

SRG Global Ltd

(SRG \$0.57) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Gavin Allen	15 th March 2022	\$0.96/sh ▲ from \$0.90/sh

SRG acquires WBHO Infrastructure in Western Australia

Event

SRG has signed a Sale Implementation Deed to acquire WBHO Infrastructure (WA) out of voluntary administration for net \$15.2m

Impact

- SRG is acquiring WBHO Infrastructure's Western Australian business.
- Net consideration is \$15.2m, is asset backed, and will be funded via existing cash and equipment finance facilities.
- The business has historically generated circa \$150m of revenue per annum.
- The revenue profile is annuity/recurring (consistent with SRG) and via long term contracts with blue chip clients.
- The services provided are primarily infrastructure asset maintenance, civil maintenance and construction services in WA.
- A key component of the transaction is the addition of 275 engineering and operational personnel and the acquisition of R5/B4 accreditation (national road and bridge).
- Completion is expected end March 2022.
- We increase our 2023 EBITDA expectation from \$62.3m to \$70.1m

Action

PT increases from \$0.90 to \$0.96.

Key Catalyst

- Full year numbers at higher end of recent 2022 guidance.
- We would not be surprised to see 2023 guidance provided in advance of full year reporting; guidance around our \$70m expectation would be confirmatory and a catalyst.
- Contract wins in the normal course

SRG Global Ltd	Year End 30 June	
Share Price	0.57	A\$/sh
Price Target	0.96	A\$/sh
Valuation (DCF)	1.00	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)	247.1	A\$m
Net cash (inc AASB 16)	10.3	A\$m
Net cash (ex AASB 16)	28.3	A\$m

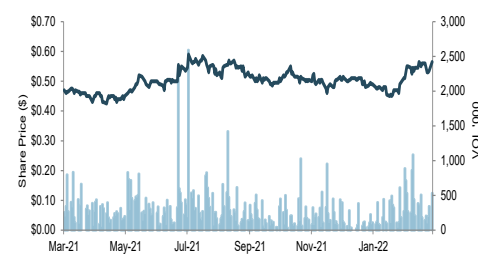
Key Financials	2021a	2022f	2023f
Revenue (A\$m)	569.5	616.0	790.0
EBITDA (A\$m)	47.1	56.3	70.1
EBIT (A\$m)	21.1	29.2	39.8
Reported NPAT (A\$m)	12.1	18.8	26.3
Normalised NPAT (A\$m)	15.8	21.5	28.9
Gross Cashflow (A\$m)	33.7	37.7	48.4
Capex (A\$m)**	-17.8	-33.2	-18.0
Op. Free Cashflow (A\$m)	29.9	14.1	40.8
Revenue Growth (%)	3%	8%	28%
EBITDA Growth (%)	176%	20%	24%
Norm. NPAT Growth (%)	267%	36%	35%
Normalised EPS (Ac)	3.5	4.8	6.4
Norm. EPS growth (%)	269%	35%	35%
PER (x)	16.2	12.0	8.9
EV:EBITDA (x)	5.3	4.4	3.5
EV:EBITA adj (x)	9.8	7.5	5.7
DPS (Ac)	2.0	3.5	4.0
Dividend Yield (%)	3.5%	6.1%	7.0%

Net cash (debt) (A\$m)* -9.1 -6.5 18.3

* includes AASB leases

** assumes \$15.2m of assets purchased with WBHO acquisition, to be trued up with full year results

Share Price Chart



Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

SRG Global Ltd

(SRG \$0.57) Buy

Analysis

We build earnings as follows:

	2020A	2021A	1h 2022A	2h 2022F	2022F	2023F
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Revenues						
Construction	328	292	143	152	295	380
Asset Services	152	187	101	114	215	320
Mining	72	91	53	53	106	90
Other				-		
Total revenues	551	570	297	319	616	790
EBITDA						
Construction (Excludes one offs)	9.5	18.9	11.1	11.9	23.0	29.6
Mining	13.9	20.0	11.3	11.3	22.6	19.2
Asset services	18.7	22.0	11.6	13.1	24.7	37.8
Unallocated (corporate Costs)	-13.1	-13.9	-7.0	-7.0	-14.0	-16.5
Group (adjusted) EBITDA	29.0	47.1	27.0	29.3	56.3	70.1
Margins						
Construction	2.9%	6.5%	7.8%	7.8%	7.8%	7.8%
Asset Services	12.3%	11.8%	11.5%	11.5%	11.5%	11.8%
Mining	19.4%	22.0%	21.3%	21.3%	21.3%	21.3%
EBITDA	29.0	47.1	27.0	29.3	56.3	70.1
Less depreciation	-19.1	-21.9	-11.1	-12.2	-23.3	-26.5
Underlying EBIT	9.9	25.1	15.9	17.1	33.0	43.6
Bad debts provision	-7.9	-	-	-	-	-
AASB 16 Interest	0.2	-	-	-	-	-
Amortisation of customer intangibles	-5.1	-3.8	-1.8	-2.0	-3.8	-3.8
Impairment of Goodwill	-24.8	-	-	-	-	-
One off restructuring	-4.2	-	-	-	-	-
Reported EBIT	-31.9	21.3	14.1	15.1	29.2	39.8

We will provide more detail on the transaction in the short term, including build up of work in hand position and revenue drivers.

In the meantime our new versus old numbers are as follows:

	2022		2023		Variance	
	Old (\$m)	New (\$m)	Old (\$m)	New (\$m)	%	%
Revenue	616.0	616.0	690.0	790.0	0%	14%
EBITDA	56.3	56.3	62.3	70.1	0%	12%
EBITA	33.0	33.0	37.9	43.6	0%	15%
NPATA	21.5	21.5	24.9	28.9	0%	16%

- We increase 2023 EBITDA by approx. \$8m, being \$100m in assumed added revenue post acquisition of WBHO (WA) at 8%.
- In short, we look to the business generating 2/3rds of the historical \$150m in revenue called out by the company in the acquisition presentation.

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

SRG Global Ltd

(SRG \$0.57) Buy

Investment Case

	2022	2023
	(\$m)	(\$m)
EBITDA	56.3	70.1
Multiple	7.0	6.5
Enterprise value	394.2	455.5
Add net cash (inclusive of AASB 16 Leases)*	10.3	-6.5
Market capitalisation	404.5	449.0
Value per share	\$0.90	\$0.99
DCF		\$1.00
Average		\$0.96

* net cash at end 1h 2022 and forecast start of fiscal 2023 respectively

- We increase our price target to include the acquisition and 2023 forecasts.
- There is nothing particularly demanding about our targets.
- We look to guidance in advance of full year numbers consistent with our forecasts as catalyst.

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Financial Statements	2020a	2021a	2022f	2023f	Performance Ratios	2020a	2021a	2022f	2023f
Income Statement					Growth & Margins				
Sales	551.2	569.5	616.0	790.0	Revenue Growth	12%	3%	8%	28%
Other	2.4	0.0	0.0	0.0	EBITDA Growth	-28%	176%	20%	24%
Revenue	553.6	569.5	616.0	790.0	EBIT Growth	-187%	-395%	38%	36%
Operating costs	-524.6	-508.5	-545.7	-703.4	Normalized Net Profit Growth	-55%	267%	36%	35%
Overhead	-13.1	-13.9	-14.0	-16.5	EBITDA margin	3%	8%	9%	9%
EBITDA	17.0	47.1	56.3	70.1	EBIT margin	-1%	4%	5%	5%
Depreciation	-19.1	-21.9	-23.3	-26.5	Normalized net profit margin	1%	3%	3%	4%
Amortisation	-5.1	-4.0	-3.8	-3.8	Effective tax rate	15%	35%	30%	30%
EBIT	-7.2	21.1	29.2	39.8	Liquidity				
Net Interest income/(expense)	-3.0	-2.5	-2.3	-2.3	Capex/depreciation (x)	93%	69%	123%	59%
Other income/(expense)	-24.8	0.0	0.0	0.0	Current ratio (x)	1.2	1.2	1.1	1.2
EBT	-34.9	18.6	26.9	37.5	Quick ratio (x)	1.2	1.2	1.1	1.2
Tax expense	5.2	-6.6	-8.1	-11.3	Receivable days	85	91	73	69
Minority interest	0.0	0.0	0.0	0.0	Inventory days	11	11	12	12
Reported Earnings	-29.7	12.1	18.8	26.3	Payable days	90	110	99	99
Adjustments	34.0	3.8	2.7	2.7	Risk Measures				
Normalized Net Profit	4.3	15.8	21.5	28.9	Dividend Cover (x)	-13.5	1.4	1.7	1.7
Cash flow (A\$m)					Payout ratio (%)	-0.1	0.7	0.6	0.6
Pretax profit	-34.9	18.6	26.9	37.5	Net interest cover (x)	-2.4	8.5	12.5	17.6
+ Depreciation & Amort	24.2	25.9	27.1	30.3	Net debt/equity (%)	16%	4%	3%	-7%
- Lease Expense	-7.7	-8.2	-8.2	-8.2	Returns				
+ Provisions	0.0	0.0	0.0	0.0	ROIC	-2%	6%	8%	10%
- Profit on sale of non-current assets	-1.7	-0.2	0.0	0.0	ROA	1%	4%	5%	6%
+ Other non cash expense	24.8	0.0	0.0	0.0	ROE	2%	7%	9%	12%
- Tax Paid	0.0	-2.5	-8.1	-11.3	Share Data/Valuation				
Gross Cashflow	4.7	33.7	37.7	48.4	Share Data				
- Capital Expenditure**	-22.6	-17.8	-33.2	-18.0	Issued shares (m)	445.8	445.8	451.5	451.5
- Change in Working Capital	-2.8	14.0	9.6	10.5	Weighted ave shares (m)	451.5	449.0	451.5	451.5
Operating Free Cashflow	-20.7	29.9	14.1	40.8	Fully diluted shares (m)	451.5	449.0	451.5	451.5
- Dividends Paid	-2.2	-8.9	-11.2	-15.8	Basic EPS (A\$)	-6.6	2.7	4.2	5.8
- Acquisitions	0.0	0.0	0.0	0.0	YoY change (%)	-402%	-141%	-55%	39%
+ Proceeds from sale of property	4.0	0.0	0.0	0.0	Fully diluted EPS (A\$)	-6.6	2.7	4.2	5.8
- Investments	0.0	0.0	0.0	0.0	YoY change (%)	-402%	-141%	-55%	39%
+ Equity issued	0.0	0.0	0.0	0.0	Fully diluted normalised EPS (A\$)	1.0	3.5	4.8	6.4
+ Vendor Finance	0.0	0.0	0.0	0.0	YoY change (%)	-56%	269%	35%	35%
+/- Other	-1.7	-0.3	0.0	0.0	Dividend/share (A\$)	1.0	2.0	3.5	4.0
Net Cashflow	-20.7	20.7	2.9	25.0	Franking (%)	100%	100%	100%	100%
BoP Net Cash / (Debt)	12.2	-35.2	-9.1	-6.5	Gross cashflow/share (A\$)	1.0	7.5	8.4	10.7
(+/-) Net Cashflow	-20.7	20.7	2.9	25.0	NBV/share (A\$)	49.0	50.5	51.9	54.2
(+/-) AASB16 Adj.	-26.7	5.4	-0.2	-0.2	NTA/Share (A\$)	25.3	27.2	29.6	32.7
EoP Net Cash / (Debt)*	-35.2	-9.1	-6.5	18.3	Valuation				
*includes leases					PER (Basic) (x)	-8.7	21.2	13.7	9.8
Balance Sheet (\$m)					PER (Fully diluted) (x)	-8.7	21.2	13.7	9.8
Cash	28.1	46.2	45.2	70.0	PER (Fully diluted, normalized) (x)	59.7	16.2	12.0	8.9
Receivables	128.7	142.2	123.2	150.1	P/CFPS (x)	55.3	7.6	6.8	5.3
Inventory	15.6	14.9	18.5	23.7	Price/NBV (x)	1.2	1.1	1.1	1.1
Other	4.3	3.3	3.3	3.3	Price/NTA (x)	2.3	2.1	1.9	1.7
Total current assets	176.7	206.6	190.2	247.1	Dividend Yield (%)	1.8%	3.5%	6.1%	7.0%
Other receivables	0.0	0.0	0.0	0.0	EV/EBITDA (x)	14.5	5.3	4.4	3.5
Investments equity method	0.0	0.0	0.0	0.0	EV/EBITA (x)	10.9	9.8	7.5	5.7
Property, plant and equipment	79.2	81.5	99.9	99.8	EV/Revenue (x)	0.4	0.4	0.4	0.3
Intangibles	107.3	104.6	100.8	97.0	Other Information				
ROUA	26.0	20.3	20.3	20.3	Average daily volume (A\$m)				0.5
Deferred tax assets	33.7	28.0	28.0	28.0	ASX Code				SRG
Other	0.0	1.9	1.9	1.9	Next result				Aug-22
Total non current assets	246.1	236.3	250.9	247.0	Company Description				
Total assets	422.8	442.9	441.1	494.1	SRG Global is a global specialist engineering, construction and maintenance group				
Payables	129.0	153.1	147.3	189.9					
Interest bearing liabilities	12.7	15.3	15.3	15.3					
Lease Liability	8.4	8.3	8.3	8.3					
Current tax liabilities	2.5	0.5	0.5	0.5					
Deferred income	0.0	0.0	0.0	0.0					
Total current liabilities	152.6	177.2	171.4	214.0					
Interest bearing liabilities	23.9	18.6	15.0	15.0					
Lease Liability	18.3	13.1	13.1	13.1					
Provisions	6.6	7.1	7.1	7.1					
Deferred tax	0.0	0.0	0.0	0.0					
Total non current liabilities	48.8	38.9	35.2	35.2					
Total liabilities	201.4	216.1	206.7	249.3					
Net Assets	221.4	226.8	234.4	244.8					
Contributed equity	218.1	218.1	218.1	218.1					
Reserves	8.1	8.1	8.1	8.1					
NCI	0.0	0.0	0.0	0.0					
Retained Earnings	-4.8	0.6	8.1	18.6					
Total equity	221.4	226.8	234.4	244.8					
** assumes \$15.2m of assets purchased with WBHO acquisition, to be trued up with full year results									

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Copyright & Distribution

The material contained in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Hartleys Limited (ACN 104 195 057) only.

Euroz Hartleys Limited is the holder of an Australian Financial Services Licence (AFSL 230052) and is a participant of the Australian Securities Exchange Group, Cboe and NSX.

The information contained herein is confidential. If you are not the intended recipient no confidentiality is lost by your receipt of it. Please delete and destroy all copies, and contact Euroz Hartleys Limited on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the express written authority of Euroz Hartleys Limited.

Disclaimer & Disclosure

Euroz Hartleys Limited, and their associates declare that they deal in securities as part of their securities business and consequently may have an interest in the securities recommended herein (if any). This may include providing equity capital market services to the issuing company, hold a position in the securities, trading as principal or agent and as such may effect transactions not consistent with the recommendation (if any) in this report.

Euroz Hartleys Limited declares that they may have separately or jointly acted as an underwriter, arranger, co-arranger or adviser in equity capital raisings, and will have received a fee for its services, from or any company mentioned within this report during the last 12 months.

You should not act on any recommendation issued by Euroz Hartleys Limited without first consulting your investment adviser in order to ascertain whether the recommendation (if any) is appropriate, having regard to your objectives, financial situation and needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz Hartleys Limited believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz Hartleys Limited accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference.

The author of this publication, Euroz Hartleys Limited, its directors and their associates from time to time may hold shares in the security/securities mentioned in this Research document and therefore may benefit from any increase in the price of those securities. Euroz Hartleys Limited, and its Advisers may earn brokerage, fees, commissions, other benefits or advantages as a result of transactions arising from any advice mentioned in publications to clients.

To view the Euroz Hartleys' Quick Comment Disclaimers, please visit the below links:

http://www.euroz.com/industrials_quick_comment_disclaimer.jpg

http://www.euroz.com/resources_quick_comment_disclaimer.jpg

Analyst Certification

We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities, and we are not in possession of, nor does this Research contain any inside information.

No part of our compensation was, is or will be directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in this research, nor has any attempt been made to influence this Research.

Contact Details

Euroz Hartleys Limited +61 8 9488 1400

Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Mike Millikan - Resources Analyst	+61 8 9268 2805
Kyle De Souza - Resources Analyst	+61 8 9488 1427
Michael Scantlebury - Resources Analyst	+61 8 9268 2837
Steven Clark - Resources Analyst	+61 8 9488 1430
Trent Barnett - Senior Analyst	+61 8 9268 3052
Gavin Allen - Senior Analyst	+61 8 9488 1413
Harry Stevenson - Industrials Analyst	+61 8 9488 1429
Seth Lizee - Research Analyst	+61 8 9488 1414

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.