



**ARGONAUT**  
The Natural Choice in Resources

# EQUITY RESEARCH

Financial Advisers | Stockbroking & Research | Special Situations Financing

www.argonaut.com +61 8 9224 6888

## BUY

Current Price \$0.57

Valuation \$0.90

Monday, 14 March 2022

## SRG Global (SRG)

### Nimble pick-up

Analyst | Ian Christie

### Quick Read

We expect the cash and debt-funded acquisition of WBHO Infrastructure's WA business will prove to be a good strategic fit and financially compelling. On an initial take and numbers, our valuation climbs to \$0.90 (prior \$0.75), further underpinning a BUY call.

### Key points

**Acquisition:** SRG is to acquire WBHO Infrastructure's Western Australia business out of voluntary administration (VA) for \$15.2M. The asset-backed acquisition will be funded through cash and equipment finance facilities and is expected to be completed by the end of March 2022. The business went into VA on 23rd February 2022 as part of a group of companies that included Probuild. At the time, the South African listed parent Wilson Bayly Holmes – Ovcon (JSE:WBO) highlighted the difficult trading conditions in Australia due to COVID restrictions and the contractual environment.

**Business background:** WBHO Infrastructure in WA has a 35-year track record in providing infrastructure asset management, civil maintenance, and construction services across a range of sectors. It complements SRG's operations, is well-known to SRG having worked together on JV projects, and has a team of 275 skilled engineering and operational personnel. It has historically generated ~\$150M revenue p.a., has an annuity/recurring earnings profile, and is expected to be immediately earnings accretive.

**Great opportunity:** Our initial take is that a quality business has got caught up in broader corporate issues, providing a good opportunity for an alert and nimble acquirer. The quick turnaround from VA in late February to an acquisition announcement in mid-March attests to SRG's existing knowledge of the business. The opportunity to add nearly 300 people to the workforce at a time when skills are scarce is not to be understated, and the timing could prove fortuitous as WA moves past the worst of COVID restrictions. Further, the annuity style earnings of the acquired business fits well with SRG's focus on growing recurring earnings visibility.

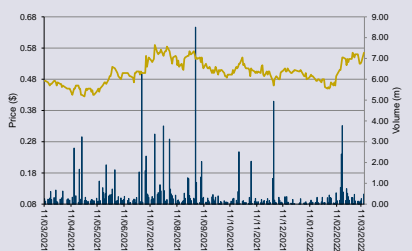
**Forecasts:** SRG indicates earnings accretion, but provides little detail. At this stage we pencil in \$120M addition to revenue in FY23, are conservative on the EBITDA margin, and assume an additional ~\$2M depreciation charge until actuals and/or Company updates provide greater clarity. We assume little EBIT impact in FY22. Refer page 3 for details on forecast adjustments. We expect SRG to still be cash positive at the June year-end.

### Valuation & recommendation

This acquisition delivers 15% earnings accretion based on the assumptions highlighted above, driving our valuation up from \$0.75 to \$0.90. We were recently impressed by a strong 1H22 performance and the upgraded guidance (refer [link](#)) and believe this opportunistic acquisition further underpins value. BUY maintained.

Ticker:	SRG.ASX		
Sector:	Services & Construction		
Shares on Issue (m):	445.8		
Market Cap (\$m):	251.9		
Net Debt / (Cash) (\$m)*:	-13.0		
Enterprise Value (\$m):	238.9		
<i>*Adjusted for WBHO acquisition</i>			
52 wk High/Low:	0.59	0.43	
12m Av Daily Vol (m):	0.46		
<b>Key Metrics</b>			
	22F	23F	
EV/EBITDA (x)	4.3	3.5	
EV/EBIT (x)	7.3	5.5	
P/E (x)	11.3	8.4	
<b>Ratios</b>			
	21A	22F	23F
ND / Equity	-5.4%	-8.9%	-7.9%
EBIT Mgn	4.4%	5.2%	5.6%
RoA	6.3%	8.3%	10.5%
RoE	7.2%	9.7%	12.6%
<b>Financials*:</b>			
	21A	22F	23F
Revenue (\$m)	570.7	635.0	780.0
EBITDA (\$m)	47.0	56.0	68.5
EBIT (\$m)	25.1	32.9	43.3
NPAT (\$m)	16.1	22.3	29.8
Rep. EBIT (\$m)	21.1	29.2	39.7
Rep. NPAT (\$m)	12.1	18.6	26.2
<i>*Underlying unless otherwise stated</i>			
NTA (\$m)	122.2	131.1	145.3
Op CF (\$m)	55.2	55.6	33.4
<b>Per Share Data:</b>			
	21A	22F	23F
Norm. EPS (cps)	3.57	5.00	6.69
DPS (cps)	2.00	3.00	3.50
Div Yield	3.5%	5.3%	6.2%
NTAPS (cps)	27.4	29.4	32.6
CFPS (cps)	12.3	12.5	7.5

#### Share Price Graph



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



SRG Global

Equity Research

Ian Christie

Recommendation	BUY
Current Price (\$)	0.57
Valuation (\$)	0.90

Sector	Services & Construction
Market Cap (\$m)	251.9
Date	14 March 2022

Trading Metrics	FY20A	FY21A	FY22F	FY23F
EV / EBITDA (x)		5.1	4.3	3.5
EV / EBIT (x)		9.5	7.3	5.5
P/E (x)		15.8	11.3	8.4
Dividend Yield (%)		3.5%	5.3%	6.2%

Per Share Data	FY20A	FY21A	FY22F	FY23F
Reported EPS (cps)	-6.6	2.7	4.2	5.9
Adjusted EPS (cps)	0.3	3.6	5.0	6.7
Div. per share (cps)		2.0	3.0	3.5
NTA per share (cps)	25.7	27.4	29.4	32.6
CF per share (cps)	1.7	12.3	12.5	7.5

Profit and Loss (\$m)	FY20A	FY21A	FY22F	FY23F
Revenue	522.3	570.7	635.0	780.0
EBITDA	29.0	47.0	56.0	68.5
Depreciation	(19.1)	(21.9)	(23.0)	(25.2)
EBIT	9.9	25.1	32.9	43.3
PBT	7.0	22.6	30.5	41.1
NPAT	1.2	16.1	22.3	29.8
Adjustments:				
Amortisation	(5.1)	(4.0)	(3.7)	(3.7)
One-Offs	(36.8)	-	-	-
Reported EBIT	(32.0)	21.1	29.2	39.7
Reported NPAT	(29.7)	12.1	18.6	26.2

Cash Flow (\$m)	FY20A	FY21A	FY22F	FY23F
Receipts	557.5	618.2	655.4	741.5
Payments	(546.5)	(558.1)	(588.7)	(694.6)
Other	(3.5)	(5.0)	(11.1)	(13.5)
Cash from Operations	7.5	55.2	55.6	33.4
Property, Plant & Equip	(20.6)	(18.1)	(18.5)	(19.5)
Payment for Subsidiary	-	-	(15.2)	-
Other	2.3	0.8	-	-
Cash From Investing	(18.2)	(17.3)	(33.7)	(19.5)
Issue of Shares	-	-	-	-
Net Borrowing	(17.3)	(10.8)	(0.9)	(4.4)
Dividends / Other	(2.2)	(8.9)	(13.4)	(15.6)
Cash From Financing	(19.5)	(19.7)	(14.3)	(20.0)
Net Cash Flow	(30.2)	18.2	7.6	(6.0)
Ending Cash	28.1	46.2	53.8	47.8

Balance Sheet (\$m)	FY20A	FY21A	FY22F	FY23F
Cash	28.1	46.2	53.8	47.8
Receivables	124.2	142.2	121.8	160.3
Inventory	15.6	14.9	15.9	19.5
Other	8.8	3.3	3.3	3.3
Current Assets	176.7	206.6	194.7	230.8
Property, Plant & Equip	79.3	81.5	100.7	103.5
Intangibles	107.3	104.6	100.9	97.2
Other NC Assets	59.6	50.2	50.2	50.2
Non-Current Assets	246.1	236.3	251.8	251.0
Total Assets	422.9	442.9	446.6	481.8
Payables	104.5	127.1	126.9	155.9
Borrowings	36.6	34.0	33.0	28.7
Provisions	31.2	33.2	33.2	33.2
Other	29.2	21.9	21.3	21.3
Total Liabilities	201.4	216.1	214.5	239.2
Net Assets	221.4	226.8	232.0	242.6
Ordinary Equity	218.1	218.1	218.1	218.1
Reserves	8.1	8.1	8.1	8.1
Retained Earnings	(4.8)	0.6	5.8	16.3
Total Equity	221.4	226.8	232.0	242.6

Valuation	Calcs.	\$m	\$ps
<b>DCF Valuation:</b>			
Discount Rate / WACC (%)	10.0%		
PV Free Cash Flow (\$m)		411.7	
Less Net Debt / Plus Cash (\$m)		28.2	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		439.8	0.99
<b>Earnings Capitalisation Valuation:</b>			
FY23 EBIT multiple	7.5	353.1	0.79
FY23 NPAT multiple	12.5	373.0	0.84
<b>Valuation (\$/share)</b>			<b>0.90</b>

Profit and Loss (\$m)	1H21A	2H21A	1H22A	2H22F
Revenue	283.9	286.8	297.3	337.7
EBITDA	20.5	26.5	27.0	28.9
Depreciation	(11.1)	(10.9)	(11.1)	(11.9)
EBIT	9.4	15.7	15.9	17.0
PBT	8.1	14.6	14.7	15.8
NPAT	5.6	10.5	10.6	11.6
Adjustments:				
Amortisation	(2.0)	(2.0)	(1.8)	(1.9)
One-Offs	-	-	-	-
Reported EBIT	7.4	13.7	14.1	15.1
Reported NPAT	3.6	8.5	8.8	9.8

Cash Flow (\$m)	1H21A	2H21A	1H22A	2H22F
Receipts	335.7	282.5	360.6	294.8
Payments	(303.7)	(254.3)	(325.2)	(263.5)
Other	(2.7)	(2.3)	(2.0)	(9.1)
Cash from Operations	29.4	25.8	33.4	22.2
Property, Plant & Equip	(7.0)	(11.1)	(8.6)	(9.9)
Payment for Subsidiary	-	-	-	(15.2)
Other	0.5	0.2	(0.4)	0.4
Cash From Investing	(6.5)	(10.9)	(9.0)	(24.7)
Issue of Shares	-	-	-	-
Net Borrowing	(5.8)	(5.0)	(6.4)	5.4
Dividends / Other	(4.5)	(4.5)	(4.5)	(8.9)
Cash From Financing	(10.2)	(9.4)	(10.8)	(3.5)
Net Cash Flow	12.7	5.5	13.5	(6.0)
Ending Cash	40.3	46.2	59.9	53.8

Financial Ratios	FY20A	FY21A	FY22F	FY23F
<b>Growth</b>				
Revenue growth (%)	6.9%	9.5%	11.5%	22.8%
NPAT growth (%)	-94.6%	1291.0%	38.6%	34.0%
Norm. EPS growth (%)	-95.2%	1291.0%	40.0%	34.0%
<b>Profitability Ratios</b>				
EBITDA Margin (%)	0.3%	8.2%	8.8%	8.8%
EBIT Margin (%)	1.9%	4.4%	5.2%	5.6%
PBT Margin (%)	1.3%	4.0%	4.8%	5.3%
NPAT Margin (%)	0.2%	2.8%	3.5%	3.8%
Return on Assets (%)	2.6%	6.3%	8.3%	10.5%
Return on Equity (%)	0.5%	7.2%	9.7%	12.6%
ROIC (%)	2.5%	6.3%	8.6%	11.1%
<b>Balance Sheet Ratios</b>				
Net Debt (ND) / Equity (%)	3.8%	-5.4%	-8.9%	-7.9%
ND / ND + Equity (%)	3.7%	-5.7%	-9.8%	-8.5%
Current Ratio (x)	1.2	1.2	1.2	1.2
Net Interest Cover (x)	-12.1	8.5	12.2	17.6
<b>Cash Flow Ratios</b>				
Free Cash Flow Yield (%)	-6.0%	14.4%	8.7%	5.5%
Cash Conversion (x)	0.4	1.4	1.2	0.6

## Adjustments to forecasts

Figure 1: Adjustments to forecasts

Underlying (pre one-offs and amortisation)	FY20	FY21	FY22F				FY23F			
	Actual	Actual	Old	New	Change	Change	Old	New	Change	Change
Revenue (\$m)	520.0	569.5	610.0	635.0	25.0	4%	660.0	780.0	120.0	18%
EBITDA (\$m)	29.0	47.0	55.4	56.0	0.5	1%	61.0	68.5	7.5	12%
EBITDA margin	5.6%	8.3%	9.1%	8.8%			9.2%	8.8%		
Depreciation (\$m)	-19.1	-21.9	-22.6	-23.0	-0.5	2%	-23.2	-25.2	-2.0	9%
EBIT (\$m)	9.9	25.1	32.9	32.9	0.0	0%	37.8	43.3	5.5	14%
EBIT margin	1.9%	4.4%	5.4%	5.2%			5.7%	5.6%		
Net Interest (\$m)	-2.9	-2.5	-2.4	-2.4	0.0	0%	-2.3	-2.3	0.0	0%
PBT (\$m)	7.0	22.6	30.5	30.5	0.0	0%	35.6	41.1	5.5	15%
PBT margin	1.3%	4.0%	5.0%	4.8%			5.4%	5.3%		
NPAT (\$m)	1.2	16.1	22.2	22.3	0.0	0%	26.0	29.8	3.8	15%

Source: Argonaut forecasts

**RESEARCH:**

**Ian Christie** | Head of Research  
+61 8 9224 6872 [ichristie@argonaut.com](mailto:ichristie@argonaut.com)

**John Macdonald** | Director, Metals & Mining Research  
+61 8 9224 6835 [jmacdonald@argonaut.com](mailto:jmacdonald@argonaut.com)

**George Ross** | Analyst, Metals & Mining Research  
+61 8 9224 6840 [georger@argonaut.com](mailto:georger@argonaut.com)

**Royce Haese** | Analyst, Metals & Mining Research  
+61 8 9224 6869 [rhaese@argonaut.com](mailto:rhaese@argonaut.com)

**INSTITUTIONAL SALES:**

**Chris Wippl** | Executive Director, Head of Institutional Sales  
+61 8 9224 6875 [cwippl@argonaut.com](mailto:cwippl@argonaut.com)

**Damian Rooney** | Director Institutional Research Sales  
+61 8 9224 6862 [drooney@argonaut.com](mailto:drooney@argonaut.com)

**Josh Welch** | Institutional Research Sales  
+61 8 9224 6868 [jwelch@argonaut.com](mailto:jwelch@argonaut.com)

**George Ogilvie** | Institutional Research Sales  
+61 8 9224 6871 [gogilvie@argonaut.com](mailto:gogilvie@argonaut.com)

**John Santul** | Consultant, Sales & Research  
+61 8 9224 6859 [jsantul@argonaut.com](mailto:jsantul@argonaut.com)

**CORPORATE AND PRIVATE CLIENT SALES:**

**Glen Colgan** | Managing Director, Desk Manager  
+61 8 9224 6874 [gcolgan@argonaut.com](mailto:gcolgan@argonaut.com)

**Kevin Johnson** | Executive Director, Corporate Stockbroking  
+61 8 9224 6880 [kjohnson@argonaut.com](mailto:kjohnson@argonaut.com)

**James McGlew** | Executive Director, Corporate Stockbroking  
+61 8 9224 6866 [jmcglew@argonaut.com](mailto:jmcglew@argonaut.com)

**Ben Willoughby** | Senior Dealer, Corporate Stockbroking  
+61 8 9224 6876 [bwiloughby@argonaut.com](mailto:bwiloughby@argonaut.com)

**David Keogh** | Senior Dealer, Corporate Stockbroking  
+61 8 9224 6852, [dkeogh@argonaut.com](mailto:dkeogh@argonaut.com)

**Geoff Barnesby-Johnson** | Senior Dealer, Corporate Stockbroking  
+61 8 9224 6854 [bj@argonaut.com](mailto:bj@argonaut.com)

**Philip Grant** | Senior Dealer, Corporate Stockbroking  
+61 8 9224 6834, [pgrant@argonaut.com](mailto:pgrant@argonaut.com)

**Rob Healy** | Dealer, Private Clients  
+61 8 9224 6873, [rhealy@argonaut.com](mailto:rhealy@argonaut.com)

**James Massey** | Dealer, Private Clients  
+61 8 9224 6849 [jmassey@argonaut.com](mailto:jmassey@argonaut.com)

**Cameron Prunster** | Dealer, Private Clients  
+61 8 9224 6853 [cprunster@argonaut.com](mailto:cprunster@argonaut.com)

**Harry Massey** | Dealer, Private Clients  
+61 8 9224 6829, [hmassey@argonaut.com](mailto:hmassey@argonaut.com)

**Jake Solomon** | Dealer, Private Clients  
+61 8 9224 6855, [jsolomon@argonaut.com](mailto:jsolomon@argonaut.com)

**Matej Mandic** | Dealer, Private Clients  
+61 8 9224 6887, [mmandic@argonaut.com](mailto:mmandic@argonaut.com)

**Information Disclosure**

Each research analyst of this material certifies that the views expressed in this research material accurately reflect the analyst's personal views about the subject securities and listed corporations. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this material to any of the analyst(s).

**For U.S. persons only**

This research report is a product of Argonaut Securities Pty Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Argonaut Securities Pty Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Argonaut Securities Pty Limited has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

**General Disclosure and Disclaimer**

This research has been prepared by Argonaut Securities Pty Limited (ABN 72 108 330 650) ("ASPL") for the use of the clients of ASPL and other related bodies corporate (the "Argonaut Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this report in any way. ASPL is a holder of an Australian Financial Services License No. 274099 and is a Market Participant of the Australian Stock Exchange Limited.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act 2001 (Cth). This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ASPL has made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Argonaut Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Argonaut Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Argonaut Group and/or its associates, including ASPL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may effect transactions which are not consistent with the recommendations (if any) in this research. The Argonaut Group and/or its associates, including ASPL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ASPL's overall revenues.

**Copyright**

© 2022. All rights reserved. No part of this document may be reproduced or distributed in any manner without the written permission of Argonaut Securities Pty Limited. Argonaut Securities Pty Limited specifically prohibits the redistribution of this document, via the internet or otherwise, and accepts no liability whatsoever for the actions of third parties in this respect.