



GROWTH

RECOMMENDATION



worley

WOR:ASX
November 2024

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GROWTH RECOMMENDATION

Worley Limited WOR:ASX

Worley Limited is a leading global provider of professional project and asset services in the energy, chemicals, and resources sectors.

The company delivers engineering, procurement, and construction services for large-scale projects worldwide. Worley has strategically positioned itself to benefit from the global energy transition, with over 50% of its revenue now coming from sustainability-related projects.

The company operates across 45 countries with a workforce of over 49,700 people, allowing it to mobilize and scale to deliver on the energy transition globally.

Worley's services span traditional, transitional, and sustainable work, supporting customers as they bridge present needs with future goals.

The company has built accretive businesses in growth areas such as carbon capture utilization and storage (CCUS), low-carbon hydrogen, battery materials, copper, networks and energy storage, water, and low-carbon fuels.

Worley's global reach and diverse capabilities enable it to provide innovative solutions across the entire project lifecycle, from concept to decommissioning, for some of the world's most complex projects in challenging environments.



INVESTMENT CONSIDERATIONS

Leadership

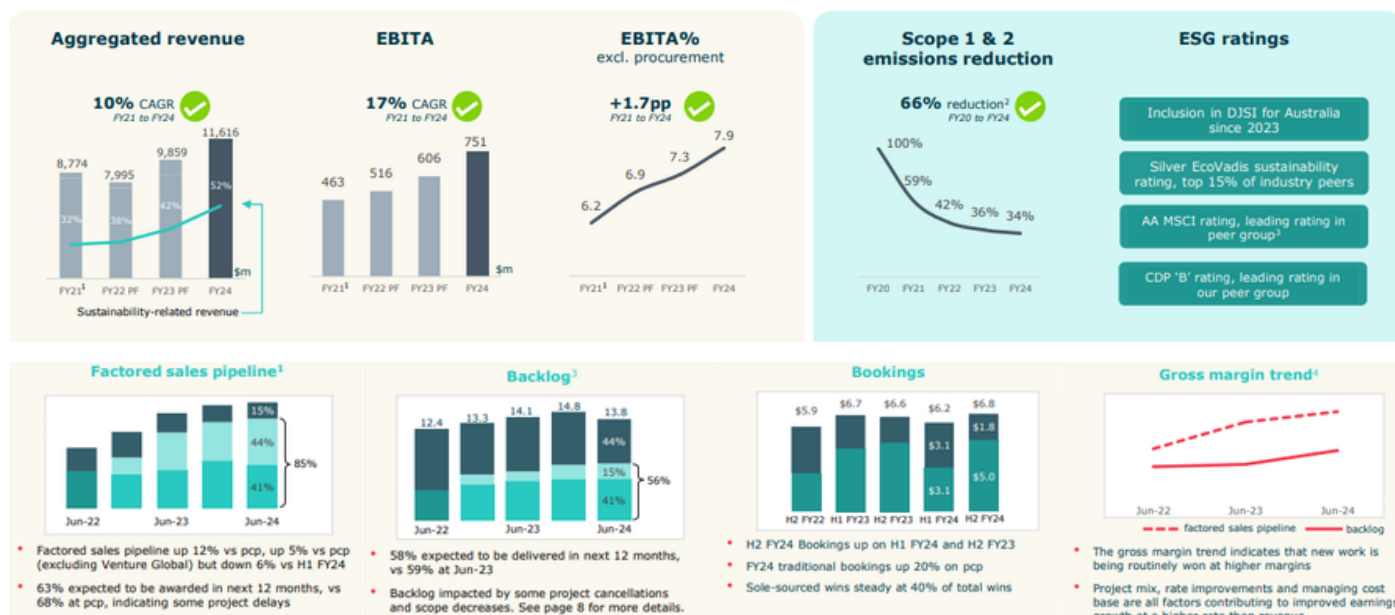
Worley's leadership team, headed by CEO Chris Ashton, has successfully steered the company through a strategic transformation since 2020, focusing on sustainability and digital solutions. Ashton has been instrumental in positioning Worley as a leader in the energy transition space while maintaining strong performance in traditional sectors.

The experienced management team and board, including Chairman John Grill, provide strong industry expertise and governance. Under their guidance, Worley has consistently met performance expectations for three consecutive years, demonstrating disciplined strategy execution.

The leadership's focus on higher-value solutions and strategic initiatives has driven margin improvements and positioned the company for long-term growth. Their commitment to ESG principles is evident in the company's inclusion in the Dow Jones Sustainability Index for Australia and its Silver EcoVadis sustainability rating.

The management team's ability to navigate complex market dynamics while driving innovation and sustainability initiatives showcases their adaptability and forward-thinking approach, which is crucial in the rapidly evolving energy and resources sectors.

Financial Performance



INVESTMENT CONSIDERATIONS

Valuation

Worley currently trades at 15x FY25 earnings, representing a discount to global peers despite its strong market position and growth outlook. This valuation suggests potential for multiple expansion as Worley continues to grow its sustainability-related revenue, which now accounts for 52% of total revenue, up from 32% in FY21.

The company's strong financial performance, with FY24 underlying EBITA up 24% to \$751 million and an improved EBITA margin of 7.9% (excluding procurement), supports the case for a higher valuation. Worley's robust backlog of \$13.8 billion provides revenue visibility and underpins future earnings growth.

The company's strategic focus on higher-margin work and improving operational efficiency is expected to drive further margin expansion, targeting high single-digit EBITA margins over time. With a normalized cash conversion ratio of 99% and a strong balance sheet (leverage at 1.5x), Worley is well-positioned to fund growth initiatives and potentially return capital to shareholders. The company's valuation appears attractive given its market leadership in high-growth sustainability sectors and its ability to generate consistent earnings growth.



Sociological Factors

Worley's strategic shift towards sustainability-related projects has significant sociological implications. The company contributes to global decarbonization efforts by providing expertise for renewable energy, hydrogen, and carbon capture projects. This work potentially mitigates climate change impacts on communities. Worley also addresses water scarcity and quality issues through water management projects.

The company's global presence creates employment opportunities and fosters skill development in various countries, contributing to local economic growth. The Worley Foundation supports STEM education initiatives and community projects, enhancing societal impact.

Worley's commitment to diversity and inclusion, particularly in increasing female representation in senior leadership, promotes gender equality in engineering. By enabling sustainable infrastructure and clean energy solutions, Worley contributes to creating more resilient and environmentally friendly communities worldwide.

RISKS

Investing in Worley carries several risks that potential shareholders should consider:

The cyclical nature of energy and resources capital spending can lead to fluctuations in project awards and revenue, as evidenced by recent project delays and cancellations due to customers rebalancing their portfolios.

Geopolitical tensions and economic uncertainties can impact global operations and project timelines. The company faces execution risks on large-scale projects, where cost overruns or delays could affect profitability.

While Worley's shift towards sustainability-related projects is strategic, it also exposes the company to risks associated with emerging technologies and changing regulatory landscapes in the clean energy sector.

The company's global operations expose it to currency fluctuations and diverse regulatory environments.

Talent retention in a competitive labor market, particularly for specialized skills in emerging technologies, remains a challenge.

Worley's business model relies heavily on its ability to win and retain contracts, making it vulnerable to intense competition and changing customer preferences.

Additionally, the company's transition away from traditional energy projects could potentially alienate some existing clients or lead to a loss of market share in certain segments.

WHY HOLD THE COMPANY?

Investors should consider owning shares in Worley Limited for several compelling reasons:

Energy Transition - Firstly, the company is strategically positioned to benefit from the long-term growth in sustainability and energy transition projects, with over 50% of its revenue now coming from this sector. This aligns Worley with global trends towards decarbonization and renewable energy, providing significant growth potential.

Large backlog of work - , Worley's strong backlog of \$13.8 billion and consistent performance in meeting financial targets demonstrate its ability to execute and provide earnings visibility. The company's focus on higher-margin work and operational efficiency is driving margin expansion, with a target of achieving high single-digit EBITA margins over time.

Global Scale - Worley's global scale and diversification across sectors and geographies provide resilience against regional market fluctuations.

Financial health - The company's strong cash flow generation and disciplined capital management approach support both growth initiatives and potential for increased shareholder returns.

ESG - Worley's leadership in ESG performance, as recognized by its inclusion in sustainability indices, positions it favorably with socially conscious investors.

Valuation discount - the current valuation at a discount to peers offers an attractive entry point for investors to gain exposure to a market leader in the growing sustainability and energy transition space.

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Our Commitment

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