

AWF Madison Group Limited**Ticker:** AWF**Market Cap:** \$61.8 million**Shares Outstanding:** 33.4 million**Last Traded Price:** \$1.85

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Quick Summary:

AWF are a recruitment group. They have 4 main business lines. AWF (Allied Work Force), they provide blue collar recruitment across New Zealand. Construction, transport, engineering, manufacturing etc. Madison, they are more generalist recruiters, they do temporary and permanent staffing solutions. Absolute IT, the name says it, so they do IT recruitment solutions. Then there is JacksonStone and Partners, they do not executive recruitment.

2 days companies like this make money. Either they charge a placement fee. Or they charge people out. So for example they will charge someone out at \$25 per hour but pay them \$20.

Recent News:

Revenues down 4.1% in 2019 FY to \$267 million. Result of issues in the blue collar sector. You have seen the closure of a couple of big construction firms.

NPAT down to \$2 million.

White Collar Revenue now 57% of group revenue from strong growth from Absolute IT

AWF Revenue fell by 10.8% to \$115.8 million. Big customers went into receivership or liquidation. This resulted in bad debt write offs.

Regulatory issues impeded AWF from redeploying migrant workers on guaranteed wages to cities and regions where they were needed, at a direct cost of \$1.5 million, plus lost opportunity margin.

Failures and losses in the construction sector were unprecedented in AWF's history. Bennett said that these had affected AWF in two separate ways, with a number of customers unable to pay money owed to AWF, and in addition, company liquidations around the country having left some AWF migrant workers stranded.

Balance Sheet:

| | Note | GROUP | |
|-------------------------------|------|----------------|----------------|
| | | 2019 \$'000 | 2018 \$'000 |
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | B1 | 3,038 | 2,498 |
| Intangible assets – goodwill | B3 | 39,271 | 38,620 |
| Intangible assets – other | B2 | 13,929 | 16,079 |
| Total non-current assets | | 56,238 | 57,197 |
| Current assets | | | |
| Cash and cash equivalents | C6 | 6,357 | 6,269 |
| Trade and other receivables | C7 | 32,629 | 41,101 |
| Contract assets | A2 | 295 | 729 |
| Total current assets | | 39,281 | 48,099 |
| Total assets | | 95,519 | 105,296 |
| Equity and liabilities | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | A5 | 2,462 | 2,748 |
| Borrowings | C8 | 33,000 | 36,000 |
| Total non-current liabilities | | 35,462 | 38,748 |
| Current liabilities | | | |
| Trade and other payables | C9 | 24,186 | 28,527 |
| Contract liabilities | A2 | 530 | 340 |
| Taxation payable | A5 | 280 | 622 |
| Provisions | F2 | 241 | 200 |
| Total current liabilities | | 25,237 | 29,689 |
| Total liabilities | | 60,699 | 68,437 |
| Net assets | | 34,820 | 36,859 |
| Capital and reserves | | | |
| Share capital | C2 | 29,165 | 27,598 |
| Group share scheme reserve | | 544 | 383 |
| Retained earnings | C1 | 5,111 | 8,878 |
| Total equity | | 34,820 | 36,859 |

For and on behalf of the Board who authorise the issue of the financial statements on 29 May 2019:

Cashflow:

| | Note | GROUP | |
|---|--------|----------------|----------------|
| | | 2019 \$'000 | 2018 \$'000 |
| Cashflows from operating activities | | | |
| Receipts from customers | | 275,022 | 282,554 |
| Payments to suppliers and employees | | (262,813) | (266,336) |
| Net cash generated from operations | | 12,209 | 16,218 |
| Interest received | | 26 | 32 |
| Interest paid | | (1,380) | (1,296) |
| Income taxes paid | | (1,378) | (3,445) |
| Net cash from operating activities | | 9,477 | 11,509 |
| Cashflows from investing activities | | | |
| Proceeds from disposal of property, plant and equipment | | 81 | 155 |
| Purchase of property, plant and equipment | B1 | (1,606) | (482) |
| Purchase of intangible assets | B2, G1 | (1,025) | (157) |
| Net cash (used in)/from investing activities | | (2,550) | (484) |
| Cashflows from financing activities | | | |
| Proceeds from the issue of share capital | C2, C3 | 1,569 | 229 |
| Share issue costs | | (2) | (2) |
| Dividends paid to share holders of the parent | C5 | (5,406) | (5,350) |
| Proceeds from borrowings/(Repayments) | C8 | (3,000) | 2,500 |
| Repayment of vendor on settlement of Absolute IT Limited earn-out payment | | - | (3,250) |
| Net cash from/(used in) financing activities | | (6,839) | (5,873) |
| Net increase/(decrease) in cash held | | 88 | 5,152 |
| Cash and cash equivalents at start of the year | | 6,269 | 1,117 |
| Net cash and cash equivalents at end of the year | C6 | 6,357 | 6,269 |

Good cash flow →

low capex →

Rubbish

Easy to pay ~~back~~ dividends →

need to pay debt →

Multiples:

FCF (Cash from operating activities - Purchase of property plant and equipment) = \$7.8 million. That is after a bad year. Puts them on 7.8x earnings (Cap rate 12.8%). Last year cash flow was \$11 million. Or 5.3x (18%).

What did they do with this cash?

They made some acquisitions (purchased intangible assets). They paid dividends of \$5.4 million. They paid back \$3 million in debt. In my view, they have too much debt. I think they need to focus on reducing debt load.

Dividend:

They pay 8.2 cents interim and 8.2 cents final (16.4 cents total). Based off the cashflow I think that they can afford to continue to pay this. This is a yield at \$1.85 of 8.76%. Good business performance should see revaluation of dividend to 6% yield. Which would be share price of \$2.73. Collect dividends while you wait.

Debt, company should pay down debt with free cash flow and forget about all but the most obvious of acquisitions. Imagine if they could pay down debt enough so they could send all FCF to shareholders as dividend, say \$10 million dividend? Based off current dividend yield that would mean a shareprice of \$3.41. A 6% yield would mean a share price of \$4.99. That is a long way away and probably will never happen.

Shareholders:

David Hull is founder of AWF.

Substantial security holders

Pursuant to the Financial Markets Conduct Act 2013, the following persons have given notice that they were substantial security holders in the company and held a "relevant interest" in the number of fully paid ordinary shares shown below:

| Substantial product holder | Fully paid shares in which relevant interest is held | | |
|----------------------------------|--|------------|----------------|
| | Number | Percentage | Date of notice |
| Simon Hull | 17,488,884 | 52.33% | 5/02/2018 |
| Milford Asset Management Limited | 1,676,308 | 5.02% | 12/04/2019 |
| Masfen Securities Limited | 1,678,498 | 5.02% | 5/12/2018 |

Twenty largest holders of quoted equity securities

| Investor | Total Units | Percentage |
|---|-------------|------------|
| Simon Alexander Hull & David John Graeme Cox | 17,488,884 | 52.33% |
| New Zealand Central Securities Depository Limited | 3,960,676 | 11.85% |
| Masfen Securities Limited | 1,678,498 | 5.02% |
| Russell John Field & Anthony James Palmer | 1,125,000 | 3.37% |
| Susanne Rhoda Webster | 426,750 | 1.28% |
| Peter Abe Hull & Antoinette Ngairi Edmonds & Rennie Cox Trustees No 1 Ltd | 395,196 | 1.18% |
| Wynnis Ann Armour & Jocelyn Patricia Dutton | 340,945 | 1.02% |
| Ian Harold Holland | 333,800 | 1.00% |
| Simon James Bennett | 261,776 | 0.78% |
| Joanna Hickman & John Anthony Callaghan & Kevin James Hickman | 245,170 | 0.73% |
| Philip John Talacek & Brenda Ann Talacek | 244,887 | 0.73% |
| Kevin James Hickman & Joanna Hickman | 200,000 | 0.60% |
| Ross Barry Keenan | 197,994 | 0.59% |
| Forsyth Barr Custodians Limited | 124,520 | 0.37% |
| Lay Dodd Trustee Services Limited & Patricia Anne Neal | 124,362 | 0.37% |
| Blair Richard Watson Tallott | 103,454 | 0.31% |
| James Michael Robert Syme | 100,000 | 0.30% |
| Murray Alan Hilder & Janet Mary Hilder & Dale Paretoovich | 97,371 | 0.29% |
| Custodial Services Limited | 95,250 | 0.28% |
| Bernard Ralph Fuller | 88,750 | 0.27% |

founde

CEO

Ryan Fowde

