



Management Resource Solutions

12th May 2017

£4 million fundraising to support working capital puts the company on a solid footing to recommence operational growth after AIM re-list

Management Resource Solutions (MRS) is an Australia based mining services business. Via its two subsidiaries, Bachmann Plant Hire and MRS Services Group, it provides services including plant hire, equipment repair, refurbishment and fabrication, mine rehabilitation, earthmoving, road construction and other support services to a range of private and public sector clients in Australia.

A tough six months at the corporate level but strong future ahead

Shares in MRS were suspended from trading on AIM from 27th October 2016 to 5th May 2017 after disputes with its former CEO and problems within its consulting business led to a delay in publication of the annual accounts. A new management team is addressing the issues and trading in the remaining two divisions is improving.

Total fundraising of £4 million for working capital

MRS has raised a total of £4 million via two placings at 5p per share and a director subscription. The proceeds will mainly be put towards the payment of creditors and future working capital needs. With the company on a sound financial and operational footing, post re-list it will once again consider additional growth opportunities in line with its previous strategy.

Low valuation provides plenty of scope for upside

On our figures MRS trades on a FY2018 EV/EBITDA multiple of just 4.6 times. This is a low valuation which provides plenty of scope for near-term upside should targeted profit figures for next year be achieved. **With our peer analysis suggesting a June 2018 target of 14.55p per share we have a Conviction Buy stance.**

Table: Financial overview

Year to end June	2015A	2016A	2017E	2018E
Revenues (A\$m)	17.09	25.2	52.26	74.99
EBITDA (A\$m)	0.32	(5.16)	2.16*	6.90
PBT (A\$m)	(1.69)	(6.56)	(3.82)	1.42
EPS (c)	(5.19)	(20.7)	(4.67)	0.57

Source: Company accounts & Align Research

* excluding non-recurring costs

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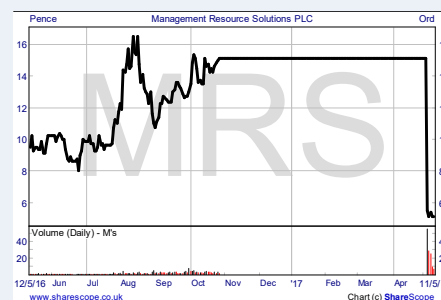
CONVICTION BUY



Key data

EPIC	MRS
Share price	5.125p
52 week high/low	16.5p/5.125p
Listing	AIM
Shares in issue	174,428,086
Market Cap	£8.94m
Sector	Support Services

12 month share price chart



Analyst details

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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.

Background to recent events

To briefly summarise events since our initiation of coverage note on 13th September 2016, MRS completed the acquisition of certain assets from mining services company SubZero Group (in administration) on 30th September last year. The business has subsequently been renamed MRS Services Group.

Suspension of shares, new CEO and closure of consulting business

However, just four weeks after the SubZero deal was finalised MRS requested its shares be suspended from trading on AIM on 27th October. This came after the auditing of the accounts for the year to June 2016 revealed a number of operational and financial matters that required review. One day later CEO and major shareholder Paul Morffew was removed from his position to be replaced on an interim basis (now permanently) by Joe Clayton, CEO of the acquired SubZero business.

Further investigation found “material issues” in MRS’s consulting business, in particular within contracts in Papua New Guinea with PEAL and New South Wales with Aiotec, with the contracts immediately terminated soon after. Following an external review and subsequent advice MRS Guernsey Limited (the operating entity of the PNG contract) and MRS PNG Limited were put into voluntary liquidation and the consulting business closed, realising annualised cost savings of A\$1.5 million as a result. MRS Pty Ltd, an Australian subsidiary through which the consulting business and head office operated, was placed into voluntary administration on 7th February 2017.

Cashflow issues demanded short-term finance facility

Alongside the acquisition of SubZero, MRS completed a A\$4.84 million placing with part of the funds intended to be applied to the working capital needs of the acquired business. The combination of allocating a large portion of the new working capital to other parts of the business and the non-receipt of amounts under the two consulting contracts put MRS in a tight working capital position. To address the issue a A\$6 million invoice finance facility was agreed with Hermes Capital Australia, secured over certain assets of the group.

Trading conditions positive

Despite the issues experienced, Bachmann Plant Hire has been performing well, achieving EBIT within an expected range of A\$2.1m to A\$2.6 million for the year to June 2016, thus triggering a deferred consideration payment of A\$1,333,333. Market conditions for MRS Services Group remain buoyant, with a c.60% increase in the thermal coal price over the past 12 months helping to stimulate a recovery in demand for services in its core area of operation, Hunter Valley. However, MRS Services Group been impacted by the lack of working capital, which has been exacerbated by the fact that only c.\$4 million has been accessible from the Hermes facility.

Results for the year to June 2016 were finally released on 30th March 2017 and reported a pre-tax loss of A\$6.56 million, largely as a result of A\$6.59 million being written off against the terminated contracts. Interims for the six months to December 2016, released on 7th April, reported a net loss before tax of A\$3.2 million on revenues of A\$20.6 million.

Bachmann deferred consideration increases shares in issue

As a result of the voluntary administration of MRS Pty Ltd two deferred payments due to the vendors of Bachmann Plant Hire, to a value of A\$2,666,666, became contractually due with immediate effect in February. Given the need to preserve cash resources the sum was settled by the issue of 11,051,261 new shares in MRS to the vendors at a price of 14.7125p per share. These new shares will be admitted to trading on AIM once MRS resumes trading. A further A\$500,000 due as deferred consideration will be satisfied by the issue of further new shares, to be issued at the 10 day mid-market closing price per share following resumption of trading on AIM.

Director changes

A number of director changes have occurred over the past five months. We summarise the current board structure on pages 7 and 8 of this note.

£4 million total fundraising

With cash continuing to be constrained further fundraising has been completed for general working capital needs. MRS has raised a total of £4 million at a price of 5p per share, with £3.5 million raised via two placings, along with Non-Executive Directors Trevor Brown and Dr Nigel Burton subscribing for £0.5 million worth of new shares. The majority of the funds, £2.15 million, are intended to be used to pay creditors.

SOURCES OF FUNDS	£m	USES OF FUNDS	£m
Cash proceeds	4.0	Trade creditors	2.15
		Settlement with former CEO	0.25
		Repayment of bank overdraft	0.30
		Working capital	1.15
		Cash costs of placing	0.15
TOTAL	4.0	TOTAL	4.0

Source: MRS and Align Research

The placings were conditional upon several administrative matters and the company's senior lender confirming that facilities are all operating within arrangements, that no breach notices have been issued and the lender has waived its covenant test for the quarter ending 31st March 2017. In addition, the placings were subject to payment of not less than A\$500,000 outstanding under MRS's temporary overdraft facility, with the balance of A\$600,000 be extended and/or amortised for (or over) a period of not less than 12 months to 31st March 2018.

With the company expected to be on a sound financial and operational footing, it will once again consider additional growth opportunities in line with its previous strategy.

Financials & valuation post fundraise

For full year 2017 MRS expects to post an underlying operating EBITDA of A\$2.16 million. However, a net accounting loss before tax of A\$3.8 million is forecast as the many issues faced during the year are accounted for in the numbers and as detailed above. Major contributors to the loss include an expected A\$0.9 million outflow from the MRS Pty Ltd division as a result of overheads incurred during the first 4 months of the financial year and a A\$0.8 million loss from the SubZero business in H2 as a result of lost revenues due to insufficient working capital.

On a positive note, in 2018 the group expects to become profitable once again as all the key factors contributing to the prior losses are addressed. An operating EBITDA profit of c.A\$6.9 million is expected for the year, with a net profit before tax of \$A1.42 million.

Forecast profit & loss – summary figures

A\$	FY17	FY18
Revenue	52,258,986	74,989,885
Gross profit	14,611,757	20,794,093
Operating EBITDA	2,159,182	6,897,197
Non recurring costs	2,002,107	-
EBITDA	157,165	6,897,197
EBIT	-2,922,152	3,562,835
Net profit before tax	-3,824,848	1,416,006

Source: Company & Align Research

Valuation

Assuming a share price of 5.125p per share, net debt of £10.7 million post fundraise and a current exchange rate of £1:A\$1.61874, we calculate an enterprise value for MRS as follows:

Equity valuation	No. of shares
Shares in issue pre- relist	85,897,138
New shares	88,530,948
TOTAL SHARES IN ISSUE	174,428,086
Market cap at 5.125p per share	£8,939,439
Enterprise value	£
Forecast net debt post fundraise	£10,700,000
Plus equity value	£8,939,439
TOTAL ENTERPRISE VALUE	£19,639,439

Source: Company & Align Research

On that basis, assuming successful completion of the fundraise, on our figures MRS trades on a FY2018 EV/EBITDA multiple of just 4.6 times, a low valuation which provides plenty of scope for near term upside should targeted figures for next year be achieved.

Peer analysis

While there are no exact comparators amongst the MRS's public peers there are a number of similar ASX listed companies with operations in the areas of mining services. 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 recent 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.

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

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	0.20	11.45	Jun-16	2.37	13.82	4.0	3.45
Emeco Holdings	EHL	0.09	55.77	Jun-16	365.4	421.17	54.2	7.77
Seymour Whyte	SWL	1.30	114.37	Jun-16	-30.7	83.67	5.9	14.18
							AVERAGE	8.47

Company	Ticker	Price (p)	M Cap (£m)	Year end	Net debt (cash) (£m)	Enterprise value (£m)	Underlying 2018 EBITDA (£m)	EV/EBITDA
MRS	MRS	0.05125	8.94	Jun-18	10.7	19.64	4.26	4.6

Our peer analysis shows the three selected comparators trade on an average historic EV/EBITDA multiple of 8.47 times. We believe that this can be appropriately applied to MRS without applying a discount given MRS's growth and recovery potential.

Applying the peer group multiple would result in an enterprise value for MRS of £36.09 million. Stripping out forecast net debt of £10.7 million implies value to equity holders of £25.39 million. Dividing by 174,428,086 shares in issue following the fundraisings thus gives a fair value June 2018 price of 14.55p per share. Conviction Buy.

Management

Following completion of the placings the MRS board will comprise of the following directors.

John Zorbas, Non-Executive Chairman

John Zorbas is a resource entrepreneur with a proven track record in the metals exploration and development industry. He has held senior advisory positions in various facets of business including operations, marketing, sales, strategic planning and structured finance. Mr. Zorbas is the Chief Executive Officer of URU Metals Limited.

He served as Executive Chairman and Managing Director of NWT Uranium Corp. from June 2008 to December 2016. He also served as the President of MGM Productions Group Inc., as well as Director of both ZorCorp Capital Holdings and Starline Capital Holdings Infrastructure Fund.

He served as the Chief Executive Officer and a Director of Monchhichi PLC (formerly: Mercom Capital PLC) until 23 December 2016. Mr. Zorbas also served as a director of Millennial Esports Corp. until 20 October 2016 and Stratton Capital Corp. He is a founding shareholder of Asian Coast Development Ltd.

Joe Clayton, Chief Executive Officer

Joe's extensive experience includes 40 years in mining – 26 of which involved leading mining operations, project developments and mining services businesses in the coal, copper, iron ore and gold industries throughout Australia, including 8 years in remote communities in Papua New Guinea and Indonesia.

During his career, Joe has held several General Manager, Project Director, CEO and Executive Directorship positions. He is a qualified Mining Engineer, Graduate Australian Institute of Company Directors, Fellow of Australian Institute of Mining and Metallurgy and Chartered Professional in Management.

Timothy Jones, Finance Director and Company Secretary

Timothy Jones brings to MRS 40 years of experience in dealing with oil and gas clients as well as natural resource clients. He trained as a Chartered Accountant with Price Waterhouse in London and Paris then joined a client as Financial Director before founding his own accountancy and consultancy practice in 1990. He has clients in a range of business sectors but his main focus is on natural resources.

He is Chairman of the Board of AIM listed Xcite Energy Limited, operator of the Bentley oil field in the North Sea. His previous public directorships include Bahamas Petroleum Company Plc and Falkland Oil and Gas Limited, 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.

Nigel Burton, Non-Executive Director

Dr Nigel Burton has over 25 years' experience in operational and financial management, debt and equity financing, acquisition and integration of businesses, disposals, IPOs and trade sales. Following over 14 years as an investment banker at leading City institutions including UBS Warburg and Deutsche Bank, including as the managing director responsible for the energy and utilities industries, Nigel has spent 15 years as CFO of a number of private and public companies, including Navig8 Product Tankers Inc, PetroSaudi Oil Services Limited, Advanced Power AG, and Granby Oil and Gas plc. Nigel is currently CEO of Nu-Oil and Gas plc, which is listed on AIM. Nigel is a Chartered Electrical Engineer (FIET) and a Past President of the IET. He has a B.Sc. (First Class Hons) in Electrical and Electronic Engineering and a Ph.D in Acoustic Imaging from University College London.

Trevor Brown, Non-Executive Director

Trevor Brown has been a strategic investor in real estate and equities for more than 30 years. He is the chief executive officer of Braveheart Investment Group plc and Flying Brands Ltd, and has been a director of Peterhouse Corporate Finance Limited.

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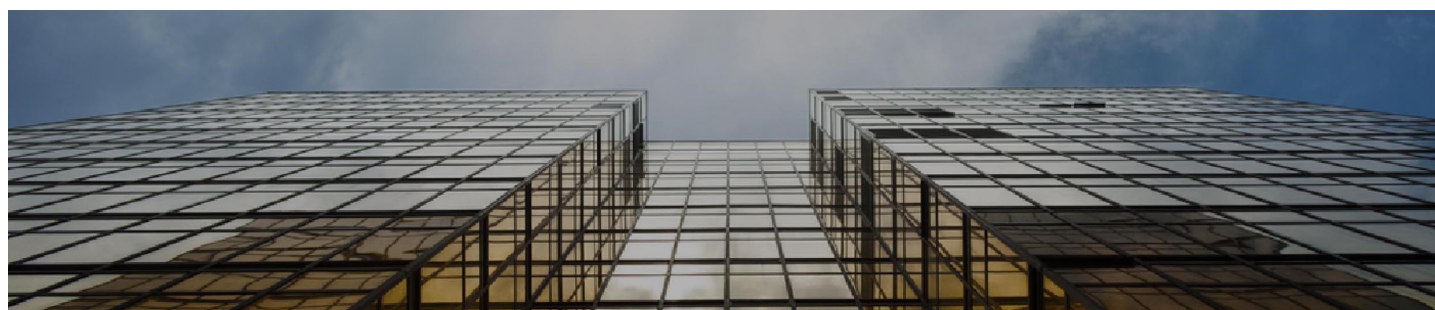
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