Analyst
Sam Brandwood 612 8224 2850

Authorisation
Chris Savage 612 8224 2835

Coventry Group (CYG)

Focusing on the nuts and bolts

Recommendation
Buy (Initiation)
Price
$1.65
Target (12 months)
$1.90 (Initiation)

GICS Sector

Capital Goods

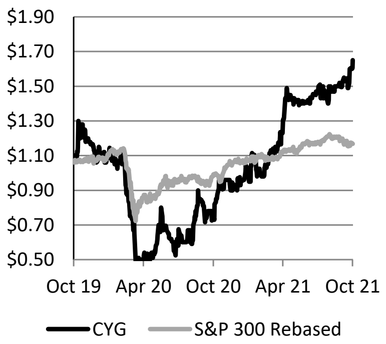
Expected Return	
Capital growth	15.2%
Dividend yield	2.4%
Total expected return	17.6%

Company Data & Ratios	
Enterprise value	$165.9m
Market cap	$149.6m
Issued capital	90.7m
Free float	98.1%
Avg. daily val. (52wk)	$78,000
12 month price range	$0.73 - $1.65

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.50	1.45	0.78
Absolute (%)	10.00	13.79	111.54
Rel market (%)	11.27	14.55	91.92

Absolute Price



SOURCE: IRESS

Leverage to long duration themes

Coventry Group (CYG) is a multi-disciplinary industrial supply and services group primarily engaged in the distribution of industrial fasteners and specialist building supplies, as well as the design and servicing of fluid power systems in mining equipment. Our investment thesis is driven by (1) a superior service model in industry verticals where skills and critical spares are in short supply; (2) leverage to two long duration themes, including the industry shift to re-shore supply chains (commercial construction), along with ageing fleets and increasing strip ratios (mining equipment repairs); (3) margin upside from mix dynamics and fixed cost leverage; (4) a five-year period of winning market share in fluid systems; and (5) an undemanding valuation.

A compelling industrial turnaround

For an extended period (pre-FY17) Coventry shed material market share in its core Australian distribution business principally, in our view, due to customer service deficiencies. Since FY17, new management has driven a +$23.1m (pre-AASB 16 EBITDA) industrial turnaround led by a refocus on its agile ‘one-stop-shop’ fasteners supply program – a service type that has supported a decade of category leadership and near class-leading margins in New Zealand and Tasmania. Coventry’s step-up during 2H21 has accelerated further into Q1 FY22, implying that losses in the broader Australian market are beginning to be recouped at pace and, importantly, little cost to gross margin. We now see scope for this to begin reflecting further in the share price.

Scope to re-rate: Buy and $1.90ps price target

We initiate coverage on Coventry with a Buy recommendation and PT of $1.90ps. We see CYG’s mid-term execution risk as now noticeably reduced: the company’s revamped service-intense model is well suited to provide efficiencies and superior customer outcomes in a tightening market, whilst pent-up sector demand is expected to result in an extended cycle for building materials. In our view, Coventry’s forward EV/EBITDA of 6.4x and 2.4% dividend yield presents compelling value for a company that has the potential to enter an earnings upgrade cycle, and possibly re-rate.

Earnings Forecast

Year end 30 June	FY21	FY22e	FY23e	FY24e
Revenue (Sm)	288.5	304.2	326.1	349.1
EBITDA (post-AASB 16) ($m)	23.8	25.8	29.0	33.2
NPAT (normalised) ($m)	3.6	8.9	11.7	15.6
NPAT (reported) ($m)	7.2	8.9	11.7	15.6
EPS (adjusted) (cps)	4.0	9.8	12.9	17.2
EPS growth (%)	33.0%	144.8%	31.0%	33.3%
PE (x)	41.0	16.8	12.8	9.6
FCF Yield (%)	-3.3%	-0.3%	3.3%	6.8%
EV/EBITDA (x)	7.0	6.4	5.7	5.0
Dividend (¢ps)	3.0	4.0	5.4	6.8
Franking (%)	100%	100%	100%	100%
Yield (%)	1.8%	2.4%	3.3%	4.1%
ROE (%)	3.3%	7.7%	9.4%	11.6%

SOURCE: BELL POTTER SECURITIES ESTIMATES

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Investment Thesis

We initiate on Coventry with a Buy recommendation and a price target of $1.90 per share. Our favourable investment thesis is driven by the following factors:

Nearing an inflection point: Since FY17, Coventry's +$23.1m EBITDA turnaround has been led by a refocus on its differentiated 'one-stop-shop' fasteners supply program – a service type that has supported a decade of category leadership in NZ and TAS. Momentum exiting Q1 FY21 (+17.3%) against a challenging backdrop suggests losses in the rest of Australia are being recouped at pace and little cost to GM. CYG's annualised run-rate on FY22e group revenue is $312.8m – ahead of our $304.2m and $288.5m in pcp.

Extended cycle fits turnaround trajectory: Prior to recent pandemic restrictions, strong directional trends in works approvals were driven by domestic manufacturing (2H21 +62.0% vs 2H19) and industrial warehousing (+11.5%) – likely in response to global supply chain disruptions. Whilst cancellations of work are not yet present we see this as resulting in an extended cycle for building materials and Coventry's leaner cost base from cost out should see better earnings leverage through a cycle upturn.

Mid to late stage mining investment cycle play: Coventry's fluid systems mix and support services continue to pivot towards maintenance, including both on mine site and in mobile fleet repairs. With these operations representing c.35% of revenue, we see CYG as solid production cycle leverage to Australia's bulk commodities. Further, the experience of WesTrac's product support division (15-year CAGR of 11%, revenues only declined YoY three times) implies demand for this type of work is relatively commodity price inelastic.

Robust sector demand: Structural drivers of demand for equipment maintenance include increasing strip ratios, high grading resulting in mining overburden, and an ageing installed fleet (from FY12-13 peaks). Coventry's trade distribution is underpinned by a $225bn infrastructure budget (up 26% on 2020) and an emerging supply chain reshoring thematic.

Undemanding valuation: CYG's service-intense model is well suited to provide efficiencies and superior customer outcomes in a tightening market and, in our view, a forward EV/EBITDA of 6.4x and 2.4% dividend yield presents compelling value for a company that has the potential to enter an earnings upgrade cycle.

Tier one customers: Coventry's major fluids projects continue to increase in scope and value for tier one operators BHP, BMA, CVX, FMG, GLEN, IPL, RIO and WPL.

Fixed cost leverage: Following four years of right sizing the cost base, management has recently invested heavily in regional leadership and a mobile sales force. According to Coventry, the existing headcount should support a 15-20% larger trade division.

Tax losses expected to be utilised: Coventry is carrying ~$75m worth of unrecognised tax losses. Utilising these to offset profits should result in minimal tax payable in the foreseeable future and heighten CYG's free cash flow (contingent on favourable tax ruling).

Refinanced on favourable terms: In FY21, Coventry secured a $50m revolving inventory and receivables financing arrangement with NAB. This effectively funded the company's +$13.6m directional view on inventory in FY21, which we suspect the company is now benefitting from in the context of recent supply chain disruptions.

Quality management: Coventry is well-led by a management team with buy side transactional experience and a burgeoning track record of transformational growth since appointment in 2017. The likelihood of further accretive acquisitions given Coventry's under geared balance sheet (0.8x ND/EBITDA) presents upside to the valuation.

Co-investment with long-standing investors: Coventry is tightly held by five major institutional investors, all of whom have increased holdings since becoming substantial.

Investment Risks

Key risks to Coventry include, although are not limited to:

Structural challenges: CYG has experienced growth through identifying a differentiated service opportunity that is appealing to customers on a quality and pricing basis. Although we believe this level of service protects against wholesale bypass, many of Coventry's products are also sold by larger and more capitalised competitors. Coventry's market position could conceivably reduce if these competitors acquire additional assets and/or assume irrational pricing strategies.

Operating leverage: CYG is a relatively high operating leverage distribution business in industries currently experiencing high input and labour cost pressures. At present, a +/- 1ppt change in GM has a +/- $3m impact on EBIT, which equates to c.20% of FY22e. The pace of these pressures could challenge CYG's ability to implement fully offsetting pricing actions in a timely manner, and impact financial condition.

Execution risk: Key to the thesis is CYG's ability to sustain operational improvements in Australia via exporting its service intensive model out of NZ. A realistic impediment to execution lies within differences between these markets. For example, fasteners used in roofing and cladding in Australia are more commoditised (fewer seismic, fire, façade requirements) and, in general, the market is more competitive than in NZ.

Risks of labour shortages and costs: Although somewhat a by-product of strong demand during cycle expansion, labour shortages or increases in labour rates could impact CYG's growth and/or ability to fulfil contractual obligations.

Inventory risk: Coventry's agile value proposition involves taking a large and directional view on inventory. In rising markets, the company has shown that it is able to book a higher spread in relation to its costs. Conversely, in a falling market we would consider the burden of risk for dead inventory to be marginally greater for an operator like Coventry.

Cyclical end markets: Whilst commodity production is typically more resilient than capital expenditure, exogenous shifts in demand for maintenance may impact CYG's financial performance. Further, infrastructure projects are highly influenced by expenditure decisions of policymakers and changes to policy may result in work delays or cancellations.

Reliance on suppliers: Although Coventry has diversified its supply chain in recent times, it remains reliant on upstream supply out of the US and China. A loss of relationship could result in operational disruptions while alternative suppliers are sourced.

Force majeure and COVID-19: A combination of factors including supply to shipping, government mandated shutdowns and rising input costs may put pressure on sourcing materials and also limit CYG's ability to supply to customers on time.

Acquisition and integration risk: CYG's growth strategy involves acquisitions that have inherent due diligence, capital allocation and business integration risk.

Legacy issues: In 2007, CYG entered into a single term twenty year lease for a large warehouse in Redcliffe, WA. Following exit from motor parts in 2012 this facility is no longer required and whilst the majority of property is now sub-let to long-tenured occupants if agreements were to be reneged this may result in financial loss to CYG (~$2.5m p.a.).

Liquidity risk: Coventry's daily liquidity is constrained due to c.65% of the free float being held by long-standing substantials.

Key personnel risk: Coventry Group's industrial turnaround has been driven by its culture and a service oriented business proposition, both of which we see as heavily influenced by existing management. A loss in key personnel could have a substantial impact on CYG until the skills that are lost are adequately replaced.

Company Overview

Company background

Coventry Group (CYG) is a multi-disciplinary industrial supply and services group primarily engaged in the distribution of industrial fasteners and specialist building supplies, as well as the design, distribution and servicing of fluid power systems in mining equipment. The group employs a total of 850 people across its 7 subsidiaries, and 82 stores and workshops throughout the Trans-Tasman. Its two operating segments are outlined below -

Trade Distribution: Coventry operates a focused fasteners (e.g. screws, rivets, bolts) branch distribution business. The company has well-established beachheads in New Zealand and Tasmanian commercial construction, operating on near class leading margins in highly regulated roofing and cladding (NZ) and steel reinforcement (TAS) segments of the market. Coventry also jointly distributes branded hardware (Milwaukee, Stanley, Makita) and consumables (Ansell, Bostik, Paramount) direct to customer, earning ancillary revenue through manufacturer rebates.

Fluid Systems: Coventry distributes variable parts and provides on-site contract services for mobile and fixed plant heavy machinery. The company focuses on hydraulic, pneumatic (primarily refuelling), lubrication and fire suppression systems and is for the most part leveraged to the maintenance of iron ore and coal handling and processing equipment. More recently, CYG has begun diversifying the revenue base by geography (TAS and SA) and industry (agriculture, construction and defence) through acquisitions.

Figure 1 – Coventry Group at a glance

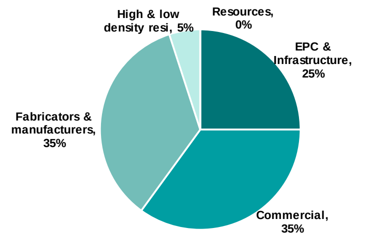
Coventry Group

Trade Distribution - $170.3m FY21 revenue	Fluid Systems - $119.1m FY21 revenue
The importation, distribution, and marketing of industrial fasteners, construction supplies, and cabinet making hardware through a network of 49 branches in Australia and 16 branches in NZ Integrated industrial supply program delivering an agile procurement solution and on-site expertise	A complete service provider: offering on and off site hydraulic repair and maintenance to customers including miners, mining contractors and original equipment manufacturers 'Job and shoptype' selling model spread across 17 workshops in Australia

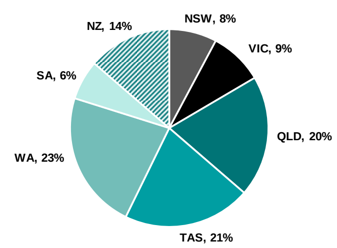
Konnect & Artia Australia	Konnect & Artia New Zealand	Nubco	Cooper Fluid Systems	Torque Industries	Recent Acquisitions
• Pre-2017 revenue + margins were volatile and declining • $6.8m EBITDA turnaround to break-even in FY21 • Improving order book and cost base repositioned for earnings leverage	• Specialises in supplying to NZ's highly regulated roofing and cladding market • Level of service shown to support margins roughly double closest peers	• Largest independent Tasmanian industrial supplier • Specialist in hardware for steel reinforcing and formwork • Acquired in 2019 for $36m (6.0x FY18 EBITDA)	• A leader in lubrication and filtration solutions for fixed and mobile plant machinary • Well diversified across 'repair and repeat' maintenance work, driven by iron ore and coal production	• Diversified South Australian engineering company across agriculture, construction, defence • Acquired in 2018 for $10.5m (4.0x FY19 EBITDA)	• Recent acquisitions of Fluid Power Systems (1.8x EBITDA) and H.I.S. Hose (3.8x EBITDA) are small however continue to dilute concentration of revenue by region and sector

Customers	Customers
• Trade: Largest customers are tradesman and commercial building companies requiring supplies and on-site expertise in construction works • Manufacturing: General downstream industries that use metal fasteners as intermediate inputs • EPC/Infrastructure: Head contractors developing infrastructure projects as well as subcontractors brought on to complete operations	• Iron ore and coal customers include mine operators 50%, contractors 30% and OEMs 20% (Caterpillar, Komatsu, Atlas Copco, etc) • Major projects increasing in scope and value for BHP, BMA, CVX, FMG, GLEN, RIO, WPL • Improving sector demand in agriculture and defence, both of these customers increasing as a share of revenue

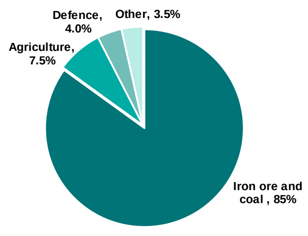
Trade distribution FY21 revenue (BPe)



Coventry Group FY21 revenue by region (BPe)



Fluid Systems FY21 revenue (BPe)



Drivers	Drivers
• Strong directional trends in commercial construction driven by industrial warehousing, manufacturing being reshored to Australia • Federal and state government expenditure policies expected to be a delivery mechanism for pandemic recovery - $225bn infrastructure budget to FY24 • Fragmented industrial trade opportunity - limited competitors offer same service intensive offering • Smaller drivers are growth in general manufacturing activity, DIY and renovations markets	• Mine operators preferring flexibility: (1) greater propensity to outsource maintenance; (2) mineral production pushed through multiple rebuilds of fleets; and (3) brownfields projects and mine reopening • Increasing strip ratios, mining overburden and volume of dirt moved (+4.2% CAGR) • Commodity prices support near-term outlook for fleet utilisation on the East Coast • Agriculture: Production cycle supported by near record crop tonnage and planted acreage • $90bn Naval infrastructure program to replace Collins-class vessels

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

A compelling industrial turnaround story

Established in 1929 after Founder Mr Ronald Kyle acquired a West Australian car dealership out of liquidation, Coventry's early growth was largely funded through being a limited distributor of Ford and Holden motor parts. Active M&A in the 90's and early 2000's sought to diversify away from the auto aftermarket and included, *inter alia*, the acquisition of a number of regional fasteners, cabinets and fluids businesses later combined into CYG's two legacy brands remaining today – Konnect & Artia and Cooper Fluid Systems.

Since peak revenue of $485m in 2006, a ten-year period of declining sales and volatile margins - exacerbated by the GFC and cyclical lows of the mining cycle in 2014 to 2016 - forced Coventry's exit from its bitumen and auto after-market businesses. We consider 2017 to be an important inflexion point: marking both CYG's sales trough and first year of what is now an increasingly compelling industrial turnaround story led by Robert Bulluss' new management team.

Coventry's $23.1m EBITDA (pre-AASB 16) turnaround since 2017 has principally been driven through the legacy businesses of Konnect Australia & New Zealand and Cooper Fluids (estimated combined +$13.7m), whilst we believe the company's four recent acquisitions have contributed roughly +12.2m[1].

Figure 2 - The turnaround so far

2017	Strategy reset led by new CEO Robert Bulluss. Shift to hub and spokes selling model - scaling, restocking branches and decentralised order fulfilment
2017	Revenue reaches low of $151m, period of increased provisioning, CYG reports statutory loss of -$35.5m
2017	Exit of non-core Gaskets brand, cost out brought forward, in branch stock availability >95% (up from 75%), DIFOT levels improved by 40%
2018	Raising of $15.0m to fund acquisition of Torque Industries and fund reinvestment into Konnect Australia
2019	Raising of $27.6m to fund acquisition of Nubco
2019	Return to breakeven underlying EBITDA marks $9.5m improvement in two years
2020	Coventry records (at the time) a record Cooper Fluids year with revenue of $82.1m, Trade Distribution momentum halted with revenue flat as a result of COVID-19
2021	Small acquisitions of H.I.S. Hose (VIC) and Fluid Power Service (TAS) bolsters fluids coverage
2021	$50m borrowing base facility against receivables and inventory secured with NAB
2021	EBITDA (pre-AASB 16) turnaround of $23.1m since FY17, undergeared balance sheet (0.8x ND/EBITDA), breakthrough year for KAA returning to EBITDA breakeven

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Division Overview – Trade Distribution

Coventry's primary value-add across its three trade distribution businesses is an agile service. The company aims to be a one-stop-shop procurement service for fasteners and other specialised construction materials by offering (1) high in-store stock availability; (2) roughly ~80,000 fasteners SKUs (which is roughly 8x most tier 1 retailers)[2]; and (3) a mobile sales team to give customers on-site expertise.

In New Zealand and Tasmania, this level of service has been shown to support higher margins and we believe helps protect Coventry from wholesale bypass. Particularly in a tightening market for critical spares, we see these as defining capabilities for the future.

Figure 3 - Coventry Trade Distribution subsidiaries

KONNECT FASTENING SYSTEMS artia nubco

SOURCE: COMPANY DATA

[1] Improved contributions of +13.7m and +12.2m since FY17 exclude Coventry's centralised cost center division. Costs totaling $12.2m in FY21 represent 4.2% of sales (down from 6.1% in FY17).

[2] *The suitability of a fastener is highly dependent on its application. Factors to consider include the strength required (material grade), corrosion factors (protective coatings), head type and thread form fit. Whilst large retailers often have direct wholesaling links with manufacturers/importers and to a certain degree determine industry pricing, we believe Coventry largely operates in a segment of the market requiring professional expertise and a large stock range typically not available at a generalist hardware company.

A brief summary of Coventry's three TD subsidiaries is presented below:

- **Konnect & Artia Australia (KAA):** New management inherited Coventry's legacy TD brand after it had shrunk roughly 10% YoY for four years prior to FY17. From FY17-21, investments have been made into a number of turnaround initiatives, including (1) private label penetration and increased fasteners SKUs (i.e. a greater focus on the value proposition); (2) increasing Coventry's regional leadership and investing in a larger sales force; (3) supply chain cost outs; (4) tendering for sub-contracts on major infrastructure projects; and (5) a number of store rationalisations throughout FY17-20.

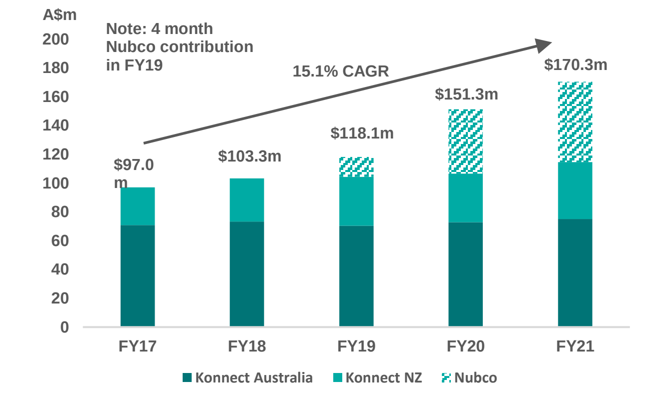
  Konnect Australia returned to break-even EBITDA in FY21, marking a +$6.8m turnaround since FY17. After four years of relatively stagnant sales, the business is now showing early signs of top line growth - in the latest quarterly Coventry stated KAA revenue was up 17.3% YoY - and we think this suggests an inflexion point is approaching.

- **Konnect & Artia New Zealand (KANZ):** Konnect in NZ has historically been a significant contributor for the group. The company has historically generated EBITDA margins at least twice those of closest competitor Steel & Tube (~12% versus ~6%) which we believe has been driven by stricter pricing policies, lower overheads and a more disciplined store roll-out strategy. Fasteners used in roofing and cladding in New Zealand are highly specialised (due to seismic, fire and façade requirements) and we believe there is a considerably larger roofing middle market in NZ than in Australia.

- **Nubco:** Nubco operates seven stores and is Tasmania's largest independent industrial hardware supplier. As more of a traditional trade focused hardware retailer, Nubco's product mix is biased towards hardware (50%) and reinforcing steel products (35%) over fasteners (15%). End customers are also more evenly spread across trade (65%), industrial (20%) and retail (15%).

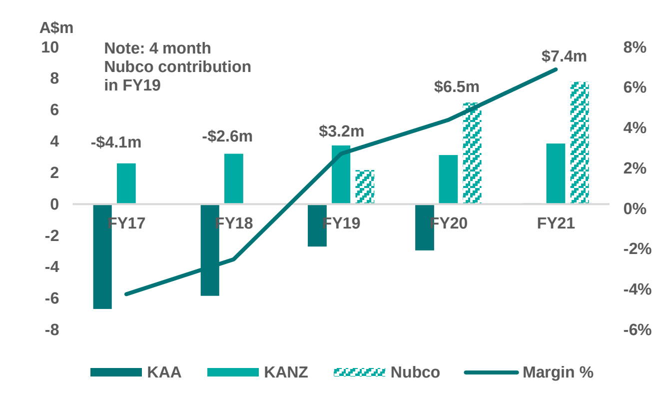
  Nubco has historically demonstrated top-line growth well in excess of its underlying markets (12.0% to 12.8% CAGR since FY14) and margins higher than tier 1 competitors (Bunnings, Placemakers), which we attribute to a strong local brand name built over nearly 40 years in operation. The business was bought in 2019 for $36m (6x trailing EBITDA).

Figure 4 - Trade Distribution revenue growth (BPe)[3]



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 5 - Trade Distribution contribution - pre-AASB 16 (BPe)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

[3]Coventry no longer breaks out the performance of each subsidiary, hence their size, growth and margin in FY20 and FY21 are estimated by backing out acquisitions, one-off orders and using company commentary where required.

Exporting a successful fasteners service across the ditch

Key to our investment thesis is Coventry's ability to replicate successful service-intensive models in NZ and TAS into the rest of Australia (and grow a business roughly 3x the size). Coventry believes the cost base is now largely fixed to support a $100m+ Konnect & Artia Australia business (currently ~$75m BPe), suggesting that there are sizeable benefits of operating leverage at current levels.

Our view is that Konnect Australia will grow to $100m over roughly four years and at that point should contribute $7.5m in EBITDA to the group (currently ~$0.1m). We expect growth in the business to be delivered through:

- **Infrastructure footprint on Eastern Seaboard:** New management has invested heavily in business development and now appears to be realising a portfolio of sub-contracts ($1-2m) in transport and high-rise infrastructure. We believe Australian trade distribution will continue pivoting towards the operations of an integrated EPC business and with this see scope for CYG to shift up the revenue curve as returns on the sales force are fully realised.
- **Larger markets through product mix:** Historically, fasteners have represented 80% of Coventry's trade sales. This is far greater than leading US distributor Fastenal's ~45% in 2014 (prior to integration into industrial vending machines) and suggests there is low hanging fruit to increase sales through branded hardware stocking. According to the company, a number of legacy OEM rebate agreements are also in the process of renegotiation, with support from the knowledge transfer of Nubco's hardware distribution business model and CYG's increased scale.
- **Winning back SME contractors:** Early signs of revenue growth implies Coventry is beginning to restore confidence in the Konnect Australia brand with its trade customers. We see SME penetration as an indicator of quality – margins tend to be vertical and volumes less cyclical than in tendered projects.
- **Branch densification and staff:** Across the segment, Coventry operates a total of 62 trade distribution stores (42 KAA, 16 KANZ, 7 Nubco). Store numbers grew by 3 in FY21 and the company has identified a target of 2-3 openings per year in Australia and 2-3 more in total in New Zealand going forward. Coventry has recently cited improved employee retention and the return of regional leadership from competitors as reasons for returning to a disciplined store opening strategy.

  We expect Coventry to broadly target the store economics of NZ when expanding the branch network into under-served catchments throughout the network.

Figure 6 - Coventry Group store metrics

Coventry Group as at June 2021	Target Trade Distribution stores	Konnect NZ store economics	Konnect Australia store economics	Nubco store economics
Revenue per store ($m)	$2.00m+	$2.71m	$1.79m	$7.43m
Pre-AASB 16 EBITDA per store ($m)	$0.20m+	$0.26m	$0.00m	$1.06m
Store EBITDA margin (%)	10%+	~9.8%	~0.1%	~14.25%
Number of stores	3-4 p.a.	16	42	7
All incl. opening cost ($m)	**$0.30m**			
Payback period (BPe)	**~2.5 yrs**			

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Superior service in a fragmented market

The combined Australia and NZ hardware wholesaling market is estimated to be $21.2bn ($16.2bn Aus, $5bn NZ), with industrial fasteners and related consumables making up a c.$1.1bn subset of this market. Headline growth generally approximates the underlying economy and is driven by new builds, household incomes and population growth. Coventry's competitive landscape is summarised as follows:

Dedicated fasteners specialists: Particularly in comparison to the US (dominated by Fastenal) and UK (Travis Perkins), the networks distributing fasteners in Australia and NZ are highly fragmented. By sales, Coventry is the second or third largest fasteners specialist in Australia (behind Total Fasteners and United Fasteners) and NZ (behind steel generalist Steel & Tube and possibly Wurth). All players hold less than 10% market share, presenting an opportunity to consolidate scale and take on larger tools retailers, in our view.

Trade focused industrial suppliers: Major competitors include specialist tools retailers Blackwoods (owned by Wesfarmers) and Total Tools (owned by Metcash). Their value propositions are the opposite of Coventry's in that they sell branded hardware first, with fasteners considered the ancillary. Retailers do not offer the same in-field service as Coventry, however a differentiator for Total Tools is its fully integrated ERP, strong brand recognition and loyalty system.

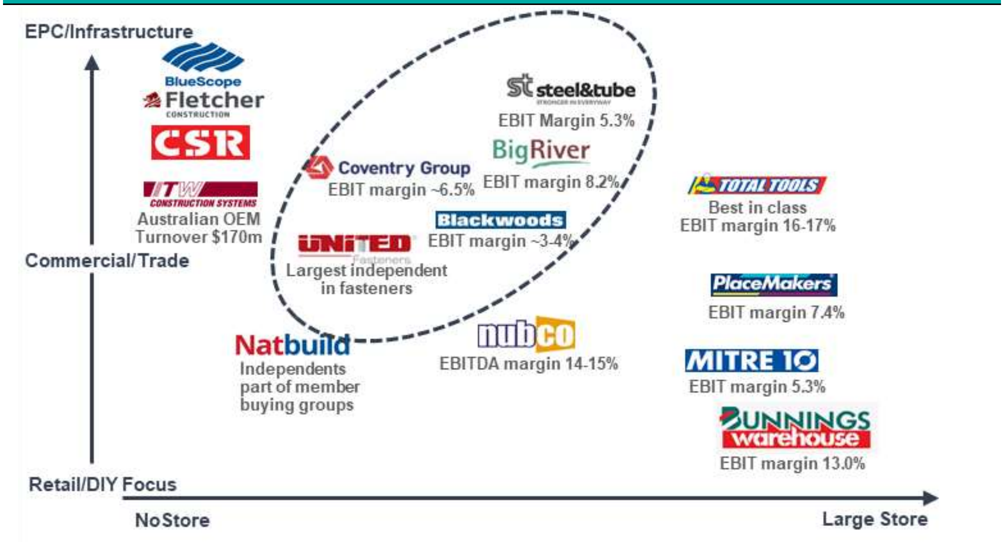
Member building supplies groups: Over 90% of hardware wholesalers turnover less than $10m p.a. and hence many small independents and sole traders are part of member buying groups which enable them to compete with CYG on cost. In general, these are more common to Australia with Natbuild being the largest in size.

Local fasteners OEMs: Manufacturers Bremick and ITW (Ramset) together make up about 35% of Australia's fasteners manufacturing industry and both challenge the market through direct distribution models and limited partnerships with distributors.

Prime contractors and building suppliers: In Australia, these companies may sub-contract low share of job tasks including fasteners procurement out to distributors like Coventry. We consider the NZ to be more of a duopoly – the major building suppliers Fletchers (Placemakers) and Carters are both vertically integrated and hence generally internalise fasteners and other consumables procurement on large builds.

Hardware retailers: In general, we believe CYG competes relatively separately to the largest DIY/home renovation retailers (Bunnings, Mitre 10), although their scale to some degree determines pricing in the market.

Figure 7 - Fasteners and industrial supplies competitive landscape



SOURCE: BELL POTTER SECURITIES ESTIMATES

Market drivers of Trade Distribution

Coventry's dedicated fasteners and hardware service is targeted at customers – traditionally commercial building companies and tradespeople – requiring expertise in sophisticated construction works. Customers typically purchase supplies direct on a per-project basis, hence we see the company primarily leveraged to non-residential new builds, as well as infrastructure growth as the sales mix pivots towards government projects.

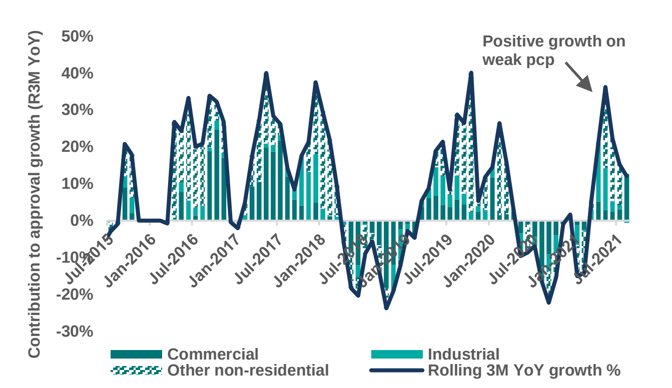
COMMERCIAL CONSTRUCTION

Commercial construction can be volatile month to month, however work approved on a 3-month basis had largely recovered to pre-pandemic levels prior to the most recent lockdowns. Recent directional trends may have been driven by responses to international supply chain disruptions, as industrial warehousing (+25 to 35%) along with some early signs of domestic manufacturing being re-shored (+25% YoY) were major contributors of approvals growth. We see Coventry structurally leveraged to both of these themes which appear to be increasingly in the limelight of policymakers.

More recently, momentum in Australian commercial work approvals has slowed, declining -8.4% in July 2021 despite a weaker pcp baseline. Product supply chain challenges are reportedly the largest contributor of project delays, however data suggests the overall number of delays has remained relatively stable since 2019. Whilst cancellations of work are still not present, at this stage we believe this will result in an extended cycle for building materials, and push out a sales lift for CYG to a later 'reopening' date (assumed 2H22e).

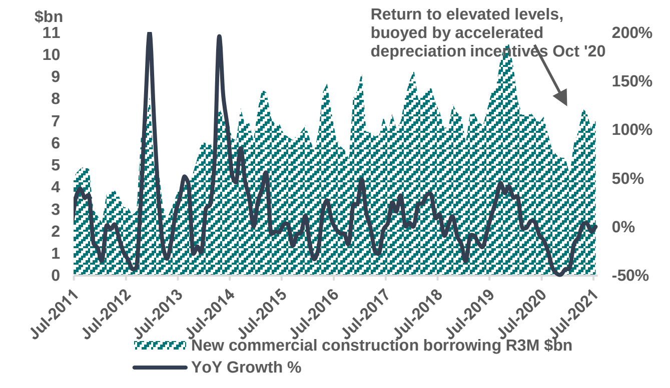
Coventry generally stocks SKUs from a number of different sources, and it also took a 12 month directional view on its inventory position at the start of FY21. If future building delays due to product non-availability were to reach similar levels to June '20 (when ~40% of new starts experienced delays of 3 months or more), we would view Coventry as positioned better than most to navigate such challenges.

Figure 8 – C&I building approvals growth by value (R3M YoY)



SOURCE: ABS, BELL POTTER SECURITIES

Figure 9 – New borrowing for new commercial construction R3M

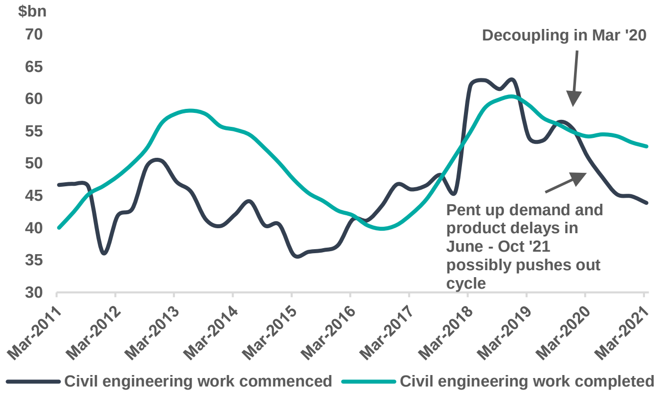


SOURCE: ABS, BELL POTTER SECURITIES

SALES UPLIFTS FOLLOWING BUILDING STARTS ACROSS SUPPLIERS

The lead time between building start and sales benefit depends on the type of construction work and on when products are sold into the construction process. For construction materials (Adbri and Boral) and formwork (Acrow) uplift is generally more immediate from start (less than 3 months), whereas for bricks (Brickworks) and bathroom (GWA) supplies required towards the end of a build, lead times can be out to 12 months. With CYG well-spread across the project lifecycle through concrete/steel reinforcement, roofing/cladding and longer tenured infrastructure projects we assume a weighted lead time of around 3 months.

Figure 10 - Civil commencements vs completions R12M



SOURCE: ABS, BELL POTTER SECURITIES ESTIMATES

Figure 11 - Lead time from building start to revenue

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

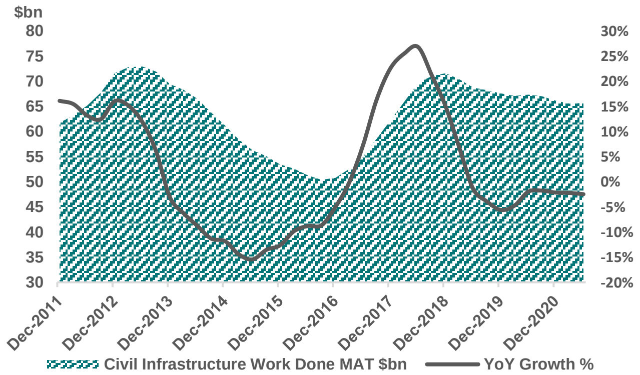
A BENEFACTOR OF BIGGER GOVERNMENT

With infrastructure and services expected to be key delivery methods for the pandemic recovery, the outlook for civil construction particularly down the East Coast of Australia remains strong. Approximately $225bn has been allocated for general government sector infrastructure funding in Australia over the four years to FY24e – a 26% increase over last year's Federal Budget.

Major projects Coventry has disclosed to have worked on, or is currently still working on, include the M1 upgrade, WestConnex, Westgate Tunnel, Cross River Rail, The Ribbon Building, Wulguru Rail wagon re-line (IPL), Bankwest Stadium, Sydney Football Stadium and the Eastern Busway (Auckland).

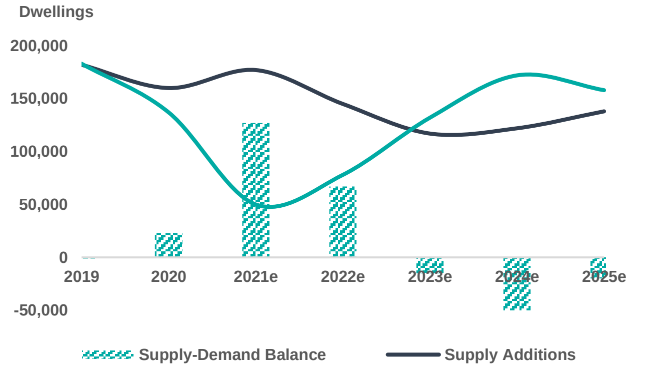
We believe spending beyond the expected peaks of 2024 will require a continued willingness for government to run a deficit, both at state and federal level. This will depend on a number of factors not limited to recovery in population growth (including net overseas migration) and need for new housing supply (and associated infrastructure investment).

Figure 12 – Civil infrastructure work done R12M (ex. mining)



SOURCE: ABS, COMMONWEALTH BUDGET AND BELL POTTER ESTIMATES

Figure 13 – Change in supply-demand balance for dwelling



SOURCE: NATIONAL HOUSING FINANCE AND INVESTMENT CORPORATION

Division Overview – Fluid Systems

Coventry's fluids division has traditionally been a strong performer and in recent years has benefitted from stronger-for-longer iron ore, and to a lesser extent coal production.

Together we estimate these two commodities make up c.85% of fluids revenue (~$101.0m in FY21), primarily through Coventry's main subsidiary Cooper Fluid Systems (part of the group since 1997). More recently, CYG has begun diversifying the revenue base by geography and industry through three acquisitions summarised briefly below:

Torque Industries (TI): Torque Industries is an Adelaide based engineering company providing mainly hydraulic and pneumatic products and services. It demonstrates stronger margins than Cooper Fluids and we believe is more capital light – albeit is about a third of the size. TI has a number of global strategic supplier relationships including Parker, Denison, Monarch, Sun Hydraulics, Larzep, and Black Bruin, whilst its broader customer base (agriculture, manufacturing, defence) offers the group diversification benefits. The company was bought back in 2018 for $10.5m (<4x trailing EBITDA in 2018).

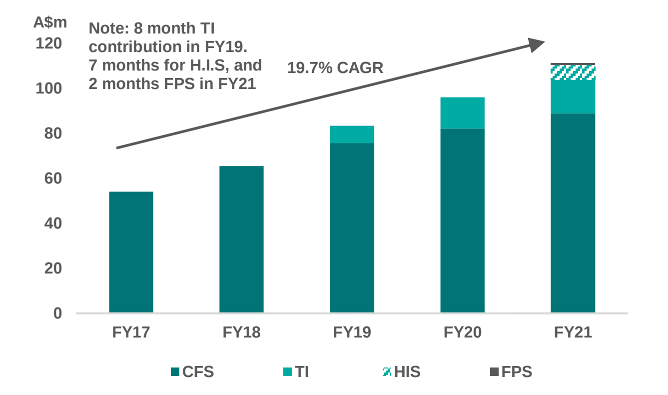
H.I.S. Hose (HIS) and Fluid Power Systems (FPS): Both businesses operate specialist fluids business units and as such offer time and cost effective expansion in VIC and TAS fluids markets. Victorian based H.I.S. Hose focuses on industrial hose, pneumatic fittings and ventilation systems (agriculture, oil & gas) whilst Tasmanian based FPS primarily distributes Bosch Rexroth and Hydac hydraulic systems (construction, agriculture). Both acquisitions were completed during FY21: H.I.S. for $4.6m (3.8x EBITDA) and FPS for $2.1m (1.2x EBITDA). Coventry aims to integrate both of these businesses into Cooper Fluids over time.

Figure 14 - Coventry Fluid Systems subsidiaries

COOPER FLUID SYSTEMS TORQUE INDUSTRIES H.I.S. HOSE FPS

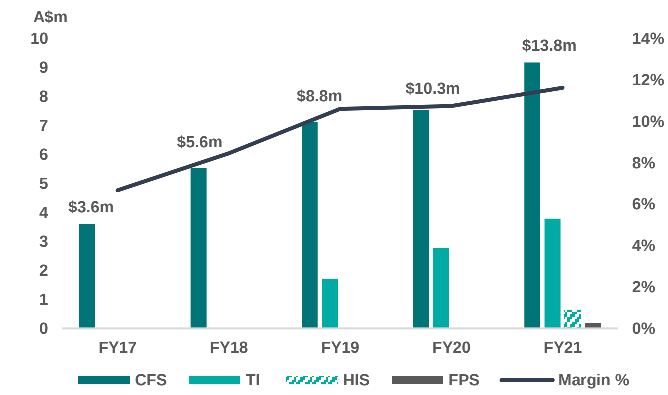
SOURCE: COMPANY DATA

Figure 15 - Fluid Systems revenue growth (BPe)[4]



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES, EX. ONE-OFF SALES $8M FY21

Figure 16 - Fluid Systems contribution - pre-AASB 16



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

[4] Coventry no longer breaks out the performance of each subsidiary, hence their size, growth and margin in FY20 and FY21 are estimated by backing out acquisitions, one-off orders and using company commentary where required.

A closer look at Cooper Fluid Systems

Cooper Fluid's (CFS) is mainly a lubrication, oil filtration and fire suppression specialist. The company's customers include mine operators (50%), as well as contractors (30%) and major OEMs (20%). In a competitive market, the company differentiates itself through its multi-disciplinary service, mobility and flexible sourcing. Its two main services include:

- **Distribution and installation (~55% of CFS):** CFS sells branded parts used to refurbish existing mobile fleets (maintenance), and to a lesser extent upgrade new equipment prior to first use.

  The largest competitors include licensed dealers and servicers of major OEM equipment such as WesTrac (Caterpillar) and Pirtek (Komatsu). Again, Coventry competes more directly with a number of regional, multi-brand fluids distributors with the most like-for-like being Custom Fluid Power.

- **Design and service (~45% of CFS):** Larger, more specialised contract engineering work also centring on maintenance, including the shutdown of draglines, asset stripping and inspection, and parts design and fabrication. The company's 'job and workshop' type work has been growing during this cycle, and we view this as a product offering that is more likely to maintain pricing given it guarantees availability of critical spares in a tightening market.

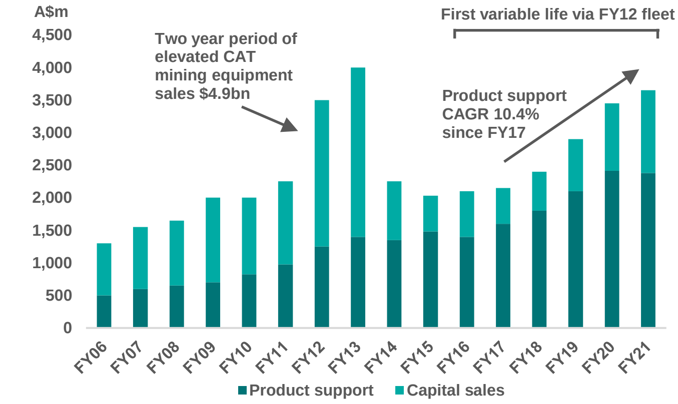
Prolonged history of increasing market share

We see WesTrac's product support division as a reasonable proxy for industry demand in CYG's distribution and service segments. Since FY17, WesTrac's divisional revenue has grown at a CAGR of 10.4% versus Cooper Fluid's 12.6% to 13.3%, which we believe implies a prolonged period of market share gain. Notably, WesTrac support revenues have grown every year bar three since 2006.

Whilst figure 18 below highlights the historically strong operating leverage of the Cooper Fluids business, Cooper Fluids' support services and equipment parts distribution are now both firmly leveraged to mining production and maintenance (whereas ten years ago mix was more focused on capital sales and mine development). In recent years, the company has also grown an order book of diversified tier 1 mining companies and contractors (e.g. BHP, Rio Tinto, Fortescue, Glencore, Alumina, Chevron).

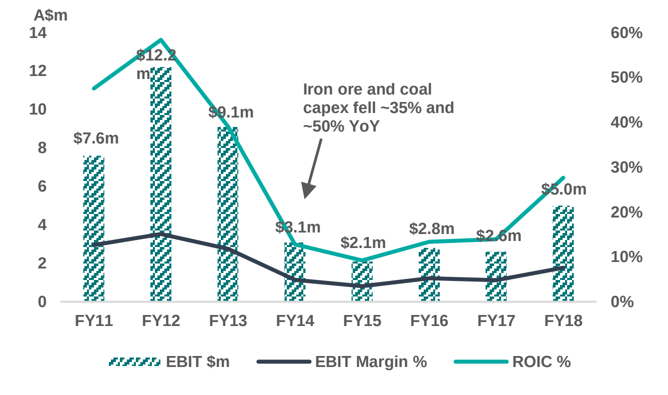
We are of the view that, although still cyclical, Coventry's fluids business is evolving into a more recurring offering and (to a certain extent) is de-risking itself from growth capex budgets. As Cooper Fluids makes up nearly a third of Coventry's group revenue, we see this part of the business as an attractive mid to late cycle play on iron ore and coal investment cycles.

Figure 17 - WesTrac capital (CAT) and product support sales



SOURCE: SVW, BELL POTTER SECURITIES ESTIMATES

Figure 18 - Historical operating leverage of Cooper Fluids



SOURCE: COMPANY DATA, ROIC CALCULATED USING COMPANY DISCLOSED CAPITAL BASES

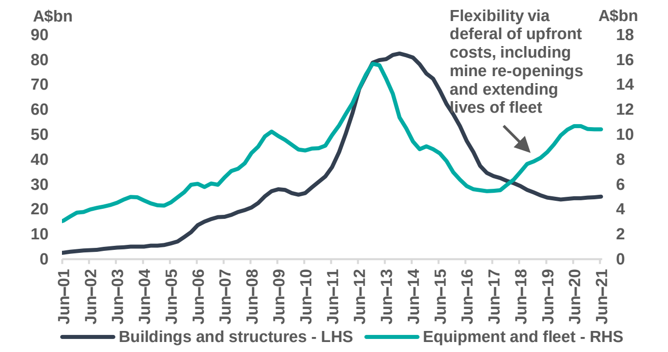
Market drivers of Fluid Systems

The Australian industrial maintenance, repair and operations (MRO) market is estimated to be $23bn. We consider key drivers within Coventry's segment of the market to include:

THE UPTAKE OF MAINTENANCE OUTSOURCING BY MINERS

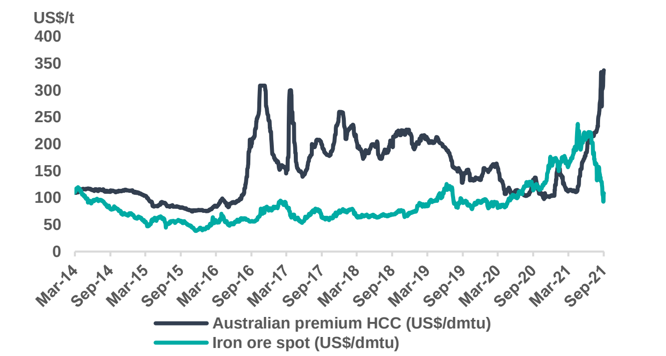
The preference over the past decade has been for large miners to internalise predictable servicing requirements and outsource more variable work (unplanned or peak load maintenance and general equipment shutdowns) than in previous peaks. Although variable throughout the cycle, historically outsourcing increases nearer to full cycle as capex intentions and conversion rates moderate. More recently the focus of capital spend has shifted towards flexible production schedules – including mine reopening (brownfields) and investments in equipment – an underlying theme that we see CYG leveraged to.

Figure 19 – Capex trends through the cycle (R12M)



SOURCE: ABS, BELL POTTER SECURITIES ESTIMATES

Figure 20 – Iron ore and hard coking coal prices (US$/dmtu)



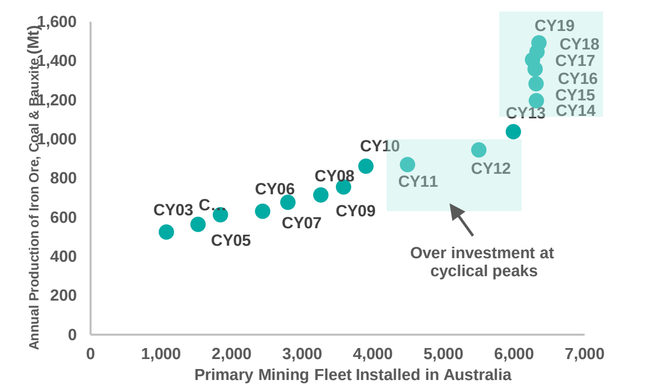
SOURCE: FAST MARKETS

AGEING INSTALLED FLEET BASE

We believe one of the major structural shifts that has been underpinning demand for Coventry's support services over the last four to five years is an ageing mobile fleet base. Following a period of sustained overinvestment into previous peaks in '12, miners have generally deferred upfront capex and pushed mineral production through multiple rebuilds of their installed base during this cycle.

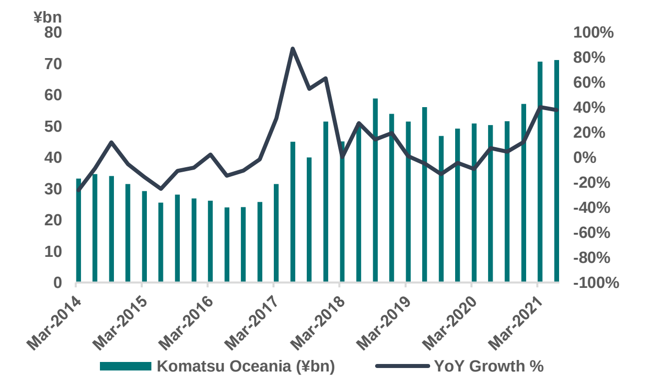
More recently, we have seen strong demand for key loading tools, including large wheel loaders and hydraulic mining shovels (excavators), and forward order books for new mining machinery (Atlas CopCo, Komatsu, Liebherr) are approaching levels seen at the height of the last cycle. In Komatsu's case, sales have exceeded previous cycle peaks for the past four quarters. We would ordinarily view a replacement cycle of new kit as simplistically negative for near-term MRO, however so long as delays/long lead times on capital equipment are still present (currently out to 18 months for some larger kit) we believe the retirement of ageing fleet is more likely to be gradual.

Figure 21 - Australian mineral production vs installed fleet



SOURCE: EHL, QUARTILE ONE

Figure 22 - Komatsu quarterly sales trends (YoY change)



SOURCE: COMPANY DATA, BELL POTTER SECURITIES

BULK COMMODITY PRICES AND PRODUCTION

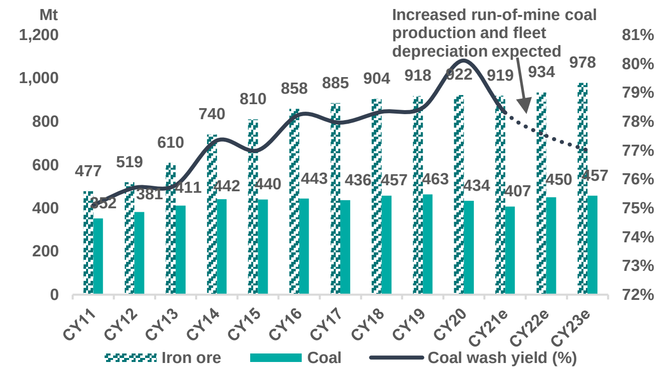
Iron ore: In the last five years, Australian iron ore production has grown at a CAGR of 2.6%. Although far from the peaks of $79.6bn in 2011–12, the value of major iron ore projects currently being considered ($49bn) is at its highest point since 2014. A number of projects at feasibility stage and beyond also include major capacity increases for some of CYG's existing customers (BHP +80mt, Rio Tinto +95mt, Mineral Resources +4.6mt).

Recent production recoveries in Brazil (+12.5% YoY), China's directive to lower steel production (-11.6% pcp expected in 1H FY22e) and market caution over the potential failure of its second largest property group Evergrande has filtered into markedly lower iron ore prices in the near-term. Whilst we highlight near-term downside risk to CYG's pricing (margin), the experience of WesTrac's product support division (15-year CAGR of 11.0%, revenues only decreased YoY three times) suggests that overall demand for repair work is relatively commodity price inelastic over the long-run.

Coal: Australian metallurgical and thermal coal prices rallying to all-time highs (up +297% and +206% in USD terms during 2021) should offset some pricing pressure faced in iron ore. Overall we see repairs demand as relatively more price sensitive in coal (versus iron ore). Pricing to a greater extent determines the cut-off grade deposit (i.e. the amount of strip or waste per ton) and historically the production of coal has been more variable.

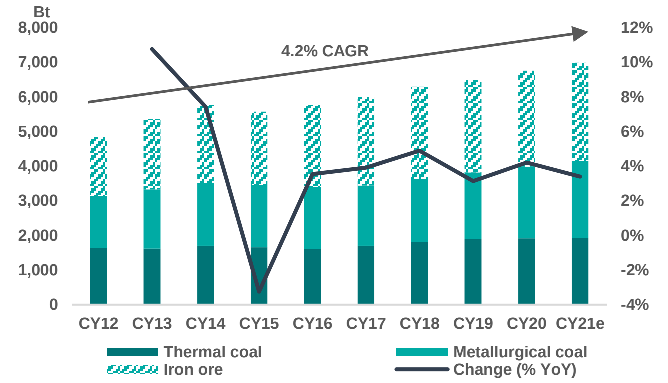
Increasing strip ratios in coal production is also a structural issue emerging across the industry due to maturing mines and prior years of high grade mining transitioning to higher strip production. Early signs of lower coal wash yields (down roughly -200bps YTD) and tightening global coal supply lead us to be constructive on the outlook for repairs volumes over the forecast period.

Figure 23 – Australian iron ore and coal volumes outlook (Mt)



SOURCE: DEPARTMENT OF RESOURCES AND ENERGY, BELL POTTER SECURITIES

Figure 24 – Total material movement (Bt)



SOURCE: EHL, QUARTILE ONE, 2020

Future opportunities in Fluid Systems

Coventry has identified a number of growth opportunities in adjacent industries, which it is either already pursuing, or will look to pursue over the near-term:

- **Agriculture (~8% Fluid Systems FY21 revenue):** Coventry's servicing of machinery used in broad acre farming is increasing as a share of revenue and Australia's current production cycle is supported by near record crop tonnage (~59.0mt) and planted acreage (~24.5m ha) forecasts.
- **Defence (~4% Fluid Systems FY21 revenue):** Coventry has identified Australia's $90bn naval infrastructure program as a future opportunity for growth in their fluids systems segment.
- **Oil and gas:** Generally involving the maintenance of coal seam gas fields. Coventry will target O&G as extraction activity increases in coming years due to gas supply pressure in the Australian energy market.

Inorganic growth strategy

Existing management has substantial buy-side transactional experience and a recent track record of successfully integrating bolt-on acquisitions.

Figure 25 - Coventry recent history of acquisitions

Date	Target	Consideration	Trailing Multiple (EBITDA)	LTM Revenue (Margin)	Funding
Oct '18	Torque Industries	$10.5m	~4x ($2.6m)	$14.0m (18.6%)	Raise ($15.0m)
Mar '19	Nubco	$36.0m	6x ($6.0m)	$39.4m (15.2%)	Debt ($10.0m) + Raise ($27.6m)
Dec '20	H.I.S. Hose	$4.6m	3.8x ($1.2m)	$11.5m (10.4%)	Debt (Scotch Pacific)
May '21	Fluid Power Systems	$2.1m	1.8x ($1.2m)	$4.9m (24.5%)	Debt (NAB)
Total		**$53.2m**	**4.8x ($11.0m)**	**$69.8m (15.8%)**	

SOURCE: COMPANY DATA

As a collective, acquisitions operate on higher margins (~14.5%) than the rest of the group (~6.3%). We believe this is at least partially due to these operations generally existing within local, niche pockets of demand where service by a larger peer is relatively difficult to disrupt.

To date, procurement benefits, removal of duplicate cost structures and expanded distribution capabilities (product range and added pathways to market) have contributed to the extraction of synergies in the region of 0.5-1.7% of the merged sales base.

Figure 26 - Synergies from acquisitions and cost out

Action	Synergies	Merged revenue	Synergies to sales
FY19 Nubco procurement savings	$1.0m	201.3	0.5%
FY19-21 KAA supply chain, distribution centre, outbound freight efficiencies	$4.8m	289.4	1.7%
Average			**1.1%**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Given Coventry's relatively under geared balance sheet (ND/EBITDA 0.8x), we see scope for accretive acquisitions over the near-term. Management has previously guided to maintain a disciplined approach to acquisitions, with criteria including the following:

- **Industrial supply exposure:** Presumably similar lines of distribution (fasteners, building supplies, hydraulics) albeit commodity/sector exposure is likely to continue diversifying away from iron ore and coal.
- **Earnings accretive:** We expect the upper bound Coventry would be willing to pay would be similar to Nubco's multiple back in 2019 (6x LTM EBITDA).
- **Management retention:** Owners and key personnel have in the past been retained and integrated into the broader CYG network.
- **Turnover exceeding $10m.**
- **P&L & Cash flow positive.**

Financials

Historical drivers of growth

In the time since new management took over in May '17, headline growth has averaged 17.7% p.a. and by sales the company has nearly doubled in size ($289.3m in FY21 vs $151.0m FY17). We believe between $57.4m and $62.4m of this growth has been organic, whilst $75.9m to $80.9m has been found by Coventry's expansive inorganic growth program that has seen a total of $53.2m invested into its four new businesses.

Coventry no longer breaks out the performance of each subsidiary, however we make the following estimates relating to their size, growth and margin through backing out acquisitions, recent one-off orders and using company commentary where possible.

Figure 27 - Coventry Group subsidiary estimates

Coventry Group as at June 2021	FY21 Revenue	FY17-21 Revenue Growth	EBITDA Margin FY21 (pre-AASB 16)
Trade Distribution	**$170.3m**	**15.1% p.a.**	**6.9%**
Konnect Australia	$74.0 - $77.0m	1.1% - 2.1% p.a.	0.1%
Konnect New Zealand	$39.5m	10.9% p.a.	9.5% - 10.5%
Nubco	$53.8m - $56.8m	11.6% - 13.1% p.a.	13.5% - 15.0%
Fluid Systems	**$119.1m**	**21.8% p.a.**	**11.6%**
Cooper Fluid Systems	$87.0 - $89.0m	12.6% - 13.3% p.a.	9.5% - 10.5%
Torque Industries	$14.8m - $16.8m	N/A	19.0% - 25.5%
H.I.S. Hose	$6.6m	N/A	9.5%
Fluid Power Systems	$0.8m	N/A	24.5%

BELL POTTER SECURITIES ESTIMATES, H.I.S. AND FPS CONTRIBUTED TO THE GROUP FOR 7 AND 2 MONTHS IN FY21, CFS REVENUE IS EXCL. ONE-OFFS

Key observations include:

- **Cooper Fluids Systems:** We believe Coventry's legacy iron ore and coal fluids business (CFS) has been growing at c.13% p.a. for the last four years, implying structural growth and increasing market share. Based on previous discloses of the CFS capital base, we believe the company is currently a >25% ROIC business.
- **Konnect Australia:** Existing management inherited a Konnect Australia business that had shrunk by ~10% YoY from FY14-17. Whilst this has proven harder than expected to turn around, KAA has been growing at around 3.5%p.a. over the last couple of years. Sales in Q1 FY21 were up 17.3% YoY and any incremental revenue or margin growth from here would be a major driver of earnings given its size.
- **Other major contributors:** In the last few years, major contributors to growth have originated from Coventry's strongholds in New Zealand's roofing and cladding (KANZ 10.9% p.a.) and Tasmania's steel reinforcement market (Nubco 11.6% to 13.1% p.a.). If Nubco's historically high growth and well above group average margins can be maintained this will be a major driver of group margin growth.
- **Acquisitions:** As a collective, acquisitions operate on higher margins (~14.5%) than the rest of the group (~6.3%). We believe this is at least partially due to these operations generally existing within local, niche pockets of demand where scale benefits are limited and service by a larger peer is difficult. Whilst it is difficult to break out Torque Industries' historical growth, it is the group's leader in margin and offers the benefit of diversification given its relatively separate end markets (defence, agriculture, oil & gas).
- **Long-run group EBITDA target:** Based on the existing business mix we believe an achievable long-run EBITDA (pre-AASB 16) target at group level is 7.0% in years following FY24e (9-10% post-AASB 16).

Income Statement

Figure 28 – Coventry forecast profit & loss ($m)

Year End 30 June	2020a	2021a	2022e	2023e	2024e
Trade Distribution	151.3	170.3	176.8	190.3	204.4
Fluid Systems	95.9	119.0	127.4	135.8	144.7
Inter-Company Adjustments	(0.1)	(0.1)	0.0	0.0	0.0
Group Revenue	**247.2**	**289.3**	**304.2**	**326.1**	**349.1**
Growth (%)	*22.8%*	*17.0%*	*5.2%*	*7.2%*	*7.1%*
Trade Distribution EBITDA (Pre-AASB 16)	6.7	11.7	13.6	15.2	17.9
TD EBITDA Margin %	*4.4%*	*6.9%*	*7.7%*	*8.0%*	*8.8%*
Fluid Systems EBITDA (Pre-AASB 16)	10.3	13.8	14.5	16.2	17.7
FS EBITDA Margin %	*10.8%*	*11.6%*	*11.4%*	*11.9%*	*12.3%*
Corporate & Other Costs	(10.3)	(12.2)	(13.2)	(13.9)	(14.5)
Corporate as % of revenue	*4.2%*	*4.2%*	*4.3%*	*4.2%*	*4.1%*
Group Underlying EBITDA (Pre-AASB 16)	**6.6**	**13.4**	**15.0**	**17.5**	**21.1**
Group EBITDA Margin (Pre-AASB 16)	*2.7%*	*4.6%*	*4.9%*	*5.4%*	*6.1%*
Growth (%)	*141.3%*	*101.3%*	*12.2%*	*17.1%*	*20.5%*
Consolidated AASB 16 EBITDA Impact	9.4	7.4	7.9	8.4	9.0
Group Operating EBITDA (Post AASB-16)	**16.1**	**20.8**	**22.8**	**26.0**	**30.2**
Group EBITDA Margin (Post-AASB 16)	*6.5%*	*7.2%*	*7.5%*	*8.0%*	*8.6%*
Other Income (Redcliffe Lease, Freight Recovery)	3.6	3.0	3.0	3.0	3.0
Total EBITDA	**19.7**	**23.8**	**25.8**	**29.0**	**33.2**
Total D&A	(12.0)	(11.8)	(11.3)	(11.7)	(12.0)
Total EBIT	7.7	12.0	14.5	17.3	21.2
EBIT Margin	*3.1%*	*4.1%*	*4.8%*	*5.3%*	*6.1%*
Net Interest	(4.8)	(5.8)	(5.6)	(5.6)	(5.6)
Profit Before Tax	**2.9**	**6.1**	**8.9**	**11.7**	**15.6**
Tax Expense	(0.3)	(2.5)	0.0	0.0	0.0
Normalised NPAT	**2.7**	**3.6**	**8.9**	**11.7**	**15.6**
Group Normalised NPAT Margin	*1.1%*	*1.3%*	*2.9%*	*3.6%*	*4.5%*
Growth	*2389.7%*	*35.8%*	*146.3%*	*31.3%*	*33.3%*
Significant Items (after tax)	(3.1)	3.6	0.0	0.0	0.0
Reported NPAT	**(0.5)**	**7.2**	**8.9**	**11.7**	**15.6**
Normalised EPS (¢ps)	3.0	4.0	9.8	12.9	17.2
Reported EPS (¢ps)	-0.5	8.1	9.8	12.9	17.2
Dividend (¢ps)	0.0	3.0	4.0	5.4	6.8
Key Assumptions					
Currency: AUD/NZD	1.05	1.09	1.09	1.09	1.09
Currency: AUD/USD	0.67	0.76	0.74	0.73	0.73

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

TRADE DISTRIBUTION OUTLOOK

- **Near-term constrained, cycle pushed out:** Trade distribution grew 12.6% in FY21 to $170.3m after cycling a 2H20 period constrained by COVID-19 related disruptions across most of the business, including 23 full days of business closure in NZ ($2.8-3.2m lost sales). As a baseline, we effectively double this level of disruption across the trade distribution business (excl. Nubco) in 1H22e as to recognise an impact of extended project delays and disruptions to bulk shipping. Coventry's traditionally high level of inventory stocking and improving underlying run-rate should partially offset the full impact of these disruptions and hence we believe this is highly conservative.

  As prior mentioned, existing data (i.e. approval rates and limited work cancellations) would suggest that the current building cycle is being pushed out and lengthened as opposed to declining. At this stage we incorporate a mild bias to 2H22e, and mid to high single digit sales growth across the division in FY23-24e of 7.6% and 7.4%.

- **Konnect Australia:** A large portion of the upside within CYG lies within management's ability to continue executing on a strategy of turning around the revenue and margin underperformance in the Australian business. KAA has in the past been a $120m+ turnover p.a. brand (FY13), and we believe the service proposition is now set up to begin returning towards these levels (from ~$75m in FY21e to ~$100m in FY25e) at which point the targeted 7.5% EBITDA contribution should be achieved.

- **Store openings:** Another driver of revenue is the additional capital we anticipate Coventry to begin deploying into new stores (growth capex +$1.5m p.a.). At a high level we assume a 2.5 year payback period on these investments.

FLUID SYSTEMS OUTLOOK

- **Iron ore and coal:** We are constructive on the outlook for bulk commodity production over the forecast period. In FY22e Coventry should benefit from the annualised benefit of increased ROM coal production and the associated uptick in equipment maintenance activity. Iron ore volume (production) has not historically been strongly correlated with pricing, hence we believe recent negative revisions are more likely to squeeze margin. We taper FY22e margin accordingly before reverting to margin growth in FY23e.
- **Full year contribution of acquisitions:** In FY21, the acquisitions of H.I.S. Hose ($11.5m turnover in FY20) and FPS ($4.9m turnover) contributed to the group for roughly seven and two months of the year, respectively. We conservatively assume these acquisitions contribute 80% of their prior year turnover in their first contribution year to the group, which equates to roughly +$1.0m incremental EBITDA in FY22e.
- **Large one-off order:** In FY21, Coventry received a significant $7.9m order from BMA for one of their main refuelling systems Wiggins JNX. This was stripped out of the growth forecasted into FY22e, however we view the order as strong validation of the brand and future opportunities of similar scale present further upside to the group.
- **Underlying growth:** After a full year of acquisitions are cycled in FY22e, we forecast ~6.5% YoY growth in FY22e and FY23e (lower than the historical 10-11%p.a.).

OPERATING AND CORPORATE COSTS

- **Fixed cost leverage:** Employee costs grew by 18.6% in FY20 due to the return of regional leadership from competitors and Coventry management believes the Australian TD cost base is now largely fixed to support a $25m larger business.
- **Other overhead cost outs complete:** Management has achieved material cost savings over the past few years through acquisition synergies and consolidating the operating footprint. Besides minor productivity improvements in corporate forecasted forward (4.3% of FY22e sales to 4.1% FY24e) we expect this is now largely complete.

OTHER SIGNIFICANT ITEMS

- **No tax payable:** Coventry has ~$75m worth of Australian tax losses and we currently assume no tax payable in the foreseeable future due to significant unrecognised deferred tax assets (recognition subject to auditors).
- **Legacy onerous lease:** In 2007, Coventry entered a single term 20 year lease on a large distribution centre in Redcliffe, WA. In the past, the company has had varying levels of success in sub-letting the property out, however in the latter half of FY21 sub-lets across major parts of the site were successfully negotiated.

  Our forecasts assume income generated from the Redcliffe sub-let (other income, interest received) will be classified as finance leases in accordance with AASB 16.
- **AASB 16 consolidation assumptions:** Over the forecast period, the consolidated AASB 16 impact to post-AASB 16 EBITDA (e.g. $7.9m in FY22e) is forecasted as a function of net store opening growth (+4 stores FY22e) and annual rent inflation of 2.5%.

Balance Sheet

A summary of the balance sheet for Coventry is shown in figure 29 below.

Figure 29 - Coventry balance sheet summary ($m)

Year End 30 June	2020a	2021a	2022e	2023e	2024e
Cash	7.5	8.2	5.0	6.4	11.9
Total Debt	10.9	24.5	24.5	24.5	24.5
Core Net Debt/(Cash) - excl. lease liabilities	3.3	16.3	19.5	18.1	12.6
PP&E	6.8	9.2	11.0	12.7	14.1
Intangibles & Goodwill	47.9	49.2	48.1	47.0	45.9
NTA per share	0.60	0.67	0.75	0.85	0.98
Net Assets	102.1	109.8	116.0	124.0	134.7
Working Capital	46.3	58.3	67.0	73.1	77.9
Average Per Dollar of Revenue	18.7%	20.1%	22.0%	22.4%	22.3%
Return on Equity (ROE)	2.6%	3.3%	7.7%	9.4%	11.6%
Return on Invested Capital (ROIC)	7.3%	9.5%	10.7%	12.2%	14.4%
CAPEX as % of Revenue	1.0%	1.2%	1.2%	1.2%	1.1%
CAPEX to PPE D&A	163.7%	242.0%	195.4%	174.5%	152.9%
EBIT Net Interest Coverage (x)	1.6	2.1	2.6	3.1	3.8
Capital Ratio (CA/CL)	1.5	1.4	1.4	1.5	1.6
Fixed Charge Coverage (x)*	1.1	1.3	1.5	1.7	2.0

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES, *(OPERATING EBITDA - SIB CAPEX)/(NET INTEREST + LEASE PRINCIPAL)

Key take-outs include:

Working capital and $50m debt facility: As a distribution business, Coventry's cash flow is directly linked to its rate of growth and the corresponding need to fund working capital. In FY21, Coventry entered a $50m revolving inventory and receivables financing arrangement with NAB to FY24. This effectively funded the company's +$13.6m directional view on inventory in FY21, which we suspect the company is now benefitting from in the context of recent supply chain disruptions. We estimate the interest rate on this facility is 4% (versus CYG's previous facility with Scotch Pacific of around 6%).

In the Q1 FY22 trading update, Coventry announced that inventory levels had been increased $5.0m YTD to mitigate future stock shortages.

Improving ROIC profile: Based on disclosures in FY18, capital employed into Cooper Fluids is roughly half that of Konnect Australia and NZ. As such, increases in return on capital are driven by the assumed recovery of KAA and associated fixed cost leverage benefits. We forecast ROIC to begin exceeding the implied hurdle rate (10%) in FY22e.

Asset base to grow: As Coventry enters a new phase of growth, including a more expansive store openings policy, we forecast the net assets of the business to grow and for capex to broadly double PP&E depreciation. NTA is forecasted to reach ~$0.98ps in FY24e.

Net debt position: Net debt/EBITDA of 0.8x is well within a comfortable parameter and is also expected to decrease over the forecast period, however we see some chance of a capital raise given the forecasted cash balance of $5.0m at FY22e end.

Inventory stocking is a blessing and a curse: High levels of inventory stocking are required for Coventry's value proposition and when raw materials prices are increasing the company has shown it can book a larger spread through timely offsetting pricing actions. Conversely, if prices fall then we would consider the burden of risk for dead inventory to be marginally greater for an operator like Coventry.

Cash Flow

A summary of cash flow for Coventry is shown in figure 30 below.

Figure 30 - Coventry cash flow summary ($m)

Year End 30 June	2020a	2021a	2022e	2023e	2024e
Operating Cash Flow	14.8	7.0	11.1	16.9	22.3
Operating Cash Flow (adj. for finance leases)	6.0	(1.8)	2.8	8.6	14.0
Interest received	0.2	0.3	0.4	0.4	0.4
Capex	(2.5)	(3.5)	(3.8)	(4.0)	(4.0)
Free Cash Flow	3.8	(5.0)	(0.5)	5.0	10.4
Dividends Paid	0.0	0.0	(2.7)	(3.6)	(4.9)
Acquisitions & Disposals	(2.4)	(7.8)	0.0	0.0	0.0
Share Issues	0.0	0.0	0.0	0.0	0.0
Change in Borrowings	1.5	13.6	0.0	0.0	0.0
Other Cash Flow Items	0.2	0.3	0.4	0.4	0.4
Net Change in Cash	2.9	0.8	(3.2)	1.4	5.5
FCF per share (¢ps)	4.2	(5.6)	(0.5)	5.5	11.5
FCF Realisation (%)	90.4%	-98.9%	-4.6%	35.7%	57.1%
Operating Cash Conversion (%)*	144.3%	-35.0%	26.2%	61.4%	76.8%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES, *CASH CONVERSION INCL. LEASES

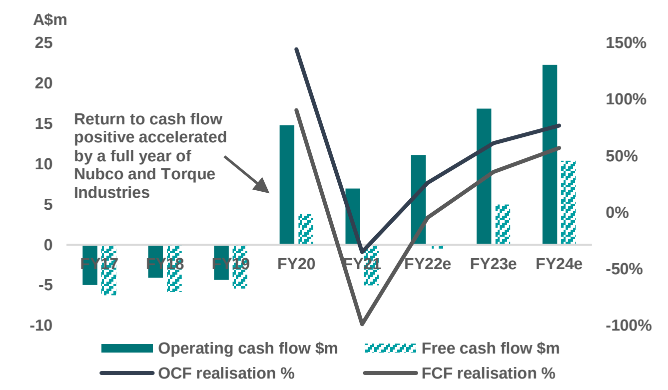
Key points include:

Inventory drag on cash flow: The breadth of Coventry's SKU's has in the past contributed to highly variable stock turn and at times dragged on the generation of cash. For example, headline operating cash realisation (as measured against NPATD) was negative in FY21, attributable to +$13.6m of inventory and to the Redcliffe leasehold being empty for most of the year.

Cash conversion to rise: Assuming no significant changes in inventory policy, OCF and FCF realisation should normalise at around 75% and 60%, assisted by higher earnings, a tax-free position and decreasing Redcliffe burden. Coventry is expected to be FCF positive in FY23e onwards.

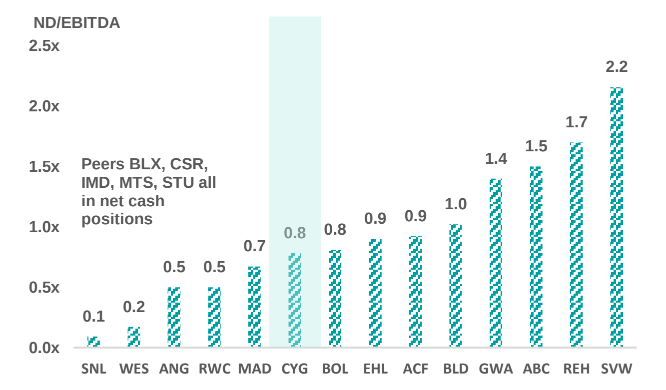
Dividends: At the FY21 result, CYG announced a fully franked dividend of 3.0cps - it's first since 2015. The company has not issued a dividend policy and we remain conservative given management's intention to invest in the business to drive growth. Keeping a 40% payout ratio (against PBT) broadly constant, we forecast the FY22e dividend to grow to 4.0cps. At FY21 end CYG's franking account balance was $11.1m.

Figure 31 - Coventry cash realisation



SOURCE: BELL POTTER SECURITIES ESTIMATES, REALISATION MEASURED AGAINST NPATD

Figure 32 – Leverage relative to Australian peers FY21



SOURCE: COMPANY DATA

Valuation

Peer analysis table

Figure 33 below provides a comparison on key financial metrics for listed peers we have identified as having relevance to CYG's operations. The majority of CYG's direct competitors are privately owned regionals. Many of the larger competitors, who generally compete on scale and price as opposed to Coventry's service proposition, are listed via being a subsidiary of a public conglomerate business (such as Coates/WesTrac within Seven Group, Mitre 10/Total Tools within Metcash).

Figure 33 - Coventry trading comparables

Company Name	Domicile	Last Price (A$m)	Mkt Cap (A$m)	EV (A$m)	EV/EBITDA 2021	EV/EBITDA 2022	EV/EBITDA 2023	P/E 2021	P/E 2022	P/E 2023	Div Yield % 2021	Div Yield % 2022
Distributors, Engineering and Mining Services												
Acrow Formwork and Construction	AUS	$0.45	113	168	8.0	5.6	5.1	24.7	10.2	8.5	2.4%	4.9%
Austin Engineering	AUS	$0.22	128	146	10.5	5.5	5.0				2.3%	3.2%
Beacon Lighting Group	AUS	$2.33	520	628	7.3	8.6	8.1	13.8	17.7	17.1	2.8%	2.9%
Big River	AUS	$2.01	163	209	17.7	7.1	6.6	77.9			2.8%	3.5%
Emeco Holdings	AUS	$1.12	606	830	3.7	3.2	2.9	27.9	5.4	6.4	1.2%	4.2%
GWA Group	AUS	$2.65	703	873	9.8	9.2	8.6	19.9	16.3	13.8	3.6%	5.2%
Metro Performance Glass	AUS	$0.38	70	182	4.6	6.6	5.8	8.2	75.0	12.1	0.0%	6.8%
Saunders International	AUS	$0.78	82	61	6.0	8.6	6.2	14.6	23.6	15.2	0.0%	1.8%
Supply Networks	AUS	$8.38	342	376	13.9	12.6	11.5	24.7			2.0%	2.6%
Steel and Tube	NZL	$1.08	179	252	6.8	7.2	6.6	11.8	19.4	14.4	0.0%	3.6%
Average			***291***	***372***	***8.8***	***7.4***	***6.6***	***24.8***	***23.9***	***12.5***	***1.7%***	***3.9%***
Median			***171***	***230***	***7.6***	***7.2***	***6.4***	***19.9***	***17.7***	***13.8***	***2.2%***	***3.6%***
Coventry Group	**AUS**	**1.65**	**150**	**166**	**7.0**	**6.4**	**5.7**	**41.0**	**16.8**	**12.8**	**1.8%**	**2.4%**
Distribution and Mining Services Majors												
Bapcor	AUS	$7.59	2,576	2,969	11.0	10.5	9.7	21.7	20.6	18.6	2.6%	2.7%
Metcash	AUS	$4.07	3,930	4,851	9.2	8.5	8.3	17.4	16.9	16.4	4.3%	4.4%
Orica	AUS	$14.41	5,872	7,921	9.8	8.5	7.7	48.7	20.5	16.9	1.6%	2.6%
Reece Ltd	AUS	$17.50	11,305	12,482	17.4	16.8	15.6	39.8	38.2	33.3	1.0%	1.3%
Reliance Worldwide	AUS	$5.05	3,990	4,164	12.2	11.8	11.4	21.0	19.1	18.1	2.6%	2.8%
Seven Group Holdings	AUS	$21.44	7,795	10,918	11.6	7.4	6.9	11.7	13.1	11.5	2.1%	2.3%
Wesfarmers	AUS	$54.20	61,454	68,558	13.5	13.9	12.9	25.8	28.3	25.2	3.3%	3.5%
Fastenal	USA	$73.33	42,181	42,689	23.0	21.1	19.5	34.4	31.5	29.0	2.1%	2.1%
Fletcher Building	NZL	$6.71	5,505	7,278	8.8	7.1	6.8	19.5	13.1	12.6	4.2%	4.7%
Travis Perkins plc	GBR	$27.73	6,226	7,363	8.6	8.2	7.6	16.2	14.0	12.7	4.7%	2.8%
Average			***15,083***	***16,919***	***12.5***	***11.4***	***10.6***	***25.6***	***21.5***	***19.4***	***2.9%***	***2.9%***
Median			***6,049***	***7,642***	***11.3***	***9.5***	***9.0***	***21.4***	***19.8***	***17.5***	***2.6%***	***2.8%***
Coventry Group	**AUS**	**1.65**	**150**	**166**	**7.0**	**6.4**	**5.7**	**41.0**	**16.8**	**12.8**	**1.8%**	**2.4%**

SOURCE: BLOOMBERG, BELL POTTER SECURITIES ESTIMATES

Key takeaways include:

Undemanding trading multiples: On an EV/EBITDA basis, the stock trades on a forward multiple of 6.4x; a discount of 14% to similar sized peers (7.4x) and discount of 44% to distribution majors (11.4x). Coventry's forecast 2.4% dividend yield is slightly below peer groups however we consider this estimate to be relatively conservative.

Closest peer: We believe Coventry's closest peer is Steel & Tube - a New Zealand based vertical distributor of steel products used in construction, including fasteners, roofing, piping, and reinforcement. STU's distribution segment has faced an almost identical range of issues in recent years – market share losses FY17-20, site rationalisations, provisioning, and a costly ERP integration – however in terms of turnaround we believe is roughly one to two years ahead of Coventry. Recently, volumes and margins have been rebuilt towards previous peaks (albeit at a cost to GM) and between its FY20 and 1H21 results (Aug '20 to Mar '21) the stock re-rated from ~3.5x to ~7.5x EV/EBITDA.

Assuming Konnect Australia approaches this same inflexion point in coming years, we would argue that Coventry should re-rate to trade at a premium to STU given its (forecast) heightened FCF profile, more diversified commodity/end market exposure and that KANZ and Nubco have historically operated on margins roughly double STU's. At present, we see STU's 7.2x multiple as representing fair comparative value for CYG ($1.87ps).

Discounted Cash Flow

We believe the DCF valuation methodology is suitable for CYG for a number of reasons, including (1) reflecting value from a possible KAA turnaround scenario, which in our view looks increasingly likely; (2) CYG's relatively low capex intensity; and (3) CYG's revenue base is expected to continue to become less cyclical over the mid-term.

The WACC we use in the DCF valuation is 10.0% (after tax). Key assumptions include:

- **Risk free rate and market risk premium:** 4% and 6% (Bell Potter team assumptions);
- **Beta:** 1.5. The high beta is due to Coventry's small size, existing cyclical drivers and operating leverage.
- **Borrowing rate:** 4.5% (or 3.2% after tax);
- **Target gearing:** 30%. Gearing is currently 22% however this assumption reflects the possibility that existing facilities in place to fund inventories and capex will be utilised.
- **Long-term growth rate:** We utilise a 3% terminal growth rate based on key macro drivers of civil infrastructure construction and bulk mineral production being population growth and global economic growth;
- **Cash tax:** We assume CYG pays no cash tax over the forecast period, however our terminal value is adjusted to include cash tax on OCF at a rate of 30% in perpetuity.
- **Franking credits:** Coventry has $11.1m worth of unused franking credits. A discount factor of 75% reflects the likelihood that these are utilised over the forecast period.

Figure 34 – Coventry DCF valuation

Year End 30 June	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E
Gross Cash Flow	**17.1**	**22.9**	**28.3**	**33.9**	**41.0**
Notional Tax	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Interest paid	**-6.0**	**-6.0**	**-6.0**	**-6.0**	**-6.0**
Operating Cash Flow	**11.1**	**16.9**	**22.3**	**27.9**	**35.0**
Interest received	0.2	0.4	0.4	0.4	0.4
Maintenance capex	(1.9)	(2.3)	(2.6)	(2.8)	(2.9)
Growth capex	(1.8)	(1.7)	(1.4)	(0.2)	(0.1)
Payments of leases	(8.3)	(8.3)	(8.3)	(8.3)	(8.3)
Free Cash Flow	**-0.7**	**5.0**	**10.4**	**17.0**	**24.1**
PV of Free Cash Flow	**-0.7**	**4.2**	**8.0**	**11.9**	**15.3**
Operational NPV	**38.9**	Terminal growth rate		3.0%	
PV of perpetuity value	143.7	Cost of equity		13.0%	
Franking credits (75% risk weighted)	8.3	Cost of debt (post tax)		3.2%	
Net debt/(cash)	16.3	**WACC**		**10.0%**	
Equity value	**174.6**				
Equity value per share ($)	**$1.93**				

SOURCE: BELL POTTER SECURITIES ESTIMATES

In deriving our $1.90ps 12 month price target we have utilised a blend of two methodologies, being a DCF valuation ($1.93ps) and a 7.2x EV/EBITDA valuation (1.87ps). Including CYG's expected 2.4% dividend yield this implies a total return of 17.6%.

We believe CYG's mid-term execution risk has recently been reduced materially. The company's revamped service-intense model is well suited to provide efficiencies and superior customer outcomes in a tightening market, whilst pent-up sector demand is expected to result in an extended cycle for building materials. Further, Coventry's forward EV/EBITDA of 6.4x and 2.4% dividend yield in our view presents compelling value for company with potential to enter an earnings upgrade cycle, and possibly re-rate.

We highlight possible upside to our valuation via the following:

- **Structural changes to margins:** If CYG begins to grow (or recover) ahead of existing trend rates we believe this would be a major catalyst towards re-rating.
- **Accretive acquisitions:** CYG's track record of successful business integrations, and likelihood of more given it's under geared balance sheet (0.8x ND/EBITDA), in our view presents further upside to the valuation.
- **Liquidity event:** This should lessen any such liquidity discount overhanging the stock.

Management & Board

Management team

Robert Bulluss (CEO) – Mr Bulluss was appointed CEO in May 2017 after holding the role of CFO and Company Secretary since October 2016. He previously spent 18 years within the Australian division of Bunzl, including as CFO and Company Secretary.

Rod Jackson (CFO) – Mr Jackson was appointed Chief Financial Officer in September 2017. He is ACA qualified and prior to joining Coventry Group spent four years as Finance Director at Bunzl Outsourcing Services Limited. For six years prior to that he was CFO and Group Financial Controller at Linfox. He has also held senior finance roles with Remote Vision Solutions and Jetset Travel, following 17 years with Deloitte Touche Tohmatsu.

Ken Lam (CIO) – Mr Lam was appointed CIO in August 2018. He has a Masters degree in IT and has previously held a number of managerial positions including with Amcor, SWC Management, Amplifon, Mayne and Coles.

Bruce Carter (GM, Cooper Fluid Systems) – Mr Carter has over 35 years of experience with CYG. Prior to his current role he ran the Queensland region of Coventry Fasteners. Bruce has broad general management experience and has provided extensive guidance and assistance with the Australian turnaround. He also has extensive experience acquiring and integrating businesses.

Chris Smith (GM, Trade Distribution Australia) – Mr Smith has worked at Coventry for a combined decade and replaced Peter Shaw (retired) as GM in 2021. Chris was previously Regional Manager for Queensland and has also previously worked with Blackwoods.

Mike Wansink (GM, Trade Distribution New Zealand) – Mr Wansink has over ten years of experience managing Trade Distribution New Zealand. He previously held GM roles with the Extra Mile Company, Rexel Electrical Supplies and sales roles with Steel and Tube.

Nick Daw (GM, Nubco) – Mr Daw was appointed GM of Nubco in Feb '20, having joined Coventry Group in March 2019 upon acquisition. He was previously Sales Manager at Nubco, where he spent 16 years working in customer, purchasing, and operational roles.

Board of directors

Neil Cathie (Chairman) – Mr Cathie spent 27 years at Australia's largest plumbing and bathroom distributor, Reece Ltd (REH-ASX). He worked for seven years with a chartered accountancy firm earlier in his career, and also held other CFO roles. He is a Graduate of the Australian Institute of Company Directors (AICD), a Non-Executive Director of Experience Co (EXP-ASX), and advisor to a number of private companies.

Andrew Nisbet (Independent Non-Executive Director) – Mr Nisbet was appointed in September 2017 and held senior management roles at Reece Ltd (REH-ASX). He is a Graduate of AICD and is also an adviser to a number of private companies.

James Todd (Independent Non-Executive Director) – Mr Todd was appointed in September 2018. He was previously Managing Director of Wolseley Private Equity, an independent private equity firm Mr Todd co-founded in 1999. He is a Non-Executive Director of IVE Group (IGL-ASX) and HRL Holdings (HRL-ASX) and a member of AICD.

Tony Howarth (Non-Executive Director) – Mr Howarth was appointed in May 2020. He has been a Non-Executive Director of Viburnum Funds (CYG's largest shareholder) since 2007. He has previously held public company roles including Chairman of Alinta, MD of Challenge Bank, interim CEO of Hartleys, and Chairman of Home Building Society. He was also Deputy Chairman of Bank of Queensland and a NED of Wesfarmers (WES-ASX).

Directors' Interest

Director ownership is classified as followed. As at June 30 2021 there were no shares subject to escrow.

Figure 35 - Coventry director interest

Director	Shares Held	% Held
Neil Cathie	801,394	0.9%
Robert Bulluss	649,699	0.7%
Andrew Nisbet	119,885	0.1%
James Todd	116,746	0.1%
Tony Howarth	0	0.0%
Total	**1,687,724**	**1.9%**

SOURCE: COMPANY DATA

Substantial shareholders

Coventry's ownership is tightly held across a select number of institutional shareholders. Sandon is the longest standing substantial (2014) followed by Viburnum (2017), Castle Point (2019), DUMAC (2019) and more recently Richmond Hill (2021). Since becoming substantial, all of the below mentioned shareholders have increased their ownership.

Figure 36 - Coventry substantial shareholders

Shareholder	Shares Held	% Held
Viburnum Funds	25,696,019	28.4%
Richmond Hill Capital	14,004,884	15.5%
Sandon Capital	9,689,265	10.7%
Castle Point Funds Management	6,210,518	6.9%
DUMAC Inc.	4,498,152	5.0%
Total	**60,098,838**	**66.4%**

SOURCE: COMPANY DATA

In June 2021 the company announced an on-market buy-back of a maximum of 9,001,144 ordinary fully paid shares (up to 10% of issued capital) valid until June 2022.

Coventry Group
as at 14 August 2021

Recommendation	Buy
Price	$1.65
Target (12 months)	$1.90

Table 1 - Financial summary

Coventry Group			Year Ending June 30	
Share Price:	**$1.65**	**Target Price:**	**$1.90**	
No. of issued shares:	**$90.7m**	**Market cap:**	**$149.6m**	

Income Statement (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Revenue	247.6	288.5	304.2	326.1	349.1
... Growth %	*22.3%*	*16.5%*	*5.4%*	*7.2%*	*7.1%*
Operating EBITDA	**16.1**	**20.8**	**22.8**	**26.0**	**30.2**
... Growth %	*-1845%*	*29%*	*10%*	*14%*	*16%*
Other income	3.6	3.0	3.0	3.0	3.0
Total EBITDA	**19.7**	**23.8**	**25.8**	**29.0**	**33.2**
Depreciation & amortisation	(12.0)	(11.8)	(11.3)	(11.7)	(12.0)
EBIT	7.7	12.0	14.5	17.3	21.2
Net interest	(4.8)	(5.8)	(5.6)	(5.6)	(5.6)
Pre tax profit	2.9	6.1	8.9	11.7	15.6
Tax expense	(0.3)	(2.5)	-	-	-
Tax rate	*8.9%*	*41.2%*	*0.0%*	*0.0%*	*0.0%*
Normalised NPAT	**2.7**	**3.6**	**8.9**	**11.7**	**15.6**
... Growth %	*2389.7%*	*35.8%*	*146.3%*	*31.3%*	*33.3%*
Reported NPAT	(0.5)	7.2	8.9	11.7	15.6

Cashflow (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Gross cashflow	21.0	12.7	17.1	22.9	28.3
Operating cash flow	**14.8**	**7.0**	**11.1**	**16.9**	**22.3**
Interest received	0.2	0.3	0.4	0.4	0.4
Finance lease payments	(8.7)	(8.7)	(8.3)	(8.3)	(8.3)
Capex	(2.5)	(3.5)	(3.8)	(4.0)	(4.0)
Free cash flow	**3.8**	**(5.0)**	**(0.5)**	**5.0**	**10.4**
Cash payments for acquisitions	-	(7.6)	-	-	-
Proceeds from issuance	-	-	-	-	-
Movement in borrowings	1.5	13.6	-	-	-
Dividends	-	-	(2.7)	(3.6)	(4.9)
Other	(2.4)	(0.2)	-	-	-
Change in cash held	**2.9**	**0.8**	**(3.2)**	**1.4**	**5.5**
Forex gain/(loss)	(0.6)	(0.2)	-	-	-
Cash at beginning of period	5.3	7.5	8.2	5.0	6.4
Cash at year end	7.5	8.2	5.0	6.4	11.9

Balance Sheet (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Cash	7.5	8.2	5.0	6.4	11.9
Receivables	33.5	43.5	46.2	50.6	54.0
Inventory	53.6	63.9	71.6	76.4	80.6
Property, Plant & Equipment	6.8	9.2	11.0	12.7	14.1
Right of use assets	39.8	41.4	41.4	41.4	41.4
Intangibles (incl. goodwill)	47.9	49.2	48.1	47.0	45.9
Other	26.4	33.2	33.2	33.2	33.2
Total assets	**215.6**	**248.7**	**256.6**	**267.8**	**281.2**
Trade payables	40.8	49.1	50.8	54.0	56.7
Debt	10.9	24.5	24.5	24.5	24.5
Lease liabilities	52.3	54.0	54.0	54.0	54.0
Other	9.5	11.3	11.3	11.3	11.3
Total Liabilities	**113.5**	**138.9**	**140.6**	**143.7**	**146.5**
Net Assets	**102.1**	**109.8**	**116.0**	**124.0**	**134.7**
Share capital	149.6	149.8	149.8	149.8	149.8
Reserves	(5.4)	3.4	3.4	3.4	3.4
Retained earnings	(42.1)	(43.4)	(37.1)	(29.1)	(18.4)
Shareholders Equity	**102.1**	**109.8**	**116.0**	**124.0**	**134.7**

Segment Earnings	FY20	FY21	FY22e	FY23e	FY24e
Trade Distribution revenue	**151.3**	**170.3**	**176.8**	**190.3**	**204.4**
Revenue growth	*28.1%*	*12.6%*	*3.8%*	*7.6%*	*7.4%*
TD EBITDA (pre-AASB 16)	**6.7**	**11.7**	**13.6**	**15.2**	**17.9**
Margin	*4.4%*	*6.9%*	*7.7%*	*8.0%*	*8.8%*
Fluid Systems revenue	**95.9**	**119.0**	**127.4**	**135.8**	**144.7**
Revenue growth	*15.2%*	*24.1%*	*7.0%*	*6.6%*	*6.6%*
FS EBITDA (pre-AASB 16)	**10.3**	**13.8**	**14.5**	**16.2**	**17.7**
Margin	*10.8%*	*11.6%*	*11.4%*	*11.9%*	*12.3%*
Corporate costs	(10.3)	(12.2)	(13.2)	(13.9)	(14.5)
Total EBITDA (pre-AASB 16)	**6.6**	**13.4**	**15.0**	**17.5**	**21.1**
Group margin (pre-AASB 16)	*2.7%*	*4.6%*	*4.9%*	*5.4%*	*6.1%*
Consolidated AASB 16 EBITDA impact	9.4	7.4	7.9	8.4	9.0
Other income	3.6	3.0	3.0	3.0	3.0
Group EBITDA (post-AASB 16)	**19.7**	**23.8**	**25.8**	**29.0**	**33.2**

Valuation Ratios	FY20	FY21	FY22e	FY23e	FY24e
Basic EPS (cps)	3.0	4.0	9.8	12.9	17.2
Diluted EPS (cps)	3.0	3.9	9.7	12.7	16.9
EPS growth (%)		*33.0%*	*144.8%*	*31.0%*	*33.3%*
Adjusted PE (x)	55.6	41.8	17.1	13.0	9.8
EV/Sales (x)	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (x)	7.8	7.0	6.4	5.7	5.0
EV/EBIT (x)	19.9	13.9	11.4	9.6	7.8
PE (x)	55.6	41.0	16.8	12.8	9.6
FCF per share (cps)	4.2	-5.5	-0.5	5.4	11.3
FCF yield %	2.6%	-3.3%	-0.3%	3.3%	6.8%
NTA per share ($ps)	0.60	0.67	0.75	0.85	0.98
P/NTA (x)	2.7	2.5	2.2	1.9	1.7
Book value ($ps)		1.2	1.3	1.4	1.5
Price/Book (x)		1.4	1.3	1.2	1.1
DPS (cps)	0.0	3.0	4.0	5.4	6.8
Payout ratio %	0.0%	74.6%	40.6%	41.9%	39.5%
Dividend Yield %	0.0%	1.8%	2.4%	3.3%	4.1%

Performance Ratios	FY20	FY21	FY22e	FY23e	FY24e
Post-AASB 16 EBITDA Margin (%)	6.5%	7.2%	7.5%	8.0%	8.6%
EBIT Margin (%)	3.1%	4.2%	4.8%	5.3%	6.1%
Net debt/(cash)	3.3	16.3	19.5	18.1	12.6
ROE (%)	2.6%	3.3%	7.7%	9.4%	11.6%
ROIC (%)	7.3%	9.5%	10.7%	12.2%	14.4%
FCF Realisation (%)	90.4%	-98.9%	-4.6%	35.7%	57.1%
OCF Realisation (%)	144.3%	-35.0%	26.2%	61.4%	76.8%
Asset turn excl. leases (years)	10.6	14.3	11.9	11.3	11.5
Capex/Depn excl. leases (x)	1.6	2.4	2.0	1.7	1.5
EBIT Net Interest Cover (x)	1.6	2.1	2.6	3.1	3.8

Interim Results (A$m)	1H21	2H21	1H22e	2H22e	1H23e
Total revenue	137.8	150.7	150.3	153.9	160.1
Operating EBITDA	10.7	10.1	11.2	11.6	12.4
EBIT	6.4	5.6	7.1	7.4	8.1
Normalised NPAT	2.6	1.0	4.3	4.6	5.3

Assumptions	FY20	FY21	FY22e	FY23e	FY24e
Currency: AUD/NZD	1.05	1.09	1.09	1.09	1.09
Currency: AUD/USD	0.67	0.76	0.74	0.73	0.73

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analysts			
TS Lim	Banks	612 8224 2810	tslim
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare	612 8224 2849	tnjain
Steven Anastasiou	Industrials	613 9235 1952	sanastasiou
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Alex McLean	Industrials	612 8224 2886	amclean
Hamish Murray	Industrials	613 9235 1813	hmurray
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Joseph House	Resources	613 9235 1624	jhouse
Associates			
Olivia Hagglund	Associate Analyst	612 8224 2813	ohagglund
Michael Ardrey	Associate Analyst	613 9256 8782	mardrey
Daniel Laing	Associate Analyst	612 8224 2886	dlaing

Bell Potter Securities Limited
ABN 25 006 390 772
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1701, 17/F
Prosperity Tower, 39 Queens Road
Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York
NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street
London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929

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