



ALIGN
RESEARCH

Management Resource Solutions

13th September 2016

Acquisitive growth, low valuation and potentially high yield attractions

Founded in 2007, Management Resource Solutions (MRS) is an Australia based human capital resource consultancy and project management service provider. The company listed on AIM in December 2014 with a remit to expand the business via targeted strategic acquisitions.

Niche provider of skilled personnel and project management

MRS's traditional business has been the supply of specialist and highly skilled personnel for the delivery of clients' engineering projects. This is complimented by a growing project management business which provides clients with a fully managed service in areas including engineering design, procurement, fabrication, site construction and commissioning.

Plant hire acquisition more than doubles the size of the business

In January 2016, MRS finalised the A\$13.4 million reverse takeover of earthworks specialist Bachmann Plant Hire. The deal, completed at a discount to net assets, more than doubled the size of the business in revenue terms and was immediately earnings enhancing.

Proposed acquisition of SubZero Group equally transformational

By 30th September 2016 MRS expects to complete the acquisition of certain assets from mining services business SubZero Group. Upon completion, the enlarged business will have pro-forma annual revenues of approaching A\$80 million, representing an eight-fold increase in the size of the business since 2014.

Peer analysis valuation suggests upside of 100%

Comparing MRS to select ASX listed peers on an EV/EBITDA basis gives our fair value June 2017 target price of 25p per share. We initiate coverage of MRS with a **Conviction buy** stance.

Table: Financial overview

Year to end June	2014A	2015A	2016E	2017E
Revenues (A\$m)	10.49	17.09	25.00	80.24
EBITDA (A\$m)	0.30	0.32	2.73	6.21
PBT (A\$m)	0.19	(1.69)	1.91	2.91
Basic EPS (c)	0.17	(5.19)	4.05	3.28

Source: Company accounts & Align Research

This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered independent research.

CONVICTION BUY



Key data

EPIC	MRS
Share price	12.5p
52 week high/low	29.5p/8p
Listing	AIM
Shares in issue*	63,012,760
Market Cap*	£7.88m
Sector	Support Services

12 month share price chart



Analyst details

Richard Gill, CFA

richard.gill@alignresearch.co.uk

IMPORTANT: Management Resources Solutions (MRS) is a research client of Align Research. Align Research holds an interest in the shares of MRS. For full disclaimer information please refer to the last page of this document.

*Shares in issue expected to rise to 70,212,760 by 30/09/2016 giving a market cap of £8.78m

Business Overview

Management Resource Solutions

The core MRS business (excluding acquisitions since IPO) is a niche provider of technical and strategic services to clients in the oil & gas, construction and resources sectors across Australasia and Southeast Asia. Upon foundation its initial focus was on quality assurance and data management but the company has expanded over the years to provide a diverse range of services. Today these activities are focused on two areas.

Contract Personnel

MRS's traditional business has been the supply of specialist and highly skilled personnel to companies in the construction, energy, oil & gas, aviation, civil engineering, coal seam gas and mining & resource sectors, in order to help them meet the human capital requirements of their engineering projects. Clients engage MRS in one of two ways: either paying a direct placement fee for the company's consultants or using the company's payroll and support system. Areas of focus include:

- Project Management Support Services
- Quality Management (QA and QC)
- Health and Safety Management
- Environmental Management
- Site Inspection and Procurement
- Document Management
- Expediting

MRS sources its contractors from a database of over 23,000 professionals around the globe. This provides a strong competitive advantage as the database contains a wide pool of talent and enables MRS to react quickly and fully to client requirements. Investment in state-of-the-art back end systems, which are ISO 9001 certified, also help to provide clients with real time data and help to reduce their costs thus increasing profitability. Clients include a raft of blue-chip customers including Origin Energy, Peal and Caltex Australia.

Project Management

While MRS has recently been experiencing a decline in its traditional consulting work this has been compensated for by a rise in higher margin project management activity. On this side of the business MRS provides clients with a fully managed engineering, procurement and construction (EPC) service, covering areas such as design, fabrication, site construction and commissioning. Specialising in the sub \$50 million contract space the company has a focus on areas including storage tanks, resource sector facilities, water treatment facilities, industrial park developments, demolition and process facilities. Contractors are sourced from the same database as the human capital business.

Bachmann Plant Hire acquisition doubles the size of the business

MRS joined the public markets with a clear and defined acquisition based growth strategy, looking to use its public listing to expand the business via targeted strategic deals. In March 2015 the company announced its first such proposed deal, the A\$6.7 million acquisition of Queensland based manufacturing, wet and dry plant hire business D&M Group. However, the deal was subsequently called off after financier Halcyon Capital Management, which had initially agreed to provide MRS with a A\$17.13 million debt facility, did not honour its funding commitment.

Thankfully, the frustration of the aborted D&M deal was quickly forgotten. On 1st February 2016, after entering into a non-binding heads of terms agreement several months earlier, MRS completed the A\$13.4 million acquisition of **Bachmann Plant Hire** which constituted a reverse takeover under AIM rules.

The acquisition was transformational for MRS. With Bachmann turning over A\$21.74 million in the year to June 2015, the deal more than doubled the size of the business in revenue terms.



With over 50 years of operating history Bachmann is a bulk earthworks specialist which provides civil construction services in Queensland. It specialises in providing “wet” plant hire, whereby both equipment and operators are supplied to clients as well as civil and structural design to the commercial, industrial, mining, housing and land developments sectors. Bachmann employs over 100 staff and has a fleet of over 200 specialist earthworks vehicles including dump trucks, dozers, excavators and rollers.

Clients, which are typically on long-term contracts, include a range of corporate and public sector clients in sectors including mining, civil engineering, construction, property and infrastructure. While Bachmann has traditionally relied on word of mouth to win new business it tendered on its first project, a A\$12 million deal, in August 2015.



Bachmann dump truck – one of 20 in the fleet

Financials

For the 2013 and 2014 financial years (to June) revenues were stable at c.A\$24.3 million, but in 2015 Bachmann experienced slightly more challenging trading conditions. Revenues fell by 11% to A\$21.74 million for the period with pre-tax profits down by 47% at A\$1.96 million. This was despite a 4% fall in administrative expenses thus reflecting the geared operational nature of the company's operations. The business remained highly cash generative however with a A\$2.36 million cash inflow from operations.

For the six months to December 2015 management accounts show that Bachmann had revenues of A\$13.4 million with an unaudited profit of A\$1.7 million, excluding potential rebates for fuel. Utilisation of machinery in March this year was said to be 90%-95%, with additional machinery being rented from third parties in order to meet excess demand.

Y/E June, A\$000's	2013A	2014A	2015A
Revenues	24,321	24,308	21,740
Pre-tax profits	1,292	3,671	1,957
Net profits	793	2,688	1,368
Net assets	10,464	13,152	14,520

Bachman three year trading history. Source: MRS admission document

Deal terms

Bachmann was acquired by MRS for a total consideration of up to A\$13.4 million, which equated to c.£6.4 million at the time of completion. The main deal terms comprised of:

- A\$8.2 million of cash on completion less an amount required to pay Bachmann's outstanding equipment finance (estimated at c.A\$4 million).

- up to A\$5.2 million in three earn out payments based upon performance for the three financial years to June 2018. The payments are set at A\$1,333,333 for each year (to be satisfied in either cash or shares at the company's discretion) but subject to a higher or lower adjustment based upon EBIT targets being met. Maximum additional earn-outs have been capped at A\$0.4 million per annum, making the maximum potential annual payment A\$1,733,333.

To finance the cash portion of the deal, refinance Bachmann's existing equipment finance and for additional working capital, MRS organised certain debt facilities with Westpac bank for a total value of A\$12.32 million. These incorporate a A\$4 million, 2 year loan at a variable interest rate of 4.81% which was used to assist with the initial cash consideration and a 4 year A\$4.2 million equipment finance facility for MRS to assist with the refinance of equipment finance loans held by Bachmann. The facilities are secured by all of the assets and undertakings of MRS and Bachmann, a guarantee and indemnity granted by both businesses, along with guarantees and indemnities granted by CEO Paul Morffew.

Benefits & opportunities

The acquisition of Bachmann was expected to be immediately earnings enhancing to the group, providing synergies such as streamlined reporting, increased offering of services and Bachmann benefitting from MRS's international quality accreditations. **Crucially, the deal provides the opportunity for larger and higher value contracts to be taken on as the firm now has the capacity and experience to undertake such projects.**

Notably, there are good opportunities for further infrastructure and construction work in Australia due to various government incentives which are helping to boost the economy in the wake of a downturn in the mining sector. As part of its Economic Action Strategy the Australian government has committed over \$50 billion for current and future investments. Importantly for Bachmann, the Infrastructure Investment Programme has had A\$43.9 billion committed by the government to invest in greenfield and brownfield infrastructure projects. In Queensland alone 28 Priority Development Areas (PDAs), parcels of land identified for accelerated development with a focus on economic growth, have been declared.

We also note that the deal was completed at a highly attractive price, with initial cash consideration representing a multiple of just 6 times historic net profits. **Even the maximum consideration for the deal equates to less than Bachmann's reported net assets as at 30th June 2015 (A\$13.4 million vs A\$14.52 million), which consist of A\$11.54 million worth of plant and equipment.**



Selection of Bachmann's clients

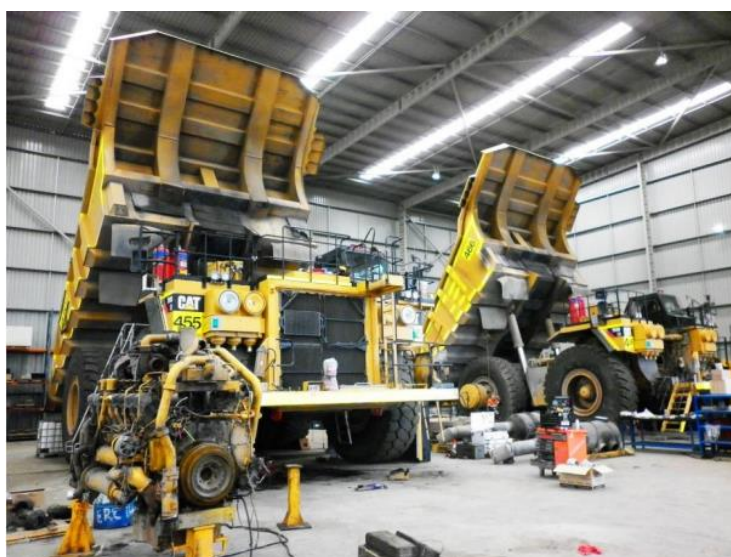
Proposed acquisition of SubZero Group

On 11th August 2016 MRS announced yet another potentially further transformative deal, having entered into an exclusive Asset Sale Agreement (ASA) to acquire (out of administration) the core assets of former ASX listed business **SubZero Group** for a total of A\$6.12 million.

Founded in 1999 SubZero is a mining services business based in the Hunter Valley, New South Wales and which specialises in servicing the thermal coal mining industry. Through three core operating divisions the business provides structural, mechanical, and mining support services to a number of clients, including blue-chip coal mining companies including Rio Tinto, BHP Billiton and Glencore. In the 2015 financial year these three clients made up 72% of total revenues attributable to the assets under consideration, with the top ten customers providing over 80% of revenues.

Structural
<ul style="list-style-type: none">· Repair and refurbishment of truck bodies, dragline buckets and excavator buckets.· Field services, 24/7 on-site mining asset support services.· Line boring and industrial cleaning capabilities.· Mobile industrial cleaning, abrasive blasting and painting.
Mechanical
<ul style="list-style-type: none">· Heavy vehicle maintenance, repairs and rebuilds.· Light vehicle servicing and fit outs.
Mining Support Services
<ul style="list-style-type: none">· Road construction and maintenance.· Mine rehabilitation and earthmoving.· Conveyor and material handling clean-up support.· Light vehicle servicing and fit outs.· General support services.

SubZero activities



SubZero Group mechanical support – maintenance on light and heavy mining equipment.

Source: Annual report

Financials

While SubZero grew revenues to a peak of almost A\$85 million in the financial year to June 2013 it began experiencing difficult trading conditions as a result of the downturn in the thermal coal market, cost issues and unsustainable levels of debt. Working capital became tight and as a result of the challenges management put in place a turnaround plan.

Following a loss of A\$29.5 million being posted for the year to June 2015 SubZero achieved positive EBITDA for nine consecutive months up to January 2016 as the turnaround plan delivered some benefits. However, the firm was then put into voluntary administration in February 2016 by its main financier as a re-capitalisation plan could not be agreed upon.

Y/E June, A\$000's	2013A	2014A	2015A
Revenues	84,903	63,786	56,849
EBITDA	6,215	-3,934	-7,902
Pre-tax profits/loss	-5,611	-12,876	-29,328
Net profits/loss	-6,064	-12,945	-29,526
Total borrowings	16,783	21,967	26,231
Net assets	1,460	-3,388	-32,914

SubZero Group three year trading history. Source: ASX filings

Deal terms

Under the ASA MRS has exclusivity on the acquisition of certain assets of SubZero Group through to 30th September 2016. The deal is expected to be completed by this time subject to certain conditions being met. These include financing, renegotiation of property leases on commercial terms and the novation of existing customer contracts. **The assets being acquired had pro-forma annual revenues of c.A\$40 million for the year to 30th June 2016.**

Consideration will amount to A\$1 million cash on completion, A\$0.5 million in cash 12 months following completion, the issue of c.7.2 million new ordinary shares at a price of 12.75p and the assumption of c.A\$2.85 million of equipment finance liabilities and employment benefits. To part finance the deal an addition A\$4.2 million bank credit has been agreed with Westpac Banking Corporation subject to certain conditions, including finding external funding of A\$4 million – which has since been arranged (see more below).

Source of funds	A\$m	Use of funds	A\$m
Placing	4	Cash consideration	1.0
Equity	1.8	Equity	1.8
Balance sheet liabilities	1.5	Deferred cash	0.5
New hire purchase facility	4.2	Employee liabilities	1.0
Bank debt	1.7	Hire purchase facility pay out	1.8
		TOTAL CONSIDERATION	6.1
		Transaction costs	0.4
		Working capital	6.7
TOTAL	13.2	TOTAL	13.2

Sources and use of funds for SubZero acquisition. Source: MRS presentation

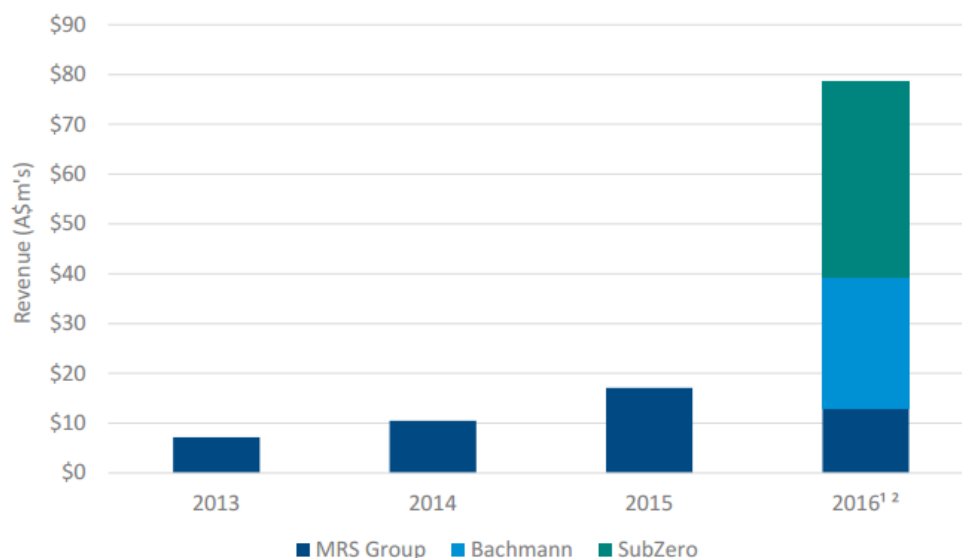
Benefits & opportunities

MRS looks to have agreed an excellent deal here in our view, **with SubZero being a well established business which is profitable on an underlying basis**. The opportunity has come at a low point in the resources cycle and looks to fit in well with MRS's existing offerings. **We note that the deal has been agreed at a 36% discount to the A\$9.5 million carrying value (as at 30th June 2015) of the specific assets being acquired out of administration and at an estimated multiple of just 2-3 times EV/EBITDA.**

With the financing agreed to put the business back on track, MRS now has the opportunity to rediscover the growth potential of SubZero. As well as being expected to contribute to profitability in the short-term the acquisition will bring with it significant synergies and cost savings. Amongst other things, these will come via a consolidation of operating sites, reduction in corporate overheads, equipment sharing and integration of back office functions. The deal also further diversifies the group's revenues on both a customer and geographical basis, with the move into a new Australian state providing the opportunity to cross-sell services provided elsewhere in the group to SubZero clients.

In particular, MRS has been attracted to the business due to a recent recovery in the thermal coal price. While prices remain well below levels of c.\$140 a tonne seen in 2010, a spike up from \$54 in April to \$67 in July has helped to stimulate a recovery in demand for services in the Hunter Valley area. In addition, there is potential for higher maintenance expenditure in the coming years as a result of large fleet purchases being made by operators in the area during 2010-2012.

Upon completion, the enlarged group will have pro-forma annual revenues (to 30th June 2016) of c.A\$80 million, and so as in the case with Bachmann, SubZero effectively doubles the size of the group in revenue terms.



1. Pro forma Bachmann results for 2016FY, MRS Group acquired Bachmann Feb 2016
2. 2016FY management accounts, unaudited

Source: MRS presentation

Financials and current trading

To date the only publicly reported figures we have from the consolidated group are those which include numbers from the original MRS business. The first set of results to include a maiden contribution from Bachmann will be those for the full year to June 2016, due out in November.

MRS historic figures

MRS has a fairly consistent track record of increasing revenues over the past five years. While turnover was flat in 2013, mainly due to the loss of a major client, revenue growth in every other year has been in the high double digits. While profitability has fluctuated, as MRS has invested in preparing for additional contract wins, the company has been profitable every year since 2010 (in 2015 this was on an underlying basis due to one-off costs – see next section) and paid a dividend in 2013 and 2015.

Y/E June, A\$000's	2011A	2012A	2013A	2014A	2015A
Revenues	3,697	7,207	7,205	10,490	17,089
Revenue growth	N/A	94.9%	0.0%	45.6%	62.9%
Pre-tax profit/loss	616	1,128	194	187	-1,687
Net profit/loss	427	767	232	52	-1,648

MRS five year trading history. Source: Company accounts

2015 results

Full year 2015 results saw revenues rise by 63% to a record A\$17.1 million as the company booked in revenues from the Pacific Energy Aviation (PNG) aviation fuel depot contract. Revenues from Papua New Guinea amounted to A\$9.8 million for the period, overtaking Australia at A\$7.3 million, reflecting the large scale of the PNG deal.

While the statutory loss for the period amounted to A\$1.7 million this was after booking in non-recurring payments of around A\$2.5 million. These mainly related to the aborted acquisition of D&M Group and the December 2014 AIM listing, so can truly be considered as “one-off”. On an underlying basis, the business remained profitable, with operating profits up from A\$255,000 to A\$825,000. MRS also announced its first dividend as an AIM listed company in FY2015, making an interim payment of 0.35p per share but not recommending a final payment.

2016 interims

Numbers for the six months to December 2015 reported revenues down from A\$11.4 million to \$6.2 million. This was a result of a decline in the provision of contract personnel and slower than expected progress on the Papua New Guinea project caused by construction issues and weather delays. Statutory pre-tax profits increased by 6% to A\$522,000 after gross margins rose from 37% to 41% and the company did not have the burden of the one-off costs which it experienced in the comparative period. The balance sheet showed net cash of A\$695,000 as at 31st December. However, following the period end MRS, received a loan facility of A\$1.5 million from Australian government export credit agency Export Finance and Insurance Corporation to support the ongoing work in Papua New Guinea.

Recent trading and developments

MRS's first trading update since the acquisition of Bachmann came on 26th July and reported that trading was ahead of expectations since the deal was completed, with net margins remaining "strong". The firm has also begun to see synergies from the integration of Bachmann into the group with higher efficiency being seen and the usage of the expanded workforce and equipment across the group.

As part of the integration, MRS has put in place a new phone application-based software to drive efficiency by managing workers' schedules, enabling safety processes to be conducted online and tracking the number of hours worked. This is hoped to reduce the current process from days to hours and allows for electronic sign off by clients. MRS is also in the process of implementing an Integrated Health, Safety, Quality & Environmental system throughout the group to include Bachmann under MRS's ISO 9001 quality accreditation.

Further reflecting the firm's ability to win large scale EPC contracts, in May MRS announced a contract win with an initial value of A\$6 million to dismantle and demolish the Lyondell Basel Poly Plant Refinery in Clyde, New South Wales. The deal is with German engineering company Aiotec GmbH and is expected to take a total of nine months to complete with 30 contractors working on the project. An initial an initial down payment of A\$900,000 has been received and will be followed by monthly progress payments based on key milestones.



Lyondell Basel Poly Plant Refinery

Two placings support growth strategy

Just prior to the announcement of the SubZero deal, MRS completed a small placing of £300,000 at a price of 8.5p per share. The monies were raised for the funding of new and potential contract wins and for additional working capital.

On 30th August, MRS announced a larger £2.8 million fundraising, satisfying the financing condition of the SubZero acquisition. The placing, which was oversubscribed, was completed at a price of 10.5p per share - a 19.2% discount to the previous trading day's closing price. At the current exchange rate of £1:A\$1.74 this equates to c.A\$4.87 million so satisfies the A\$4 million external financing requirement in full. **While other conditions remain, MRS continues to believe that the deal is set to complete around the scheduled date of 30th September.**

Risks

Operational and business risk

Despite the recent acquisition of Bachmann and proposed acquisition of SubZero Group, MRS remains a relatively small business. It operates in a competitive market place and competes against many blue-chip companies with significantly larger financial resources. While the group companies have built up a good reputation with clients, there can be no guarantee that existing clients will continue to use their services, albeit the expansion by acquisition has significantly reduced the exposure to any one customer. Margins may be squeezed due to competitive threats and working capital may be put under pressure if trading falls significant below expectations. With the company having taken on various loan agreements to finance its acquisitions there is the threat that banking covenants may be breached if the business does not perform as expected.

Decline in the resources industry in Australia

MRS, Bachmann and SubZero have not been immune to the downturn in the Australian resources industry. Many mining services companies within the country have experienced difficult trading conditions, project delays, lower margins and increased competition as a result of commodity price falls seen in the first half of the decade. However, we believe that MRS is insulated somewhat given its broad range of activities. What's more, the commodity price recovery seen in 2016 has increased demand in the sector, with the Australian government's \$50 billion stimulus providing good growth opportunities.

Acquisition risk

MRS's growth strategy is focused upon the acquisition of complementary businesses. While the one deal done to date looks to be progressing well there is the risk that acquired businesses may be difficult to integrate and may not perform as expected at the time of purchase. While progress is being made towards meeting the conditions associated with the SubZero Group Asset Sale Agreement there is a risk that the deal will not complete and that we will have to revise our forecasts. Further growth is limited to the extent that suitable businesses can be found and the required financing be organised. We understand that MRS will be looking to bed down SubZero rather than actively searching for further acquisitions, although opportunities will be considered if appropriate.

Key man risk

The company is heavily reliant on CEO and founder Paul Morffew to run the business as well as on Gregory Bachmann, Director at Bachman Plant Hire. In addition, Paul Morffew has provided guarantees and indemnities in respect of various loan facilities. The loss of any key individual could have a materially negative impact on the business.

Currency translation risk

All of MRS's income is currently earned in Australian dollars. With the company being listed on the UK markets there is translation risk for UK investors when converting the company's earnings to sterling. Fluctuations in the value of the Australian dollar against sterling may affect how the market values MRS shares.

Management

Paul Morffew – Founder, CEO and controlling shareholder

Paul Morffew founded Management Resource Solutions in 2007 and has held the CEO position ever since. He has over 25 years' experience in managing public and private businesses within the oil, roads, and mining sectors. His background is in Environmental Management and Quality Assurance, with a direct working knowledge of Quality Management Systems.

Morffew previously founded and successfully managed a similar start-up firm and established and managed businesses for EML (Air), Australian Environmental Labs, SGS, Water Ecoscience and Sigma Energy Solutions (GE Alstom). He earned a Bachelor of Applied Science in Chemistry and Mineral Chemistry from Ballarat College of Advanced Education.

Murray d'Almedia – Chairman

Murray d'Almeida is a qualified accountant with over 35 years of national and international business experience. He began his career with a firm of Chartered Accountants in Perth and later moved to commercial accounting with two major US mining companies. He has had extensive experience in a range of sectors, focussed on Strategy, Business Development and Capital Markets. He has served on a range of Public Company Boards, was founder of the ASX listed Retail Food Group and currently chairs Barrack St Investments Limited, BPS Technology Limited and MRS Plc. He is a Councillor and Chair of Finance Southern Cross University and was a member of the 2018 Australian Commonwealth Games Bid Committee.

Timothy Jones – Finance Director and Company Secretary

Timothy Jones is a Chartered Accountant with 40 years' experience in dealing with oil and gas and natural resource clients. He trained with Price Waterhouse in London and Paris before founding his own accountancy and consultancy practice in 1990.

Jones is Chairman of AIM listed Xcite Energy Limited, operator of the Bentley oil field in the North Sea. His previous public directorships include Bahamas Petroleum Company and Falkland Oil and Gas, both of which he saw through the listing process. His areas of expertise include the provision of high-level financial advice to growing businesses, merger and acquisition planning and execution and assistance with listing procedures and fundraising.

Chris Berkefeld – Non-Executive Director

Chris Berkefeld, who joined MRS following the acquisition of Bachmann Plant Hire, has over 20 years' experience in industrial services and waste management. He had a 25 year career with Brambles Industries, commencing in logistics and leading to industrial services and waste management where he held positions as executive director Brambles Europe and Brambles Australia and managing director and CEO of BISCleanaway. Berkefeld is currently a non-executive director to Wagner Group, Hiway Group and HSE Mining.

Forecasts

We initiate coverage of MRS with forecasts for the financial year just ended (to June 2016) and for full year 2017. For FY2016 the company sees an initial five month contribution from Bachmann Plant Hire and thus a sharp increase in the scale of the business. We expect revenues to grow by 46% to A\$25 million for the full year, noting that the second half sees revenues three times higher than in the first half due to the contribution from Bachmann. With Bachmann having a strong operational gearing, combined with synergies from the combination with MRS, we expect EBITDA of A\$2.7 million, pre-tax profits of A\$1.9 million and basic earnings of 4.05 cents per share (2.32p).

FY2017 sees another step-change, with our key assumption for the year being that the acquisition of SubZero is completed as expected on 30th September 2016. We expect revenues to rise to A\$80.24 million - slightly higher than their pro-forma 2016 total and up by 221% as Bachmann makes a first full year contribution, added to the nine months from SubZero. EBITDA is expected to rise by 67% to A\$6.21 million.

With the SubZero and Bachmann acquisitions, MRS took on large amounts of capital equipment - the original MRS business is capex light. So in 2017 depreciation charges will rise markedly compared to prior years, from an estimated A\$0.6 million to A\$2.76 million. Interest costs will also rise sharply due to the additional financing taken on to fund the deals, from an estimated A\$0.22 million to A\$0.54 million. As a result we see pre-tax profits for FY2017 of \$A2.9 million. With the weighted average number of shares rising by an estimated 90%, reflecting the August 2016 placing and shares issued in consideration for SubZero, we forecast basic earnings of 3.28 cents per share (1.89p).

A\$'000s	2014A	2015A	2016E	2017E
Revenue	10,490	17,089	25,000	80,240
Cost of sales	-8,110	-14,231	-15,544	-56,738
Gross profit	2,380	2,858	9,455	23,503
Administrative expenses	-2,079	-2,539	-6,731	-17,297
EBITDA	301	319	2,724	6,206
Depreciation & amortisation	-46	-95	-596	-2,756
Non-recurring costs	0	-1,421	0	0
Share based payment charges	0	-490	0	0
Operating (loss)/profit	255	-1,687	2,128	3,451
Finance costs - interest	-68	0	-215	-540
Profit/(loss) before tax	187	-1,687	1,913	2,911
Tax credit/(expense)	-135	39	-573	-845
Net profit/(loss)	52	-1,648	1,340	2,066
Basic earnings per share	0.0017	-0.0519	0.0405	0.0328
Diluted	0.0017	-0.0519	0.0344	0.0300
Weighted average number of shares	30,400,015	31,730,837	33,144,551	62,918,513
Total shares plus options & warrants	30,400,015	31,730,837	38,975,635	68,749,597

Table: MRS summary forecasts. Source Company accounts and Align Research

Valuation – Peer analysis

With MRS expected to have such a diverse range of activities following the completion of the SubZero acquisition, there are no exact comparators amongst the company's public peers. However, there are a number of similar ASX listed companies with operations in the areas of mining services and project management. We include the following small cap companies in our peer analysis and choose the EV/EBITDA multiple to value MRS given the increase in debt following the acquisitions.

Delta SBD - Provides mining services to the domestic underground coal industry in the Illawarra and Hunter Valley Regions of New South Wales and the Bowen Basin in Queensland.

Emeco Holdings - Provides maintained equipment to the global mining industry, with major operations based across Australia, Canada and Chile.

Saunders International - Offers project management from concept to commissioning. Specialises in the design and construction of storage tanks, provides facilities maintenance and delivers specialised asset services for customers predominantly involved in the oil and gas, mining, water infrastructure and other industrial, resource, government and commercial activities.

Seymour Whyte - infrastructure, engineering and construction company delivering major essential projects nationally across the transport, utilities and resources sectors.

Assuming there will be c.70.2 million shares in issue following the acquisition of SubZero and using the current share price of 12.5p, then adding in our forecast end 2017 net debt position of £2.91 million (translated from Australian dollars) we arrive at an enterprise value of £11.69 million. On our EBITDA forecast of £3.56 million (using a current FX rate of A\$1.74:£1) for the year, MRS trades on a multiple of just 3.3 times our 2017 forecasts – see table below.

Company	Ticker	Price (A\$)	M Cap (A\$m)	Year end	Net debt (cash) (A\$m)	Enterprise value	Historic underlying EBITDA (A\$m)	EV/EBITDA
Delta SBD	DSB	0.18	9.9	Jun-16	2.37	12.3	4.0	3.0
Emeco Holdings	EHL	0.05	32.4	Jun-16	365.4	397.8	54.2	7.3
Saunders International	SND	0.57	45.6	Jun-16	-14.3	31.3	4.3	7.3
Seymour Whyte	SWL	0.71	62.5	Jun-16	-30.7	31.8	5.9	5.4
AVERAGE								5.75

Company	Ticker	Price (p)	M Cap (£m)	Year end	Net debt (cash) (£m)	Enterprise value (£m)	Underlying EBITDA (£m)	EV/EBITDA
MRS	MRS	0.125	8.8	Jun-17	2.91	11.69	3.56	3.3

Assessment

Our peer analysis shows the four selected comparators trade on an average historic EV/EBITDA multiple of 5.75 times. We believe that this can be appropriately applied to MRS without applying a discount given MRS's growth potential in relation to the other companies. Applying the peer group multiple gives an enterprise value for MRS of £20.47 million. Stripping out net debt of £2.91 million this implies value to equity holders of £17.56 million. **Using the current exchange rate of £1:A\$1.74 and the expected 70,212,760 shares in issue thus gives a fair value June 2017 price of 25p per share, equating to 100% upside from the current share price. The pro forma 2017 PE multiple would be a shade over 13 times and so still a discount to the small cap multiple in the UK.**

Potentially attractive dividend policy

MRS's only dividend as an AIM listed company, the 2015 interim payment of 0.35p per share, represented 40% of earnings for the period. However, its stated policy is to, where possible, distribute up to two thirds of net profits to shareholders. At this time we do not forecast dividends for 2016 or 2017 given the debt built up on the balance sheet, but note that a two-thirds payment for 2017 (assuming our earnings forecasts are met) would equate to a payment of c.2.19 cents per share (1.26p) or a yield of 10.1% at the current share price. Based on our target price of 25p the yield would drop to just over 5% - still a material premium to the market and particularly attractive should the growth profile continue.

Accordingly, we believe the current equity value of MRS to be materially undervalued and so we initiate full coverage of Management Resource Solutions with a Conviction Buy recommendation.

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It is the policy of ALIGN Research to only cover companies in which we have conviction in the investment case. Our “Conviction Buy” recommendation is derived from our conviction in either taking equity as payment for our research services, or applying our fee to the purchase of equity in a covered company whilst absorbing the cash cost of our freelance analyst payments.

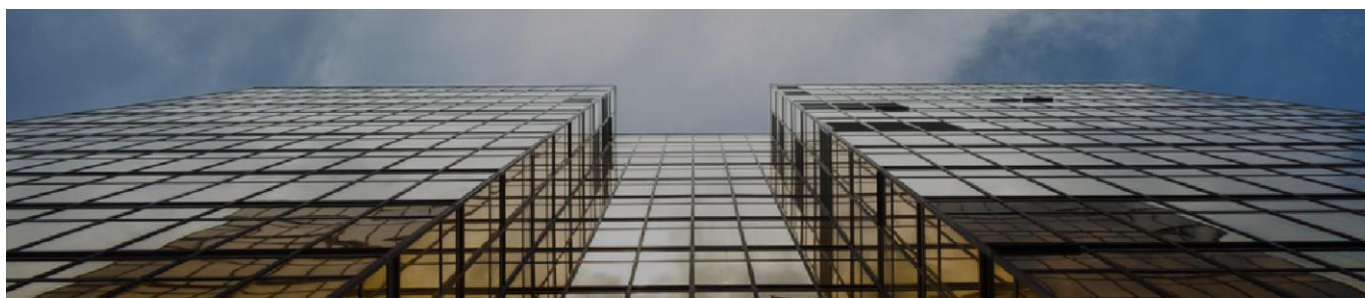
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T. +44 (0) 207 464 4091
E. info@alignresearch.co.uk

Align Research C/O Keith Bayley Rogers
1 Royal Exchange Avenue
London
EC3V 3LT