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Austin Engineering (ANG)

World class manufacturer of mining truck bodies and excavator buckets

Recommendation
Buy (Initiation)
Price
$0.52
Target (12 months)
$0.86 (Initiation)

Sector

Capital Goods

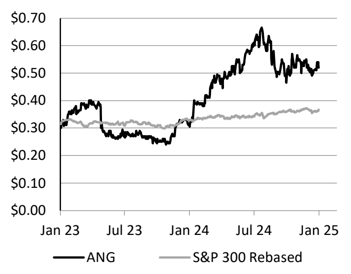
Expected Return	
Capital growth	65.4%
Dividend yield	2.8%
Total expected return	68.3%

Company Data & Ratios	
Enterprise value	$280m
Market cap	$322m
Issued capital	620m
Free float	82%
Avg. daily val. (52wk)	$908k
12 month price range	$0.30-0.67

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.52	0.51	0.32
Absolute (%)	0.0	3.0	65.1
Rel market (%)	1.4	1.3	53.7

Absolute Price



SOURCE: IRESS

Products, growth and positioning

Austin is a World class manufacturer of truck bodies/trays for mining dumper trucks and buckets for shovels and excavators. The company is performing well as a result of the Austin 2.0 program started in 2021 under CEO David Singleton. This strategy has seen new product introductions, an improvement in sales from new contracts and a reduction in cost as a result of centralised purchasing and lower cost manufacturing. This strategy saw group revenue advance by 21% to $313m in FY24, with EBITDA increasing by 49% to $47m, and margins rising to 15% from 12%. The company is upbeat guiding to a 12% increase in revenue in FY25, and a 35% increase in EBIT.

ANG maintains a **strong position** vs OEM manufactured truck bodies (Caterpillar, Komatsu, Hitachi, Liebherr, etc) due to features such as lower weight, ability to customise to mine requirements and fabrication proximity to client. OEMs seem comfortable with ANG and others selling bodies and we presume the OEMs make higher margins on other spare parts. ANG maintains strong IP and high customer retention (of 89%). There are several companies competing in Australia (including Schlam, Jaws, Duratray, and ESCO part of Weir Group plc). This structure is both an opportunity and a threat, providing competition. ANG could potentially acquire a competitor and achieve synergies. Weir group has considerable resources (MCap £5.7bn) and while we do not think likely, acquiring ANG would be an attractive addition to its business, especially given ANG's market share and low relative valuation.

Investment view: BUY PT $0.86/sh

We initiate coverage with a BUY recommendation, based on 1) **Market Position** as ANG maintains leading positions in its markets, with strong IP, 2) Its **products are attractive** to end users, improving their yield and efficiency leading to repeat business, overhaul and repair, 3) **Austin 2.0** is continuing to deliver opportunities to grow, reduce cost and improve its margins. 4) The **valuation** is not demanding, compared to similar companies. 5) **Fragmented industry**, with smaller competitors, creating opportunities for consolidation. Our target price is set using a DCF with a WACC of 9.8% and adjusting for net cash and leases.

Earnings Forecast

Year end June 30	2024a	2025e	2026e	2027e
Sales revenue ($m)	313.2	352.8	381.0	400.1
EBITDA (Underlying) (A$m)	46.6	60.9	68.4	71.8
NPAT (Ex NCI Reported) (A$m)	26.1	32.1	42.6	46.6
NPATA (Underlying) (A$m)	26.9	37.8	43.7	47.4
EPS Diluted adjusted (cps)	4.4	6.0	6.9	7.3
EPS growth (%)	94.5%	38.4%	13.9%	6.7%
PE Ratio - Diluted adjusted (x)	10.4	8.9	7.8	7.1
Price/CF (x)	9.1	5.5	6.3	6.4
EV/EBITDA (x)	6.0	4.6	4.1	3.9
Dividend (¢ps)	1.2	1.5	2.0	2.2
Yield (%)	2.3%	2.9%	3.8%	4.2%
Franking (%)	100.0%	100.0%	100.0%	100.0%
ROE (%)	25.4%	25.7%	25.1%	23.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Contents

Investment thesis & current trading

Investment case

1 Market positioning: ANG is the World leader in customised truck bodies (we also refer to as trays in this report) and has a significant presence in buckets and other mining equipment. It has a blue-chip customer base, including mining equipment supplied to Original Equipment Manufacturers (OEM) and an 89% customer retention rate. Revenue has grown at 15% pa, and will be helped by new contracts in Chile, and strong growth in the North American market. Strong IP and economies of scale protect business.

2 Attractive products: Customised equipment gives high RoI to miners compared to standard OEM equipment. Austin has a large installed base and sells replacement and wear items. Revenue is underpinned by recurring revenue and not linked to any individual commodity cycle.

3 The Austin 2.0 strategy: with a focus on manufacturing leadership, product leadership and customer focus has seen capacity increase, sales improve, and margins nearly double helped by lower cost manufacturing and centralised buying (AustBuy). Margins are expected to improve further towards 18-20% (from 15% in FY24).

4 **Attractive share valuation:** the shares trade on a lower PE or EV/EBITDA multiple compared to similar mining service companies and manufacturers (see the valuations in Figure 2).

5 Fragmented industry, Despite the scale, IP/technical knowledge required, the industry is fragmented with a number of different scale operators. We believe ANG could easily gain market share by acquiring a competitor and achieve synergies. Its biggest competitor by Market Capitalisation is ESCO, owned by Weir Group plc (WEIR.LSE) which has considerable financial resources (Mcap £5.7bn). While we feel it is unlikely, it is not inconceivable that Weir Group could acquire ANG.

Trump re-election – opportunity or threat? The re-election of Donald Trump poses opportunities and threats for ANG. Trump's pro fossil fuels stance may encourage more coal and oil sands production, which has been a direct driver of growth for ANG in North America. The proposed tariffs on imported goods could be a negative, however we understand that ANG has taken steps to counter this, buy purchasing steel locally in the US and building product in the US, to counter tariff risk.

Recent trading: FY24 results

The company reported FY24 results on 27 August. These showed strong increases in most of the key metrics, however Revenue and EBITDA were below consensus or at the bottom end of the guidance range given. The results showed:

- **Revenue** of $312.2m ahead by 21%, but 3.7% below consensus of $325.5m (from Bloomberg). Guidance at the HY had been for revenue of $310-330m.
- Truck body and bucket sales represented 71% of total sales.
- **Underlying EBITDA** was $46.6m ahead 48.9% with an improved margin of 14.9%, up 280bps from 12.1% in FY23. This was 5.1% below consensus of $49.1m (from Bloomberg).
- **Underlying NPAT** was $31.0m, up 71.3%, and 2% above consensus of $30.4m (Bloomberg). Guidance at the HY had been for NPAT of $31-33m.
- **Underlying EPS** was 5.1cps, up 315% from 1.22c in FY23. This was also 2% above consensus of 5.0cps.

- **The order book** was $187m, up 30% from $144m at FY23.
- **Operating cash flow** was $36.6m, an increase vs $15.8m in FY23.
- **Cash** The company reported balance sheet net cash of $9.6m, compared to net debt of $14.1m at FY23. (this excludes leases and on balance sheet deferred consideration payments due to Mainetec).
- **Net cash:** was 8.0% of total capital, vs -11.0% debt.
- **Final Dividend** of 0.8cps, or 1.2cps for the year. The dividend was 100% franked.
- **Guidance for FY25** was for revenue to increase to around $350m, or 12% higher, and EBIT to increase to around to $50m or around 30% higher.

Austin CEO and Managing Director, David Singleton, said:

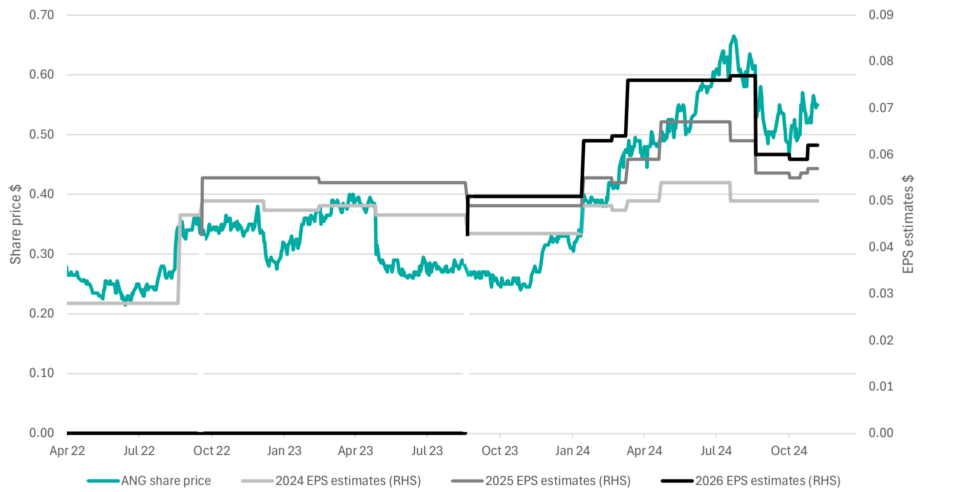
"The results reflect a doubling down on our Austin 2.0 operational strategy, which has led to increases in revenue, forward order book, and a much stronger cashflow position at the end of the year. Our improved financial performance has been driven by a series of initiatives designed to enhance operating efficiencies and lower costs across our business units, which has led to a continued growth in margins.

"Customer focus has been a business priority for Austin in FY24. We've invested in increasing the size of our sales and product support function and added a central marketing capability. This has helped us to end the financial year with a 30% year-on-year increase in our order book, which we expect will drive further revenue growth as we move into the new financial year

Share price relative earnings expectations

The following chart in Figure 1, shows the ANG share price compared to the forward earnings expectations for FY24, FY25 and FY26 (taken from Bloomberg and equivalent to the EEG function). The share price fell from 62c to below 50c following the FY24 results with downgrades to the FY25 and FY26 EPS estimates, in August and September. We understand this was due to the lower than expected revenue and EBITDA.

Figure 1 – ANG Share price ($, LHS) and EPS forecasts for EPS for FY23-FY25 ($, RHS)



SOURCE: BLOOMGERG

Relative valuations

In Figure 2 we compare the valuation of ANG against similar companies in the industrial and mining services sectors. ANG is primarily a manufacturer, rather than a service company, however like mining service companies its main client is miners, and we feel it is appropriate to compare.

Where we cover a company, we have used our own (unadjusted) EPS, DPS, and EBITDA figures. The unadjusted EPS shown are closer to statutory. The adjusted EPS on the front page may add back unusual and one-off costs. Where we do not cover a company, we have used consensus estimates from Bloomberg. We have not adjusted figures to normalise year ends since most of these companies have June year ends, with only Ventia and Weir having a December year end. The expected return is from the close price shown in the table and may differ to the expected return shown on the front page.

Figure 2 – Industrial/mining service providers – relative valuations

	BP Rec	BP target price (AUD)	Exp Tot Ret (%)	Year end	Close Price in Local (AUD)	Market Cap (AUD Bn)	PE Forecast (X)	PE Next year (X)	EV/EBITDA forecast (X)	EV/EBITDA next year (X)	Dividend Yield Forecast (%)	Dividend Yield Next year (%)
DOWNER EDI LTD				Jun	5.30	3.56	13.49	11.73	5.77	5.40	4.49	5.11
VENTIA SERVICES GROUP PTY LT				Dec	3.65	3.12	13.08	12.05	6.74	6.58	5.92	6.33
SRG GLOBAL LTD	Buy	1.55	19%	Jun	1.35	0.81	15.72	13.86	6.73	6.05	3.72	4.46
MACMAHON HOLDINGS LTD				Jun	0.33	0.71	6.88	6.47	2.30	2.23	3.94	4.24
NRW HOLDINGS LTD				Jun	3.84	1.76	13.11	12.15	5.03	4.78	4.45	4.66
PERENTI LTD	Buy	1.47	11%	Jun	1.39	1.30	9.76	6.95	2.52	2.39	5.34	5.63
MONADELPHOUS GROUP LTD	Hold	13.90	0%	Jun	14.52	1.43	20.59	19.55	9.02	8.39	4.75	4.82
DURATEC LTD	Buy	1.73	26%	Jun	1.41	0.36	14.51	12.94	5.29	4.68	3.62	4.75
SERVICE STREAM LTD				Jun	1.58	0.97	16.58	15.29	7.23	6.76	3.37	3.75
ACROW LTD				Jun	1.08	0.33	9.00	8.57	5.08	4.77	5.37	5.65
AUSTIN ENGINEERING LTD	Buy	0.86	65%	Jun	0.53	0.33	10.34	7.92	4.70	4.18	2.83	3.77
GR ENGINEERING SERVICES LTD				Jun	2.55	0.43	14.91	13.01	7.99	7.08	6.67	7.25
GENUSPLUS GROUP LTD	Buy	3.10	25%	Jun	2.50	0.45	16.75	14.11	6.85	5.80	1.20	1.20
SOUTHERN CROSS ELECTRICAL	Buy	2.25	58%	Jun	1.47	0.39	12.59	11.89	5.81	5.44	4.76	5.44
					(GBP)	(AUD Bn)						
WEIR GROUP PLC/THE				Dec	22.10	11.43	16.68	14.87	10.71	9.86	1.98	2.19
Simple average of group (ex Weir)							13.09	11.67	5.78	5.31	4.22	4.72

prices updated 07/01/25, estimates updated 06/01/25

SOURCE: BLOOMBERG & BELL POTTER SECURITIES ESTIMATES

At the current share price ANG trades on 10.3x FY25E reported earnings or 8.9x underlying earnings as shown on the front page. This is one of the lowest in the table above and below the sector average of 13.1x, with only the contract miners (PRN, MAH) trading at lower multiples. It is valued at an EV/EBITDA multiple of 4.7x, which is below the sector (simple) average of 5.8x. We find this multiple surprisingly low because:

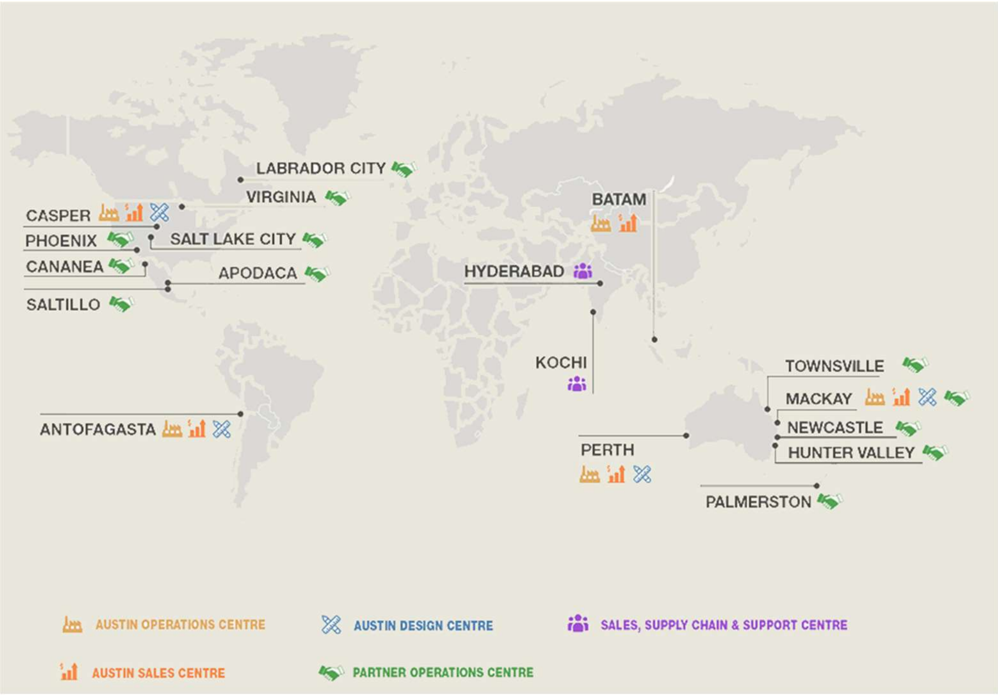
- ANG is finding routes to grow (additional markets and distribution, North American oil sands, South American new contracts in copper, dipper buckets, and additional manufacturing capacity).
- It has scope to grow, currently having a 14% market share in truck bodies within the markets it serves, but not serving all of the global mining industry. It could look for partnership to distribute into geographies not currently served.
- It is improving its margins through improved processes, scale and cost control.
- It operates in a fragmented industry with options for consolidation.
- However, we recognise that ANG is a niche manufacturer for the mining industry, the outlook for mining is more mixed than it was 18months ago, and forecasts did come down after the FY24 results.

We note that Weir Group is trading at 16.7 x Dec 24 earnings, or 10.7x EV/EBITDA, which is a considerably higher rating than ANG. Its Market Cap is £5.7bn or $11.4bn, which is around 33x larger than ANG. We highlight that ANG's revenue of $350m, or around £175m would be a useful addition to ESCO's revenue of around £700m.

Business description

The company designs and manufactures customised dump truck bodies, buckets, water tanks, tyre handlers and other ancillary products utilised in the mining industry. It is a complete service provider, offering on and off-site repair and maintenance as well as heavy equipment lifting to its clients. It has manufacturing sites located in Australia, North America, Indonesia and South America. It has presence in the worlds principal mining locations as shown in the following map in Figure 3. It had 1,446 employees and contractors at FY24.

Figure 3 – Austin Engineering locations



SOURCE: COMPANY DATA - WEBSITE

Vision and strategy

The company has a **Vision:**

- To be the **global market leader** in providing customised loading and hauling products to the mining industry.
- To provide the **best engineering solution for clients' specific needs** across a broad product range, supporting open-cut and underground applications.
- To put **the needs of the client** and innovation at the core of our business, supported by **worldclass engineering, manufacturing and quality**.
- To protect and enhance the **long-term sustainability** of the business through our environmental, social and governance targets, and **supporting the communities** around us.
- To remain at the **forefront of new technologies** and take an innovation-led approach to all aspects of the business.

Strategy: Austin 2.0

The company started the Austin 2.0 Strategy when David Singleton joined as CEO in 2021. The strategy had three core strategies focused on a single operating model, allowing for efficiency and growth:

- **Manufacturing leadership.**
- **Product leadership**
- **Customer Focus**

Looking at each area

Manufacturing leadership: Improving production capacity across all locations to meet demand, with an increased focus on Batam, Indonesia as a low-cost manufacturing hub. Improved manufacturing efficiency using a new centralised team to implement best practice and "AustBuy" which leverages ANG's scale advantage over all competitors to reduce material costs significantly.

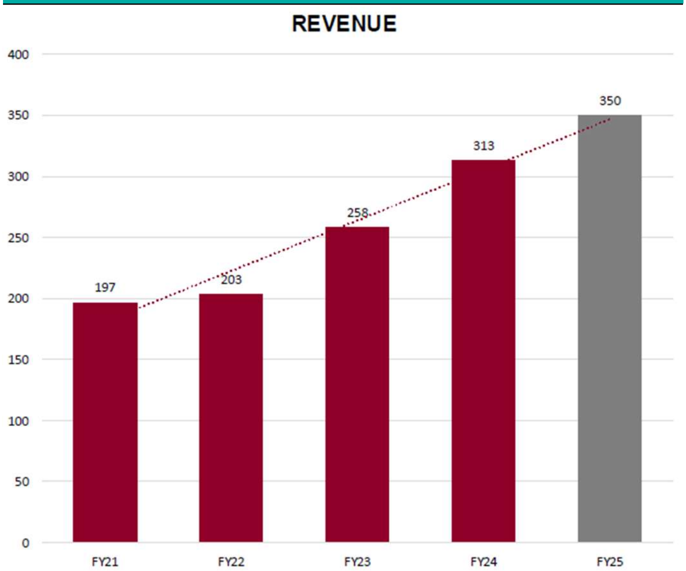
Product leadership: Investment in updating existing products to be market leading and introducing new products (such as the HPT light weight tray, the Armadillo and Hulk buckets and developing the Mainetrack condition monitoring software system). The company has used technology and innovation to meet customer needs across varying mining challenges. ANG now manufactures a superior product in terms of engineering design, lightness/superior payload, efficiency and safety while retaining design IP.

Customer Focus: A targeted building up of the international sales force, introduced a marketing team, attended more international shows, and implemented a new Customer Relationship system (CRM).

Improvement in operating profit

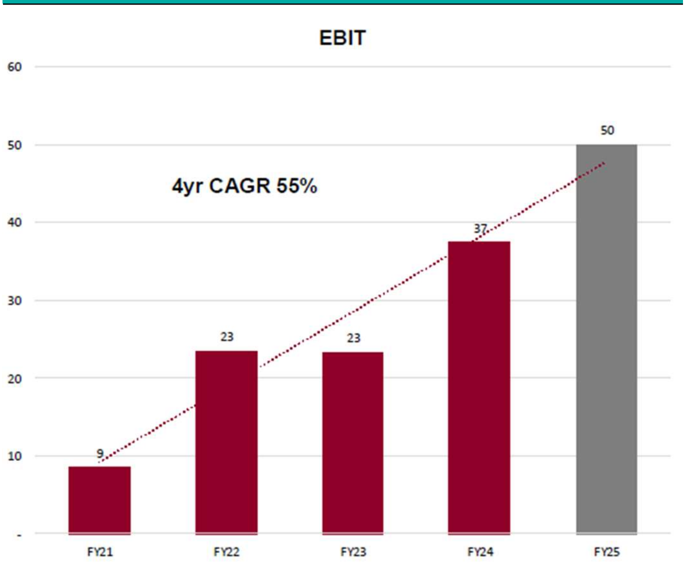
The net result of these changes has been higher revenue and EBIT growth in the business and higher margins and Returns on Equity as illustrated in the following four charts from the company in Figures 4 to 7. The grey bars in Figures 4 and 5 are company provided guidance for FY25.

Figure 4 – Austin Revenue ($ms)



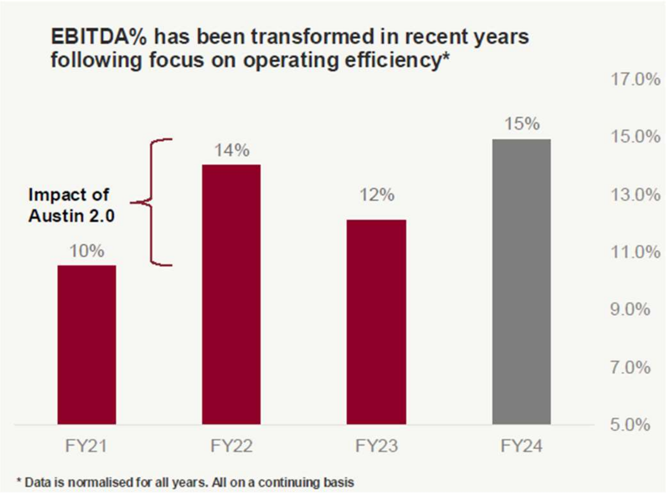
SOURCE: COMPANY DATA

Figure 5 – Austin EBIT ($m)



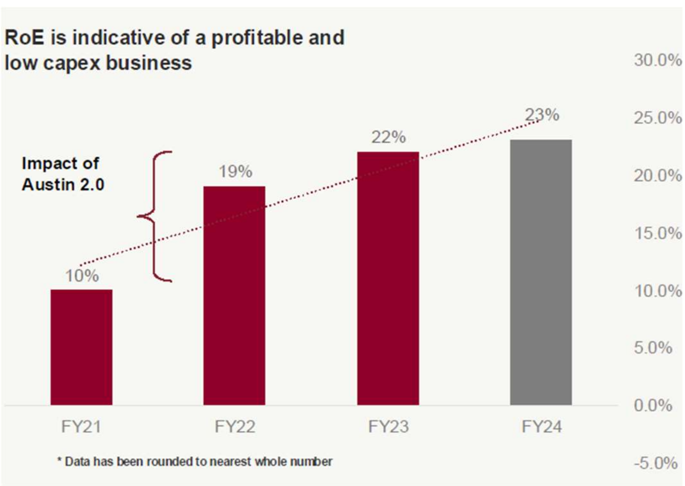
SOURCE: COMPANY DATA

Figure 6 – Austin EBITDA margins (%)



SOURCE: COMPANY DATA

Figure 7 – Austin RoE



SOURCE: COMPANY DATA

AustBuy: Steel Purchasing

A tangible example of ANG's strategy is the move to centralise steel purchasing.

In FY24, ANG spent $123m on raw materials and $103m on labour and subcontractors, out of total costs of $280m.Steel purchasing therefore represented a considerable part of its cost base.

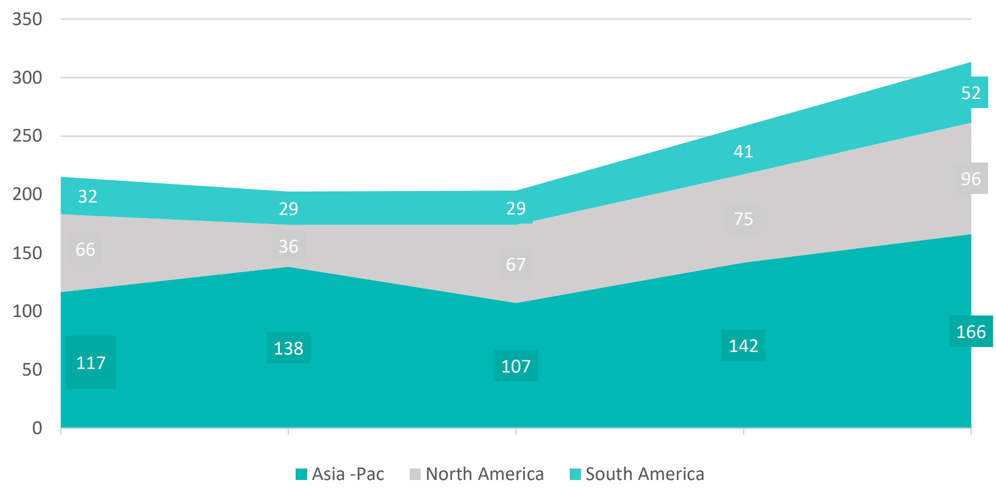
ANG build around 500 truck bodies each year, with each truck body weighing up to 35metric tonnes (t). Assuming an average weight of 20t, ANG would require over 10,000t of steel per year, for the truck bodies, with buckets and other products requiring additional steel. Within this total ANG buy over 6,000t a year of specialist Quench and Tempered hardened steel plate, with a hardness of 450-500 BN. This is used for the lining of the truck bodies.

Outside the US, this is now bought directly from steel mills in Europe and Japan. Prior to ANG 2.0, the four main fabrication plants were buying this steel locally through steel distributors. ANG estimate the direct price saving is around 30-40% compared to distributors. This gain probably needs to be offset with greater lead times, shipping costs, potentially higher working capital than using a local distributor, and the minor additional costs of running the program.

Reporting segments, Services offered and Clients

ANG Reports across the geographical segments, being Asia Pacific, North America, and South America. The A$ revenue split is illustrated in the following chart.

Figure 8 - ANG geographic split of revenue by geography ($m FY20-FY24)



SOURCE: COMPANY DATA

Asia Pacific

In Australia ANG service the main mining centres in WA, QLD and NSW. In 2011 ANG opened a facility in Batam, Indonesia to produce truck bodies. As part of the Austin 2.0 Strategy, much of the manufacturing of truck bodies has moved there, with the Perth facility focusing on manufacturing buckets.

APAC revenue grew by 17% to $166m in FY24, following a restructuring of the sales teams to focus on developing customer relationships. EBITA was $18.1m an increase from $5.8m (in FY23) following the restructuring of the region, The EBITDA margin was 10.9% (4.1% in FY23) but remains below target.

South America

Austin's facility is located in La Negra in Chile, and was acquired in 2009, to gain access to the region and services the copper mining industry in Chile, Peru, Columbia and Bolivia. South America produces 8.8Mt of copper per annum or 40% of global production. Chile is the World's largest producer of copper, producing 5.5Mt or 28% of global production followed by Peru at 3.2Mt.

Revenue grew by 26% in FY24, to $51.6m, while EBITDA increased to $17.4m, giving a margin of 27.3% (9.1% in FY23).

Recently the business has won a contract to supply bodies for a major OEM, which should lift production from 5 per month in FY23 and FY24, to up to a peak of 14 per month in FY25.

North America

Austin's facility is in Casper, Wyoming and was acquired in 2007. It now serves the mining of coal (33% of NA Revenue), shale oil (24%), gold (31%) and copper (9%).

Revenue grew by 27% in FY24, to $95.5m, while EBITDA was $14.1m up from $3.8m in FY23, giving a margin of 18.2% (22.0% in FY23). The margin was impacted by new capacity and supply chains coming online.

At the AGM, the company noted average production of truck bodies (and other major products) was expected to peak at 20 per month in FY25, compared to 12 per month on average in FY24.

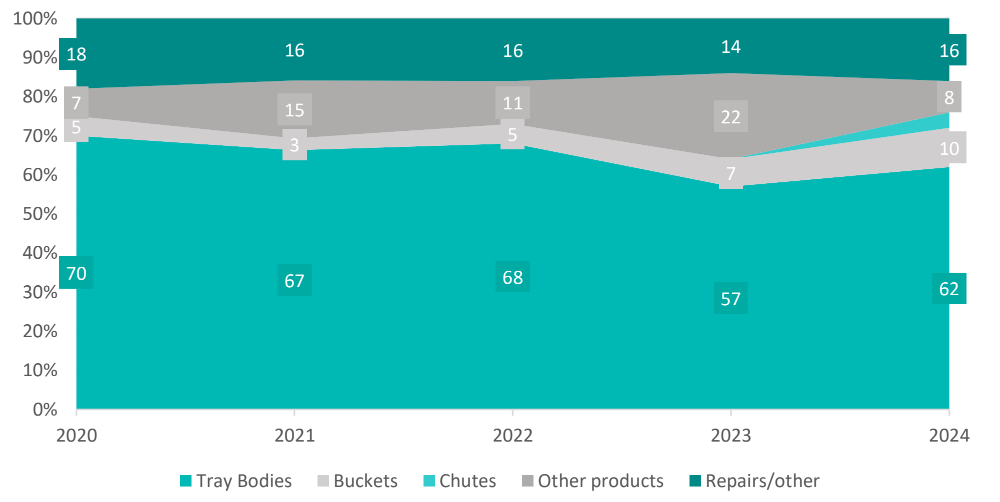
Products: Truck Bodies, buckets and other

ANG produce the following split of revenue.

- **Truck bodies $194m or 62% of revenue in FY24, increasing by 30% vs 2023.**
    1. **Dump bodies** (surface): ranging in size from 100t to 360t carry capacity.
    2. **Underground dump bodies**: smaller than overground dump bodies, typical size of 20-60t, smaller due to space limitations in underground tunnels. We understand that these types of truck have a shorter life due to the harsh environment and wear and tear in the confines of underground mining.
- **Buckets – $29m or 10% of revenue in FY24, growing at 17% vs 2023:** a range of including buckets for shovels, backhoe excavators, loaders and rope shovel dippers, as well as wear packages that provide a strong spares revenue line (shroud blocks, wear blocks and bucket and tray wear liners).
- **Other Products $38m or 12% of revenue, declined by 24% due to a reduction in water tank and chute sales.**
    1. **Tyre handlers**: a range of two and three arm tyre handlers. These are typically attached to loaders or telehandlers, to assist in changing haul truck tyres weighing between 2.5-10t.
    2. **Water tanks**: built with 14,000L - to 180,000L capacity. Fitted to haul truck and used for spraying water on roads and ramps for dust suppressing or firefighting.
    3. **Chutes:** ANG sell underground ore pass chutes (licensed from a 3rd party) to mines, representing about 4% of revenue.
- **Repairs and other services 14% of revenue**
    1. **Austbore**: offer machining and repair of mining equipment, both on-site and off-site. Including fabrication, welding, machining, milling, spraying, and replacement of pins and bushes.
    2. **Mainetrack**: A PC/app-based fleet asset management software to document maintenance, wear rates, track damage and repair.

The following chart shows the percentage of sales in each area over the last five years. The split has been relatively consistent, with some diversification from truck bodies, and increase in buckets particularly following the acquisition of Mainetec.

Figure 9 – ANG revenue by activity (%)



SOURCE: COMPANY DATA (R&A FINANCIAL OVERVIEW)

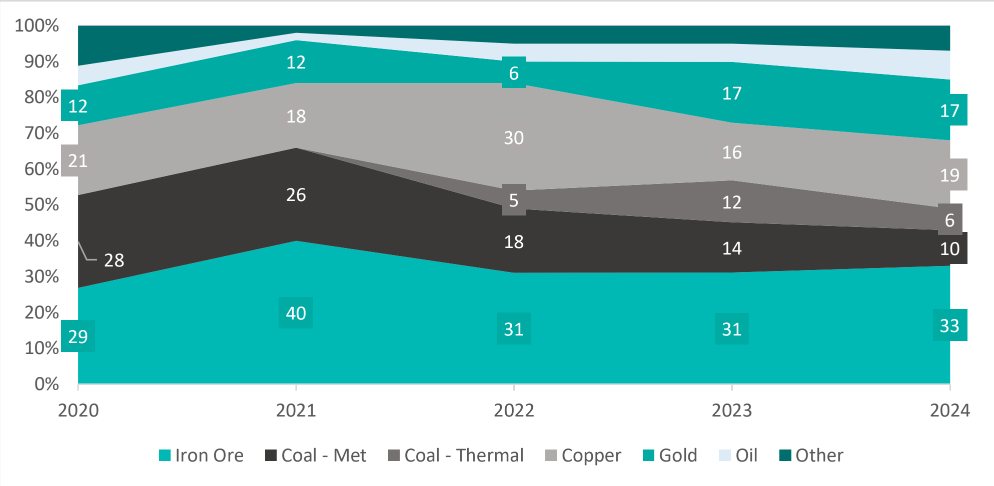
Commodity Exposure

The following illustrates the commodities that ANG is exposed to in its end customers at the group level.

- 33% relates to iron ore most of which is in APAC (WA), with some in North America.
- 19% is copper ore, mostly South America (100% of exposure), with some NA.
- 16% relates to coal, of which $32m is in NA and about $20m in APAC (QLD).
- 17% relates to gold with $29m in NA and $23m in APAC (WA).

The company has seen some growth through oil sands production in NA, but this remains a relatively small part of the business.

Figure 10 - ANG commodity exposure (% of revenue)



SOURCE: COMPANY DATA

Business history

The business has been around for over 40 years and has grown both organically and through acquisitions. The following highlights major

Corporate highlights

1982. Business founded in Brisbane.

2004 Acquired JEC in Perth

2007 Acquired Westech, in Casper, USA.

2009 Acquired Conymet in La Negra, Chile.

2011 Opened operations in Batam, Indonesia,

2021 Austin 2.0 strategy commenced.

2021 Six new partnerships in Australia and New Zealand, to further develop a “hub-and-spoke” strategy. This develops spoke operations close to major mining areas, with final assembly of product from hub manufacturing sites.

2022 Mainetec acquired, based in Mackay Australia. Announced on 23 August noting it is a leading high performance bucket design, build and refurbishment business, with $40m of revenue. The initial announced price of $19.6m implied a multiple of 3.5x/2.3x EV/EBITDA multiple excluding/including $3m of expected synergies. (The FY23 R&A note that the company paid $17.8m, including cash of $11.1m and deferred consideration).

2023 Expanded facilities in Indonesia and Chile.

Austin vs OEM bodies and competitors

One clear question for the investment case, is why the operators of mining trucks choose to buy truck bodies, as well as buckets from ANG (and its competitors) rather than from the OEM. We suspect the reason lies in the following:

Weight and Customisability: We understand that ANG's range of bodies is preferred due its lightness and is more customisable than OEM equipment. As these are built to order ANG will meet the customer requirements in terms of:

- Ore type (hard rock, iron ore, or coal), which determines the design and type of steel plate used,
- Bucket size for loading the truck (using a whole number of scoops for efficient loading),
- Optimise side height (less lifting in loading, uses less energy, while maintaining capacity),
- Reduced carry back (material not ejected when dumped and therefore carried backward and forward several times),
- Reduced spillage (material falling off the back of trucks onto ramps, which creates hazards and may require bulldozing of the ramps).

As Schlam note on their website:

"*Traditional bodies are still excessively heavy, meaning you're carrying steel when you should be carrying ore. The result is your fleet will consistently not be hitting its promised nameplate payload capacity. In effect, you could be losing up to 10% of payload per trip due to excess steel. Over weeks and months, this adds up to a significant loss of productivity and profit." (https://schlam.com/payload-apac/hercules-open-cut-dump-bodies/#overview)*

Order lead time, shipping time: There may be reduced lead time on non-OEM truck bodies, given that ANG (and its competitors) manufacture locally and are focused on fewer products and customers. We understand that many OEMs manufacture truck bodies in one place and ship them globally which adds time and cost.

OEM Margins and spare parts: The OEM probably doesn't make a great margin on truck bodies. Our experience of OEMs in other industries (e.g. automotive, aerospace) is that having achieved sale of the equipment, the customer is tied to that manufacturer for spare parts. As The OEM controls the aftermarket for some parts and services this can be very lucrative, achieving higher margin than initial sales. The highest margins are often achieved on parts with significant IP, safety critical parts, parts required to maintain a warranty, or intricate parts with a complex manufacturing. The OEM will probably make more margin from these spares, as well as minor refurbishments and major rebuilds, rather than from the truck bodies. We understand that some OEMs manufacture trucks with an option of no truck body and at least one OEM have outsourced manufacturing to ANG (in South America).

Cost: We understand that the cost of Austin's trays is comparable with OEM units and often cheaper, although the company does not compete on a cost basis preferring to focus on the total cost of ownership. ANG point out the lighter weight of their truck bodies, means the cost can be recovered in additional ore revenue in weeks or months, which is attractive to the operator, given the 4–6-year lifespan of the product. We explore this below.

Truck bodies and economics

Austin gives the following rough example of reducing the weight of the truck body, compared to the average body cost of $350k.

A Cat 785D haul truck is supplied with a Caterpillar truck body which weighs 21-25t. The gross weight of the 785 is 249t, with a load of 141t, and a chassis weight of 82t. ANG are able to supply a truck body 5t lighter than standard Cat body.

Improved revenue?

We understand one of these trucks could make 8,000 trips per year (365 days x 25 per day allowing for some downtime and depending upon mine efficiency). The extra 5t of load moved per trip, equates to a potential 40,000t of ore moved, from the mined area to an intermediate area of the mine. If this is iron ore worth c$100/t this has potential value of $4m per year.

This simple calculation ignores the costs of removing overburden, blasting, loading, crushing and transporting to port. The simple $4m benefit probably overstates the economic gain, however there is clearly a benefit from the improved load, as well as the other benefits from a customisable body listed above.

Fuel saving?

The 5t reduction in weight is just 2% of the gross weight of the 785D, or 3% of the load. The 785D has 56L engine, which generates 1082kW or 1450hp, has a 1500l fuel tank, and uses 17-29 gallons of fuel an hour. If moving the same load, a 2% fuel saving could still be considerable. We estimate that if used 70% of the hours in the year, the annual fuel cost would be around $1m, so a 2% fuel saving, or around $20k/pa, would be useful, but not sufficient on its own to give a good enough payback to justify the purchase of a new body.

ANG's competitors

A search for Haul truck bodies revealed the following competitors. This search primarily returned companies serving the Australian market.

We note that many of ANG's competitors make a similar range of truck bodies, and buckets.

Some of these companies are very large, we note that ESCO is part of Weir Group, a £5.7bn company, and ESCO is approximately four times the size of ANG by sales. Other competitors are private, and we have tried to get an indication of size based on the total number of truck bodies supplied or the number of employees. These appear to be around three to four times smaller than ANG, which could be relevant if ANG sought to consolidate the industry.

SCHLAM

Schlam. This is Austin's major competitor in WA, employing over 550 people (compared to 1,446 at ANG). It is a private owned company. It has made over 2000 Hercules Truck bodies (we note this has increased from 1,000 in the last four years), suggesting around 250pa, which would equate to around $80m of turnover. It makes truck bodies as well as buckets and has recently expanded into the Americas. Like ANG it has asset management software and offers engineering services.

https://schlam.com/

JAWS

Jaws, based in Queensland. It employs 120 people and has a similar range of products to ANG. It makes truck bodies, mining buckets, face shovels, tyre handlers, high production coal dozer blades, water tank modules, service modules, and a vast array of Construction and Mining class equipment.

https://www.jaws.com.au/

Duratray. A Bayswater, Victoria based company. It is a global designer and manufacturer of high-efficiency customised dump bodies. The Duratray Suspended Dump Body (SDB) is a unique lightweight tray, capable of carrying up to 400t. This lightweight tray comprises a flexible rubber wear mat supported by an abrasion-resistant steel frame and high-performance synthetic suspension ropes, offering shock absorption and noise reduction. Currently, there are over 2,000 Duratray dump bodies operating globally, ranging in size from 36t to 360t for all major truck manufacturers. It operates in 37 countries and mostly uses sub-contract fabrication in Australia, Indonesia, South Africa, Peru, Chile, Turkey, China and Canada. It does not manufacture buckets.

https://www.duratray.com/

Weir Group plc (WEIR.LSE). Weir is a large UK listed engineering group with a Market Cap of £5.7bn. It operates two divisions, Minerals and ESCO (Revenue £2bn and £700m respectively). ESCO produce truck bodies, buckets and Ground Engaging Tools, and as well as other equipment. In the half year to June 2024, ESCO produced revenue of £338m and an operating profit of £65m with a margin of 19.3%. ESCO is therefore about four times the size of ANG by revenue or operating profit/EBITDA.

Weir acquired ESCO Corporation, a US company based in Portland, Oregon, in 2018 for an equity value of US$1,051m and an estimated enterprise value of US$1,285m.

ESCO is the global market leader in highly engineered GET teeth for surface mining and construction. Its equipment is used in highly abrasive applications such as hard rock mining and it shares Weir's 'razor/razor blade' aftermarket-focused business model. It has surface mining's most extensive installed base of proprietary lip systems that house short-cycle consumables, such as teeth, shrouds, adaptors, blades and locking systems, with aftermarket sales representing c.90% of ESCO revenues.

The ESCO® truck body's enhanced material flow reduces wear, carry-back and unscheduled maintenance. The advanced profile offers optimal payloads and faster cycle times while reducing tire damage and load spillage.

We understand that ESCO do not compete with ANG truck bodies, in markets where ANG is dominant. We understand they offer them in markets not served by ANG.

https://www.global.weir/about-weir/

https://www.global.weir/product-catalogue/haul-truck-bodies/

DT Hi-Load: A Chilean company, which manufactures bodies for all dump trucks, components for machinery including buckets, fuel tanks, water tanks, as well as carrying out maintenance of truck bodies and buckets. It is owned by Komatsu and operates in South America with little presence in Australia or North America.

https://dthi-load.com/

Surface truck bodies (>100t)

Austin make truck bodies (also called trays) for mining trucks. The market they mainly address is the haul trucks with over 100t capacity, which are primarily used in surface mining. These types of trucks are:

- **Expensive:** built to withstand the harsh environment on surface mines.
- **Used intensively:** used to move ore and overburden waste from the point of excavation to either a crusher/loader facility or waste dump.
- **Well maintained:** Undergo extensive maintenance and occasional rebuilds. Some users will repair the truck bodies by welding liners into them. While this may seem cost effective, it can add considerable weight to the tray, and considerable additional cost or revenue foregone.
- **Powerful and thirsty:** These trucks use a lot of fuel. Optimising the tray by reducing its weight will allow more movement of more ore per round trip or result in less fuel usage.
- **Matched to other equipment:** The type of truck body will be matched to the type of material and to the other type of equipment in use. In particular the tray size is matched to the size the shovel, rope dipper, excavator or loader being used to optimise loading.
- **Depend upon the material:** Typically, the bodies are specified for rock, coal or coal/overburden. The tray needs to be designed to ensure that the centre of gravity of the load is well within the wheelbase of the truck. To avoid carry-back, the shape of the tray ensures that the ore/waste slips out of the tray when it is dumped. The shape of the tray may also depend upon the moisture content of the material and how easily it flows (or sticks) when dumped.

Figure 11 – Austin Tray Brands

SOURCE: **COMPANY DATA**

Austin tray brands:

- **HPT** – High Performance Tray, the lightest truck bodies ANG make.
- **Ultima** – The lowest cost per ton truck body available with lightweight/high payload through to longer lifespan thicker steel variants.

- **JEC** – a lighter-weight modular design that improves payload and reduces overall operating costs. The truck bodies feature an easy-to-remove replaceable floor, eliminating the need for heavy-wear liner plates. This saving in overall body weight improves the carrying capacity.
- **Westech Premier** – the Premier body reduces weight without compromising the structural integrity. The design is easier to maintain, rebuild, and line due to a flat floor and transitions, saving countless hours of fabrication time required to match the radiuses of a curved body.
- **Westech Flow Control** - a revolutionary floor design that controls the flow of materials during the dumping cycle, keeping the load's centre of gravity in front of the rear axle longer. This unique design reduces a surge of materials from the truck body and eliminates lift at the front of the truck, increasing stability and safety.

Market size

Austin's 'Home Markets' which are located around its main production centres. External data indicates approximately 20,500 trucks with >100t capacity are operational. Austin estimates these require 3,500 replacements annually based on its assessment of wear life in different commodities and regions. We understand that a tray will typically last between 4-7 years, with this varying considerably by type of mining. Harder rocks such gold ore, placing considerable wear on the bodies, compared to Coal, which is a much softer material. Austin is currently producing around 500 truck bodies per year. giving it around a 14% of its addressable market shares. Each truck body costs on average of $350k, which across 500 bodies, gets to around $180m of revenue.

We understand this addressable market is around one-third of the total market and reflects the home markets around its main production centres. The Parker Bay Company estimates there are 58,800 surface trucks with payload ratings above 90t (and 77,600 including inactive trucks). This survey includes 1,710 active mines in 121 countries. (Source https://parkerbaymining.com/mining-equipment/mining-trucks).

Caterpillar range and the Cat 797

Most producers of mining equipment will produce a range haul trucks. Caterpillar produce a range of dump trucks of from the 777 off highway truck with a capacity of 98t, to the 785 series mining truck rated for 139t through to the 797/798 series rated to over 360t. A list of these mining models is shown on the following link. Most of the illustrations in ANG's web page and reports illustrate the smaller CAT models, typically the 785 (140t), 789 (193t) and 793 (240t) models.

https://www.cat.com/en_AU/products/new/equipment/off-highway-trucks/mining-trucks.html

The largest Caterpillar haul truck is the CAT 797, which has been in production since 1998, and was one of the first with a load capability of over 360t. This has made it a popular choice for open pit/surface mine applications. Caterpillar have produced more than 1,000 of this model, with a large number remaining in service. The list price is around US$5m and, after around 10 years in service these units can be economically stripped rebuilt - depending upon the type of usage. Similar vehicles include the Liebherr T 282 B, Bucyrus MT6300AC, Hitachi EH5000AC3, and Komatsu 960E or 980E. The following picture shows an Austin Westech body on a CAT 797 being operated in Peru.

Note the gross weight of a 797 is 623t, with a load of 363t, a chassis weight of 215t, and a body/tray weight of 43t.

Figure 12 – A Cat 797F with an Austin Westech truck body

SOURCE: COMPANY DATE (AUSTIN ENGINEERING LINKEDIN PAGE)

Caterpillar supply the following bodies for the 797 and similar bodies for other models.

- High Performance (HP) body features lightweight, simplified and durable design that provides complete front machine coverage and extended overhead protection.
- Oil sands body specifically designed for use in challenging Canadian Oil Sands applications. This body is heated (by exhaust gas) to prevent the oil sands freezing down to minus 40c operating temperatures.
- HP-XL body, a version of the standard HP body with an extended length floor, designed to neutralize extreme forward bias loading applications.

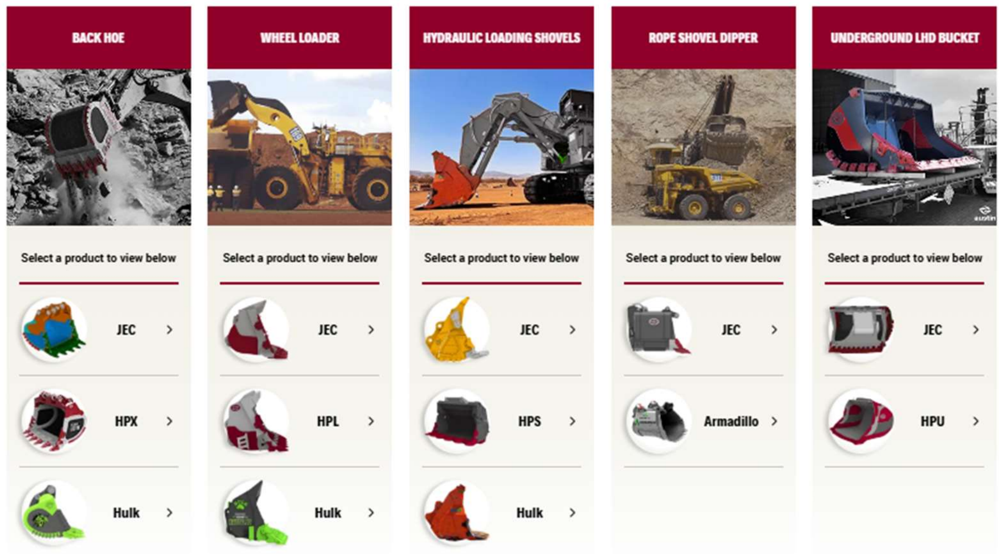
Buckets

Austin makes buckets and the associated wear parts. These are sold under the JEC, HP (High Production lightweight) and Mainetec Hulk and Armadillo brands. Bucket sizes vary from $4m^3$ to $52m^3$ and are customised for the type of machine, material density/abrasiveness and bucket weight (light weight or heavy duty armoured). The buckets are supplied for

- Backhoe excavators (up to $50m^3$)
- Wheeled loaders ($4m^3$ to $40m^3$)
- Hydraulic Loading Shovels
- Rope Shovel Dipper
- Underground loader buckets.

All of these buckets suffer wear and will require regular replacement of GET and wear parts (teeth, lips, blades, shroud protectors, liners, cheeks, heals etc). Over time the bucket itself will wear out, and it may be possible to refurbish by replacement of the lower structure. The following Figure summarises the range of buckets made by ANG.

Figure 13 – Austin Bucket range



SOURCE: COMPANY DATE / AUSTIN ENGINEERING WEBSITE

Backhoe Excavator Buckets

Austin designs and manufactures excavator buckets to suit most OEM machines ranging from 100t to 900t class excavators, with up to $50m^3$ bucket size. An example is shown in Figure 14. The excavator bucket range includes both conventional bucket designs and a dedicated two-piece bucket design consisting of a defined reusable upper structure and a consumable lower structure. The lower bucket section allows for quick and efficient change-out during maintenance intervals minimising down time.

Parker Bay estimate that there are 6,100 hydraulic excavators using both backhoe and shovel, with capacities of 20-77t and bucket volumes of $9\text{-}44m^3$. We show an Austin HPS front shovel in Figure 15.

Figure 14 – Mainetec's Hulk excavator bucket

SOURCE: COMPANY DATA

Figure 15 - HPS Face Shovel Bucket

SOURCE: COMPANY DATA (LINKEDIN PAGE)

Dipper Buckets

A key benefit of the Mainetec acquisition was the opportunity to supply Armadillo Dipper Buckets into the US market, using ANG's distribution. In May 2023 the company announced the first sale. The statement noted that there are around 430 dippers in use in North and South America, and that the replacement market could be worth up to $100m pa. Parker Bay estimates there are 1,900 dipper shovels globally in use with capacities rated between 20->90t, and bucket volumes of 6-64m^3 in size. See Figure 16 and 17.

The ANG statement noted:

The high performance Armadillo electric rope shovel dipper bucket will be delivered to a large copper mine in the US by mid-CY2024. Dipper buckets sell for between US$1.5 - US$2.0 million each depending on configuration specifics.

The Armadillo dipper bucket is a light, strong bucket designed to achieve consistently higher payload and improved fill factor, while using less energy to dig compared to the standard unit. This reduces operating cycle times and thereby reduces overall fuel cost and carbon emissions. (Source: Company announcement 10 May 2023.)

Figure 16 – Mainetec's Hulk excavator bucket

SOURCE: COMPANY DATA

Figure 17 – Dipper Bucket mounted

SOURCE: PARKER BAY MINING WEBSITE

Forecasts, guidance & assumptions

Divisional forecasts

We forecast revenue growth of 12.6% in FY25, in line with guidance given. We expect strong revenue growth in NA and SA regions, driven by new contracts in Chile and continued growth in the US, with group margins improving to 18% by FY26. Our forecasts are shown in Figure 18.

Figure 18 – ANG Segmental split (FY23 FY27)

Segmental forecasts

Y/e June 30	2023a	1H24a	2H24a	2024a	1H25e	2H25e	2025e	2026e	2027e
Revenue ($m)									
Asia -Pac	141.9	77.1	89.1	166.1	78.6	92.5	171.1	184.8	194.1
North America	75.3	41.9	53.6	95.5	50.3	64.3	114.6	123.8	130.0
South America	41.1	24.6	27.0	51.6	31.9	35.1	67.0	72.4	76.0
Total segment revenue	**258.3**	**143.6**	**169.7**	**313.2**	**160.9**	**191.9**	**352.8**	**381.0**	**400.1**
Change y-o-y	**27.0%**	**25.8%**	**17.7%**	**21.3%**	**12.0%**	**13.1%**	**12.6%**	**8.0%**	**5.0%**
EBITDA ($m)									
Asia -Pac	5.8	7.0	11.1	18.1	7.9	12.7	20.5	31.4	33.0
North America	16.7	6.4	11.1	17.4	9.1	13.9	22.9	21.0	22.1
South America	3.8	6.6	7.5	14.1	8.3	9.1	17.4	15.9	16.7
Unalloctated	-5.9	0.6	-2.5	-1.9	0.0	0.0	0.0	0.0	0.0
Total segment EBITDA	**20.3**	**20.6**	**27.2**	**47.7**	**25.2**	**35.7**	**60.9**	**68.4**	**71.8**
EBITDA margins (%)									
Asia -Pac	4.1%	9.1%	12.5%	10.9%	10.0%	13.7%	12.0%	17.0%	17.0%
North America	22.1%	15.2%	20.6%	18.2%	18.0%	21.6%	20.0%	17.0%	17.0%
South America	9.1%	26.7%	27.9%	27.3%	26.0%	26.0%	26.0%	22.0%	22.0%
Total	**7.9%**	**14.3%**	**16.0%**	**15.2%**	**15.7%**	**18.6%**	**17.3%**	**18.0%**	**18.0%**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Forecasts

Our estimates are shown in the following table in Figure 19. Our FY25 estimates for revenue and EBIT are reasonably in-line with the company guidance of around $350m and $50m.

Figure 19 - ANG Forecasts

INCOME STATEMENT									
Y/e June 30 ($m)	**2023a**	**1H24a**	**2H24a**	**2024a**	**1H25e**	**2H25e**	**2025e**	**2026e**	**2027e**
Total Segment Revenue	258.3	143.6	169.7	313.2	160.9	191.9	352.8	381.0	400.1
Other revenue (inc Associates)	3.9	0.7	3.5	4.2	0.0	0.0	0.0	0.0	0.0
Total Reported Revenue	**262.2**	**144.3**	**173.2**	**317.5**	**160.9**	**191.9**	**352.8**	**381.0**	**400.1**
Total Underlying Revenue	**258.3**	**143.6**	**169.7**	**313.2**	**160.9**	**191.9**	**352.8**	**381.0**	**400.1**
Total Underlyig Expenses	241.9	123.7	146.0	269.7	135.7	156.2	291.9	312.6	328.3
Reported EBITDA	**20.3**	**20.6**	**27.2**	**47.7**	**25.2**	**35.7**	**60.9**	**68.4**	**71.8**
Non underlying Rev & Exp	11.0	0.3	-1.4	-1.1	0.0	0.0	0.0	0.0	0.0
Underlying EBITDA	**31.3**	**20.8**	**25.8**	**46.6**	**25.2**	**35.7**	**60.9**	**68.4**	**71.8**
Dep. & Amort.	7.9	4.0	5.1	9.1	5.1	5.1	10.2	11.1	11.0
EBIT reported	**12.4**	**16.5**	**22.1**	**38.6**	**20.1**	**30.6**	**50.7**	**57.3**	**60.9**
EBIT underlying	**23.4**	**16.8**	**20.7**	**37.5**	**20.1**	**30.6**	**50.7**	**57.3**	**60.9**
Interest earned	0.0	0.0	0.0	0.0	1.0	1.4	2.4	4.1	5.8
Interest & finance costs	-3.0	-1.0	-1.2	-2.2	-1.6	-3.3	-4.9	-5.3	-5.3
PBT	**9.4**	**15.5**	**20.9**	**36.4**	**19.5**	**28.6**	**48.1**	**56.1**	**61.3**
Tax expense	-2.2	-0.8	-5.9	-6.7	-4.7	-6.9	-11.6	-13.5	-14.7
Reported NPAT	**7.1**	**14.8**	**14.9**	**29.7**	**14.8**	**21.8**	**36.6**	**42.6**	**46.6**
Disc / NCI	4.3	2.5	1.1	3.6	2.6	1.9	4.5	0.0	0.0
Profit to shareholders	**2.8**	**12.2**	**13.9**	**26.1**	**12.3**	**19.9**	**32.1**	**42.6**	**46.6**
Reported NPAT	**7.1**	**14.8**	**14.9**	**29.7**	**14.8**	**21.8**	**36.6**	**42.6**	**46.6**
Post. Tax Adjustments	0.0	0.0	2.4	2.4	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	**18.1**	**15.0**	**16.0**	**31.0**	**14.8**	**21.8**	**36.6**	**42.6**	**46.6**
Underlying EPS (Diluted cps)	**2.9**	**2.4**	**2.5**	**5.0**	**2.4**	**3.5**	**5.8**	**6.7**	**7.2**
Dividend (cps)	**0.0**	**0.4**	**0.8**	**1.2**	**0.6**	**0.9**	**1.5**	**2.0**	**2.2**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIESESTIMATES

Valuation

We value ANG using a DCF valuation, with a WACC of 9.8% applied to EBITDA after tax adjusted for working cap, inventory, capex (including the operating proportion of leases). A summary of our valuation is shown in the Figure below.

We use our forecasts for the next 3 years and then project forward using the long-term real growth rate of 2.0%.

We value the next 10 years cashflow after tax at $307m. We value the terminal value at $573m, which discounted to present value terms, gives a present value of $211m. This gives a total NPV of $484m.

Adding forecast end 2025 net cash of $42m and deducting leases of $11.7m gives a value for the business of $515m or $0.86/ps at June 2025.

Figure 20 – DCF valuation

WACC Calculation / key assumptions	
Risk free rate	4.0%
Market risk premium	5.0%
ß = beta	1.30
Borrowing rate	10.0%
Tax rate	25.0%
Target gearing	23.1%
Cost of equity	10.5%
Cost of debt	7.5%
Discount rate (WACC) - Post Tax	**9.8%**
Inflation	1.0%
Nominal growth rate	1.0%
Long-term real growth rate	**2.0%**

DCF ($m)	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	Beyond
EBITDA	60.9	68.4	71.8									
Change in provisions	5.6	1.1	-1.0									
Working capital changes	7.6	0.1	0.1									
Tax paid	-11.6	-13.5	-14.7									
Other operating items	-2.9	-3.3	-3.3									
Operating cash flow	**59.6**	**52.9**	**52.9**									
Stay in business capex	-6.2	-7.2	-7.2									
Capex on leased assets	-3.4	-3.4	-3.5									
Total cashflow	**50.0**	**42.2**	**42.2**	**43.0**	**43.9**	**44.8**	**45.7**	**46.6**	**47.5**	**48.5**	**49.5**	**572.8**

Total Valuation ($m)	
DCF component	484.3
Net cash/(Debt)	42.5
Lease liabilities	-11.7
Total ($m)	**515.1**
Shares on issue (m)	597.6
Value per share ($)	**0.86**

SOURCE: BELL POTTER SECURITIES ESTIMATES

We note that using a DCF has some implicit uncertainty, as cashflow forecasts are difficult for any business where there is significant amount of capex and working capital, which cannot be forecasted accurately.

Implicit in our valuation is that debt, capex and EBITDA should be reasonably matched over time, provided the company is able to price the cost of debt and capex needs into its EBITDA margins and maintain a tight grip on working capital. We achieve this by assuming a capex/depreciation ratio just over 1.0x (reflecting that the business will probably need additional net capex).

Relative valuations

In Figure 21 we compare the valuation of ANG against similar companies in the industrial or mining services sectors. Where we cover a company, we have used our own (unadjusted) EPS, DPS, and EBITDA figures. Where we do not cover a company shown, we have used consensus from Bloomberg. We have not adjusted figures to normalise year ends since most of these companies have June year ends, with only Ventia having a December year end. The expected return is from the close price shown in the table and may differ to the expected return shown on the front page. The unadjusted EPS shown are closer to statutory. The adjusted EPS on the front page may add back unusual and one-off costs.

Figure 21 – Industrial/mining service providers – relative valuations

	BP Rec	BP target price (AUD)	Exp Tot Ret (%)	Year end	Close Price in Local (AUD)	Market Cap (AUD Bn)	PE Forecast (X)	PE Next year (X)	EV/EBITDA forecast (X)	EV/EBITDA next year (X)	Dividend Yield Forecast (%)	Dividend Yield Next year (%)
DOWNER EDI LTD				Jun	5.30	3.56	13.49	11.73	5.77	5.40	4.49	5.11
VENTIA SERVICES GROUP PTY LT				Dec	3.65	3.12	13.08	12.05	6.74	6.58	5.92	6.33
SRG GLOBAL LTD	Buy	1.55	19%	Jun	1.35	0.81	15.72	13.86	6.73	6.05	3.72	4.46
MACMAHON HOLDINGS LTD				Jun	0.33	0.71	6.88	6.47	2.30	2.23	3.94	4.24
NRW HOLDINGS LTD				Jun	3.84	1.76	13.11	12.15	5.03	4.78	4.45	4.66
PERENTI LTD	Buy	1.47	11%	Jun	1.39	1.30	9.76	6.95	2.52	2.39	5.34	5.63
MONADELPHOUS GROUP LTD	Hold	13.90	0%	Jun	14.52	1.43	20.59	19.55	9.02	8.39	4.75	4.82
DURATEC LTD	Buy	1.73	26%	Jun	1.41	0.36	14.51	12.94	5.29	4.68	3.62	4.75
SERVICE STREAM LTD				Jun	1.58	0.97	16.58	15.29	7.23	6.76	3.37	3.75
ACROW LTD				Jun	1.08	0.33	9.00	8.57	5.08	4.77	5.37	5.65
AUSTIN ENGINEERING LTD	Buy	0.86	65%	Jun	0.53	0.33	10.34	7.92	4.70	4.18	2.83	3.77
GR ENGINEERING SERVICES LTD				Jun	2.55	0.43	14.91	13.01	7.99	7.08	6.67	7.25
GENUSPLUS GROUP LTD	Buy	3.10	25%	Jun	2.50	0.45	16.75	14.11	6.85	5.80	1.20	1.20
SOUTHERN CROSS ELECTRICAL	Buy	2.25	58%	Jun	1.47	0.39	12.59	11.89	5.81	5.44	4.76	5.44
					(GBP)	(AUD Bn)						
WEIR GROUP PLC/THE				Dec	22.10	11.43	16.68	14.87	10.71	9.86	1.98	2.19
Simple average of group (ex Weir)							13.09	11.67	5.78	5.31	4.22	4.72

prices updated 07/01/25, estimates updated 06/01/25

SOURCE: BLOOMBERG & BELL POTTER SECURITIES ESTIMATES

We note that at the current share price ANG trades on 10.3x FY25 reported earnings or 9.1x underlying earnings as shown on the front page. This is one of the lowest in the table and below the sector average of 13.1x.

It is valued at an EV/EBITDA multiple of 4.7x, which is below the sector (simple) average of 5.8x.

Austin Engineering Ltd (ANG) Overview

Company description

Austin designs and manufactures customised dump truck bodies, buckets, water tanks, tyre handlers and other ancillary products utilised in the mining industry. It is a complete service provider, offering on and off-site repair and maintenance as well as heavy equipment lifting to its clients. It has manufacturing sites located in Australia, North America, Indonesia and South America. It has presence in the worlds principal mining locations.

Investment thesis

1 Market positioning: ANG is the World leader in customised truck bodies (we also refer to as trays in this report) and has a significant presence in buckets and other mining equipment. It has a blue-chip customer base, including mining equipment supplied to Original Equipment Manufacturers (OEM) and an 89% customer retention rate. Revenue has grown at 15% pa, and will be helped by new contracts in Chile, and strong growth in the North American market. Strong IP and economies of scale protect business.

2 Attractive products: Customised equipment gives high RoI to miners compared to standard OEM equipment. Austin has a large installed base and sells replacement and wear items. Revenue is underpinned by recurring revenue and not linked to any individual commodity cycle.

3 The Austin 2.0 strategy: with a focus on manufacturing leadership, product leadership and customer focus has seen capacity increase, sales improve, and margins nearly double helped by lower cost manufacturing and centralised buying (AustBuy). Margins are expected to improve further towards 18-20% (from 15% in FY24).

4 **Attractive share valuation:** the shares trade on a lower PE or EV/EBITDA multiple compared to similar mining service companies and manufacturers.

5 Fragmented industry, Despite the scale, IP/technical knowledge required, the industry is fragmented with a number of different scale operators. We believe ANG could easily gain market share by acquiring a competitor and achieve synergies. Its biggest competitor by Market Capitalisation is ESCO, owned by Weir Group plc (WEIR.LSE) which has considerable financial resources (Mcap £5.7bn). While we feel it is unlikely, it is not inconceivable that Weir Group could acquire ANG.

Risks

ANG is subject to all of the following risks:

Mining Fluctuations/End demand for product: Nearly all of Austin's products are used by the mining industry. A downturn in global mining or more broadly global GDP would reduce the end demand for its products, and spare parts.

Input supply and prices: Exposed to sudden increases in input prices, to the extent that there is no escalation clause in the contract to pass these increases to the end client. Inputs are mainly steel, and labour costs, energy.

Competition, loss of orders, or reduced price achieved: Austins competitors may seek to gain market share by winning customers, through alternative products, packages of products or lower prices. ANG retains high client retention, has strong IP in its products, and the cost is a relatively small part compared to the overall costs involved in mining operations.

Quality standards/ Occupational health and safety. Failure of the tray body could lead to accidents. Austing needs to ensure quality and safety of its products.

Clients not replacing product: Through extended usage. Most mining operators would see the benefit of replacement through efficient operation compared to the potential cost of mine downtime resulting from failure.

Distribution: Austin needs to be physically located close to its key customers to maintain sales, delivery and service revenue. The largest truck bodies used on haul trucks are bulky and heavy. Local fabrication is preferable, depending upon transportation and logistics.

Relationship with OEM

Trump presidency could lead to tariffs applied to its truck bodies sold into the US market.

Funding and capital management risks. Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.

Reputation and Key client risk: The company replies on repeat business from a number of key clients, based in part on its reputation and delivery on previous projects. Loss of this status could result in lower future volumes of work.

Austin Engineering
as at 8 January 2025

Recommendation	Buy
Price	$0.52
Target (12 months)	$0.86

Table 1 - Financial summary

Austin Engineering Limited	Price Target (A$)	0.86	Share Price (A$)	0.52
	Recommendation:	Buy	Market Cap (A$m)	322.5

INCOME STATEMENT					
Y/e June 30 ($m)	2023a	2024a	2025e	2026e	2027e
Total Segment Revenue	258.3	313.2	352.8	381.0	400.1
Other revenue (inc Associates)	3.9	4.2	0.0	0.0	0.0
Total Revenue	262.2	317.5	352.8	381.0	400.1
Total Underlying Revenue	258.3	313.2	352.8	381.0	400.1
Total Underlying Expenses	241.9	269.7	291.9	312.6	328.3
EBITDA reported	20.3	47.7	60.9	68.4	71.8
EBITDA underlying	31.3	46.6	60.9	68.4	71.8
Non underlying Rev & Exp	14.9	3.1	0.0	0.0	0.0
Dep. & Amort.	7.9	9.1	10.2	11.1	11.0
EBIT reported	12.4	38.6	50.7	57.3	60.9
EBIT underlying	23.4	37.5	50.7	57.3	60.9
Interest Expense	-3.0	-2.2	-4.9	-5.3	-5.3
PBT reported	9.4	36.4	48.1	56.1	61.3
Tax expense	2.2	6.7	11.6	13.5	14.7
Reported NPAT	7.1	29.7	36.6	42.6	46.6
Non Controlling Interest	4.3	3.6	4.5	0.0	0.0
Profit to shareholders	2.8	26.1	32.1	42.6	46.6
Reported NPAT	7.1	29.7	36.6	42.6	46.6
Post. Tax Abnormals	0.0	2.4	0.0	0.0	0.0
Underlying NPAT	18.1	31.0	36.6	42.6	46.6
Amort.	-4.0	-4.1	1.2	1.1	0.8
Underlying NPATA	14.1	26.9	37.8	43.7	47.4

CASHFLOW					
Y/e June 30 ($m)	2023a	2024a	2025e	2026e	2027e
Underlying NPAT	18.1	31.0	36.6	42.6	46.6
Depreciation & Amort.	7.9	9.1	10.2	11.1	11.0
Change in Working Capital	5.9	11.8	7.6	0.1	0.1
Other	-16.1	-16.4	5.2	-0.9	-4.7
Operating cashflow	15.8	35.5	59.6	52.9	52.9
Capex	-10.9	-4.5	-6.2	-7.2	-7.2
Net (Acquisition)/Disposals	-10.0	-3.9	0.0	0.0	0.0
Other	-3.3	-4.1	-3.4	-19.2	-20.2
Investing cashflow	-24.2	-12.4	-9.6	-26.4	-27.4
Change in borrowings	10.3	-3.7	0.0	0.0	0.0
Equity raised	0.0	0.0	0.0	0.0	0.0
Dividends paid	-1.7	-2.3	-8.3	-10.8	-12.8
Other	-0.8	2.9	-8.5	15.1	17.4
Financing cashflow	7.8	-3.0	-16.8	4.3	4.5
Net change in cash	-0.6	20.0	36.6	34.1	33.5
Cash at end of period	20.2	40.2	76.8	110.9	144.5

BALANCE SHEET					
Y/e June 30 ($m)	2023a	2024a	2025e	2026e	2027e
Cash	20.2	40.2	76.8	110.9	144.5
Cash held on trust	0.0	0.0	0.0	0.0	0.0
Receivables	72.5	85.6	89.2	96.3	101.1
PPE	47.7	42.9	43.5	44.1	44.7
Intangibles	26.1	26.0	25.7	23.7	22.3
Equity Accounted Investments	0.0	0.0	0.0	0.0	0.0
Other assets	83.5	88.6	88.6	88.6	88.6
Total assets	261.0	293.0	333.6	373.7	411.4
Payables	54.7	79.6	90.7	98.0	102.9
Debt	41.7	34.3	34.3	34.3	34.3
Other provisions	11.0	7.9	13.4	14.5	13.5
Other liabilities	0.0	0.0	0.0	0.0	0.0
Total liabilities	146.8	162.7	179.4	187.7	191.6
Contributed equity	155.1	156.0	156.0	156.0	156.0
Reserves	-33.0	-9.2	-9.2	-9.2	-9.2
Retained earnings	-7.9	-16.4	7.5	39.3	73.0
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Total shareholders funds	114.2	130.3	154.2	186.0	219.8
W/A shares on issue	630.1	618.9	627.3	637.1	647.3

VALUATION DATA					
Y/e June 30 ($m)	2023a	2024a	2025e	2026e	2027e
Cash NPAT ($m)	14.1	26.9	37.8	43.7	47.4
Cash EPS (fully diluted) (cps)	2.2	4.4	6.0	6.9	7.3
Adjusted EPS growth (%)	-7.2%	94.5%	38.4%	13.9%	6.7%
EPS underlying **(fully diluted)(cps)**	2.9	5.0	5.8	6.7	7.2
Diluted adjusted P/E ratio (x)	18.1	10.4	8.9	7.8	7.1
CFPS (cps)	2.5	5.7	9.5	8.3	8.2
Price/CF (x)	20.8	9.1	5.5	6.3	6.4
DPS (cps)	0.0	1.2	1.5	2.0	2.2
Yield (%)	0.0%	2.3%	2.9%	3.8%	4.2%
Franking (%)	100%	100%	100%	100%	100%
EV/EBITDA (x)	8.9	6.0	4.6	4.1	3.9
EV/EBIT (x)	22.6	7.2	5.5	4.9	4.6
Price/book (x)	2.9	2.3	2.1	1.8	1.5
NTA ($)	0.1	0.2	0.2	0.3	0.3

PROFITABILITY RATIOS					
Y/e June 30 ($m)	2023a	2024a	2025e	2026e	2027e
EBIT/sales (%)	4.8%	12.3%	14.4%	15.0%	15.2%
Return on assets (%)	7.6%	11.2%	11.7%	12.1%	11.9%
Return on equity (%)	16.4%	25.4%	25.7%	25.1%	23.0%
Dividend cover (x)	0.0	3.5	3.4	3.3	3.3
Effective tax rate (%)	24.0%	18.4%	24.0%	24.0%	24.0%

LIQUIDITY AND LEVERAGE RATIOS					
Y/e June 30 ($m)	2023a	2024a	2025e	2026e	2027e
Net debt/(cash) ($m)	21.5	-5.9	-42.5	-76.7	-110.2
Net debt/equity (%)	18.8%	-4.5%	-27.6%	-41.2%	-50.1%
Net debt/EBITDA (x) - Adj.	0.69	-0.13	-0.70	-1.12	-1.53
Gross debt/EBITDA - Adj.	1.3	0.7	0.6	0.5	0.5
Interest Coverage	-4.1	-17.5	-10.3	-10.8	-11.5
Current ratio (x)	1.2	1.2	1.3	1.5	1.7

INTERIMS					
Half end December 31 ($m)	1H23a	1H24a	1H25e	1H26e	1H27e
Underlying Revenue	114.1	143.6	160.9	173.7	182.4
Underlying EBITDA	12.2	20.8	25.2	31.3	32.8
Reported profit	1.0	14.8	14.8	19.0	20.9
Underlying NPATA	3.3	13.0	15.4	19.6	21.3
Interim Adjusted EPS (cents)	0.5	2.1	2.5	3.1	3.3
Interim DPS (cents)	0.0	0.4	0.6	0.9	1.0

Key Assumptions					
	2023a	2024a	2025e	2026e	2027e
Revenue Growth	27.0%	21.3%	12.6%	8.0%	5.0%
Gross margins	7.9%	15.2%	17.3%	18.0%	18.0%

Divisional					
Segment revenue	2023a	2024a	2025e	2026e	2027e
Asia -Pac	141.9	166.1	171.1	184.8	194.1
North America	75.3	95.5	114.6	123.8	130.0
South America	41.1	51.6	67.0	72.4	76.0
Unalloctated	0.0	0.0	0.0	0.0	0.0
Total	258.3	313.2	352.8	381.0	400.1

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.

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