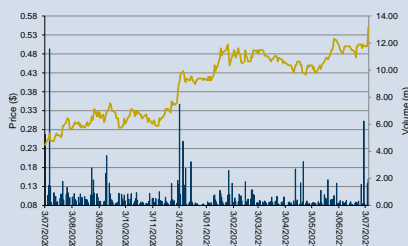


## BUY

Current Price **\$0.55**  
Valuation **\$0.66**

Ticker:	SRG.ASX		
Sector:	Construction		
Shares on Issue (m):	445.8		
Market Cap (\$m):	245.2		
Net Debt / (Cash) (\$m):	-12.2		
Enterprise Value (\$m):	233.0		
52 wk High/Low:	0.55	0.24	
12m Av Daily Vol (m):	0.67		
<b>Key Metrics</b>			
	21F	22F	
EV/EBITDA (x)	5.0	4.3	
EV/EBIT (x)	9.6	7.7	
P/E (x)	15.5	11.6	
<b>Ratios</b>			
	20A	21F	22F
ND / Equity	3.8%	-5.4%	-5.4%
EBIT Mgn	1.9%	4.1%	4.7%
RoA	2.6%	6.2%	7.7%
RoE	0.5%	7.1%	9.2%
<b>Financials*:</b>			
	20A	21F	22F
Revenue (\$m)	522.3	591.0	635.0
EBITDA (\$m)	29.0	47.0	53.7
EBIT (\$m)	9.9	24.2	30.1
NPAT (\$m)	1.2	15.8	21.0
Rep. EBIT (\$m)	-32.0	20.1	26.1
Rep. NPAT (\$m)	-29.7	11.7	17.1
<i>*Underlying unless otherwise stated</i>			
NTA (\$m)	114.2	122.2	134.3
Op CF (\$m)	7.5	49.1	30.4
<b>Per Share Data:</b>			
	20A	21F	22F
Norm. EPS (cps)	0.26	3.54	4.72
DPS (cps)	1.00	1.75	2.00
Div Yield	1.8%	3.2%	3.6%
NTAPS (cps)	25.7	27.4	30.1
CFPS (cps)	1.7	11.0	6.8

### Share Price Graph



Please refer to important disclosures at end of the report (from page 4)

Tuesday, 6 July 2021

## SRG Global (SRG)

### Strategy execution delivering results

Analyst | Ian Christie, CFA

#### Quick Read

The strategy to focus on recurring revenue streams has been well executed. Baseload work, a strong balance sheet, and an exposure to growth sectors places SRG well to pursue further solid organic gains in the coming years.

#### Growing earnings quality

**Market update:** In a positive announcement today, SRG:

- Indicated FY21 EBITDA will be at the top end of prior guidance of \$45-47M
- Noted strong FY21 operating cashflow, with a closing net cash position of \$12.2M (improved on the 1H21 closing net cash of \$5.3M)
- Confirmed a record work in hand position of \$1B (up 41% on FY20's closing position and similar to the work in hand at the interims)
- Guided for FY22 EBITDA to be ~15% higher than FY21

**Addressing cost concerns:** Importantly, SRG indicated increased overall margin in 2H21 and minimal impact from labour and COVID challenges due to its specialist activities and diverse operations. It was pleasing to see this issue specifically and positively addressed as it has emerged as a serious concern amongst investors in recent months.

**Balance sheet strength:** The Company is well funded to maintain its growth trajectory with available funds of \$88.2M plus undrawn equipment facilities of \$27.7M. SRG notes it will be selective in targeting organic opportunities amongst a significant \$6B pipeline.

**Adjustments:** Guidance for both FY21 and FY22 was ahead of our, and the market's, prior expectations. We have made changes accordingly, more so to margin than revenue (refer detail on page 3). We have also made changes to our cash flow projections, which were conservative, to bring our forecast closing net cash position in line with this update.

**Confidence:** The willingness to provide FY22 guidance reflects management's confidence in the outlook, the diversified nature of the business, the record work in hand position, and an increasing exposure to annuity style earnings. The growth in higher quality, better margin, longer tenure revenue streams has been the key achievement in recent periods and reflects sound strategy execution. SRG emerges from a tough period a much stronger business in our view.

#### Recommendation

This update boosts our confidence in the outlook, and our blended valuation increases to \$0.66 (prior \$0.58). A higher DCF valuation points to continued growth prospects beyond the next 12 months and we maintain a BUY call on valuation and the improving quality of earnings.

## SRG Global

## Equity Research

Ian Christie

Recommendation	BUY
Current Price (\$)	0.550
Valuation (\$)	0.660

Sector	Construction
Market Cap (\$m)	245.2
Date	6 July 2021

Trading Metrics	FY20A	FY21F	FY22F	FY23F
EV / EBITDA (x)		5.0	4.3	3.9
EV / EBIT (x)		9.6	7.7	6.6
P/E (x)		15.5	11.6	9.9
Dividend Yield (%)		3.2%	3.6%	4.1%

Per Share Data	FY20A	FY21F	FY22F	FY23F
Reported EPS (cps)	-6.6	2.6	3.8	4.7
Adjusted EPS (cps)	0.3	3.5	4.7	5.6
Div. per share (cps)		1.8	2.0	2.3
NTA per share (cps)	25.7	27.4	30.1	33.4
CF per share (cps)	1.7	11.0	6.8	6.6

Profit and Loss (\$m)*	FY20A	FY21F	FY22F	FY23F
Revenue	522.3	591.0	635.0	682.3
EBITDA	29.0	47.0	53.7	59.2
Depreciation	(19.1)	(22.8)	(23.6)	(23.9)
EBIT	9.9	24.2	30.1	35.3
PBT	7.0	21.8	28.4	33.7
NPAT	1.2	15.8	21.0	24.8
Adjustments:				
Amortisation	(5.1)	(4.1)	(4.0)	(4.0)
One-Offs	(36.8)	-	-	-
Reported EBIT	(32.0)	20.1	26.1	31.3
Reported NPAT	(29.7)	11.7	17.1	20.8

Cash Flow (\$m)	FY20A	FY21F	FY22F	FY23F
Receipts	557.5	602.1	626.4	673.2
Payments	(546.5)	(542.2)	(587.0)	(633.3)
Other	(3.5)	(10.9)	(9.0)	(10.5)
Cash from Operations	7.5	49.1	30.4	29.4
Property, Plant & Equip	(20.6)	(20.6)	(21.1)	(14.4)
Payment for Subsidiary	-	-	-	-
Other	2.3	-	-	-
Cash From Investing	(18.2)	(20.6)	(21.1)	(14.4)
Issue of Shares	-	-	-	-
Net Borrowing	(17.3)	(7.6)	(5.1)	(3.4)
Dividends / Other	(2.2)	(7.8)	(8.9)	(10.0)
Cash From Financing	(19.5)	(15.4)	(14.0)	(13.5)
Net Cash Flow	(30.2)	13.0	(4.7)	1.5
Ending Cash	28.1	41.1	36.4	37.9

Balance Sheet (\$m)	FY20A	FY21F	FY22F	FY23F
Cash	28.1	41.1	36.4	37.9
Receivables	124.2	113.2	121.8	130.8
Inventory	15.6	14.9	15.9	17.1
Other	8.8	8.8	8.8	8.8
Current Assets	176.7	178.0	182.9	194.6
Property, Plant & Equip	79.3	86.3	92.9	92.6
Intangibles	107.3	103.2	99.2	95.2
Other NC Assets	59.6	56.7	56.7	56.7
Non-Current Assets	246.1	246.2	248.8	244.5
Total Assets	422.9	424.1	431.7	439.1
Payables	104.5	114.9	119.4	119.5
Borrowings	36.6	29.0	23.9	20.5
Provisions	31.2	31.2	31.2	31.2
Other	29.2	23.8	23.8	23.8
Total Liabilities	201.4	198.8	198.2	194.9
Net Assets	221.4	225.3	233.5	244.3
Ordinary Equity	218.1	218.1	218.1	218.1
Reserves	8.1	8.1	8.1	8.1
Retained Earnings	(4.8)	(0.9)	7.3	18.0
Total Equity	221.4	225.3	233.5	244.3

Valuation	Calcs.	\$m	\$ps
<b>DCF Valuation:</b>			
Discount Rate / WACC (%)	10.0%		
PV Free Cash Flow (\$m)		313.1	
Less Net Debt / Plus Cash (\$m)		12.2	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		325.3	0.73
<b>Earnings Capitalisation Valuation:</b>			
FY22 EBIT multiple	8.0	252.8	0.57
FY22 NPAT multiple	13.0	273.6	0.61
<b>Valuation (\$/share) - DCF weighted</b>			<b>0.66</b>

Profit and Loss (\$m)**	1H20A	2H20A	1H21A	2H21F
Revenue	260.4	261.8	283.9	307.1
EBITDA	15.4	13.6	20.5	26.5
Depreciation	(8.4)	(10.7)	(11.1)	(11.7)
EBIT	7.0	2.9	9.4	14.8
PBT	5.9	1.1	8.1	13.7
NPAT	7.1	(5.9)	5.6	10.2
Adjustments:				
Amortisation	(2.5)	(2.5)	(2.0)	(2.1)
One-Offs	(1.4)	(35.4)	-	-
Reported EBIT	3.0	(35.1)	7.4	12.7
Reported NPAT	3.5	(33.2)	3.6	8.1

Cash Flow (\$m)	1H20A	2H20A	1H21A	2H21F
Receipts	283.8	273.7	335.7	266.4
Payments	(291.8)	(254.7)	(303.7)	(238.4)
Other	(2.4)	(1.2)	(2.7)	(8.2)
Cash from Operations	(10.4)	17.8	29.4	19.7
Property, Plant & Equip	(7.7)	(12.9)	(7.0)	(13.6)
Payment for Subsidiary	-	-	-	-
Other	(0.6)	2.9	0.5	(0.5)
Cash From Investing	(8.2)	(10.0)	(6.5)	(14.2)
Issue of Shares	-	-	-	-
Net Borrowing	(4.0)	(13.3)	(5.8)	(1.8)
Dividends / Other	(2.2)	-	(4.5)	(3.3)
Cash From Financing	(6.2)	(13.3)	(10.2)	(5.2)
Net Cash Flow	(24.8)	(5.5)	12.7	0.3
Ending Cash	33.6	28.1	40.3	41.1

Financial Ratios	FY20A	FY21F	FY22F	FY23F
<b>Growth</b>				
Revenue growth (%)	6.9%	13.5%	7.6%	7.4%
NPAT growth (%)	-94.6%	1267.5%	33.3%	17.9%
Norm. EPS growth (%)	-95.2%	1280.7%	33.3%	17.9%
<b>Profitability Ratios</b>				
EBITDA Margin (%)	0.3%	7.9%	8.5%	8.7%
EBIT Margin (%)	1.9%	4.1%	4.7%	5.2%
PBT Margin (%)	1.3%	3.7%	4.5%	4.9%
NPAT Margin (%)	0.2%	2.7%	3.3%	3.6%
Return on Assets (%)	2.6%	6.2%	7.7%	8.9%
Return on Equity (%)	0.5%	7.1%	9.2%	10.4%
ROIC (%)	2.5%	6.1%	7.7%	8.9%
<b>Balance Sheet Ratios</b>				
Net Debt (ND) / Equity (%)	3.8%	-5.4%	-5.4%	-7.1%
ND / ND + Equity (%)	3.7%	-5.7%	-5.7%	-7.7%
Current Ratio (x)	1.2	1.2	1.2	1.3
Net Interest Cover (x)	-12.1	8.3	15.2	20.2
<b>Cash Flow Ratios</b>				
Free Cash Flow Yield (%)	-6.1%	11.6%	3.8%	6.1%
Cash Conversion (x)	0.4	1.3	0.7	0.6

## Adjustments to forecasts

Figure 1: Adjustments to forecasts

Underlying (pre one-offs and amortisation)	FY19	FY20	FY21F			FY22F		
	Actual	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	486.4	520.0	582.5	590.0	1%	630.0	635.0	1%
EBITDA (\$m)	31.6	29.0	45.6	47.0	3%	50.4	53.7	7%
EBITDA margin	6.5%	5.6%	7.8%	8.0%		8.0%	8.5%	
Depreciation (\$m)	-9.5	-19.1	-22.4	-22.8	2%	-22.9	-23.6	3%
EBIT (\$m)	22.1	9.9	23.2	24.2	4%	27.5	30.1	10%
EBIT margin	4.5%	1.9%	4.0%	4.1%		4.4%	4.7%	
Net Interest (\$m)	-0.9	-2.9	-2.6	-2.4	-7%	-2.3	-1.7	-27%
PBT (\$m)	21.2	7.0	20.6	21.8	6%	25.1	28.4	13%
NPAT (\$m)	21.5	1.2	15.0	15.8	5%	18.8	21.0	12%

Source: Argonaut forecasts

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