



SMALL-CAPS

RECOMMENDATION



MGH:ASX
November 2024

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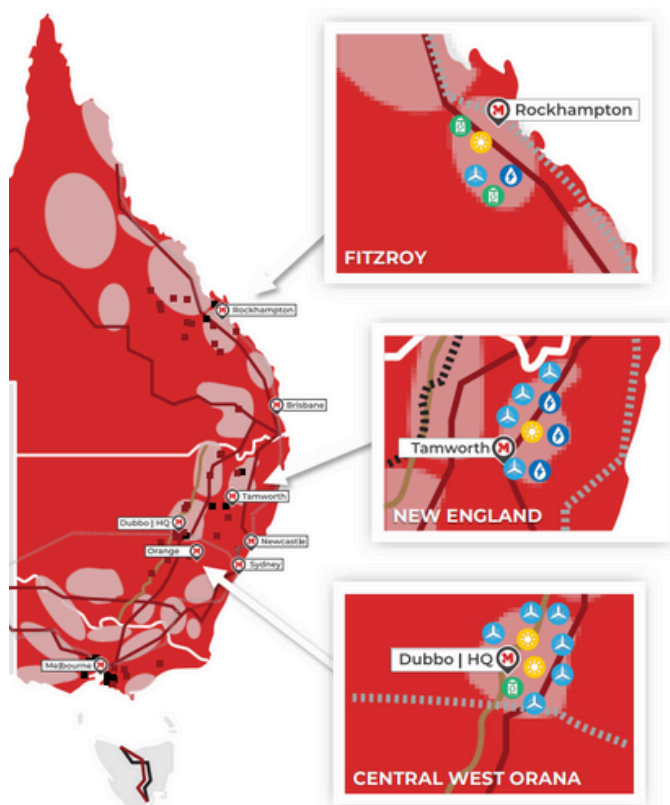
SMALL-CAPS RECOMMENDATION

MAAS GROUP HOLDINGS LTD MGH:ASX

Maas Group Holdings (MGH) is a diversified Australian industrial company operating across multiple sectors including Construction Materials, Civil Construction and Hire, Residential Real Estate, Commercial Real Estate, and Manufacturing. The company provides a wide range of services from construction materials supply and civil infrastructure projects to residential and commercial property development.

Founded in 2002 by current CEO Wes Maas, MGH has grown rapidly through both organic expansion and strategic acquisitions. The company now has operations across Australia's east coast as well as in Vietnam and Indonesia. MGH's key business segments include:

- Construction Materials: Quarries, concrete, asphalt, and geotechnical engineering
- Civil Construction & Hire: Equipment hire and civil construction services
- Real Estate: Residential and commercial property development
- Manufacturing: Equipment manufacturing and sales



STRATEGICALLY LOCATED

Maas continues to grow its operations and asset portfolio focused on the east coast of Australia

Key

- | | |
|-------------------|-----------------------------|
| Maas Office / Hub | Renewable Energy Zone (REZ) |
| Quarry | Solar projects |
| Concrete Plant | Battery storage projects |
| Newell Highway | Wind projects |
| Inland Rail | Pumped hydro projects |
| National Highway | |
| Major Railway | |

INVESTMENT CONSIDERATIONS

Leadership

a founder-led business, with Wes Maas at the helm since its inception, demonstrating the long-term vision and deep commitment characteristic of successful founder-CEOs. This leadership structure has fostered a culture of innovation and agile decision-making, enabling the company to drive organic growth and successfully integrate acquisitions. Wes's significant shareholding in the company aligns his interests with those of other shareholders, promoting careful capital allocation and a focus on sustainable value creation.

Under Wes's guidance, the management team operates with a cohesive, high-performance culture, leveraging their diverse expertise across finance, property, construction, and corporate development to navigate industry challenges and pursue growth opportunities. This founder-led approach has positioned Maas Group Holdings to outperform, innovate, and maintain its strong culture even during periods of rapid expansion.

Financial Performance

MAAS Group Holdings Limited (ASX:MGH) has demonstrated strong financial performance in recent years. The company's revenue has shown consistent growth, increasing from \$512.1 million in 2022 to \$795 million in 2023, and further to \$902.4 million in 2024

This represents a compound annual growth rate of approximately 32.7% over the two-year period. The company's profitability has also improved, with net profit after tax (NPAT) rising from \$61.6 million in 2022 to \$73 million in 2024

The net profit margin has remained relatively stable, ranging from 9.4% to 11.3% over the past three years and Return on equity (ROE) stands at 11%, indicating efficient use of shareholders' equity to generate profits

The company has maintained a healthy dividend payout ratio of around 25-28%, allowing for reinvestment of earnings into the business while still rewarding shareholders

Looking ahead, MAAS Group expects FY25 earnings to be between \$215 million and \$245 million, with a greater-than-expected second-half earnings weighting due to renewable project delays

The company's capital recycling program is progressing ahead of forecasts, which is expected to further strengthen its financial position

\$207.3M

Underlying EBITDA²

Increase of 27%,
88% of growth from
existing businesses³



\$154.1M

Underlying EBIT

Increase of 28% on pcp
with stronger EBIT
conversion



25.7 CPS

Underlying EPS

Increase of 18% on pcp



88%

Cashflow conversion⁴

In line with FY23 and target
range,
representing disciplined
working capital
management



\$1.4bn

Tangible assets⁵

Increase of 12% from 30 June
2023 with residential land
bank recognised
at historical cost
(c\$15k/lot)



INVESTMENT CONSIDERATIONS

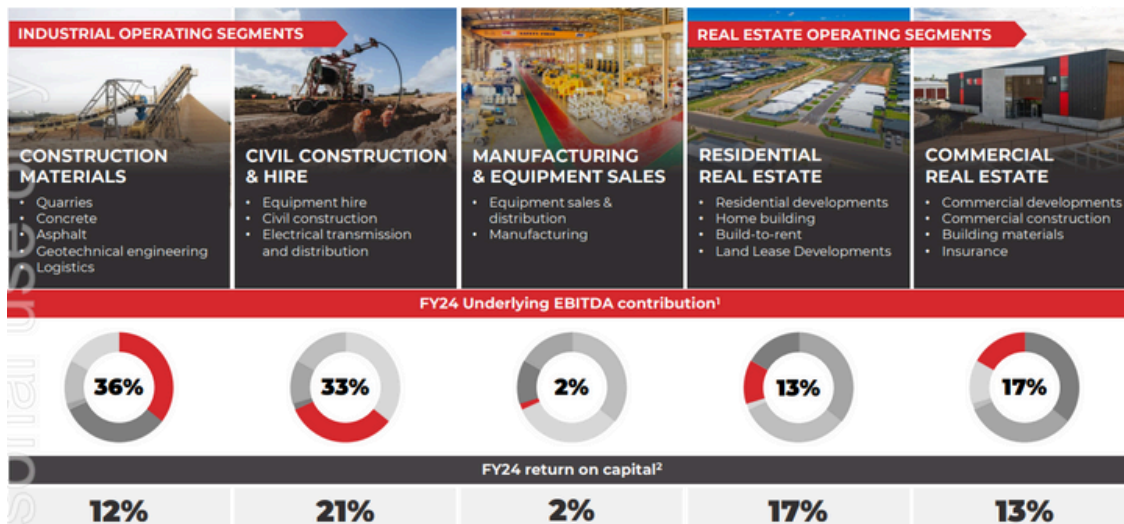
Valuation

MAAS Group Holdings Limited (ASX:MGH) appears to be trading at an attractive valuation based on several key metrics. The company's current share price of A\$4.64 is below the estimated fair value of A\$8.45, suggesting it may be undervalued by approximately 45%

This assessment is supported by the company's price-to-earnings (P/E) ratio of 20.8x, which is lower than both the peer average of 22.1x and the estimated fair P/E ratio of 26.3x. The market has assigned MGH a market capitalization of approximately A\$1.53 billion, with an enterprise value of A\$2.07 billion. MGH's price-to-sales (P/S) ratio of 1.67 and price-to-book (P/B) ratio of 2.24 provide additional context for its valuation

From a financial health perspective, MGH maintains a debt-to-equity ratio of 0.92, which is relatively moderate. The company's return on equity (ROE) of 11.52% and return on invested capital (ROIC) of 5.71% indicate reasonable profitability and efficiency in capital allocation

Overall, while MGH's valuation metrics suggest it may be undervalued, investors should consider the company's growth prospects, industry position, and broader market conditions when making investment decisions.



Sociological Factors

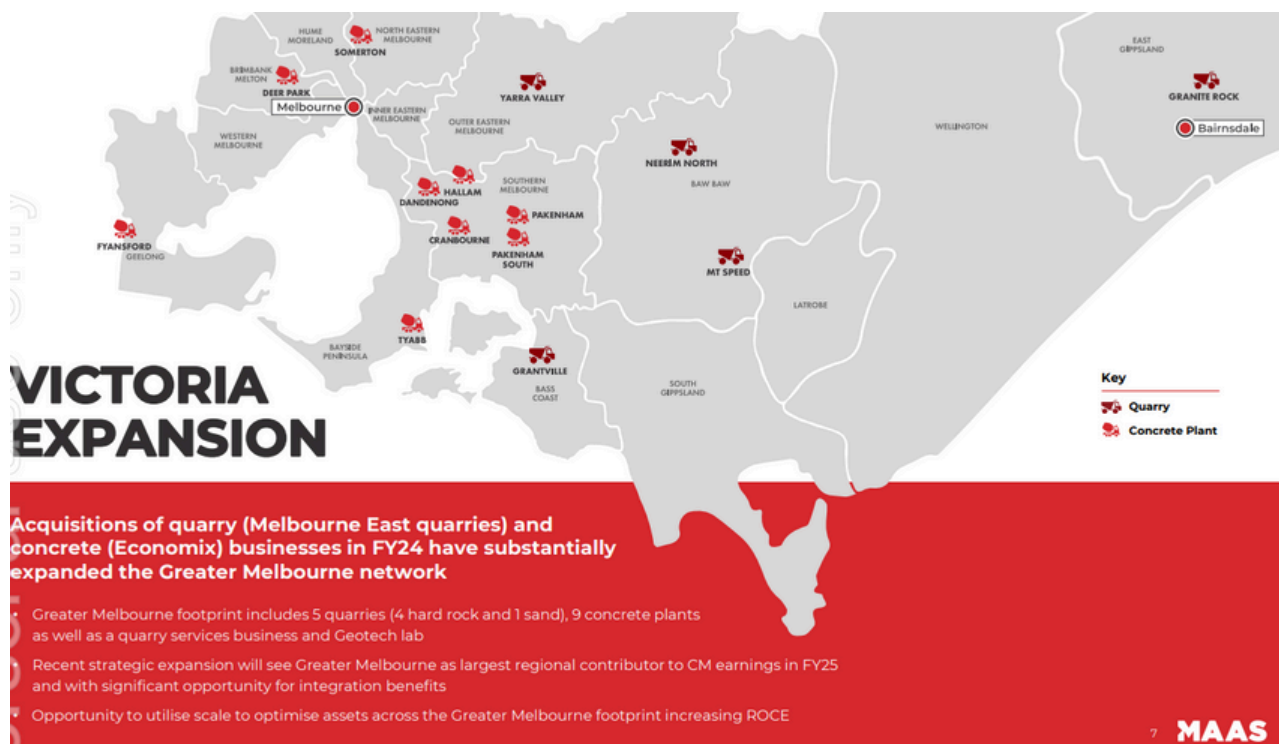
MGH demonstrates a commitment to positive sociological impacts:

- Focus on sustainability, including trialing low-carbon concrete products and increasing the use of recycled materials in asphalt production
- Commitment to diversity, with 31% of senior executive roles held by women
- Strong community engagement, supporting initiatives like fundraising for Dolly's Dream
- Provision of 82 apprenticeship and traineeship positions in FY24, contributing to skill development in regional areas
- Implementation of Indigenous participation programs and training initiatives

RISKS

Risks

- **Economic Sensitivity:** The construction and real estate sectors are cyclical and sensitive to economic fluctuations. A significant economic downturn could impact demand across MGH's businesses.
- **Acquisition Integration:** While acquisitions offer growth opportunities, they also present integration risks. MGH's ability to successfully integrate and extract synergies from acquisitions will be crucial.
- **Regulatory Changes:** Changes in construction or real estate regulations could potentially impact MGH's operations and profitability. Environmental regulations are also becoming more stringent.
- **Project Delays:** Some renewable energy-related projects have experienced delays, which could impact short-term performance in the Civil Construction segment.
- **Competitive Pressures:** The construction materials and services industries are highly competitive, which could pressure margins if pricing becomes irrational.
- **Interest Rate Sensitivity:** Rising interest rates could impact demand in the residential property market and increase MGH's borrowing costs.



WHY HOLD THE COMPANY?

Why hold the Company?

Diversified Business Model: MGH's operations across multiple sectors reduce risk exposure to industry-specific downturns and provide multiple avenues for revenue growth. This diversification has proven valuable in navigating economic cycles.

Strong Financial Performance: The significant increase in revenue, profits and cash flow demonstrates MGH's ability to execute its business strategy effectively. Margins have expanded as the company achieves greater scale and operating leverage.

Strategic Growth Initiatives: MGH is pursuing both organic growth and strategic acquisitions, which should drive long-term value creation for shareholders. Recent acquisitions like Economix Concrete have expanded the company's geographic footprint and capabilities.

Exposure to Key Growth Sectors: The company is well-positioned to benefit from increased infrastructure investment and renewable energy projects in Australia. MGH's civil construction and materials businesses are leveraged to these positive industry tailwinds.

Vertical Integration: MGH's vertically integrated model, from quarries to concrete production to construction services, provides cost advantages and greater control over the supply chain.

Management Alignment: Founder and CEO Wes Maas owns a significant stake in the company, aligning management interests with shareholders. The executive team has demonstrated a strong track record of execution and capital allocation.

Consistent Shareholder Returns: MGH has demonstrated a commitment to returning value to shareholders through regular dividend payments, with dividends growing in line with earnings.

Conclusion

The company's diversified business model, strong financial performance, and strategic growth initiatives position it well for future success.

While risks exist, MGH's demonstrated ability to navigate market challenges and deliver consistent returns makes it an attractive addition to growth-oriented portfolios. The company's exposure to secular growth trends in infrastructure and renewable energy provides a favourable long-term outlook.

Investors should monitor the company's ability to successfully integrate acquisitions, navigate any potential economic headwinds, and maintain its strong market positions across its diverse business segments.

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Our Commitment

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