

# FBR Limited (ASX:FBR)

## JV with Brickworks: Wall as a Service begins

3 June 2019

While FBR's share price responded positively (+20.6% to 8.8c) to the 6 May 2019 announcement of a three year 50:50 JV with Australia's largest brick company, Brickworks Limited (ASX:BKW), the share price has since softened. In our view, this is due to the lack of granularity on how the JV – called *Fastbrick Australia* – is structured, and the poor visibility on the JV "Wall as a service" (WaaS™) business plan, revenue targets or timelines. The JV seems to be the first implementation of the company's new business model and follows on from FBR's September 2018 Global Partnership Agreement with Austrian-based Wienerberger AG – the world's largest producer of clay blocks, which presumably is also targeting a WaaS™ model. We assume that Europe will be the second market that FBR enters after Australia. FBR clearly believes that the best and most value accretive way to commercialise its technology is via strategic alliances with tier-1 regional brick manufacturers. However, we suggest that the share price's broadly muted reaction to the above corporate developments indicates that the marketplace remains uncertain or confused on FBR's Wall as a Service™ (WaaS™) business model and, in particular, how the build of the Hadrian machines will be financed.

### State One comments

The JV announcement stated that the JV aims to engage with domestic builders (presumably already customers of Brickworks) to provide a WaaS™ for residential homes via commercial building contracts, with FBR providing the (brick) laying services via the Hadrian X construction robot and BKW providing masonry blocks optimised for use with the machine. While the ownership of the JV is split 50:50, the announcement does not specify if revenues and costs are similarly divided, although we would assume they are. Our industry background research indicates that traditional (manual) bricklaying costs in Australia are around A\$2,500 per 1,000 bricks, split 60% labour (A\$1,500 or A\$1.50 per brick) and 40% material (A\$1,000 or A\$1.00 per brick). Second storey costs are typically 10% higher (at least) at A\$2,800 per 1,000 bricks - with the labour component increasing to 65% of total costs (i.e. A\$1.80 per brick).

### Risked SOTP target price: A\$0.17 (unchanged)

While the recent tie-ins with Brickworks and global brick giant Wienerberger are welcome commercial developments, the announcements per se have not improved our ability to forecast FBR's key value drivers such as 1) the trajectory of operating Hadrian X robots, 2) the capex or lease costs associated with jointly operating a fleet of Hadrian robots, 3) the work (m<sup>2</sup>) targeted per machine per year, 4) the revenue per m<sup>2</sup> and, 5) operating costs. We would assume that FBR would only have shifted to this business model on the basis that it was leasing the robots rather than funding large capex plans off its own balance sheet. Or alternatively FBR may be planning on utilising the very strong balance sheets of the brick companies to finance the construction of the robot fleets; meaning the brick partners bring customers and capital. For now, without further granularity on the JVs, we maintain our view that a deep risk-discount should be attached to our A\$508m (28c per fully diluted share) NPV<sub>10</sub> valuation of FBR's Hadrian X technology. Nevertheless, our 50% risk-discounted target price of 17cps offers significant upside potential from current share price levels. We maintain a Speculative Buy (Higher Risk) recommendation. Risks to our earnings profile and target price include but are not limited to: success in sourcing building contracts, operational performance of Hadrian X, revenue profile (timing and quantum), operating costs and capex, dependence upon key personnel, competition from other technologies.

Share Price: A\$0.083

Target Price: A\$0.17

**Targeted Upside: 103%**
**Recommendation**  
**Speculative Buy**
**Risk Assessment**  
**Higher**

### Construction Machinery/Technology

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Senior Investment Analyst

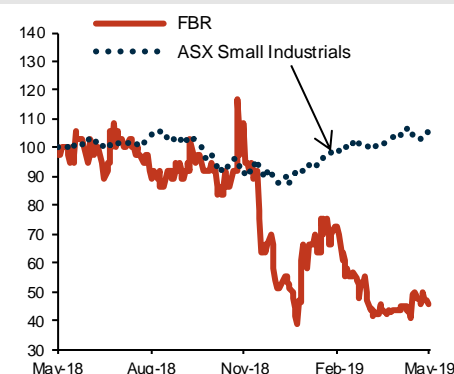
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### FBR Limited

ASX Code	FBR
52-week range (A\$cps)	A\$0.07-A\$0.22
Fully diluted Market Cap (ASm)	148
Fully diluted no. of shares (m)	1,785
Av Daily Turnover (shares)	4.0 million
ASX All Ordinaries	6,577
FY19E BV per share (A\$c)	2.6c
FY19E EPS (A\$c)	-0.8c
FY19E Net (Debt)/Cash (A\$m)	21.4

### Relative price performance Source: IRESS



**FBR Limited**

Year ending June

Profit & Loss Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	0.5	0.0	4.8	11.1	37.7
Operating	0.0	0.0	(2.9)	(6.7)	(22.6)
R&D/Other	(4.0)	(8.0)	(7.0)	(5.0)	(5.1)
Employee/Directors	(1.6)	(6.0)	(7.0)	(7.1)	(7.3)
<b>EBITDA</b>	<b>(5.1)</b>	<b>(14.0)</b>	<b>(12.1)</b>	<b>(7.7)</b>	<b>2.7</b>
Depreciation & Amortisation	(0.0)	(0.5)	(0.5)	(0.5)	(0.5)
<b>Operating profit</b>	<b>(5.1)</b>	<b>(14.5)</b>	<b>(12.6)</b>	<b>(8.2)</b>	<b>2.2</b>
Royalties & Other (R&D rebate)	(2.0)	(1.0)	5.0	5.0	0.0
<b>EBIT</b>	<b>(7.1)</b>	<b>(15.5)</b>	<b>(7.6)</b>	<b>(3.2)</b>	<b>2.2</b>
Interest income	0.0	0.6	0.6	0.2	0.3
Interest expense	0.0	0.0	0.0	(0.6)	(1.5)
Tax expense	0.0	0.0	0.0	1.1	(0)
<b>Reported NPAT</b>	<b>(7.1)</b>	<b>(14.9)</b>	<b>(7.0)</b>	<b>(2.5)</b>	<b>0.7</b>
<b>Normalised NPAT</b>	<b>(7.1)</b>	<b>(14.9)</b>	<b>(7.0)</b>	<b>(2.5)</b>	<b>0.7</b>
EBITDA Margin (%)	na	na	na	na	7%
Operating profit margin (%)	na	na	na	na	6%
EPS Reported - Diluted (A\$c)	(0.4)	(0.8)	(0.4)	(0.1)	0.0
EPS Normalised - Diluted (A\$c)	(0.4)	(0.8)	(0.4)	(0.1)	0.0
EPS growth (%)	nm	nm	nm	nm	n/a
DPS - Declared (A\$c)	0.0	0.0	0.0	0.0	0.0
Avg. no. of shares (m)	954	1,236	1,487	1,654	1,737
YE no. of fully-diluted shares (m)	1,617	1,785	1,785	1,785	1,785

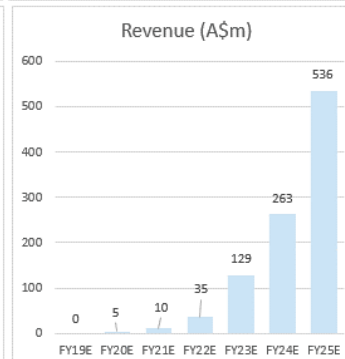
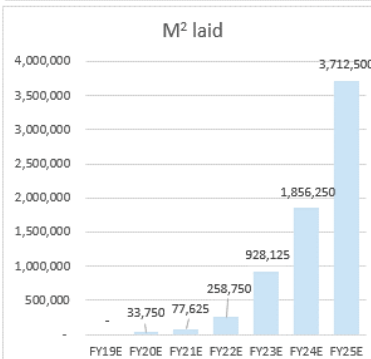
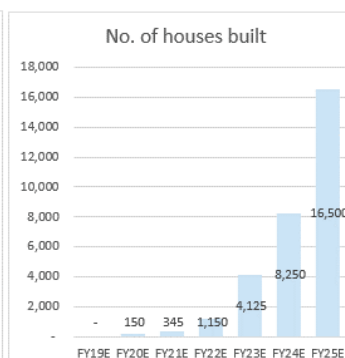
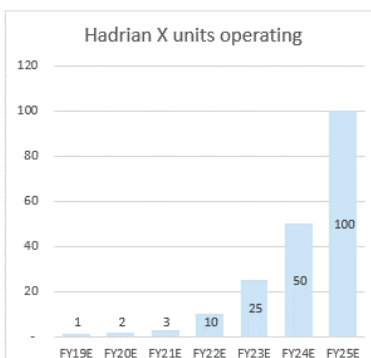
Cash Flow Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
EBITDA	(5.1)	(14.0)	(12.1)	(7.7)	2.7
Investment in working capital	(5.4)	6.9	(0.3)	(1.1)	(0.7)
Tax expense	0.0	0.0	0.0	1.1	(0.3)
<b>Operating Cash Flow</b>	<b>(10.5)</b>	<b>(7.1)</b>	<b>(12.4)</b>	<b>(7.8)</b>	<b>1.7</b>
Capex	(20.0)	(10.0)	(5.0)	(6.0)	(12.1)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(20.0)</b>	<b>(10.0)</b>	<b>(5.0)</b>	<b>(6.0)</b>	<b>(12.1)</b>
Net interest received / (paid)	0.0	0.6	0.6	(0.4)	(1.2)
Debt draw down / (repayment)	0.0	0.0	0.0	10.0	5.0
Dividends paid	0.0	0.0	0.0	0.0	(0.3)
Equity raised / (repaid)	40.3	17.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>40.3</b>	<b>17.6</b>	<b>0.6</b>	<b>9.6</b>	<b>3.4</b>
Royalties & Other	3.5	(1.0)	5.0	5.0	0.0
<b>Inc/(Dec) in Cash</b>	<b>13.3</b>	<b>(0.5)</b>	<b>(11.8)</b>	<b>0.9</b>	<b>(7.0)</b>

Balance Sheet (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Equivalents	22.0	21.4	9.6	10.5	3.5
Receivables	8.2	1.0	1.0	2.2	7.2
Inventories	0.0	0.0	0.3	0.7	2.3
Other Current Assets	0.3	0.3	0.3	0.3	0.3
PPE	16.1	25.6	30.1	35.6	47.2
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>46.5</b>	<b>48.3</b>	<b>41.3</b>	<b>49.2</b>	<b>60.4</b>
Payables and other current Liabilities	2.8	2.6	2.6	3.0	8.9
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	10.0	15.0
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>2.9</b>	<b>2.6</b>	<b>2.6</b>	<b>13.0</b>	<b>23.9</b>
<b>Total Equity</b>	<b>43.6</b>	<b>45.7</b>	<b>38.7</b>	<b>36.2</b>	<b>36.5</b>
Net Cash/(Debt)	22.0	21.4	9.6	0.5	(11.5)

Substantial Shareholders	%	Date
HSBC Custody Nominees	11.9	
Mark Joseph Pivac	8.1	Oct-18
Wisconsin Holdings Pty Ltd	2.5	

Source: Company, IRESS, State One Stockbroking forecasts

Hadrian X revenue f'cast (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
No. of Hadrian X's operating	na	1	2	3	10
No of houses built	na	0	150	345	1150
m <sup>2</sup> built (@ 225m <sup>2</sup> av per house)	na	0	33,750	77,625	258,750
Revenue (US\$m) (@ US\$100/m <sup>2</sup> )	na	0	3	8	26
AUD:USD exchange rate	na	0.70	0.70	0.70	0.70
Revenue (A\$m)	na	0	5	11	38



Leverage	FY18A	FY19E	FY20E	FY21E	FY22E
Net Debt/Equity	cash	cash	cash	cash	-32%
Gearing (ND/ND+E)	cash	cash	cash	cash	-19%
Interest Cover (x)	na	na	na	-9.1	1.8

Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised P/E	na	na	na	na	218.0
Price/OP Cash Flow	na	na	na	na	na
Book value per share (A\$c)	2.7	2.6	2.2	2.0	2.0
EV/EBITDA	na	na	na	na	na
ROE (%)	-16%	-33%	-18%	-7%	2%

SOTP valuation	A\$m	A\$ps
Hadrian X NPV (unrisked)	508	0.28
<i>Risk weighting (timing, volumes, pricing, etc)</i>	50%	
Hadrian X NPV (risked)	254	0.14
Technology upside (10% of Hadrian X NPV)	25	0.01
Enterprise value	280	0.16
Net cash / (debt) (FY18E)	21	0.01
<b>Equity value</b>	<b>301</b>	<b>0.17</b>

Current share price	0.083
% upside / (downside)	103%

## FBR Board of Directors (Source: Company)

### Board of Directors



**Richard Grellman**  
NON-EXECUTIVE CHAIRMAN

Richard Grellman AM is a highly experienced leader and a member of the Order of Australia for service to the community and to the finance and insurance sectors. Richard is currently the Non-Executive Chairman of IPH Limited, Director and Chairman of the Audit Committee of Bisalloy Steel Group Limited and a Director of the National Health and Medical Research Council Institute for Dementia Research. Since 2014, Richard has served as the Tribunal of the NSW Statutory and Other Officers Remuneration Tribunal (SOORT), appointed by the Governor of NSW. He spent 32 years with accounting firm KPMG, where he was a partner from 1982 to 2000, a member of KPMG's National Board from 1995 to 1997 and National Executive from 1997 to 2000, and has since served on a number of other Boards of both listed and unlisted organisations.



**Mike Pivac**  
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mike Pivac spent 20 years in the Aviation sector as an Airborne Mission Coordinator with Australian Border Protection and Search and Rescue, specializing in Electronic Detection Systems and strategic and tactical mission planning, working closely with Australian and International Government and Military Agencies. He has also owned and operated Businesses in the Retail, Hospitality and Transport sectors and has been key to developing FBR's technology, business plan and machine development strategy. He has forged relationships with investors, builders, product suppliers and future customers pivotal to bringing the Hadrian X to life.



**Mark Pivac**  
EXECUTIVE DIRECTOR & CHIEF TECHNICAL OFFICER

Mark Pivac is the primary inventor of FBR's automated bricklaying technology. He is an aeronautical and mechanical engineer with over 25 years' experience working on the development of high technology equipment ranging from lightweight aircraft to heavy off-road equipment. He has 20 years' experience working with 3D CAD software as well as high-level mathematics, including matrix mathematics, robot transformations and vector mathematics for machine motion. Mark has also worked extensively with design, commissioning and fault finding on servo-controlled motion systems achieving very high dynamic performance.



**Nancy Milne OAM**  
NON-EXECUTIVE DIRECTOR

Nancy Milne has extensive business experience as a non-executive director and lawyer specialising in insurance, corporate governance, risk management and commercial dispute resolution. She was a partner at Clayton Utz from 1997 to 2003 and a consultant until 2012, and was awarded the Order of Australia Medal in 2008 for services to the legal sector and to the community. Nancy is currently a Non-Executive Director of ALE Property Group Limited, Chair of the Securities Exchanges Guarantee Corporation and Deputy Chair of the State Insurance Regulatory Authority, and has significant experience in risk management, safety, compliance and property development. Nancy was previously a Director of Australand Property Group and Novion Property Group. In addition to her role as Non-Executive Director, Nancy is Chair of FBR'S Remuneration Committee.



**Andrew Bloore**  
NON-EXECUTIVE DIRECTOR

Andrew Bloore is highly experienced in design and delivery of disruptive technologies and distribution models. He has a strong strategy and profitability focus and has been involved in a number of corporate transactions across his career. Andrew has spent over 25 years in the superannuation sector and was the CEO and Founder of SuperIQ Pty Ltd, an automated online administrator of self management super funds. Andrew is currently the Chairman of Guildlink Ltd and is a director of Guild Group, Noahface Pty Ltd, the Sydney Institute of Marine Science Foundation and Vertical Farming Australia Pty Ltd. He also sits on the Commercialisation Board of Landcare NSW and is a Lead Mentor for Stone & Chalk, a fintech startup hub.

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