STOCKS DOWN UNDER

ASX Top 200 Stocks Down Under

"The only place where success comes before work is in the dictionary."

- Vidal Sassoon (1928-2018), British businessman & philanthropist

VENTIA

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Stocks Down Under rating: ★★★★

ASX: VNT
Market cap: A$2.3B

52-week range: A$1.94 / A$2.96
Share price: A$2.71

There have been plenty of disasters in the IPO market in the last six months, but Ventia has been an exemption. The company is an essential services network, providing maintenance rather than major capital works, focusing on a variety of sectors, but having a significant focus on government works. Ventia had a tough journey to market, but since listing its up over 50%, even in the current bear market, as a result of exceeding prospectus forecasts.

Share price chart

Source: Tradingview

A long road to market

Ventia was founded in 2015 as a three-way merger of Leighton, Theiss and Visionstream, although some legacy entities date back to the 1950s. Its biggest shareholder is a consortium of CIMIC and Apollo Global Management, which holds a 32% stake post-IPO.

Ventia has four segments: Defence & Social infrastructure, Infrastructure Services – which covers utilities such as water and electricity as well as the resources sector - Telecommunications and transport. These sectors account for 34%, 27%, 28% and 11% of revenue respectively.

About 85% of Ventia's revenue comes from Australia with the balance from New Zealand, although no Australian state accounts for over 30% of revenue. The company estimates the Infrastructure Services market represents a $62bn addressable market and is forecasting CAGR of 5.5% through to FY25, which would see it reach $76.2bn. This segment is benefiting from growth in the general population as well as the asset bases and the outsourcing of maintenance services. One client of Ventia's is Royal North Shore Hospital, for which it provides facility management services to the hospital under a 28-year contract that has been going 13 years so far.

The deal was discounted, but got off the ground

Ventia listed on the ASX in November last year at $1.70 a share. This was 8.5x forecast net profit after tax and amortization and implied an 8.9% dividend yield. At first glance this would appear cheap, but the company was forced to cut its valuation from a range of $2.75-$3.15 a share, which was implied 12.5x to 14.0x NPATA and reduce the number of secondary shares offered in the deal. Secondary shares mean shares sold by existing shareholders whereas primary shares allude to brand new shares being created as part of the offer.

Companies will often justify selldowns by existing shareholders at IPO by arguing there wouldn't be enough free float and that staying shareholders would be excessively diluted. But inevitably, fund managers get left wondering why they should buy if the owners are selling. It is implicit from exiting; that those shareholders don't see any further growth.

Deals being re-priced have also been a bad omen, but not always (Charter Hall Long WALE REIT in 2016 being one example of a re-priced IPO that has performed well). In the end, Ventia's listing went ahead, something that couldn't be said about other IPO candidates at the time, including SG Lottery. The final deal had 30% of the Ventia's shares up for sale and nearly 90% of those were primary while just over 10% were secondary. All CIMIC and Apollo's shares were escrowed for two years. Ironically, since listing, Ventia has reached its initial listing price anyway - impressive when you consider the market conditions.

Why it's holding up

When a company lists, its first major test is when it releases its first set of results, and missing guidance is typically a huge red flag. Ventia passed that test with flying colours. For FY21 (which is the same as the calendar year), Ventia had forecast $4.5bn in revenue and an NPATA of $139.8m. In February 2022 it released its annual results and they were even better than expected - it recorded $4.6bn in revenue and $146.8m NPATA. While revenues were virtually flat from FY20, the company's profit was up by 23%. Ventia paid a dividend of 1.47c per share, which represented a 75% payout of its proforma NPATA, and made an operating cash flow conversion of 84.9%. We do note that the company's EBITDA forecast for FY21 was behind FY20, but ultimately came in at $379.9m which was 7% higher. The company had $180m in cash and another $400m in undrawn facilities.

Looking to FY22, Ventia is forecasting $4.9bn in revenue (up 7% from FY21), $408.6m in EBITDA (up 8%) and $155.5m in NPAT (up 6%). These growth figures may not appear that significant, but bear in mind these are relative to its final FY21 performance, which was better than its forecasts. And we wouldn't be surprised to see another outperformance in its FY22 results. And you are paying reasonable multiples of just 7.5x EV/EBITDA and 14.0x P/E.

Looking to consensus estimates for next year, FY23 is forecast to be another solid year with $5.1bn in revenue and $428.9m in EBITDA which would represent growth of 5% and 4% respectively.

Ventia has also impressed shareholders with its contract wins. In April, Ventia was awarded a two-year contract extension by the Commonwealth Government to deliver leasing and facilities management services to 39 government entities across more than 650 properties. The contract extension is expected to generate approximately $270 million in revenue for Ventia from 1 July 2022 to 30 June 2024. It also won the Asset Management Services contract for the Western Harbour Tunnel and Sydney Harbour Tunnel, which will generate $450m in revenue over a fifteen-year period from 1 September 2022.

Although the current market is volatile and firmly in favour of value stocks rather than growth stocks, we think proven companies such as Ventia will outperform in the months ahead. Assuming the company can continue to deliver on its forecasts, hang on to its clients and win new ones, this one's four stars.

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