



Driven by infrastructure spending

Even with most of the world currently parked at home, PKD continues to experience positive interactions on the commercial front. The company has been gaining traction within end markets, especially the government sector, riding the wave of stimulus provided by the A\$650m National Commuter Parking Project. In our view, these developments are expected to provide resilience to PKD to sail through the current crisis.

Federal spending on commuter car parks set to drive growth

Under the A\$650m National Commuter Parking Project, PKD has completed four technical design works for local councils. Design work comprises identification and configuration of both permanent and temporary car parks, which will be largely funded by the Federal government. Notably, the fund, created as part of the 2019 budget, is set to see the construction of 50 new commuter car parks over the next 2–3 years.

In our view, as more local councils seek disbursements under this fund, demand for PKD's design and engineering services is set to grow in the short term. The completion of these design works also gives PKD the opportunity to upsell its car park construction services.

PKD optimises operations via cost reductions

In March 2020, PKD announced cost reduction measures, applicable from 4Q20 onwards, which are expected to decrease operating costs by 25%. These include a combined 20% decrease in salaries of executives and senior management, elimination of discretionary spending, and a freeze on directors' fees, capex and recruitment. We believe these moves will help ensure the company can ride out the storm created by the COVID-19 pandemic.

Potential for ramped up infrastructure spending

We expect PKD to emerge from the COVID-19 crisis in good shape, given that project tendering has been ongoing and construction is considered an essential service. In the near term, we may see heightened activity from the Federal and State governments when it comes to starting up, and expediting, infrastructure works as a means to create new jobs to counter the fallout from COVID-19.

Share Price: A\$0.03

ASX: PKD

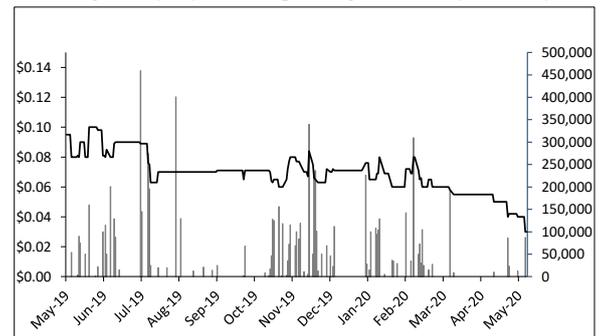
Sector: Commercial & Professional Services

22 May 2020

Market Cap. (A\$ m)	2.3
# shares outstanding (m)	75.2
# shares fully diluted	75.2
Market Cap Ful. Dil. (A\$ m)	2.3
Free Float	100%
52-week high/low (A\$)	0.10 / 0.03
Avg. 12M daily volume ('1000)	322.5
Website	parkdgroup.com

Source: Company, Pitt Street Research

Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: S&P CapitalIQ, Pitt Street Research

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Investment Case: Key reasons to look at PARKD

I. Technological solution for ongoing car parking problem

PKD's car parking structures are more technologically advanced than present static car parking systems. Backed by Intellectual Property (IPs)/patents, PKD offers customised, modular, permanent or relocatable structures that are manufactured off-site, allowing for rapid assembly on-site. PKD structures offer solutions for parking problems faced by a wide array of users, such as government organisations, transport authorities, shopping centres, car dealers, residential complexes, hospitals and education campuses. PKD has a significant global market opportunity to exploit its patented system to rapidly develop infrastructure solutions for the evolving transport commuter sector.

II. Low-cost business model is highly scalable

PKD's business model is less capital intensive than traditional construction models. The key service solutions and project constructions are funded using progressive payment claims. This provides PKD the potential to execute multiple projects simultaneously. We believe this flexibility makes PKD's business fundamentals robust and its operating model scalable. With a rich pipeline of customer enquiries and multiple contracts under negotiation, we believe PKD has attractive future potential.

III. Multiple revenue streams

PKD has multiple avenues of proven revenue generation. Apart from turnkey projects, PKD's other line of services, i.e. design and consulting, provide high-margin revenue opportunities. Further, there is abundant scope for generating cash flows via owned car park structures by leasing or renting them where there is immediate, and sometimes urgent, need. Owning and operating its own car parks is another potential earnings stream which we believe may drive a strong re-rating of PKD if and when it materialises.

IV. Industry partnerships form a big part of PKD's strategy

PKD acknowledges that tendering for large construction projects is often time consuming and requires a significant balance sheet. Hence, it has established partnerships with tier 1 builders, which give PKD not only visibility but also a consistent flow of project opportunities. We believe PKD has taken a strategically sound step for scaling its revenue base, in addition to the competitive tendering process that it is undertaking.

V. PKD deserves a trading multiple equivalent to a specialist car park enterprise

We believe that traditional investors have been valuing PKD on similar line to EPC contractors. Investors are yet to factor in PKD's technological superiority, flexibility and cost efficiency. All these



advantages enhance PKD's ability to be a specialist car parking enterprise. Considering that it can also add immediate value to parking enterprises through value-added services, we believe that in the long term it may trade at multiples equal to globally listed specialist car parking enterprises, such as Park24 Co Ltd in Japan (32x P/E) and SP Plus Corporation LLC in the US (19x P/E).

National Commuter Parking Project, a massive opportunity

In January 2020, PKD signed a contract with Western Sydney local council for technical services, worth A\$90k and has since been granted an extension worth an additional A\$35K. The brief includes three multi-level car parks which are part of the larger National Commuter Parking Project (worth A\$650m). The company is consistently exploring opportunities to deploy its patented modular car park system to provide a rapid and flexible solution.

Management aims to collaborate with several local and state bodies for similar projects. Local, state and federal governments are looking to spend over A\$1.2b in infrastructure over the next few years, and the National Commuter Parking Project is a major part of that. We believe this contract will open up other, similar opportunities for PKD in near-to-medium term.

COVID-19 has limited impact on PKD

While the current global crisis has brought the world close to a standstill, the modular design of PKD's car parking solutions provides the company with an edge. As the components used for PKD's car parks are prefabricated off-site, the company does not require a large workforce for on-site assembly. This also translates to shorter lead times as components can be transported to a construction site on a just-in-time basis. This provides PKD a lead over traditional construction in terms of build times.

These factors give PKD an edge in the current crisis, in our view. As fewer workers are required to spend less amount of time in the community, the risk of COVID-19 spread can be minimised. Additionally, with the components getting manufactured in a factory setting, the risk of virus spread can be minimised via testing, safe work practices and limited exposure to the community. Additionally, PKD sources its components from local suppliers, which ensures minimal disruption to supply chain amid restrictions.

The Australian government has also classified construction as an essential service and plans to fast track construction and infrastructure projects to stimulate economic activity. In our view, PKD is well positioned to benefit from this opportunity.

Even with PKD staff working from home or remote locations, its engineers were able to complete four technical design works in 3Q20. These included three technical design works for multilevel car parks, as part of the contract with a Western Sydney local council.

In our view, this indicates that PKD would be able to continue to take on more design and consulting work even if lockdown restrictions get extended or re-imposed in a potential second wave of infections.

Modular design of PKD's car parks offers safety cushion against COVID-19 disruptions



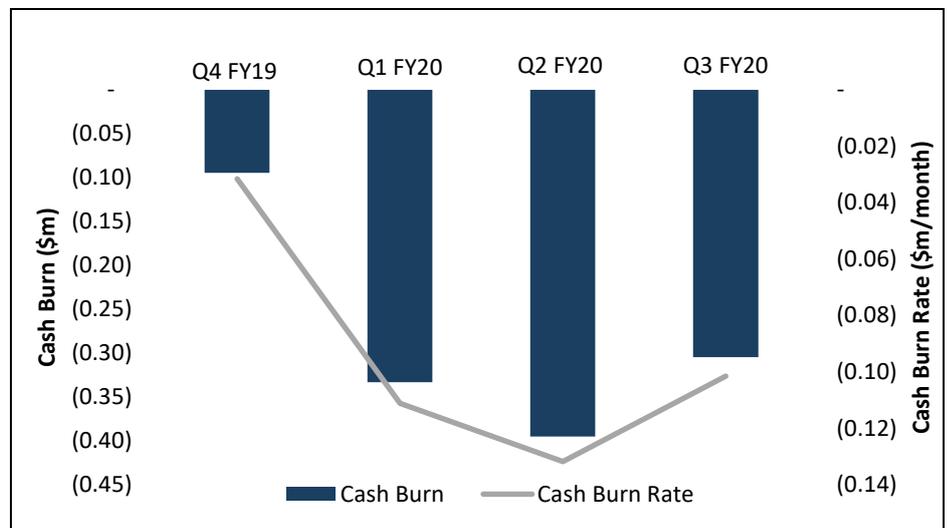
Half-yearly performance: Losses decline a positive development

PKD witnessed an improvement in operating performance for 1HY20. Though total revenues were down 2% y/y, net losses declined 66% over last year. Revenue mainly came from A\$130k worth of design work. The bottom line benefited from NIL component expense as no major construction work was carried out in the period. R&D tax rebate of A\$437k also supported in reducing the losses. Operating cash outflow declined 62% y/y to A\$729k, primarily due to reduced payments to suppliers and R&D tax rebate.

Promising prospects as business becomes cash efficient

In addition to cash conservation measures undertaken by the company for the upcoming quarters, PKD has been streamlining expenses over the last quarter. The cash burn rate for 3Q20 stood at about A\$0.1m per month, down from A\$0.13m per month for 2Q20 (Figure 1). Notably, 2Q20 included tax incentives of A\$437k, which were not present in Q3. With cash reserves of A\$1.4m as of 31 March 2020, we believe PKD has financial runway well into 2021 at the current cash burn rate.

Figure 1: Quarterly and monthly cash burn rates



Source: Pitt Street Research



Risks

We see five main risks related to PKD's investment thesis:

1. **Tendering risk:** Though PKD has a substantial growth opportunity in the A\$650m Federal-government-funded National Commuter Parking Project, it has yet to win a tender. However, the company is partnering with tier 1 construction companies in order to tap into this growth sector. We believe these partnerships should help mitigate tendering risk.
2. **Funding risk:** PKD builds car parks on a project basis and recovers the cost of construction on a progress payments basis, based on contracted milestones. This limits working capital risk, although continuous R&D activities will require funding.
3. **Regulatory risk:** Depending on the location of the car park, the company may also need to obtain development approval from the local council or government. The delay or denial of such approval will hamper PKD's ability to fulfil a car park delivery contract. Congestion levies and CBD fencing could also impact the parking industry.
4. **Business risk faced by clients:** As the company targets end users such as car dealerships, airport corporations and retail centre developers, any change in their business environment can negatively impact PKD's source of income from that client. For instance, in May 2019, the Eurokars Group revisited its decision to expand the Bayswater Mazda dealership. As a result, the group suspended its contract with PKD at the completion of development application documentation.
5. **Disruption in transportation:** The growing trend of ride-sharing, facilitated by user-friendly mobile applications, like Uber, poses a threat to demand for off-street car parking. Increasing concerns around environment-friendly commuting are promoting the acceptance of ride-sharing facilities and a concurrent decline in vehicle ownership. Moreover, the introduction of autonomous vehicles is expected to further impact the demand for off-street parking services longer term.

Please see our initiating coverage of PKD dated 2 November 2019 for an in-depth analysis of PKD.

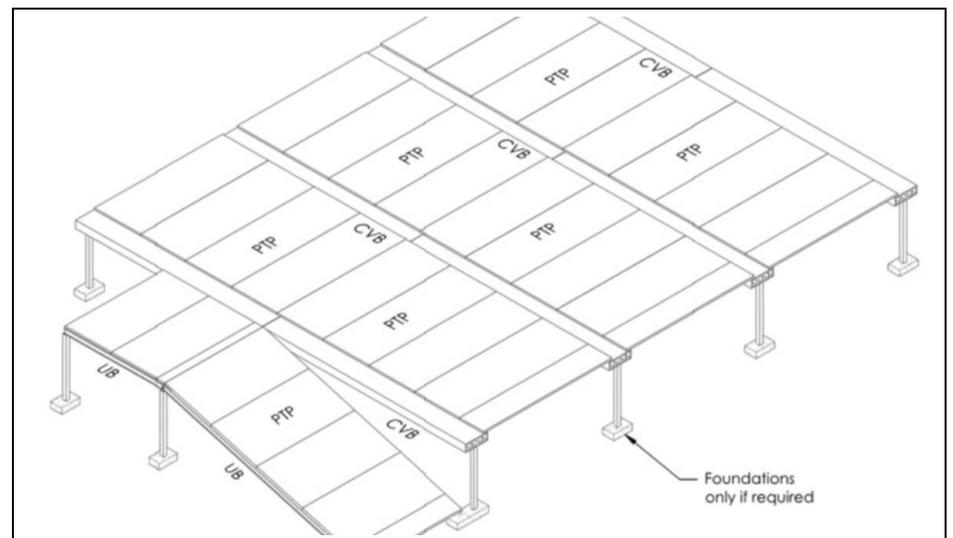


Appendix I: Technology is backed by IPs

The technology used by PKD is based on an assembly of a variety of materials that comply with Australian standards. The strength of PKD's car park system lies in its proprietary IP. The company's car park solution primarily consists of three elements: continuously voidable beam (CVB), PARKD's transportable panels (PTP) and vertical columns. Of these three, CVBs are subject to intellectual property rights (Figure 2).

- **Continuously Voidable Beam.** The CVB is the primary supporting element made of concrete and strengthened with pre-stressed concrete and steel. It can span up to 17 metres and is designed to reduce the need for numerous internal columns, making it a simpler and more efficient structure.
- **PARKD Transportable Panels.** PKD uses made-to-measure precast concrete slab panelling system for its car park solutions, which makes it easier for the company to source components from local suppliers. Moreover, these panels are lightweight, which allows for easy transport and on-site assembly.
- **Vertical structures (columns).** Typical PKD car park systems are designed for up to five suspended levels and one ground level. For connecting the levels, PKD deploys columns of prefabricated concrete with structural steel cores. Moreover, the supporting concrete and steel columns are standardised in order to facilitate quick assembly on-site. The company ensures that the columns have the ability to meet all Australian Standards and codes to withstand exposed environments and resist earthquakes and fire.

Figure 2: PKD uses three primary components in its car park system



Source: Company



Appendix II: Analyst Qualifications

Marc Kennis, lead analyst on this report, has been covering the multiple sectors as an analyst since 1997.

- Marc obtained an MSc. in Economics from Tilburg University, The Netherlands, in 1996 and a Post Grad. in investment analysis in 2001.
- Since 1996, he has worked for a variety of brokers and banks in The Netherlands, including ING and Rabobank, where his main focus has been on the Technology sector, including the Semiconductor sector.
- After moving to Sydney in 2014, he worked for several Sydney-based brokers before setting up TMT Analytics Pty Ltd, an issuer-sponsored equities research firm.

In July 2016, with Stuart Roberts, Marc co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Technology companies.

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