STOCKS DOWN UNDER

6 JUNE 2022

ASX Top 200 Stocks Down Under

> *The beauty of diversification is it's about as close as you can get to a free lunch in investing.*

- Barry Ritholtz (b. 1961), CIO of Ritholtz Wealth Management

ASX

EXCHANGE CENTRE

MAAS GROUP

One of the ASX's best growth stories, but is more to come?

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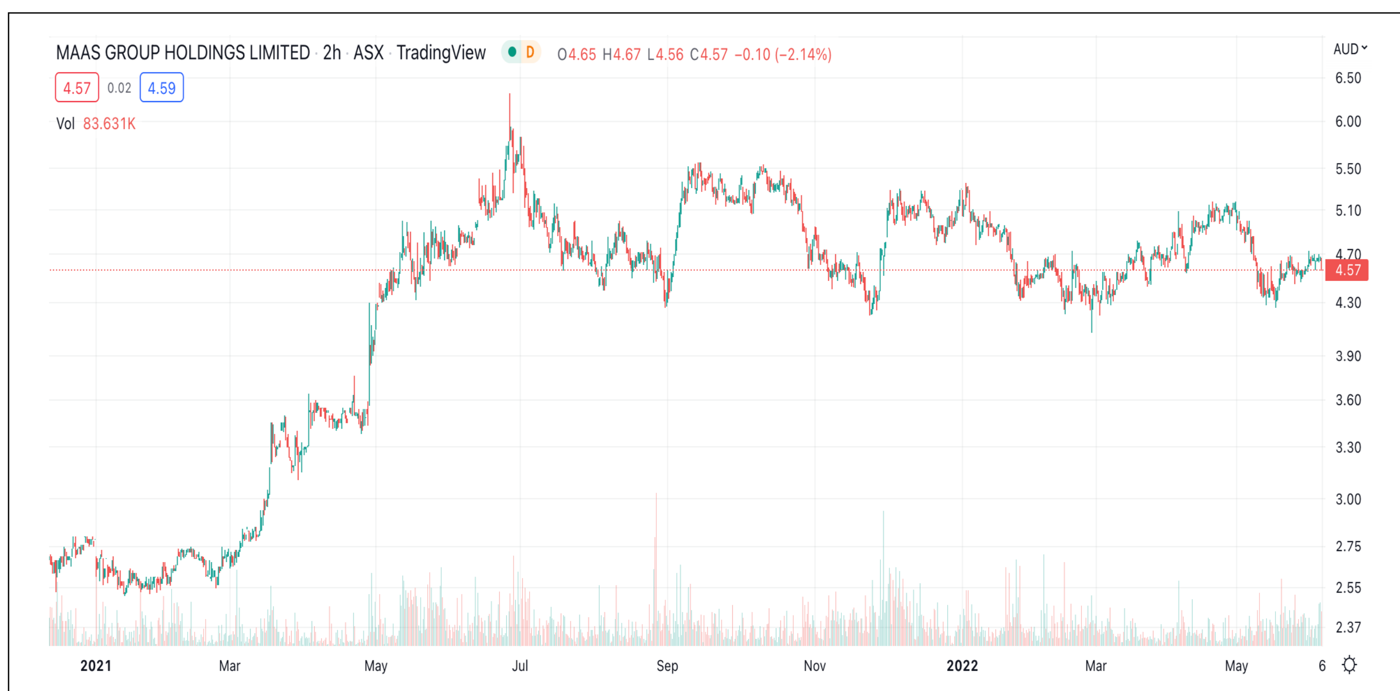
Stocks Down Under rating: ★★★★

ASX: MGH
Market cap: A$1.4BN

52-week range: A$4.07 / A$6.32
Share price: A$4.62

The upper echelon of the ASX is home to countless companies that have been listed on the bourse for decades or that have come together through several corporate transactions over the years. But very few began with a bobcat and a tipper truck in a regional town, like Dubbo, and grew into a national business in two decades with a former rugby league player at the helm all the while. Maas Group (ASX: MGH) is such a company and investors have liked the story, sending the stock up over 100% since its IPO and it's now on the brink of the ASX 200.

Share price chart



Source: Tradingview

Maas Group listed just before Christmas in 2020 in a deal that capitalised the company at $529.9m. It listed with $221.8m in revenue, $64.7m in EBITDA and a $33.7m NPATA in FY20, figures which were on average 31% higher than FY19. At the time of listing, Wes Maas and his family owned 77.4% of the business (with other founding shareholders owning a further 19.7%) although they sold down part of the stake as part of its listing. Although founders selling shares is typically a red flag in IPOs, Maas retained a 55.6% stake and has since bought back shares on market. It has also helped that it has performed well since listing, but unlike certain other companies that listed during the pandemic, it was already a top performer in its industry and it listed with growth ambitions in mind.

In the past couple of years, too many companies listed on the ASX just because their founders wanted to exit the business (a handful got their wish) and listed thinking the bull market would get them a higher price than selling to private equity. Maas Group was not one of them.

In a good place at a good time

The company's core activities include civil construction, construction supply hiring, housing estate development, the sale of concrete and underground mining equipment hire and services. Each of these markets has had its individual performance catalysts in recent years but being vertically integrated enables

the company to capture additional margin opportunities, cost synergies and provides the ability to mitigate risks across all points of the business cycle.

Maas' clients include regional councils, state governments and several key construction companies, including Lendlease and Fulton Hogan. Projects to which Maas has contributed include the WestConnex, the Brisbane Cross River Rail and the Melbourne Metro Tunnel – in each instance providing equipment. But it also undertakes work in regional areas, especially in NSW.

Since its listing Maas has had minimal disruption to its operations due to COVID-19 and has benefited from several factors, including government stimulus, the resources boom and strong demand for regional property. Many companies benefited from just one of these factors, but Maas has gained from several factors all at once because of its broader exposure. Furthermore, it has not been as badly impacted by supply chain issues as some of its peers, again a testament to its broader exposure, but also to its strategic acquisitions. For instance, the Dubbo-based Astley's Plumbing and Hardware business which the company singled out as one that would provide supply chain security in relation to building materials.

In FY21, Maas achieved $283.4m in revenue, a $39.7m NPAT and $75.9m EBITDA on a pro forma basis, all up by an average of 22%.

Almost unblemished, but will the run continue?

The company expects EBITDA of $115m-$125m for its FY22 results due in August. This would be 51-64% higher than FY21 although this does not account for potential contributions from acquisition opportunities. It is also expecting to pay out 20-40% of its cash NPAT as dividends to its shareholders. Turning to FY23, the company has not given guidance just yet, but consensus estimates suggest $557.6m in revenue and $148.6m in EBITDA.

The consensus estimates for FY23 imply 18-29% growth from FY22. Although forecasted growth in FY23 is slower than in FY22, it critically would still represent growth. We note that Maas has a PEG ratio of 0.6x. A PEG ratio between 0 and 1 suggests there will be earnings growth, but investors are not accounting for it. The same is true for the company's EV/EBITDA valuation. With Maas trading at 10.7x EV/EBITDA, the market is not valuing the company's expected EBITDA growth in FY23, which provides opportunities.,.

We think the biggest catalyst for the company will be ongoing infrastructure spending. $100bn over 10 years from FY20 was committed by the Federal government. And the NSW government committed to $93bn of infrastructure investment.

Maas is not without risk, but there's mitigation

Of course, there are a few risks to this company. Government spending could slow down as they try to bring spiralling deficits under control. We also acknowledge the risk that Maas' high M&A activity may give the sentiment to investors that it is not strategically thinking them through – just buying for the sake of it. And of course, it does run the risk of running up excessive debt. We cannot blame investors for these concerns given there have been some instances of this over the years, such as BWX (ASX: BWX). But this is less of a risk where the company already has a significant market position. There are other examples where strategically conceived M&A activity can help a company, with DGL (ASX: DGL) being one example. Furthermore, Maas' acquisitions have tended to be smaller scale, so it poses minimal risk to the balance sheet – for instance the Astley's deal was completed for ~$9m. Maas has $31.8m in cash along with $300m in corporate debt facilities.

Finally, we observe that many construction companies are currently struggling with rising costs and there is potential for this to eat into Maas' profit. Ultimately, we believe the business is profitable, capitalised and diversified enough that it should be able to ride-out any short-term impacts. Yet, given it has been almost without blemish in two years, any impact whatsoever (no matter how mild) could result in a sell-off.

To conclude, we note the stock is in an uptrend at the moment with a clear support level established just above $4.20, but still well off its resistance level of over $5. With the assumption that the company can stay on track, Mass is a four-star stock in our opinion.

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