

# SRG Global Ltd

## (SRG \$0.57) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Gavin Allen	20 <sup>th</sup> July 2021	\$0.83/sh ▲ from \$0.74/sh

### Recent market update

#### Event

SRG provided a recent market update (early July). We are now increasing our EBITDA forecasts to reflect the improved performance depicted in the update.

#### Impact

- Further to the update (and our quick comment research issued at the time), we are now increasing our 2021 and 2022 EBITDA expectations for SRG.
- Detail is provided below, however in summary, we increase 2021 forecast EBITDA from \$45.8m to \$47.3m and 2022 EBITDA from \$52.4m to \$54.5m.
- The increase in our EBITDA forecasts reflects:
  - High end of 2021 guidance per the update.
  - The run rate implied by the strong second half supports our 2022 earnings increase.
  - The update guides to a 15% increase in 2022 EBITDA versus 2021.
  - Stronger margins generated over the second half.
- As discussed in our earlier quick comment; further highlights from the update include:
  - Net cash (excluding AASB 16 leases) for FY 2021 of \$12.2m (up from \$5.3m at the half).
  - \$1b WIH position, up 40% on FY 2020.
  - Minimal impact from the labour challenges impacting others.

#### Action

Buy, PT increased to \$0.83.

#### Key Catalysts

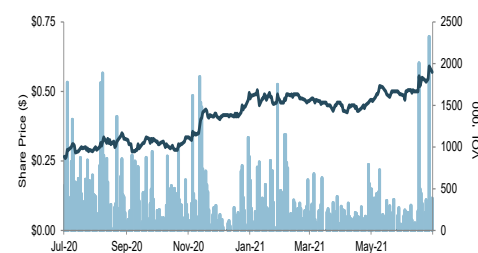
- Delivery of 2021 numbers, which while guided, can still act as a catalyst; refocusing investors on a very strong 2021 and 2022 outlook.
- Contract wins in the normal course.
- Re-iteration of messaging over the course of 2022 around the annuity earnings profile.

SRG Global Ltd	Year End 30 June	
Share Price	0.57	A\$/sh
Price Target	0.83	A\$/sh
Valuation (DCF)	0.87	A\$/sh
WACC	9.8%	
Terminal Growth	3.0%	
Shares on issue	451.5 m, diluted	
Market Capitalisation	257.4	A\$m
Enterprise Value (inc leases)	245.7	A\$m
Net debt (inc AASB 16) est	(11.7)	A\$m
Net cash (ex AASB 16)	12.2	A\$m

Key Financials	2020A	2021F	2022F
Revenue (A\$m)	522.4	585.0	635.0
EBITDA (A\$m)	17.0	47.3	54.5
Underlying EBITDA	29.0	47.3	54.5
EBIT (A\$m)	-7.2	19.7	25.8
Reported NPAT (A\$m)	-29.4	12.3	16.7
Normalised NPAT (A\$m)	4.3	15.3	19.5
Gross Cashflow (A\$m)	6.4	32.1	37.5
Capex (A\$m)	-22.6	-19.0	-18.0
Op. Free Cashflow (A\$m)	-23.5	30.2	14.8
Revenue Growth (%)	6%	12%	9%
EBITDA Growth (%)	-28%	177%	15%
Norm. NPAT Growth (%)	-55%	254%	27%
Normalised EPS (Ac)	1.0	3.4	4.3
Norm. EPS growth (%)	-56%	254%	27%
PER (x)	59.7	16.9	13.2
EV:EBITDA (x)	14.4	5.2	4.5
EV:EBITA adj (x)	10.8	10.4	8.2
DPS (Ac)	1.0	2.0	2.0
Dividend Yield (%)	1.8%	3.5%	3.5%
Net debt (A\$m)*	35.2	11.7	5.8
Net Debt:Equity (%)	16%	5%	2%
Interest Cover (x)	-2.4	9.0	12.6

\* includes leases

#### Share Price Chart



#### Disclaimer

Euroz Hartleys declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to SRG during the last year. Euroz Hartleys has received a fee for these services.

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## Analysis

Our old versus new numbers are provided below:

	2021		2022		Variance	
	Old (\$m)	New (\$m)	Old (\$m)	New (\$m)	%	%
Revenue	625.0	585.0	710.0	635.0	-6%	-11%
EBITDA	45.8	47.3	52.4	54.5	3%	4%
EBITA	24.5	23.7	29.9	29.8	-3%	0%
NPATA	15.3	15.3	19.2	19.5	0%	1%

We have increased EBITDA expectations per the update and tweaked other numbers below the line, around the edges.

We build earnings as follows:

	2019A	1h 2020F	2h 2020A	2020A	1h2021F	2h 2021	2021F	2022F
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
<b>Revenues</b>								
Construction	268	149	148	296	154	161	315	335
Asset Services	136	76	75	151	86	96	182	210
Mining	83	34	39	73	43	45	88	90
Other	7	8	-8	-0				
<b>Total revenues</b>	<b>493</b>	<b>267</b>	<b>253</b>	<b>520</b>	<b>283</b>	<b>302</b>	<b>585</b>	<b>635</b>
<b>EBITDA</b>								
Construction (Excludes one offs)	9	4	5	10	7	12	20	23
Mining	11	6	8	14	10	10	20	21
Asset services	16	8	11	19	10	12	22	25
	-12	-7	-7	-13	-7	-8	-14.5	-15
	8	-	-	-	-	-	-	-
<b>Group (adjusted) EBITDA</b>	<b>32.0</b>	<b>12.1</b>	<b>16.9</b>	<b>29.0</b>	<b>20.5</b>	<b>26.8</b>	<b>47.3</b>	<b>54.5</b>
<b>Margins</b>								
Construction	3.3%	2.8%	3.7%	3.2%	4.8%	7.6%	6.3%	7.0%
Asset Services	11.4%	10.7%	14.1%	12.4%	11.8%	12.2%	12.0%	12.0%
Mining	13.6%	18.7%	19.3%	19.0%	23.0%	23.0%	23.0%	23.0%
EBITDA				29.0	20.5	26.8	47.3	54.5
Less depreciation				-19.1	-11.1	-12.4	-23.5	-24.6
Underlying EBIT				9.9	9.4	14.3	23.7	29.8
Bad debts provision				-7.9	-	-	-	-
AASB 16 Interest				0.2	-	-	-	-
Amortisation of customer intangibles				-5.1	-2.0	-2.0	-4.0	-4.0
Impairment of Goodwill				-24.8	-	-	-	-
One off restructuring				-4.2	-	-	-	-
<b>Reported EBIT</b>				<b>-31.9</b>	<b>7.4</b>	<b>12.3</b>	<b>19.7</b>	<b>25.8</b>

As a broad theme, we see better margins on lower revenue as projects are pushed a little right across the sector into an indemand labour pool.

We derive our 12 month PT as follows:

	2022 (\$m)
EBITDA	54.5
Multiple	7.0
Enterprise value	381.2
Add net debt (inclusive of equipment Finance)*	-11.7
Market capitalisation	369.5
<b>Value per share</b>	<b>\$0.83</b>

- Net debt end 2021 including leases (EH est, \$12.2m net cash less circa \$24m in AASB 16 leases per the half)

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Financial Statements	2019A	2020A	2021F	2022F
<b>Income Statement</b>				
Sales	493.2	520.0	585.0	635.0
Other	0.0	2.4	0.0	0.0
<b>Revenue</b>	<b>493.2</b>	<b>522.4</b>	<b>585.0</b>	<b>635.0</b>
Operating costs	-461.2	-493.4	-523.2	-565.7
Overhead	-8.3	-13.1	-14.5	-14.9
<b>EBITDA</b>	<b>23.7</b>	<b>17.0</b>	<b>47.3</b>	<b>54.5</b>
Depreciation	-9.5	-19.1	-23.5	-24.6
Amortisation	-6.0	-5.1	-4.0	-4.0
<b>EBIT</b>	<b>8.2</b>	<b>-7.2</b>	<b>19.7</b>	<b>25.8</b>
Net Interest income/(expense)	-1.3	-3.0	-2.2	-2.0
Other income/(expense)	0.0	-24.8	0.0	0.0
<b>EBT</b>	<b>6.9</b>	<b>-34.9</b>	<b>17.5</b>	<b>23.8</b>
Tax expense	2.7	5.5	-5.3	-7.1
Minority interest	0.0	0.0	0.0	0.0
<b>Reported Earnings</b>	<b>9.6</b>	<b>-29.4</b>	<b>12.3</b>	<b>16.7</b>
Adjustments	0.0	33.7	3.0	2.8
<b>Normalized Net Profit</b>	<b>9.6</b>	<b>4.3</b>	<b>15.3</b>	<b>19.5</b>
<b>Cash flow (A\$m)</b>				
<b>Pretax profit</b>	<b>6.9</b>	<b>-34.9</b>	<b>17.5</b>	<b>23.8</b>
+ Depreciation & Amort	15.5	24.2	27.5	28.6
- Lease Expense	0.0	-7.7	-7.7	-7.7
+ Provisions	0.0	0.0	0.0	0.0
- Profit on sale of non-current assets	0.0	0.0	0.0	0.0
+ Other non cash expense	0.0	24.8	0.0	0.0
- Tax Paid	0.0	0.0	-5.3	-7.1
<b>Gross Cashflow</b>	<b>22.4</b>	<b>6.4</b>	<b>32.1</b>	<b>37.5</b>
- Capital Expenditure	-19.4	-22.6	-19.0	-18.0
- Change in Working Capital	23.8	-7.3	17.1	-4.7
<b>Operating Free Cashflow</b>	<b>26.8</b>	<b>-23.5</b>	<b>30.2</b>	<b>14.8</b>
- Dividends Paid	-8.1	-2.2	-6.7	-8.9
- Acquisitions	0.0	0.0	0.0	0.0
+ Proceeds from sale of property	0.0	4.0	0.0	0.0
- Investments	0.1	0.0	0.0	0.0
+ Equity issued	0.0	0.0	0.0	0.0
+ Vendor Finance	0.0	0.0	0.0	0.0
+/- Other	-7.1	1.0	0.0	0.0
<b>Net Cashflow</b>	<b>11.7</b>	<b>-20.7</b>	<b>23.5</b>	<b>5.9</b>
BoP Net Cash / (Debt)	0.5	12.2	-35.2	-11.7
(+/-) Net Cashflow	11.7	-20.7	23.5	5.9
(+/-) AASB16 Adj.	0.0	-26.7	0.0	0.0
<b>EoP Net Cash / (Debt)</b>	<b>12.2</b>	<b>-35.2</b>	<b>-11.7</b>	<b>-5.8</b>
<b>Balance Sheet (\$m)</b>				
Cash	58.3	28.1	47.8	48.7
Receivables	118.1	124.2	69.3	74.9
Inventory	13.0	15.6	17.6	19.1
Other	5.0	8.8	8.8	8.8
<b>Total current assets</b>	<b>194.4</b>	<b>176.7</b>	<b>143.4</b>	<b>151.5</b>
Other receivables	0.0	0.0	0.0	0.0
Investments equity method	0.0	0.0	0.0	0.0
Property, plant and equipment	71.4	79.2	84.1	87.0
Intangibles	137.6	107.3	107.3	101.3
ROUA	0.0	26.0	26.0	26.0
Deferred tax assets	27.2	33.7	33.7	33.7
Other	0.0	0.0	0.0	0.0
<b>Total non current assets</b>	<b>236.2</b>	<b>246.1</b>	<b>251.0</b>	<b>247.9</b>
<b>Total assets</b>	<b>430.6</b>	<b>422.8</b>	<b>394.5</b>	<b>399.4</b>
Payables	120.5	129.0	99.4	101.8
Interest bearing liabilities	21.2	12.7	12.7	12.7
Lease Liability	0.0	8.4	8.4	8.4
Current tax liabilities	1.8	2.5	2.5	2.5
Deferred income	0.0	0.0	0.0	0.0
<b>Total current liabilities</b>	<b>143.5</b>	<b>152.6</b>	<b>123.0</b>	<b>125.4</b>
Interest bearing liabilities	24.9	23.9	20.0	15.0
Lease Liability	0.0	18.3	18.3	18.3
Provisions	9.5	6.6	6.6	6.6
Deferred tax	0.0	0.0	0.0	0.0
<b>Total non current liabilities</b>	<b>34.4</b>	<b>48.8</b>	<b>45.0</b>	<b>40.0</b>
<b>Total liabilities</b>	<b>177.9</b>	<b>201.4</b>	<b>168.0</b>	<b>165.4</b>
<b>Net Assets</b>	<b>252.7</b>	<b>221.4</b>	<b>226.5</b>	<b>234.0</b>
Contributed equity	215.9	218.1	218.1	218.1
Reserves	8.2	8.1	7.6	7.6
NCI	0.0	0.0	0.0	0.0
Retained Earnings	28.6	-4.8	0.8	8.5
<b>Total equity</b>	<b>252.7</b>	<b>221.4</b>	<b>226.5</b>	<b>234.2</b>

Performance Ratios	2019A	2020A	2021F	2022F
<b>Growth &amp; Margins</b>				
Revenue Growth	105%	6%	12%	9%
EBITDA Growth	158%	-28%	177%	15%
EBIT Growth	273%	-187%	-376%	31%
Normalized Net Profit Growth	700%	-55%	254%	27%
EBITDA margin	5%	3%	8%	9%
EBIT margin	2%	-1%	3%	4%
Normalized net profit margin	2%	1%	3%	3%
Effective tax rate	-39%	16%	30%	30%
<b>Liquidity</b>				
Capex/depreciation (x)	125%	93%	69%	63%
Current ratio (x)	1.4	1.2	1.2	1.2
Quick ratio (x)	1.5	1.2	1.2	1.2
Receivable days	87	87	43	43
Inventory days	10	12	12	12
Payable days	95	95	69	66
<b>Risk Measures</b>				
Dividend Cover (x)	0.9	-13.4	1.8	1.9
Payout ratio (%)	1.1	-0.1	0.5	0.5
Net interest cover (x)	6.3	-2.4	9.0	12.6
Net debt/equity (%)	-5%	16%	5%	2%
<b>Returns</b>				
ROIC	2%	-2%	5%	7%
ROA	2%	1%	4%	5%
ROE	4%	2%	7%	8%
<b>Share Data/Valuation</b>				
<b>Share Data</b>				
Issued shares (m)	440.5	445.8	445.8	445.8
Weighted ave shares (m)	440.5	451.5	451.5	451.5
Fully diluted shares (m)	440.5	451.5	451.5	451.5
Basic EPS (A\$)	2.2	-6.5	2.7	3.7
YoY change (%)	283%	-399%	142%	36%
Fully diluted EPS (A\$)	2.2	-6.5	2.7	3.7
YoY change (%)	283%	-399%	142%	36%
Fully diluted normalised EPS (A\$)	2.2	1.0	3.4	4.3
YoY change (%)	283%	-56%	254%	27%
Dividend/share (A\$)	1.5	1.0	2.0	2.0
Franking (%)	100%	100%	100%	100%
Gross cashflow/share (A\$)	5.1	1.4	7.1	8.3
NBV/share (A\$)	57.4	49.0	50.2	51.9
NTA/Share (A\$)	26.1	25.3	26.4	29.4
<b>Valuation</b>				
PER (Basic) (x)	26.2	-8.8	21.0	15.4
PER (Fully diluted) (x)	26.2	-8.8	21.0	15.4
PER (Fully diluted, normalized) (x)	26.2	59.7	16.9	13.2
P/CFPS (x)	11.2	40.5	8.0	6.9
Price/NBV (x)	1.0	1.2	1.1	1.1
Price/NTA (x)	2.2	2.3	2.2	1.9
Dividend Yield (%)	2.6%	1.8%	3.5%	3.5%
EV/EBITDA (x)	10.4	14.4	5.2	4.5
EV/EBITA (x)	17.3	10.8	10.4	8.2
EV/Revenue (x)	0.5	0.5	0.4	0.4

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