

16 August 2018

## Corp

**Ticker** CAPD:MAIN

**Mining Equipment Services**

Shares in issue (m) 135.2  
Next results H1 Aug

**Price** 44.0p

Target price 85.0p  
Upside 93%

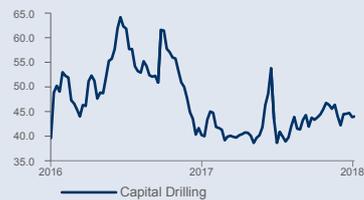
**Market cap** £59.5m

Net debt/(cash) -£3.8m  
Other EV adjustments £0.0m  
Enterprise value £55.7m

**What's changed?** From To

Adjusted EPS 3.6 n/c  
Target Price 85.0 n/c

### Share price performance



%	1M	3M	12M
Actual	8.6	6.0	12.8

### Company description

Focus on providing drilling services and drill rigs to the mineral and mining industry

### David Buxton

Director of Research  
dbuxton@finncap.com  
020 7220 0542

**Sales desk** 020 7220 0522

**Trading desk** 020 7220 0533

\* denotes corporate client of finnCap

## ▶ Capital Drilling\*

### Interims point to stronger 2H as utilisation rises

Interim results were in line with expectations and on track to achieve FY forecasts, which were raised in June. Q1 was the low point in revenue and rig utilisation. Once the relocation of rigs is complete in Q3, there will be 32 rigs in West Africa, where exploration is growing and active. Utilisation should progressively increase on known new contracts starting in Q3 as well as the expectation of further contract wins. Tanzania will remain a drag on sentiment until resolved. The shares look good value, and our 85p price target is based on an EV/EBITDA of 5.3x for 2019, compared to the current level of 2.7x.

▶ **Interims.** Pre-announced KPIs reflect the transfer and redeployment of rigs into West Africa, where new exploration contracts are being gained. Fleet utilisation was down 18% at 46% compared with 56% in H116, but crucially Q2 utilisation was 48%, up from 44% in Q1. The average fleet size of 94 was up one rig, while ARPOR at \$200k was up 5% with strong mine site contract performance. H1 Revenue reduced by 15% to \$54.5m. EBITDA increased by 7.8% to \$12.5m, with the margin increasing from 18.7% to 22.9%. Adjusted PBT at \$5.1m was up 5%. The tax rate was 44%, resulting in an adjusted EPS of 2.1¢, flat on the prior year. Reported EPS was up 7% at 2.0¢. Net cash of \$3.4m was down \$1.5m on the December year-end partly due to an 11% increase in capex to \$4.7m and the payment of the 2017 final dividend of 1.2¢. The interim dividend was declared at 0.6¢, up 20%.

▶ **Operations.** Good progress has been achieved in redeploying rigs as they arrive in West Africa, with a number of new contracts being gained in the half year. Most of these have been exploration contracts. Q1 utilisation marks the low point and has bottomed out, with announced exploration contracts already pointing to increasing utilisation in H2, with a number of new contracts starting in Q3. There are 26 rigs in West Africa, with a further six rigs expected to arrive during Q3.

▶ **Forecasts.** No change to forecasts, following on from the raised guidance in June. As further contract gains are expected, we believe the forecast risk is on the upside and with high depreciation, interest and tax charges, this would result in a disproportionate increase in EPS.

▶ **Valuation.** Over the next few quarters, we anticipate the utilisation rate increasing as new contracts redeploy rigs moved to West Africa. The high tax and depreciation charge hampers the P/E, but trading on an EV/EBITDA 2.6x, the shares remain strong value at these levels, though they are still inhibited by the Tanzanian issue. We maintain our 85p price target, which targets an EV/EBITDA of 5.3x.

Key estimates   Year end: Dec		2015A	2016A	2017A	2018E	2019E
Revenue	\$m	78.7	93.3	119.4	111.1	117.8
Adj EBITDA	\$m	9.9	13.0	24.3	24.7	26.5
Adj EBIT	\$m	-4.7	-1.5	11.7	10.7	12.5
Adj PBT	\$m	-5.5	-2.2	10.1	9.6	11.6
Adj EPS	c	-7.6	-4.5	4.2	3.6	4.9
DPS	c	3.6	2.5	1.7	1.9	2.1

Key valuation metrics		2015A	2016A	2017A	2018E	2019E
EV/EBIT (adj)	x	-15.0	-48.6	6.0	6.6	5.6
P/E (adj)	x	-7.4	-12.4	13.3	15.6	11.5
Dividend yield	%	6.5%	4.5%	3.0%	3.4%	3.8%
Free cash yield	%	17.6%	-3.8%	13.1%	5.0%	5.6%
Pre-tax ROCE	%	-5.8%	-1.8%	14.3%	12.7%	14.1%

## Interims point to stronger 2H as utilisation rises

Income statement		2016A	2017A	2018E	2019E
Year end: Dec					
Sales	\$m	93.3	119.4	111.1	117.8
Gross profit	\$m	26.3	39.3	37.2	39.2
EBITDA (adjusted)	\$m	13.0	24.3	24.7	26.5
<b>EBIT (adjusted)</b>	<b>\$m</b>	<b>-1.5</b>	<b>11.7</b>	<b>10.7</b>	<b>12.5</b>
Associates/other	\$m	-0.1	-0.6	0.0	0.1
Net interest	\$m	-0.7	-1.0	-1.1	-1.0
<b>PBT (adjusted)</b>	<b>\$m</b>	<b>-2.2</b>	<b>10.1</b>	<b>9.6</b>	<b>11.6</b>
Total adjustments	\$m	1.2	-0.1	0.0	0.0
PBT (stated)	\$m	-1.0	10.0	9.6	11.6
Tax charge	\$m	-3.9	-4.5	-4.8	-5.0
Minorities	\$m	0.0	0.0	0.0	0.0
Reported earnings	\$m	-4.8	5.6	4.9	6.6
<b>Adjusted earnings</b>	<b>\$m</b>	<b>-6.1</b>	<b>5.7</b>	<b>4.9</b>	<b>6.6</b>
Shares in issue (year end)	m	134.9	135.2	135.2	135.2
EPS (stated)	c	-3.6	3.9	3.6	4.9
<b>EPS (adjusted, fully diluted)</b>	<b>c</b>	<b>-4.5</b>	<b>4.2</b>	<b>3.6</b>	<b>4.9</b>
<b>DPS</b>	<b>c</b>	<b>2.5</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>

Cash flow		2016A	2017A	2018E	2019E
Year end: Dec					
EBITDA	\$m	13.0	24.3	24.7	26.5
Net change in working capital	\$m	-2.5	1.4	-3.1	-3.3
Other operating items	\$m	1.9	-0.5	0.0	0.0
<b>Cash flow from op. activities</b>	<b>\$m</b>	<b>12.4</b>	<b>25.2</b>	<b>21.6</b>	<b>23.2</b>
Cash interest	\$m	-0.7	-1.0	-1.1	-1.0
Cash tax	\$m	-1.9	-3.5	-4.8	-5.0
Capex	\$m	-12.8	-10.8	-12.0	-13.0
<b>Free cash flow</b>	<b>\$m</b>	<b>-2.9</b>	<b>9.9</b>	<b>3.8</b>	<b>4.2</b>
Acquisitions / disposals	\$m	1.2	-3.9	0.0	0.0
Dividends	\$m	-5.4	-2.0	-2.4	-2.7
Shares issued	\$m	0.0	0.0	0.0	0.0
Other	\$m	-0.5	0.3	0.0	0.0
<b>Net change in cash flow</b>	<b>\$m</b>	<b>-7.6</b>	<b>4.2</b>	<b>1.3</b>	<b>1.5</b>
Opening net cash (debt)	\$m	8.3	0.6	4.9	6.2
<b>Closing net cash (debt)</b>	<b>\$m</b>	<b>0.6</b>	<b>4.9</b>	<b>6.2</b>	<b>7.7</b>

Balance sheet		2016A	2017A	2018E	2019E
Year End: Dec					
Tangible fixed assets	\$m	45.1	41.4	39.4	38.4
Goodwill & other intangibles	\$m	0.0	0.0	0.0	0.0
Other non current assets	\$m	0.7	2.8	2.8	2.9
Net working capital	\$m	16.6	18.5	21.6	24.9
Other assets	\$m	7.1	6.3	6.3	6.3
Other liabilities	\$m	-3.3	-3.7	-3.7	-3.7
Gross cash & cash equivs	\$m	12.7	16.9	18.2	19.8
<b>Capital employed</b>	<b>\$m</b>	<b>78.9</b>	<b>82.1</b>	<b>84.5</b>	<b>88.4</b>
Gross debt	\$m	12.1	12.0	12.0	12.0
Net pension liability	\$m	0.0	0.0	0.0	0.0
Shareholders equity	\$m	66.8	70.1	72.5	76.4
Minorities	\$m	0.0	0.0	0.0	0.0
<b>Capital employed</b>	<b>\$m</b>	<b>78.9</b>	<b>82.1</b>	<b>84.5</b>	<b>88.4</b>

Growth analysis		2016A	2017A	2018E	2019E
Year end: Dec					
Sales growth	%	18.7%	28.0%	-7.0%	6.1%
EBITDA growth	%	32.1%	86.5%	1.6%	7.2%
EBIT growth	%	69.2%	909.7%	-8.8%	16.6%
PBT growth	%	60.6%	564.2%	-5.3%	20.6%
EPS growth	%	40.7%	193.4%	-14.4%	35.5%
DPS growth	%	-30.6%	-32.0%	11.8%	10.5%

Profitability analysis		2016A	2017A	2018E	2019E
Year end: Dec					
Gross margin	%	28.2%	32.9%	33.5%	33.3%
EBITDA margin	%	14.0%	20.4%	22.2%	22.5%
EBIT margin	%	-1.6%	9.8%	9.6%	10.6%
PBT margin	%	-2.3%	8.5%	8.6%	9.8%
Net margin	%	-6.5%	4.7%	4.4%	5.6%

Cash flow analysis		2016A	2017A	2018E	2019E
Year end: Dec					
Cash conv'n (op cash / EBITDA)	%	95.4%	103.5%	87.5%	87.7%
Cash conv'n (FCF / EBITDA)	%	-22.2%	40.7%	15.2%	16.0%
U/lying FCF (capex = deprn)	\$m	-4.6	8.1	1.8	3.2
Cash quality (u/l FCF / adj earn)	%	76.2%	142.8%	36.4%	49.0%
Investment rate (capex / deprn)	x	0.9	0.9	0.9	0.9
Interest cash cover	x	18.3	24.1	19.7	23.2
Dividend cash cover	x	n/a	4.9	1.5	1.6

Working capital analysis		2016A	2017A	2018E	2019E
Year end: Dec					
Net working capital / sales	%	17.8%	15.5%	19.5%	21.1%
Net working capital / sales	days	65	57	71	77
Inventory (days)	days	76	66	73	74
Receivables (days)	days	61	51	62	65
Payables (days)	days	72	60	64	62

Leverage analysis		2016A	2017A	2018E	2019E
Year end: Dec					
Net debt / equity	%	net cash	net cash	net cash	net cash
Net debt / EBITDA	x	net cash	net cash	net cash	net cash
Liabilities / capital employed	%	15.3%	14.7%	14.2%	13.6%

Capital efficiency & intrinsic value		2016A	2017A	2018E	2019E
Year end: Dec					
Adjusted return on equity	%	-9.1%	8.1%	6.7%	8.6%
RoCE (EBIT basis, pre-tax)	%	-1.8%	14.3%	12.7%	14.1%
RoCE (u/lying FCF basis)	%	-5.8%	9.9%	2.1%	3.7%
NAV per share	c	49.5	51.8	53.6	56.5
NTA per share	c	49.5	51.8	53.6	56.5

## Interim results and outlook

The interim results were in line and place the company on track to achieve existing full-year forecasts. On 10 July, the group had previously announced its key indicators and revenue for Q2. On 18 June, the company raised its full-year guidance from \$100-110m to \$105-110m, which it continues to support.

The management notes that the recent weakness in metal prices and economic uncertainty has led to an easing in market sentiment since its last update. Nevertheless, the level of enquiries and tendering remains at strong levels. Miners continue to have healthy cash generation, which is driving increased budgets.

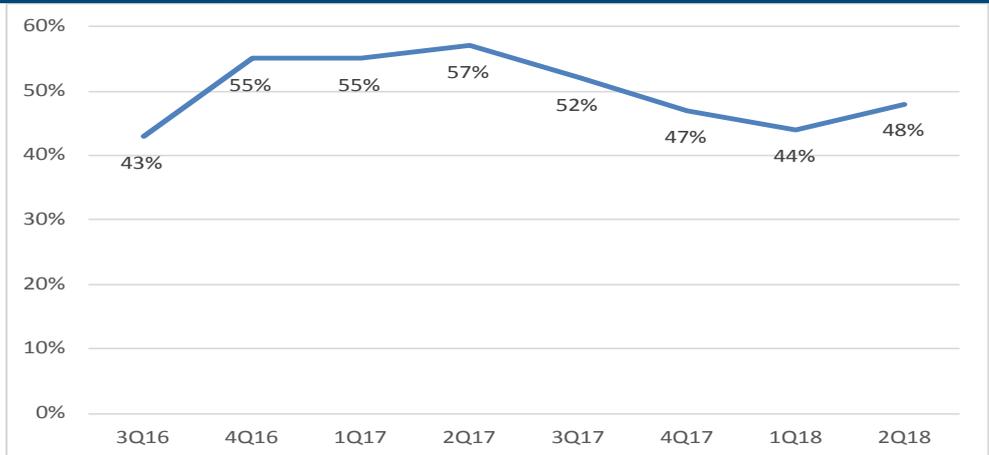
Activity levels in Tanzania remain subdued. However, it is encouraging that a more constructive dialogue appears to be occurring with the Tanzanian government and the new Mining Commission.

**Figure 1: Interim highlights**

Six months to June 30	1H18	1H17	% change
Ave fleet size	94	93	1%
Utilisation %	46%	56%	-18%
ARPOR (\$k)	200	191	5%
	(\$m)	(\$m)	
<b>Revenue</b>	<b>54.50</b>	<b>62.30</b>	<b>-13%</b>
<i>Gross margin</i>	38.2%	28.0%	
<b>EBITDA</b>	<b>12.5</b>	<b>11.63</b>	<b>+8%</b>
EBIT	5.8	5.23	+11%
<i>EBIT margin</i>	10.6%	8.4%	
<b>Adjusted PBT</b>	<b>5.1</b>	<b>4.8</b>	<b>+5%</b>
Adjustments	-0.1	-0.3	
Reported PBT	5.0	4.5	
PAT	2.8	2.58	
<b>Adj diluted EPS</b>	<b>2.1</b>	<b>2.1</b>	<b>-1%</b>
<b>Reported EPS</b>	<b>2.0</b>	<b>1.9</b>	<b>+7%</b>
DPS	0.6	0.5	20%

Source: finnCap, Company reports

- ▶ Fleet utilisation has progressively improved through the first half as rigs become operationally available following their redeployment from other areas to West Africa. From this perspective, utilisation bottomed out in Q1 and progressively improved to 48% in Q2, making a 46% average for 1H18, although still 18% lower than the 56% achieved in 1H17 (see chart below)
- ▶ On the back of the improved utilisation rate, revenue increased from \$26.6m in Q1 to \$27.8m, albeit again lower than last year's comparables, being down 12.5% against 1H17.
- ▶ ARPOR averaged \$200k in H1, up 4.7% from \$191k in 1H 2017, with an increase from \$195k in Q1 to \$205k in Q2 reflecting continued strong mine site contract performance.
- ▶ Despite lower revenues, EBITDA staged a strong increase, up 7.8% to \$12.5m, with margins increasing from 18.7% to 22.9%, benefiting from improved cost management.
- ▶ The development of operations in West Africa has been a notable focus in the first half, with new infrastructure (offices, warehouses, workshops and accommodation) in Cote d'Ivoire and Mali to support the increase of rigs now based in the area and drive forward future contract growth.

**Figure 2: Quarterly fleet utilisation**

Source: finnCap estimates

During the first half, the company announced several new contract wins in both production, but more particularly in the exploration area, most of them being in West Africa.

#### New contracts in the period

A number of new contracts were gained and announced in the first half, with the Kinross and Resolute contracts increasing the group's multi-year mine site based contracts:

- ▶ Aton Resources in Egypt, contract for one rig with drilling commencing in Q3.
- ▶ De Beers in Botswana with a contract for two rigs with drilling commencing in Q3.
- ▶ Graphex Mining in Tanzania, for one rig starting drilling in Q3.
- ▶ Hummingbird in Mali: a contract that already started in July for the deployment of four rigs.
- ▶ Kinross Mine in Mauritania a two-year drill rig maintenance contract for two blast hole rigs, which started in Q2.
- ▶ Resolute Mine in Mali gained a three-year surface exploration drilling contract, which currently utilises three rigs.

#### Cash flow and finances

Net cash at the end of June was \$3.4m compared with \$4.9m at the end of December, made up of cash of \$15.4m and debt of \$12.0m.

Net cash from operating activities reduced from \$11.4m last year to \$5.2m despite the increase in EBITDA, due mainly to a cash outflow of \$5.7m on working capital.

Capex was \$4.7m, a \$0.5m increase on last year, with total investing activities down on last year's \$7.1m, reflecting last year's investment in A2 Global Ventures.

In the period, last year's final dividend was paid, representing 1.2¢ per share at a cost of \$1.6m.

After a \$0.2m FX adjustment on cash, a \$1.5m decrease in net cash to \$3.4m was recorded.

## Interims point to stronger 2H as utilisation rises

**Research**

Mark Brewer	020 7220 0556	mbrewer@finncap.com	Guy Hewett	020 7220 0549	ghewett@finncap.com
David Buxton	020 7220 0542	dbuxton@finncap.com	Nik Lysiuk	020 7220 0546	nlysiuk@finncap.com
Lorne Daniel	020 7220 0545	ldaniel@finncap.com	Mark Paddon	020 7220 0541	mpaddon@finncap.com
Andrew Darley	020 7220 0547	adarley@finncap.com	Martin Potts	020 7220 0544	mpotts@finncap.com
Jeremy Grime	020 7220 0550	jgrime@finncap.com	Peter Smedley	020 7220 0548	psmedley@finncap.com
Raymond Greaves	020 7220 0553	rgreaves@finncap.com	Jonathan Wright	020 7220 0543	jrwright@finncap.com

**Corporate Broking**

Andrew Burdis	020 7220 0524	aburdis@finncap.com	Alice Lane	020 7220 0523	alane@finncap.com
Richard Chambers	020 7220 0514	rchambers@finncap.com	Tim Redfern	020 7220 0515	tredfern@finncap.com
Camille Gochez	020 7220 0518	cgochez@finncap.com	Abigail Wayne	020 7220 0594	awayne@finncap.com
Nikita Jain	020 3772 4652	njain@finncap.com			

**Sales**

Stephen Joseph	020 7220 0520	sjoseph@finncap.com	Louise Talbot	020 3772 4651	ltalbot@finncap.com
Sunila de Silva	020 7220 0521	sdesilva@finncap.com	Malar Velaigam	020 7220 0526	mvelaigam@finncap.com
Emily Morris	020 7220 0511	emorris@finncap.com	Rhys Williams	020 7220 0522	rwilliams@finncap.com
Stephen Norcross	020 7220 0513	snorcross@finncap.com			

**Investor Relations**

Lianne Tucker	020 7220 0527	ltucker@finncap.com	Lisa Welch	020 7220 0519	lwelch@finncap.com
Lucy Nicholls	020 7220 0528	lnicholls@finncap.com			

**Sales Trading**

Kai Buckle	020 7220 0529	kbuckle@finncap.com	Danny Smith	020 7220 0533	dsmith@finncap.com
Mark Fidgen	020 7220 0536	mfidgen@finncap.com	Oliver Toleman	020 7220 0531	otoleman@finncap.com

**Market Makers**

Steve Asfour	020 7220 0539	sasfour@finncap.com	James Revell	0207 220 0532	jrevell@finncap.com
--------------	---------------	---------------------	--------------	---------------	---------------------

**Investment Companies**

Johnny Hewitson	020 7220 0558	jhewitson@finncap.com	Mark Whitfeld	020 3772 4697	mwhitfeld@finncap.com
Monica Tepes	020 3772 4698	mtepes@finncap.com			

\*denotes finnCap is contractually engaged and paid by the issuer to produce this material on an ongoing basis and it is made available at the same time to any person wishing to receive it.

***A marketing communication under FCA Rules, this document has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.***

This research cannot be classified as objective under finnCap Ltd research policy. Visit [www.finncap.com](http://www.finncap.com)

The recommendation system used for this research is as follows. We expect the indicated target price to be achieved within 12 months of the date of this publication. A 'Hold' indicates expected share price performance of +/-10%, a 'Buy' indicates an expected increase in share price of more than 10% and a 'Sell' indicates an expected decrease in share price of more than 10%.



60 New Broad Street

London EC2M 1JJ

Tel 020 7220 0500

Fax 020 7220 0597

Email [info@finncap.com](mailto:info@finncap.com)

Web [www.finncap.com](http://www.finncap.com)

finnCap is registered as a company in England with number 06198898.

Authorised and regulated by the Financial Conduct Authority. Member of the London Stock Exchange

Approved and issued by finnCap Ltd for publication only to UK persons who are authorised persons under the Financial Services and Markets Act 2000 and to Professional customers. Retail customers who receive this document should ignore it. finnCap Ltd uses reasonable efforts to obtain information from sources which it believes to be reliable, but it makes no representation that the information or opinions contained in this document are accurate, reliable or complete. Such information and opinions are provided for the information of finnCap Ltd's clients only and are subject to change without notice. finnCap Ltd's salespeople, traders and other representatives may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to or inconsistent with the opinions expressed herein. This document should not be copied or otherwise reproduced. finnCap Ltd and any company or individual connected with it may have a position or holding in any investment mentioned in this document or a related investment. finnCap Ltd may have been a manager of a public offering of securities of this company within the past 12 months, or have received compensation for investment banking services from this company within the past 12 months, or expect to receive or may intend to seek compensation for investment banking services from this company within the next three months. Nothing in this document should be construed as an offer or solicitation to acquire or dispose of any investment or to engage in any other transaction. finnCap Ltd is authorised and regulated by the Financial Conduct Authority, London E14 5HS, and is a member of the London Stock Exchange.