SRG Global (SRG)

Rating: Buy | Risk: High | Price Target: $0.70

Specialist

Key Information	
Current Price ($ps)	0.45
12m Target Price ($ps)	0.70
52 Week Range ($ps)	0.19 - 0.51
Target Price Upside (%)	57.3%
TSR (%)	61.8%
Reporting Currency	AUD
Market Cap ($m)	198.4
Sector	Industrials
Avg Daily Volume (m)	0.1
ASX 200 Weight (%)	0.01%

Fundamentals

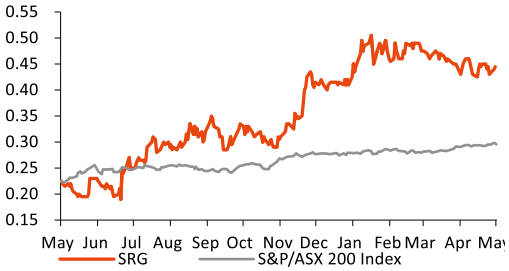
YE 30 Jun (AUD)	FY20A	FY21E	FY22E	FY23E
Sales ($m)	520.0	599.6	675.8	730.7
NPAT ($m)	1.4	13.8	18.0	21.8
EPS (cps)	0.3	3.1	4.0	4.9
EPS Growth (%)	(86.1%)	873.4%	30.8%	21.0%
DPS (cps) (AUD)	1.0	2.0	2.5	3.0
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY20A	FY21E	FY22E	FY23E
P/E (x)	66.2	14.4	11.0	9.1
EV/EBITDA (x)	7.1	4.4	3.8	3.4
Div Yield (%)	4.8%	4.5%	5.6%	6.7%
Payout Ratio (%)	315.5%	64.8%	61.9%	61.4%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	1.7%	(11.2%)	(6.5%)	66.4%
Absolute (%)	3.5%	(6.3%)	(2.2%)	97.8%
Benchmark (%)	1.8%	4.9%	4.3%	31.4%



Price performance indexed to 100 *Source:*

Major Shareholders

Perennial Value Management	11.6%
Mitsubishi UFG	8.5%

Event

We recently had the opportunity to visit SRG's Construction projects at Elizabeth Quay in Perth. While the primary strategy of the Company is to go grow recurring revenue in Mining and Asset Services, Construction remains an important and increasingly profitable part of the business. It is very important to note however, that this is now a much more focused Construction division than in the past, tendering in regions and on projects SRG has a competitive advantage in. Macro tailwinds remain positive overall with the 2021/22 budget as expected providing a further boost to the building and construction sectors in Australia. Wage inflation in the mining/construction sectors is becoming a key concern for investors and likely partially responsible for recent weak sector share price performance. We believe SRG is less exposed to this headwind than many. Our 12-month target price remains $0.70ps and we maintain our Buy Recommendation.

Highlights

- As the focus shifts to bidding on Mining and Asset Service work, Construction has become a smaller portion of the opportunities pipeline but remains at 45% out of the $6bn identified. After some major wins in Construction in FY21, Construction WIH now sits close to $400mn.
- It again must be stressed that this is specialist engineering and building work, and hence has the potential to be lower risk and higher margin. This growing specialty focus is evident in the contracts they have won in FY21 – specialist facades and structures, post tensioning and products, tank construction, bridge construction and dam anchoring – with a blue-chip clientele.
- We had the opportunity to see firsthand SRG's specialist building work at a number of projects in Perth recently. There are 10 separate tower developments at two locations within the Perth CBD. SRG is providing the specialist façade and structures work for several of them.
- The Company has provided a number of case studies in the past on this work, although we feel that the specialist nature of SRG's construction business is perhaps not fully understood by the market and SRG gets wrapped up with more generalist construction and building providers.

Recommendation

The recovery in SRG's operational performance is gathering pace as the Company continues to win contracts and WIH stands at record levels. We additionally expect the macro outlook to remain strong, across infrastructure, asset services, mining and select construction.

We believe the outlook for SRG remains very positive due to;

- FY21-22 revenue underpinned by high quality WIH. Large pipeline of work identified and hence likely news flow catalysts as more contracts are secured.
- Lower risk profile due to annuity earnings, alliance style contracts, breadth of clients and geographies etc.
- Improving competitive landscape and exit from the underperforming businesses.
- Solid balance sheet and forecast strong earnings momentum in the next few years.
- M&A potential.

As such we would expect SRG to continue to re-rate, along with a recovery in reported financial performance, towards a valuation closer to its lower risk maintenance focused peers (FY22 6.0x EBITDA). Given the upside in relative valuation, current WIH and likely positive catalysts from the tendering pipeline, we continue to rate SRG a Buy.

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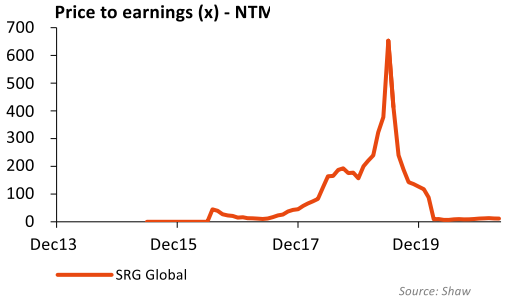
SRG Global
Industrials
Capital Goods
FactSet: SRG-AU / Bloomberg: SRG AU

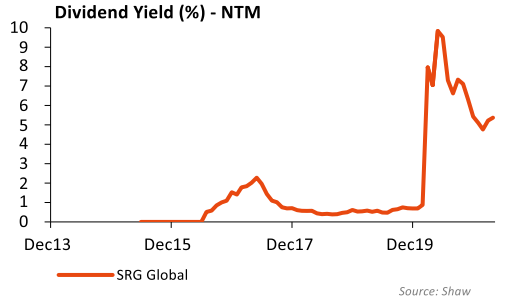
Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.45
Target Price ($ps)	0.70
52 Week Range ($ps)	0.19 - 0.51
Shares on Issue (m)	445.8
Market Cap ($m)	198.4
Enterprise Value ($m)	207.9
TSR (%)	61.8%

Valuation NPV	Data
Beta	1.30
Cost of Equity (%)	10.8%
Cost of Debt (net) (%)	6.0%
Risk Free Rate (%)	3.0%
Terminal Growth (%)	2.5%
WACC (%)	9.9%

Company Description

SRG Global Ltd. is an engineering-led global specialist asset services, mining services and construction group operating across the entire asset lifecycle of engineer, construct and sustain. It operates through the following segments: Asset Services, Mining Services and Construction. The Asset Services segment supplies integrated services to customers across the entire asset life cycle. The Mining Services segment provides services to mining clients and ground solutions including production drilling, ground and slope stabilization, design engineering and monitoring services. The Construction segment supplies integrated products and services to customers involved in the construction of complex infrastructure. The company was founded in 1961 and is headquartered in Subiaco, Australia.





Financial Year End: 30 June Investment Summary (AUD)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS (Reported) (cps)	**2.1**	**(6.7)**	**3.1**	**4.0**	**4.9**
EPS (Underlying) (cps)	**2.3**	**0.3**	**3.1**	**4.0**	**4.9**
EPS (Underlying) Growth (%)	(73.6%)	(86.1%)	873.4%	30.8%	21.0%
PE (Underlying) (x)	**90.6**	**66.2**	**14.4**	**11.0**	**9.1**
EV / EBIT (x)	**11.7**	**41.5**	**8.7**	**7.2**	**6.0**
EV / EBITDA (x)	**5.8**	**7.1**	**4.4**	**3.8**	**3.4**
DPS (cps) (AUD)	1.5	1.0	2.0	2.5	3.0
Dividend Yield (%)	0.7%	4.8%	4.5%	5.6%	6.7%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	65.7%	315.5%	64.8%	61.9%	61.4%
Free Cash Flow Yield (%)	(15.7%)	(53.0%)	3.9%	6.8%	7.8%

Profit and Loss (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	486.4	520.0	599.6	675.8	730.7
Sales Growth (%)	*12.7%*	*6.9%*	*15.3%*	*12.7%*	*8.1%*
EBITDA	**32.0**	**29.2**	**47.0**	**54.5**	**59.4**
EBITDA Margin (%)	*6.6%*	*5.6%*	*7.8%*	*8.1%*	*8.1%*
Depreciation & Amortisation	(16.1)	(24.2)	(23.0)	(25.9)	(25.4)
EBIT	**15.9**	**5.0**	**24.0**	**28.6**	**34.0**
EBIT Margin (%)	*3.3%*	*1.0%*	*4.0%*	*4.2%*	*4.6%*
Net Interest	(1.3)	(3.0)	(2.9)	(2.9)	(2.9)
Pretax Profit	14.5	2.0	21.2	25.7	31.1
Tax	(4.4)	(0.6)	(7.4)	(7.7)	(9.3)
Tax Rate (%)	*(30.0%)*	*(30.0%)*	*(35.0%)*	*(30.0%)*	*(30.0%)*
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	**10.2**	**1.4**	**13.8**	**18.0**	**21.8**
Significant Items	(0.8)	(31.1)	0.0	0.0	0.0
NPAT Reported	**9.4**	**(29.7)**	**13.8**	**18.0**	**21.8**

Cashflow (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	15.9	5.0	24.0	28.6	34.0
Tax Paid	(4.4)	(0.6)	(7.4)	(7.7)	(9.3)
Net Interest	(1.3)	(3.0)	(2.9)	(2.9)	(2.9)
Change in Working Capital	(8.6)	3.9	8.9	5.5	6.8
Depreciation & Amortisation	16.1	24.2	23.0	25.9	25.4
Other	(14.0)	(22.1)	(17.8)	(10.9)	(13.6)
Operating Cashflow	**3.7**	**7.5**	**27.8**	**38.5**	**40.4**
Capex	(45.9)	(57.1)	(20.0)	(25.0)	(25.0)
Acquisitions and Investments	0.0	0.0	0.0	0.0	0.0
Disposal of Fixed Assets/Investments	0.7	(25.2)	0.0	0.0	0.0
Other	64.6	64.1	0.0	0.0	0.0
Investing Cashflow	**19.3**	**(18.2)**	**(20.0)**	**(25.0)**	**(25.0)**
Free Cashflow	**(145.0)**	**(49.6)**	**7.8**	**13.5**	**15.4**
Equity Raised / Bought Back	0.8	0.0	0.0	0.0	0.0
Dividends Paid	(8.1)	(2.2)	(8.9)	(11.1)	(13.4)
Change in Debt	16.5	(9.5)	0.0	0.0	0.0
Other	(3.9)	(7.7)	0.0	0.0	0.0
Financing Cashflow	**5.3**	**(19.5)**	**(8.9)**	**(11.1)**	**(13.4)**
Exchange Rate Effect	0.3	0.0	0.0	0.0	0.0
Net Change in Cash	**28.6**	**(30.2)**	**(1.1)**	**2.3**	**2.0**

Balance Sheet (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	58.3	28.1	27.0	29.4	31.4
Accounts Receivable	118.0	124.2	141.3	142.6	148.1
Inventory	13.0	15.6	18.0	20.2	21.9
Other Current Assets	5.1	8.8	8.8	8.8	8.8
PPE	71.5	79.3	76.3	75.4	74.9
Goodwill & Intangibles	137.6	107.3	107.3	107.3	107.3
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	27.2	59.6	59.6	59.6	59.6
Total Assets	**430.6**	**422.9**	**438.2**	**443.2**	**452.0**
Accounts Payable	99.7	104.5	115.0	113.1	113.6
Short Term Debt	21.2	12.7	12.7	12.7	12.7
Long Term Debt	24.9	23.9	23.9	23.9	23.9
Income Taxes Payable	1.7	2.5	2.5	2.5	2.5
Other	30.4	57.9	57.9	57.9	57.9
Total Liabilities	**177.9**	**201.4**	**211.9**	**210.1**	**210.5**
Total Shareholder Equity	**252.7**	**221.4**	**226.3**	**233.1**	**241.5**

Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
ROE (%)	5.6%	0.6%	6.1%	7.8%	9.2%
ROIC (%)	7.2%	1.6%	10.0%	12.5%	14.6%
Gearing (%)	(5.1%)	3.7%	4.1%	3.0%	2.1%
Net Debt / EBITDA (x)	(0.4)	0.3	0.2	0.1	0.1
Price to Book (x)	nm	nm	nm	nm	nm

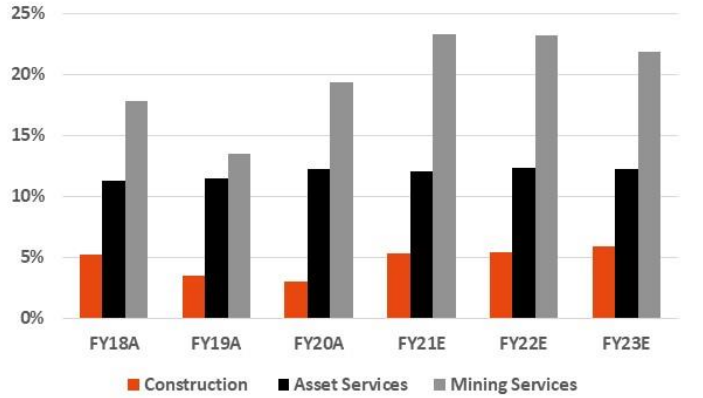
Services with Specialist Construction

We recently had the opportunity to visit SRG's Construction projects at Elizabeth Quay in Perth. While the primary strategy of the Company is to go grow recurring revenue in Mining and Asset Services, Construction remains an important and increasingly profitable part of the business.

Figure 1: Revenue by Segment

Source: Shaw and Partners

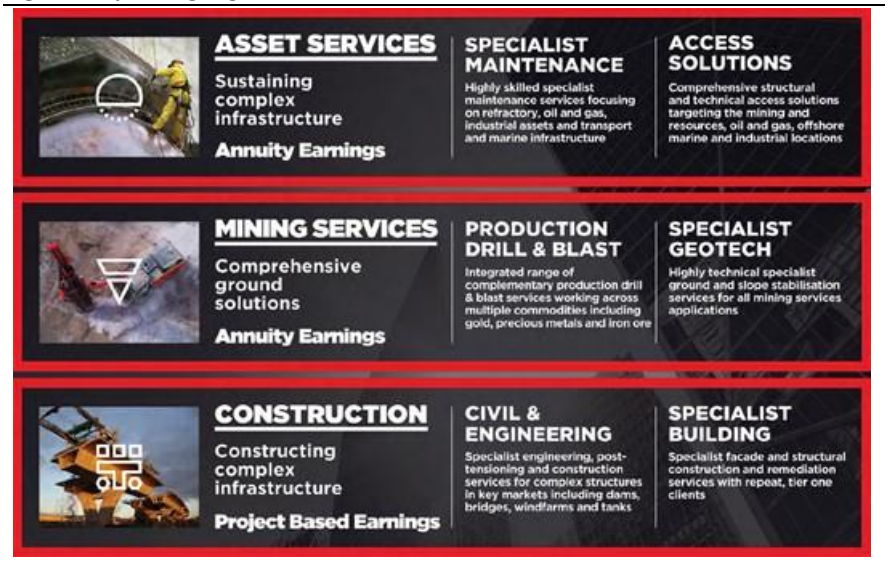
Figure 2: EBITDA Margin by Segment



Source: Shaw and Partners

In it very important to note however, that this is now a much more focused Construction division than in the past, tendering in regions and on projects SRG has a competitive advantage in.

Figure 3: Operating Segments



Source: SRG

After some major wins in Construction in FY21, Construction WIH now sits close to $400mn. As the focus shifts to bidding on Mining and Asset Service work, Construction has become a smaller portion of the opportunities pipeline but remains at 45% out of the $6bn identified.

Figure 4: WIH by Segment

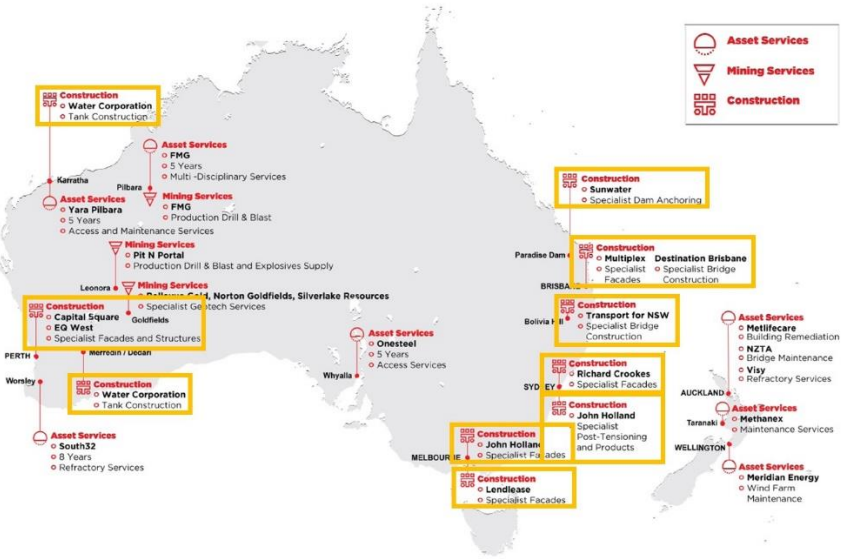
Source: Shaw and Partners

Figure 5: Pipeline of Opportunities by Segment

Source: Shaw and Partners

However, it again must be stressed that this is specialist engineering and building work, and hence has the potential to be lower risk and higher margin. This growing specialty focus is evident in the contracts they have won in FY21 – specialist facades and structures, post tensioning and products, tank construction, bridge construction and dam anchoring – with a blue-chip clientele.

Figure 6: Construction contracts won in FY21



Source: SRG

The Company has provided a number of case studies in the past on this work, although we feel that the specialist nature of SRG's construction business is perhaps not fully understood by the market and SRG continues to get wrapped up with more generalist construction and building providers.

Figure 7: Case Studies – Specialist Construction

Source: SRG

We had the opportunity to see firsthand their specialist building work at a number of projects in Perth recently.

There are 10 separate tower developments at two locations within the Perth CBD. SRG is providing the specialist façade and structures work for several of them, work to them in the many hundreds of millions of dollars. There are 7 Sites at Elizabeth Quay, with Lots 9 and 10 complete. Lots 2 to 8 are all under various stages of construction.

Figure 8: Elizabeth Quay Developments

Source: MRA

Lots 2 and 3 (EQ West Development) involves the development of two multi use towers, Lot 4 is a 60 plus floor multi use development. Lots 7 and 8 are the Chevron HQ. Three additional towers are also being built at Capital Square, with the first completed tower now the HQ of Woodside.

Figure 9: EQ West Development

Source: https://www.skyscrapercity.com/

Figure 10: Elizabeth Quay when Lots 2-8 are completed

Source: http://www.yourneighbourhood.com.au/

Figure 11: SRG Management at Elizabeth Quay

Source: Shaw and Partners

Figure 12: Structures and Facades work at EQ West Development

Source: Shaw and Partners

2021/22 Federal Budget provides a further boost to Building and Infrastructure

The 2021/22 budget as expected provided a further boost to the building and construction sectors in Australia.

The residential building sector was boosted by:

HomeBuilder adjustment – HomeBuilder overall is expected to support over $30bn in residential construction activity. The government has extended the six-month construction commencement period to 18 months for all existing applicants, which will smooth out the HomeBuilder construction activity in 2021 and into 2022.

New Home Guarantee - Government is providing a further 10,000 places under the New Home Guarantee in 2021-22, specifically for first home buyers seeking to build a new home or purchase a newly built home with a deposit of as little as 5%.

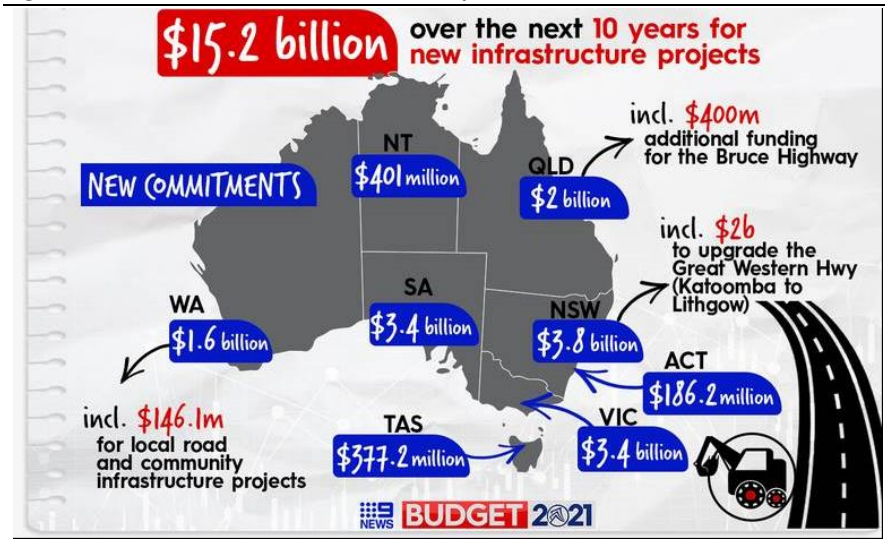
Family Home Guarantee - From 1 July 2021, 10,000 guarantees will be made available over four years to eligible single parents with dependents to build a new home or purchase an existing home with a deposit of as little as 2%, subject to an individual's ability to service a loan.

First Home Super Saver Scheme - From 1 July 2022, the Government will increase the maximum amount of voluntary contributions that can be released under the First Home Super Saver Scheme from $30,000 to $50,000.

Relevant to SRG, the infrastructure sector also received a further boost with an additional commitment of $15.2bn directed towards infrastructure projects over the next 10 years.

The 2019 budget first outlined a $100bn 10-year spending plan on infrastructure, with $42bn expected to be spent in the first 4 years. This latest budget update and additional $15.2bn allocation now extends this to $110bn over a further 10 years period.

Figure 13: Additional $15.2bn Infrastructure Spend



Source: 9 News

Cost / Wage inflation

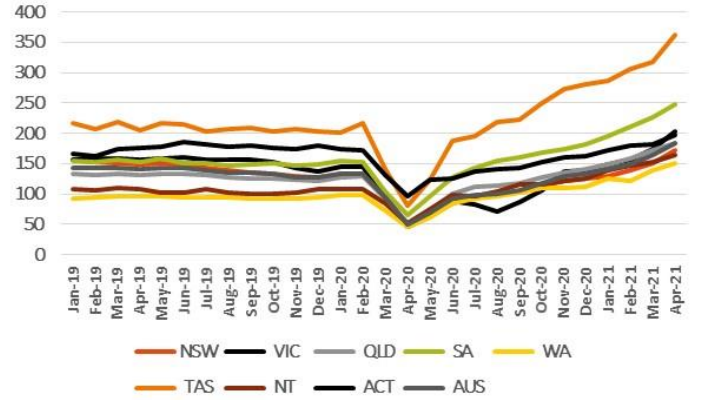
We recently brought some fund managers around to see 11 Mining Service / construction companies in Perth.

One common theme of each meeting was the cost / wage inflation that each are facing to some degree and the difficulty due to COVID in securing and retaining staff in WA. This is putting pressure on margins and is probably a key reason behind the recent weak share price performance of the sector.

SRG will not be immune to this. They have circa 2,300 employees with 82% of them based in Australia. Western Australia did however represent just 35% of earnings in 1HFY21, with Eastern Australia 59% and International 6%.

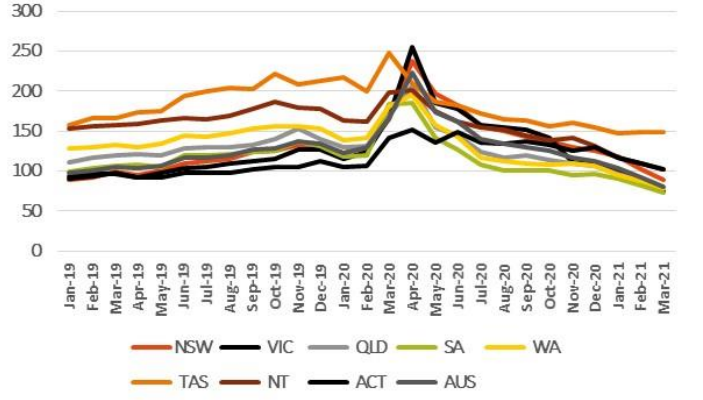
Wage inflation has also been mitigated to some extent in SRG's contract terms. The nature of SRG's work (longer term service contracts and specialty construction) also differentiates it from many of its perceived peers, appealing to workers looking for longer term security and/or specialist training.

Figure 14: SEEK New Jobs Ads Posted, by State



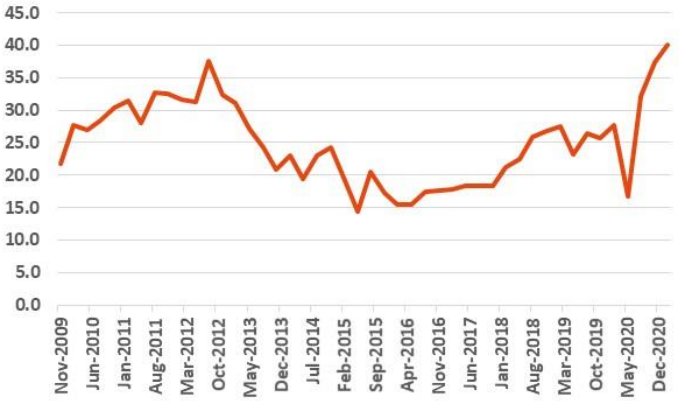
Source: SEEK. Seasonally Adjusted Data, Index 2013=100

Figure 15: SEEK Candidate Availability Index, by State



Source: SEEK. Seasonally Adjusted Data, Index 2013=100

Figure 16: Job Vacancies, Western Australia ('000)



Source: ABS

Figure 17: Job Vacancies, Mining ('000)

Source: ABS

Valuation, Outlook and Recommendation

The recovery in SRG's operational performance continues as the Company wins contracts and WIH stands at record levels. The confidence to provide EBITDA guidance (in this uncertain macro environment and continually upgrade), reflects not only the shift to more alliance, maintenance, annuity style contracts, but also their ability to deliver on these contracts.

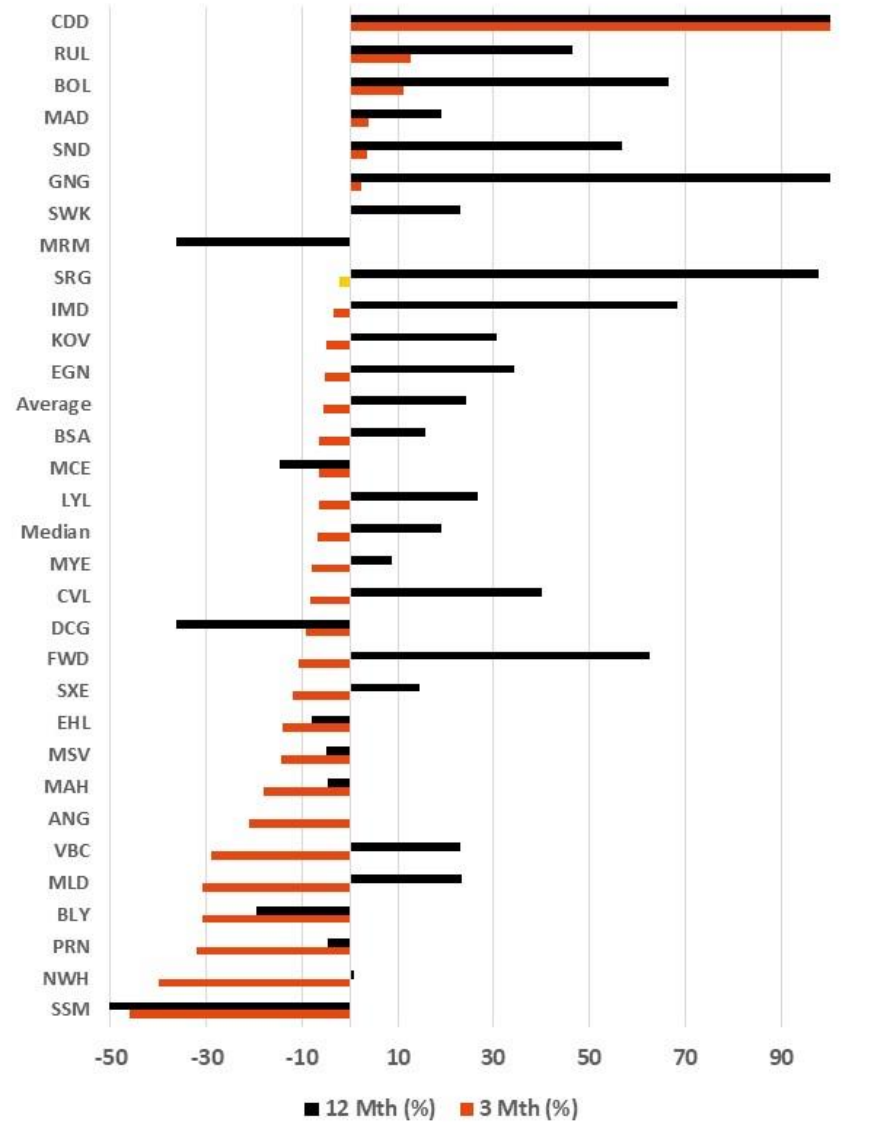
We expect the macro outlook to remain strong, across infrastructure (Shovel-Ready stimulus), asset services, mining and select construction. Overseas Specialist Civil Engineering may also provide a further boost from FY22.

The Company also reiterated on their recent 1H21 conference call that liquidity and their current corporate structure supports the delivery of the strong WIH and a substantial increase in revenue from the current cost base.

The company's risk profile has also lowered, with over two thirds of earnings now from recurring/annuity contracts and the paring down of under-performing businesses (e.g. Structures Victoria).

Despite this positive operational performance, SRG's share price we believe has been capped by the weak relative performance of its peer group in asset services (e.g. SSM), Mining Services and Construction.

Figure 18: 3 and 12-month Performance – Mining and Asset Services and Contractors



Source: Shaw and Partners, FactSet to 12th May 2021

In 2020, our positive call on SRG was based primarily on the potential re-rating we foresaw in its multiples as it won contracts and more importantly de-risked the business. In 2021,

there is still scope for a further re-rating (as outlined above), but the delivery of the earnings growth we expect for years to come will also now become a key driver of the share price.

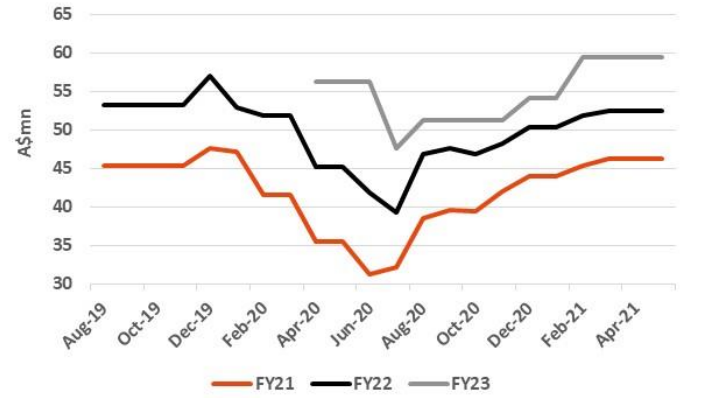
We value SRG on a relative basis to peers and the market (PE Relative 16.2x = $0.65ps (unchanged)) as well as sense checking the relative valuation using a DCF ($0.78ps, unchanged) and Sum of the Parts (break up) valuation ($0.69ps, unchanged).

From this, our 12 month forward composite valuation and price target is $0.70 per share (unchanged). Based on our target price the stock would be trading on 6.7x, 5.9x and 5.3x our FY21-23 EBITDA forecasts respectively.

Our DCF assumes a WACC of 9.9% (unchanged), average annual FCF of circa $24.7mn (unchanged) over the 10-year forecast period and a 2.5% terminal growth rate (TV=55% of EV). Our Sum of the Parts assumes relative peer EV/EBITDA multiples for each division (4.7x for Construction, 4.4x for Mining and 6.8x for Asset Services. Our peer multiples are based upon target rather than current share prices.

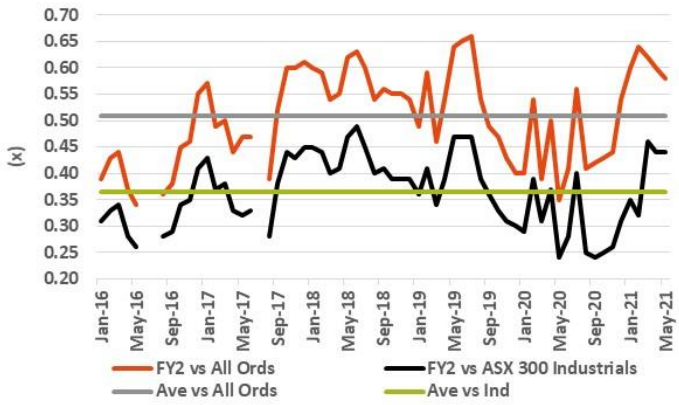
SRG is still trading at a substantial discount to both the broader market and ASX 300 Industrials. It is currently trading at circa 0.44x FY2 forward earnings versus the S&P ASX 300 Industrials index and 0.58x versus the broader S&P ASX All Ordinary Index. This compares to an historical range of circa 0.24-0.49x and 0.34-0.66x respectively.

Figure 19: SRG FactSet Consensus EBITDA



Source: Shaw and Partners, FactSet Consensus (to 12th May 2021)

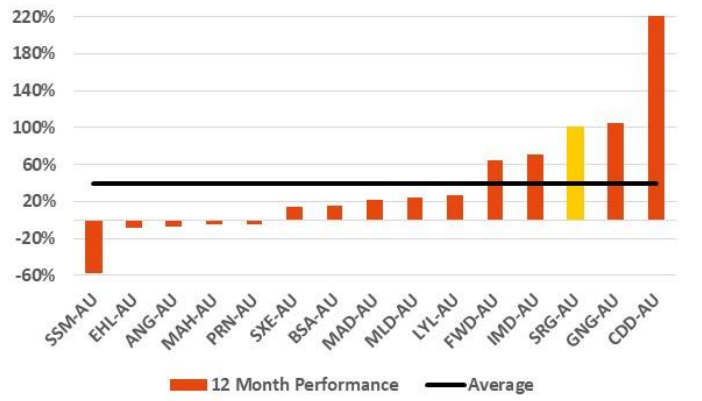
Figure 20: SRG FY2 PE Relative to ASX All Ordinaries / Industrials



Source: Shaw and Partners, FactSet Consensus (to 12th May 2021)

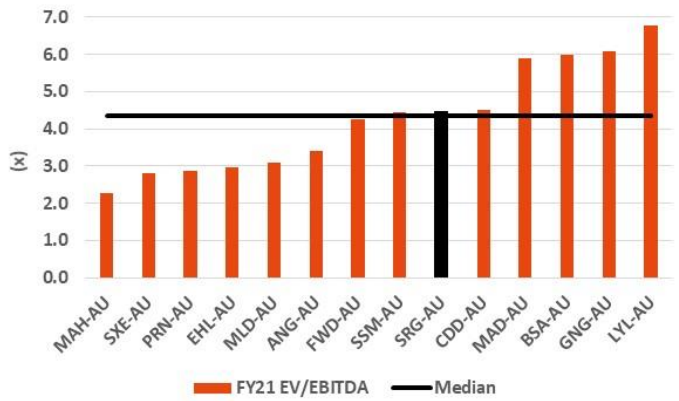
While SRG is currently trading close to the average EV/EBITDA multiples of the small cap Mining Service/E&C stocks (see below), given its shift to lower risk annuity contracts, strong pipeline of work and recovery in reported financial performance, we would expect SRG to re-rate along with earnings towards a valuation closer to lower risk maintenance focused peers (6.0x FY22 EBITDA).

Figure 21: 12 Month Share Price Performance (close peers)



Source: Shaw and Partners, FactSet Consensus (to 12th May 2021)

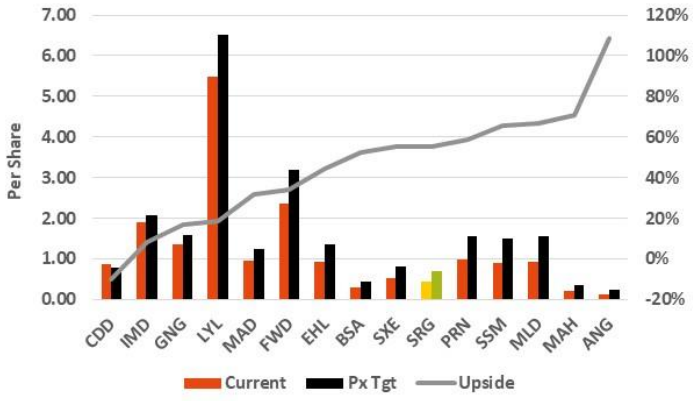
Figure 22: SRG vs 'Peers' FY21 EV/EBITDA (current share prices)



Source: Shaw and Partners, FactSet Consensus (to 12th May 2021)

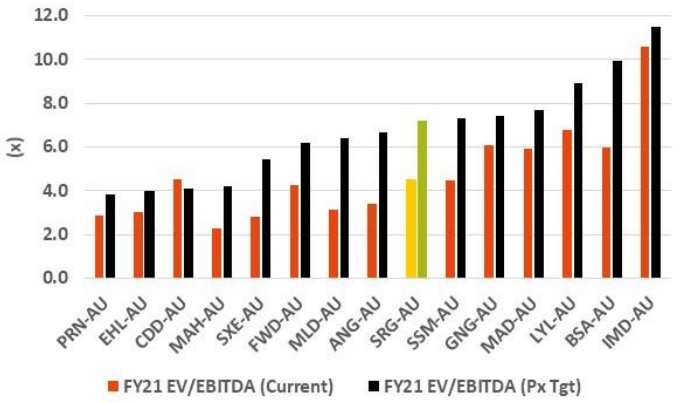
Given the weak share price performance of its 'peer' group over the past 3 months in particular, there is now substantial upside to consensus target prices for most of these stocks. The current average FY21 EV/EBITDA multiple for the stocks in Figure 23 is 4.7x (SRG 4.4x based on Shaw and Partners estimates). This compares to 6.7x based on the consensus target prices, which compares to 6.8x for SRG based on Shaw and Partners estimates.

Figure 23: Current versus Consensus Target Prices (and Upside)



Source: Shaw and Partners, FactSet to 12th May 2021

Figure 24: FY21 Consensus EV/EBITDA multiples – Current and Target



Source: Shaw and Partners, FactSet to 12th May 2021

We believe the outlook for SRG remains very positive due to;

- FY21-22 revenue underpinned by high quality WIH.
- Large pipeline of work identified and hence likely news flow catalysts as more contracts are secured.
- Lower risk profile due to annuity earnings, alliance style contracts, breadth of clients and geographies etc.
- Marginally improving competitive landscape.
- Exit from the underperforming businesses.
- Solid balance sheet and forecast strong earnings momentum in the next few years.
- M&A Potential.

As such we would expect SRG to re-rate along with a recovery in reported financial performance towards a valuation closer to lower risk maintenance focused peers (FY22 6.0x EBITDA).

Given the upside in relative valuation, current WIH and likely positive catalysts from the tendering pipeline, we continue to rate SRG a Buy.

SWOT analysis

Strengths

- Strong relationships from project delivery, resulting in majority of contract wins coming from repeat customers.
- Fully integrated service offering - breadth of service offering from engineering, through construction to ongoing maintenance.
- Lower risk earnings, with over two thirds of earnings now recurring, longer term contracts.
- Breadth of clients and geographical exposure lowers risk further.
- Balance sheet supportive of growth.

Weaknesses

- Still a relatively small player in the sector.
- Construction remains relatively low margin.

Opportunities

- $1bn WIH.
- $6bn identified pipeline of opportunities.
- Potential acquisition opportunities.
- Industry consolidation likely.
- Growth in maintenance activity in Australia.
- Recovery in overseas work as COVID restrictions are lifted.

- Growth of lower risk contract types (e.g. Alliance).

Threats

- Construction industry remains competitive.
- Mining sector cyclicality.
- Asset services attracting greater competition.
- Potential high working capital requirements.
- Potential takeover target.
- Ability to attract and retain employees as market conditions improve.

Key risks

SRG has lowered its risk profile in recent years through exiting underperforming businesses and shifting its WIH away from construction towards Asset and Mining Services.

COVID risk

Generally, to date, the construction and mining service operations in Australia that SRG are exposed to have been considered critical infrastructure and as such has been allowed to continue as essential businesses. There has been some (hopefully) temporary delays in the award of new projects and some maintenance work. Assuming a recovery from the COVID-19 slowdown, the outlook for SRG's core businesses remains very positive, as a result of a resilient mining sector and numerous stimulus packages that were announced by governments in SRG's core Construction and Services markets.

Industry risk

S&P categorize the global construction sector as having above-average risks. However, SRG's focus on Asset and Mining Services and annuity (and alliance) style contracts have helped manage this risk.

Geographical risk

SRG has a very focused geographical portfolio by country with most of its revenue from projects in Australia. However, within Australia, the projects are spread widely across a large number of different projects, regions and clients, substantially lowering risk overall.

Customer risk

SRG has a broad range of customers across its three business units. No revenue from transactions with a single external customer amount to 10% or more of the Group's revenue. Key Government (good relationships with State and Federal NZ and Australia) and blue-chip corporate clients including Rio Tinto, Woodside. South 32, Yara, Multiplex, CPB etc.

Employee risk

SRG has roughly 2,300 employees, 21% are technical, engineering and management with the remaining 79% operational. In regard to key personnel, the Board and Management own 12.1% of the issued capital, aligning their interests with other shareholders.

Cash Flow / Balance sheet risk

SRG is in a strong liquidity position with available funds of $82mn at the end of 1H FY21. Banking facilities are not due for renewal until early FY22 and the Company has access to additional equipment finance facilities. At the end of 1H FY21, net cash was $5.3mn.

Contract Risk

As stated earlier, no one single external customer accounts for 10% or more of the Group's revenue. There has also been a general trend towards greater exposure to alliance style contracts and maintenance work.

SRG is also a relatively highly diversified business and the contracts in its different sectors have varying lengths. The average duration of contracts in each segment are (generally) as follows;

- Construction 1-4 years
- Mining 3-6 years
- Services 4-10 years

Commodity Prices

SRG is exposed to commodity price risk through its consumption of steel its operations use for post-tensioning, and to a lesser degree in the mining services business. SRG monitors forward steel prices and endeavors to lock in agreed prices on a project by project basis prior to formalizing bid prices wherever possible.

Foreign Exchange

SRG is exposed to foreign exchange risk in overseas projects executed by local subsidiaries. SRG does not hedge this risk however continues to monitor exchange rates so that currency exposure is maintained at an acceptable level. There is a natural hedge in place to the extent project costs are materially of the same foreign currency.

The major exchange rates relevant to SRG are USD, ZAR, AED, HKD and NZD. Based on the carrying amounts exposed to foreign currencies for FY19, had the Australian dollar weakened by 5% / strengthened by 5% (2018: weakened by 5% / strengthened by 5%) against these foreign currencies with all other variables held constant, SRG's profit or loss would have been $0.7m lower / $0.7m higher (2018: $1.2m lower / $1.1m higher).

Core drivers and catalyst

- Infrastructure investment by both governments and private sector.
- Maintenance expenditure continues to increase, driven by number of assets and outsourcing trend.
- Rising commodity prices boosting Mining investment.
- All the above, resulting in improving order book / WIH / pipeline.
- Higher recurring revenues.
- Lower risk alliance style contracts.
- Acquisitions / M&A potential.
- Margin improvement, especially in construction.
- Exiting unprofitable businesses.
- Completion / exit of problematic work contracts (Structures Victoria).

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

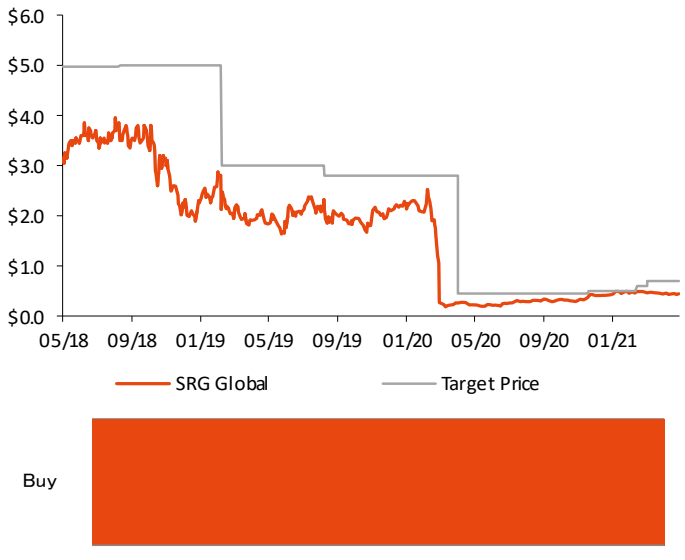
RISK STATEMENT: Where a company is designated as 'High' risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	66	83%
Hold	12	15%
Sell	2	3%

History of Investment Rating and Target Price - SRG Global

Date	Closing Price ($)	Target Price ($)	Rating
16-Mar-21	0.47	0.70	Buy
26-Feb-21	0.49	0.60	Buy
2-Dec-20	0.40	0.50	Buy
14-Apr-20	0.26	0.45	Buy
21-Aug-19	2.11	2.80	Buy
20-Feb-19	2.42	3.00	Buy
22-Aug-18	3.70	5.00	Buy



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