1/2 year actual (cents)	FFO year guid (cents)	Dist. 1/2 Year (cents)	Dist. year guid (cents)	Yield guid. (%)	Gearing (%)	Occ (%)	WAL E (yrs)	Comment
Centuria Industrial	Industrial	1,700	3.96	3.89	3.54	8.5	17.2	8	16	4.5	34 (50)	97	7.5	Int cover 3.2 (Covenant 2.0).19% leases cpi rent review. 22% triple net leases. 98% net or triple net leases. 88% hedged.
Dexus Industria	Industrial	614	3.44	3.32	3.02	8.6	17.1	8.2	16.4	5.4	26	99	6.1	Int cover 5.2 (Covenant ?). 52% cpi rent increases. Forecast 80% hedged for FY24. No debt refinancing until FY25.
Elanor Commercial	Office	209	1	0.94	0.72	5.26	10	4.25	8.5	11.8	37	97	3.3	Int cover 8.5 (Covenant 3). LVR 42% (Covenant 52.5%). 78% hedged.
Scentre Region	Retail	14,429	3.52	3.44	3.28	21.1*	22	16.6*	17.2	5.2	30	99		Int cover 4. 92% debt hedged.
Bunnings	Retail	2,055	3.75	3.74	3.58	9	18	9	18.3	5.1	17	97	3.6	Int cover 6.6. 54% cpi linked rent increases. 52% hedged. No debt maturity until FY26. Merger with NPR
Charter Hall Retail	Retail	1,913	4.73	4.54	3.54	13.5	27.4	12.3	24.7	7	24 (50-60)	99	7.1	Int cover 5.2 (Covenant 1.5 - 2.0) 50% cpi linked rent increase leases. No debt maturity until FY26. 70% debt hedged.
Homeco Daily Needs	Retail	650	1.48	1.44	1.275	4.3	8.6	4.2	8.3	6.5	34	99	4.8	Int cover 3.5 (Covenant 2.0) Merged with Aventus Mar 22. 20% cpi linked rent increase leases. 92% interest hedged.
RAM Essential Services	Health/retail	521	0.97	0.92	0.66	2.32	6.1	2.8	5.6	8.5	36	98	6.2	Int cover 4.3 (covenant 1.5). Listed Oct 21. 31% cpi linked rent increase leases. 50% healthcare property. 76% hedged.
Healthco	Health/retail	650	1.7	1.65	1.39	4	4	8	8	5.8	34	99	12.3	Listed sept 21. Int cover dropped 6.1 to 2.3 (covenant 1.75). 75% triple net leases. 75% cpi linked rent increase leases. 81% debt hedged.
Charter Hall WALE	Mixed	2,093	5.63	5.14	3.71	13	26	13	26	7	41	99	11	52% 3N leases. 51% cpi linked rent increase leases. 52% fixed interest - average of 3.1% 82% debt hedged.
Waypoint	Petrol stations	2,143	2.97	2.73	2.42	16.5*	16.5	16.5*	16.5	6.8	33	99	8.1	Int cover 4.4 (Covenant 2.0). 90% 3N leases. 93% debt hedged.
Dexus Convenience	Petrol stations	373	3.75	3.63	2.69	10.5	21.1	10.4	21	7.8	33	99	9.3	70% debt hedge target for FY24. No debt maturities until FY26.71% fixed rent review.
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*full year														March 24
	Price lower than NTA													
	No data available													



Company	Sector	Mkt cap (\$m)	NTA Aug 23 (\$)	NTA Mar 24(\$)	Price 18 Mar	FFO 1/2 year actual (cents)	FFO year guid (cents)	Dist. 1/2 Year (cents)	Dist. year guid (cents)	Yield guid. (%)	Gearing (%)	Occ (%)	WAL E (yrs)	Comment
Hotel Prp. Inv	Hotels/pubs	455	4.02	3.97	3.16	9.5	19	9.5	19	6	37 (60)	100	9.5	Int cover 2.4 (Covenant 1.5)71% cpi linked rent increase leases
Charter Hall Social Infra.	Childcare	1,120	4.04	3.93	2.7	8	16	8	16	5.9	33	100	12.8	Int cover 7.5 (Covenant ?).75% leases fixed rent increase 3%. 22% leases linked to cpi. 82% hedged. No debt maturity until FY 25
Arena	Childcare	717	3.42	3.38	3.63	8.7	17.4	8.7	17.4	4.8	22 (50)	100	18.8	Int cover 4.9 (Covenant 2.0). 80% debt hedged. 76% rents higher of fixed amount or cpi
Goodman	Property Grp	27,263	9.12	8.8	29.74	59.2		15	30	1	23	98	5.5	Int cover 12.7 (Covenant ?). 66% int hedged over 3 years.
Dexus	Property Grp	10,039	10.88	10.04	7.56	27.2	50	26.7	48	6.3	29 (55)	97	4.7	Int cover 5.2 (Covenant 2). Int hedged 95%.
Stockland	Property Grp	9,915	4.24	4.2	4.8	11.2	35	8	26	5.4	27	94	6.2	Int cover 4.8 (Covenant 2.1). 60% hedged for FY24
Mirvac	Property Grp	8,534	2.64	2.56	2.16	6.4	14	4.5	10.5	4.9	27	97	5.7	73% int hedged
Charter Hall	Property Grp	7,229	6.28	5.77	13.2	41.2	75	22.1	45	3.4	37	98	7.9	59% hedged
Cromwell	Property Grp	2,352	0.84	0.72	0.43	2.5		1.5			50	93	5.3	Senior debt - Int cover 6.6 (Covenant 2). LVR 38% (Covenant 60%). Unsecured debt - Int cover 4.01 (Covenant 2). Look through gearing 50% (Covenant 65%). 70% debt hedged.
Centuria	Property Grp	2,190	1.77	1.78	1.8	6.1	11.5	5	10	5.5	14	96	5.7	Int cover 4.3 (Covenant 2). 56% debt hedged
HMC Capital (Homeco)	Property Grp	594	2.54	2.54	7.12	16.6	33	6	12	1.7	2			Net cash at Dec 23
*full year														
	Price lower than NTA													
	No data available													



ENGINEERING • CONSTRUCTION • REMEDIATION



[WWW.DURATEC.COM.AU](http://WWW.DURATEC.COM.AU)

# Ken Beer — Duratec Limited (DUR)

# DURATEC LIMITED

ASX: DUR

**Author: Kenneth Beer**  
DIY Investment Analyst

**Date Prepared: March 2024**

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This document contains forward-looking projections. Forward-looking projections provided in this document are based on assumptions and contingencies which are subject to change without notice.

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**Disclosure:** This document was prepared solely by the Author.

**Author Interests:** The Author holds ordinary shares in the company referred to in this document and the holdings may change during the life of this document.

# DURATEC = ENGINEERING + CONSTRUCTION + REMEDIATION

**Extending  
the life of  
your assets**

## **Who We Help**

Defence

Mining

Oil & Gas

Marine

Energy

Building & Façade

Heritage

Property Services

Industrial

Transport

Water Infrastructure

## **Our Services**

Early Contractor Involvement

Asset Protection

Laboratory Services

Waterproofing Solutions

Building Refurbishment

Infrastructure Upgrades

Recladding

Durability Engineering

Specialist Access Systems

Construction

Petrography Lab Services

Spatial Integration

Jack Up Barge Hire

# DURATEC PROJECT VIDEOS

## Flinders Port Remediation Project

The Duratec South Australia team first began working at Inner Harbour Adelaide in 2019.

The assignment: To remediate the wharf's berths 18 to 20 in three stages.

The structure had deteriorated significantly and required significant rehabilitation to bring it up to an acceptable condition to continue operating safely and effectively into the future. Being awarded all three stages of the Flinders Ports project is testament to the South Australia team's consistent delivery of high-quality marine work and ability to work within time and budget constraints.

Video link: <https://youtu.be/uTsteMFGK8o?si=O2hIVtp37NYQx3Lo>

## Dampier Cargo Wharf Fender Replacement Project

The Dampier Cargo Wharf (DCW) was constructed in 1982, and provides seven berths for the loading and provisioning of vessels servicing the marine industry and offshore oil and gas fields. The fenders on the western side of the DCW were in poor condition and Duratec was engaged to replace the old high maintenance ones with a more modern and durable design for an extended service life.

Australian Shareholders Association - for use within ASA only  
Video link: [https://youtu.be/0FY5\\_sg6rNw?si=S70VBsZPFfdw2xUc](https://youtu.be/0FY5_sg6rNw?si=S70VBsZPFfdw2xUc) March 24

# CORPORATE SNAPSHOT

NATIONAL LEADER WITH EXPERIENCED BOARD AND MANAGEMENT

## Share Price and Volume – 1H FY24



## Duratec Limited Board

Martin Brydon	Non-Executive Chairman
Chris Oates	Managing Director
Phil Harcourt	Non-Executive Director
Gavin Miller	Non-Executive Director
Krista Bates	Non-Executive Director
Dennis Wilkins	Company Secretary

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## Capital Structure

ASX code	DUR
Shares on issue	248.0m
Share price as at 21 February 2024	\$1.46
Market capitalisation as at 21 February 2024	\$361m
Cash as at 31 December 2023	\$58.5m

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# BUSINESS OVERVIEW

## LEADING AUSTRALIAN ENGINEERING, CONSTRUCTION AND REMEDIATION CONTRACTOR

Specialist technical expertise in upgrading and extending the life and use of infrastructure in multiple market segments

### Key business drivers:

- Aged infrastructure
- Asset capacity expansion
- Growing asset markets

### Key market segments supporting long-term growth:

- Defence
- Building & Facade
- Mining & Industrial
- Energy
- Other – Marine, Transport and Water Infrastructure



### WPF Duratec Pty Ltd (WPF)

(wholly owned subsidiary)  
– leading Energy remediation and fabrication company based in Western Australia and the Northern Territory.



### MENd Consulting Pty Ltd

(wholly owned subsidiary) – leading Technical consultant with a focus on protection and rehabilitation of the built environment.



### DDR Australia Pty Ltd

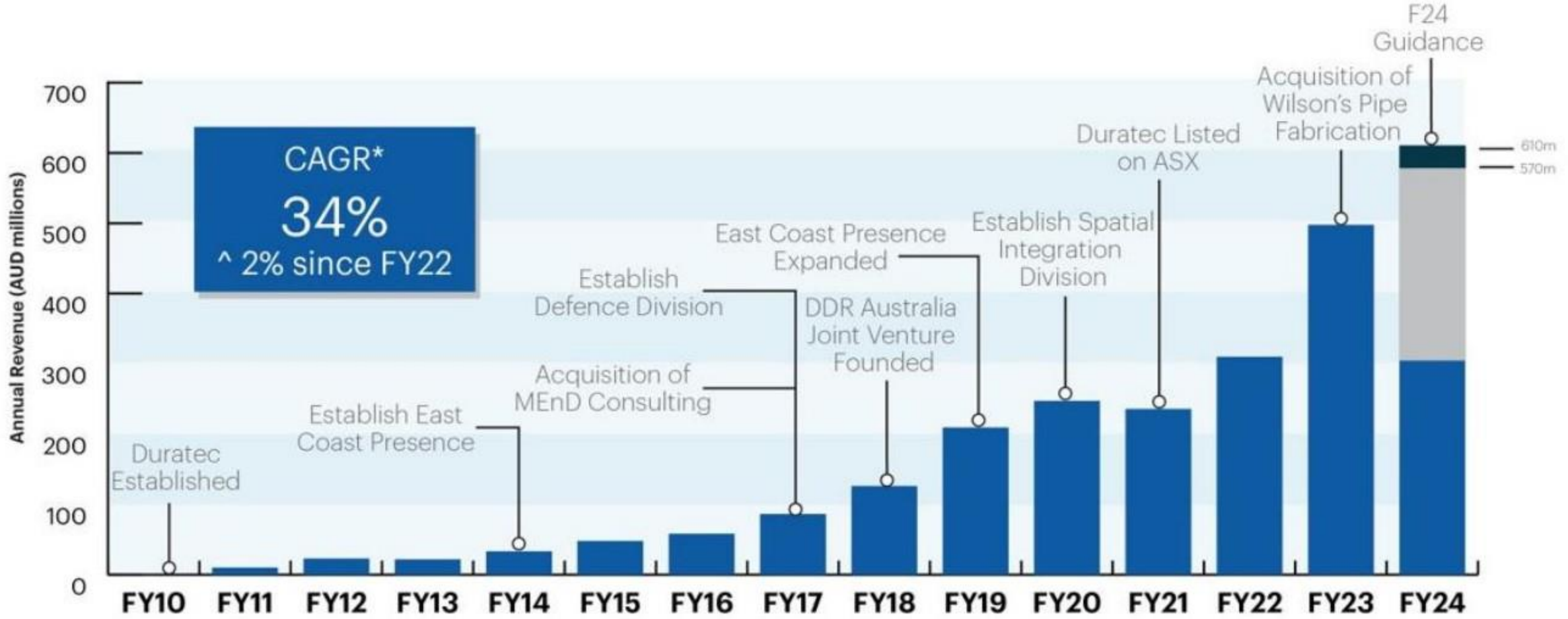
(associate investment) – leading majority Aboriginal-owned contractor in Defence and Resources (IPP-funded opportunities).





# BUSINESS HISTORY

## STRONG HISTORICAL GROWTH

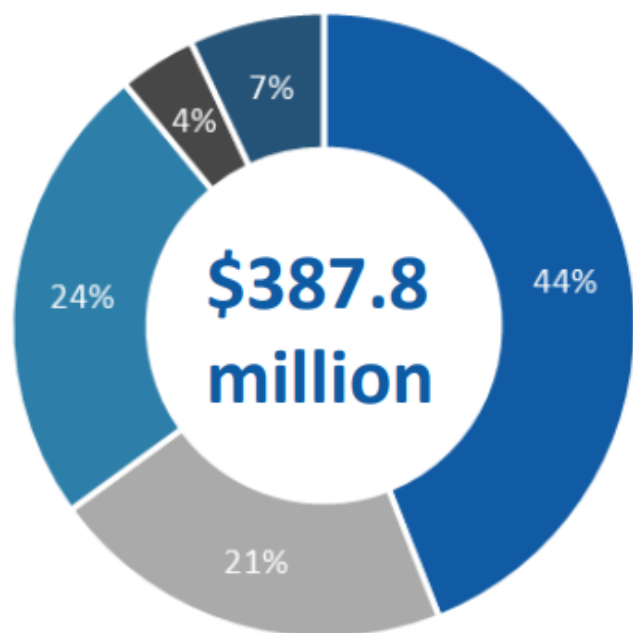


\*Compound Annual Growth Rate over 14 Years

# OUTLOOK

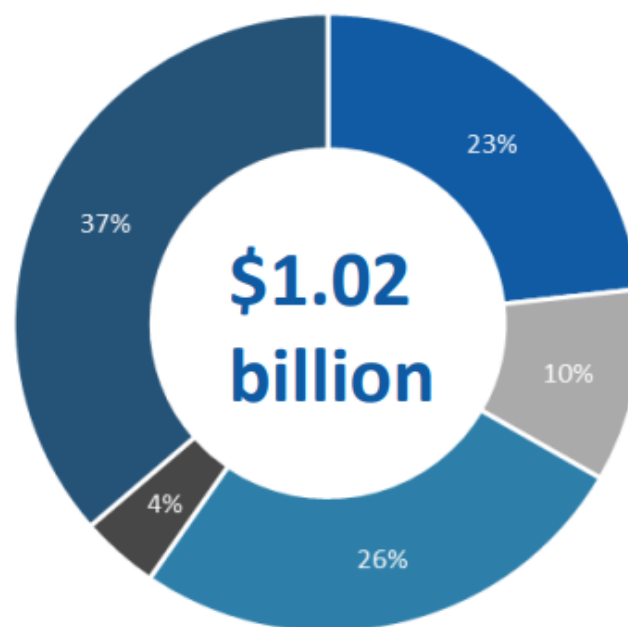
## ORDER BOOK, TENDERS AND PIPELINE

### Order Book



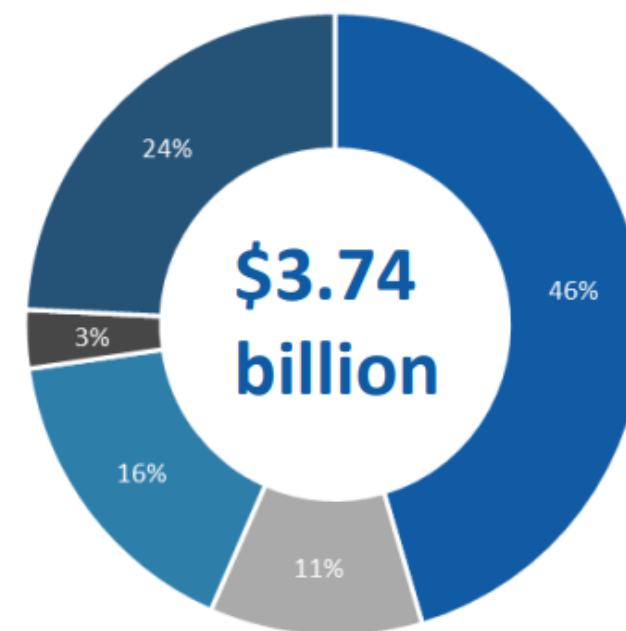
↓ from \$411.2m  
at 24 Nov 2023

### Tenders



from \$1.02b  
at 24 Nov 2023

### Pipeline



↑ from \$3.28b  
at 24 Nov 2023

■ Defence ■ Buildings & Facades ■ Mining & Industrial ■ Energy ■ Other

# ASX ANNOUNCEMENT

24 November 2023

## DURATEC PROVIDES FY24 GUIDANCE

Australian engineering, construction, and remediation contractor Duratec Limited (**Duratec**) (ASX: DUR) is pleased to issue guidance regarding the financial results of the Company for the full year ended 30 June 2024. The guidance is based upon the earnings from year-to-date work delivered plus the Company's forward forecast assumptions of the earnings from current works and new works yet to be won and expect to be delivered by the end of the financial year.

Duratec's revenue is expected to be in the range of \$570m to \$610m, delivering a forecast EBITDA of \$45m to \$52m. The Company reported revenue of \$491.8m and EBITDA of \$38.8m in FY23.

Duratec's current orderbook is currently \$411.2m (excluding MSA's / annuity style revenue), with tenders of **\$1.02bn** and a pipeline, comprising tendered and identified opportunities, of **\$3.28bn**.

# THEORY OF COMPANY VALUATION

The theory of company valuation used herein is based on three online courses by Professor Daniel Wolfenzon, Columbia University in New York City:

1. Introduction to Corporate Finance,
2. Free Cash Flow Analysis and
3. Risk and Return.

<https://www.edx.org/professional-certificate/columbiacorporate-finance>

Free cash flows (FCFs) are the cash flows generated by operating assets after all investments are funded. FCFs are available to be paid to debt and equity owners. The value of operating assets equals the present value of their future FCFs. The value of equity is the value of all assets less the value of debt.

# DISCOUNTED CASH FLOW (DCF)

DCF is widely used by analysts to determine what an investor should pay for equity in a company. DCF applies the time value of money, i.e. money received today is worth more than money received in the future, because money received today can be invested. The discount rate used is the rate of return expected by an investor. DCF requires free cash flows (FCFs) to be estimated many years into the future. To estimate future FCFs requires estimates of net operating profit, adjusted for non cash items such as depreciation and amortisation; capital expenditure and working capital for many years into the future. To estimate net operating profit requires estimates of revenue, direct cost of goods and/or services sold, and indirect, or overhead operating expenses, for many years into the future. These estimates introduce a significant risk of error in the DCF method of valuing equity in a company.

# Use past financial statements 1/3

	FY2023	FY2022	FY2021
<b><u>Revenue (\$'000)</u></b>			
Defence	228,950	134,929	98,768
Mining & Industrial	86,354	65,284	52,923
Buildings & Facades	78,418	64,673	39,852
Energy	66,654	12,106	-
<u>Other Segments</u>	31,420	33,011	44,166
<b>Total revenue</b>	<b>491,796</b>	<b>310,003</b>	<b>235,709</b>
Order Book	458,200	458,000	236,200
<u>Cost of sales</u>	(409,723)	(261,598)	(189,901)
<b><u>Gross profit</u></b>	<b>82,073</b>	<b>48,405</b>	<b>45,808</b>
Gross margin	16.7%	15.6%	19.4%
Dividends received	365	1,510	1,505
Rental income	348	349	312
Interest received	741	95	110
Sundry income	172	90	216
Foreign exchange gain	-	-	-
<u>Gain on disposal of plant and equipment</u>	233	288	218
<b>Total other income</b>	<b>1,859</b>	<b>2,332</b>	<b>2,361</b>

# Use past financial statements 2/3

Employee benefits expense	(35,817)	(27,760)	(24,739)
Administration expense	(9,180)	(5,940)	(4,879)
<u>Occupancy expense</u>	(1,462)	(1,141)	(1,081)
<b>Operating expenses</b>	<b>(46,459)</b>	<b>(34,841)</b>	<b>(30,699)</b>
Initial Public Offering expense	-	-	(2,472)
Gain on disposal of associate	-	-	151
Impairment	-	-	-
Equity accounted investment results	636	1,873	769
<b><u>EBITDA</u></b>	<b>38,109</b>	<b>17,769</b>	<b>15,918</b>
EBITDA margin	7.7%	5.7%	6.8%
Depreciation and amortisation expense	(9,569)	(6,779)	(5,227)
<b><u>EBIT</u></b>	<b>28,540</b>	<b>10,990</b>	<b>10,691</b>
EBIT margin	5.8%	3.5%	4.5%
Finance costs	(958)	(788)	(659)
<b><u>Profit before income tax expense</u></b>	<b>27,582</b>	<b>10,202</b>	<b>10,032</b>
Income tax expense	(8,381)	(2,441)	(2,901)
<b><u>Profit after income tax expense</u></b>	<b>19,201</b>	<b>7,761</b>	<b>7,131</b>

# Use past financial statements 3/3

Trade and other receivables	59,821	29,998	29,139
Contract assets	25,185	16,661	7,576
Inventories	346	317	376
Current tax receivable	-	-	-
Other current assets	1,820	1,380	1,139
Property, plant and equipment	25,962	18,823	16,846
Trade and other payables	82,076	39,426	38,992
Other current liabilities	44,344	46,818	28,182
Provisions	10,484	6,824	4,792



# Estimate future revenue growth and financial ratios

	FY2026	FY2025	FY2024
Company tax rate	30.0%	30.0%	30.0%
Defence sales growth on prior corresponding period	10.0%	10.0%	19.0%
Mining & Industrial sales growth on prior corresponding period	5.0%	5.0%	19.0%
Buildings & Facades sales growth on prior corresponding period	5.0%	5.0%	19.0%
Energy growth on prior corresponding period	5.0%	5.0%	19.0%
Other Segments sales growth on prior corresponding period	0.0%	0.0%	19.0%
Cost of sales to Total revenue ratio	0.838	0.838	0.838
Operating expenses excluding Finance costs to Total revenue ratio	0.111	0.111	0.111
Trade and other receivables days-on-hand	33	31	31
Inventory days-on-hand	0.35	0.35	0.35
Contract and Other current assets to Revenue ratio	0.07	0.07	0.07
Revenue to fixed assets (fixed asset turnover) ratio	17.00	18.0	20.4
Trade and other payables days-on-hand	58	58	58
Other current liabilities to Revenue ratio	0.154	0.154	0.154

March 24

Australian Shareholders Association - for use within ASA only

## Use revenue growth and financial ratios to estimate future financial performance 1/2

### Profit after tax excluding Interest received and Finance costs (NOP\*)

Revenue from Defence

Revenue from Mining & Industrial

Revenue from Buildings & Facades

Revenue from Energy

Revenue from Other Segments

**Total revenue**

Cost of sales

**Total other income excluding Interest received**

**Operating expenses excluding Finance costs**

Initial Public Offering expense

Gain on disposal of associate

Impairment

Equity accounted investment results

**Profit before tax excluding Interest received and Finance costs**

Income tax expense

**NOP\***

Australian Shareholders Association - for use within ASA only

	FY2026	FY2025	FY2024
Revenue from Defence	329,798	299,817	272,561
Revenue from Mining & Industrial	113,340	107,943	102,803
Revenue from Buildings & Facades	102,924	98,023	93,355
Revenue from Energy	87,484	83,318	79,350
<u>Revenue from Other Segments</u>	37,405	37,405	37,405
<b>Total revenue</b>	<b>670,951</b>	<b>626,505</b>	<b>585,474</b>
Cost of sales	(562,352)	(525,100)	(490,710)
<b>Total other income excluding Interest received</b>	<b>1,114</b>	<b>1,114</b>	<b>1,114</b>
<b>Operating expenses excluding Finance costs</b>	<b>(74,293)</b>	<b>(69,371)</b>	<b>(66,710)</b>
Initial Public Offering expense	-	-	-
Gain on disposal of associate	-	-	-
Impairment	-	-	-
<u>Equity accounted investment results</u>	1,152	1,152	1,152
<b>Profit before tax excluding Interest received and Finance costs</b>	<b>36,573</b>	<b>34,300</b>	<b>30,320</b>
<u>Income tax expense</u>	(10,972)	(10,290)	(7,404)
<b>NOP*</b>	<b>25,601</b>	<b>24,010</b>	<b>22,916</b>

March 24

# Use revenue growth and financial ratios to estimate future financial performance

## 2/2

### Change in Net Fixed Assets ( $\Delta$ NFA)

Property, plant and equipment

**$\Delta$ NFA**

### Change in Net Operating Working Capital ( $\Delta$ NOWC)

Trade and other receivables

Inventories

Contract assets and Other current assets

Operating current assets

Trade and other payables

Other current liabilities

Operating current liabilities

Net operating working capital

**$\Delta$ NOWC**

### Free Cash Flow (FCF)

**FCF = NOP\*  $\Delta$ NFA  $\Delta$ NOWC** Australian Shareholders Association - for use within ASA only

	40,823	38,113	31,499
	<b>2,710</b>	<b>6,614</b>	<b>5,537</b>
	54,180	67,142	40,453
	417	657	346
	47,310	44,176	41,283
	101,908	111,976	82,082
	89,676	83,650	78,004
	103,179	96,344	90,034
	192,854	179,994	168,038
	(90,947)	(68,018)	(85,956)
	<b>(22,929)</b>	<b>17,938</b>	<b>(36,224)</b>
March 24	<b>45,820 -</b>	<b>542</b>	<b>53,603</b>

# Net debt, market value of equity and Capital Asset Pricing Model

## Net debt:

Cash and cash equivalents

Borrowings

Net debt (ND)

31-Dec-23

\$54,344,000

\$27,116,000

-\$27,228,000

## Market value of equity:

Number of ordinary shares

Share price

Market value of equity (E)

247,959,984

\$1.17 20-Mar-24

\$288,873,38

1

## Capital Asset Pricing Model (CAPM):

Beta equity ( $\beta_E$ ) (5 year from CommSec)

Company tax rate ( $\tau$ )

Beta asset ( $\beta_A$ ) =  $\beta_E / [1 + (1 - \tau) * (ND/E)]$

Risk-free rate ( $r_f$ ) (30 year Treasury bond rate)

ASX total (reinvest dividends) return, past 30 years, per year,  $r_m$

Market risk premium (MRP) =  $r_m - r_f$

Rate of return expected by an investor ( $r_A$ ) (=  $r_f + \beta_A * MRP$ )

0.77 20-Mar-24

30%

0.82

4.444% 20-Mar-24

9.163%

4.719% March 24

8.33%

### ASX 200 All Ordinaries

Number of years 30

Investment 1 July 1993 \$10,000

Investment 30 June 2023 \$138,778

Average annual return 9.163%

# Calculate value per share

## Operating assets:

Terminal growth rate (g)

2.00%

Perpetuity method terminal value at EOFY2025 ( = FCF \* (1 + g) / (r<sub>A</sub> - g) )

\$737,780,298

Present value of terminal value at EOFY2023

\$580,262,208

Present value of free cash flows from EOFY2024 to EOFY2026 at EOFY2023

\$85,054,535

Value of operating assets

\$665,316,743

## Non operating assets

Net debt

-\$27,228,000

Value of non operating assets

\$27,228,000

## Valuation:

Value of operating and non operating assets

\$692,544,743

Number of ordinary shares

247,959,984

Value per share

\$2.79

## Forecast Investor KPIs

	FY2026	FY2025	FY2024
EPS* cents	10.3	9.7	9.2
P/E*	11.3	12.0	12.6
Earnings* yield	8.9%	8.3%	7.9%
FCF/share cents	18.5	-0.2	21.6
Payout ratio	0.532	0.516	0.487
Dividend cents	5.50	5.00	4.50
Dividend yield	4.7%	4.3%	3.9%
EPS*, E*, Earnings* excludes Interest rec'd & Finance costs			

# WHY PUT IN THE EFFORT REQUIRED FOR DIY INVESTMENT ANALYSIS?

1. Cognitive activities reduce my risk of developing Alzheimer's disease.
2. Preparing an excel model and reviewing the results enhances my understanding of the business.
3. I control input variables required to calculate a value (or target price) of an investment.
4. By controlling input variables, I can reduce the risk of buying high and / or selling low.
5. Input variables include revenue growth and financial ratios (efficiency, leverage, liquidity, profitability and market value).

# Close

**Our next meeting:** Thursday, 18<sup>th</sup> April 2024, 10 am, Citiplace.

Guest from ASA National: Fiona Blazer — ASA Advocacy & Company  
Monitoring manager

## Other ASA groups & meetings:

- ▶ 27<sup>th</sup> March – Busselton Discussion (9:30 am)
- ▶ 28<sup>th</sup> March – Nedlands Group (10:00 am)
- ▶ 16<sup>th</sup> April – Stirling Discussion Group (Tuart Hill)
  
- ▶ 2<sup>nd</sup> April – WA Members Meeting and Investors Forum