ShawandPartners
Financial Services

SRG Global (SRG)

Rating: Buy | Risk: High | Price Target: $1.00

Outlook – Getting Brighter All the Time

Key Information

Current Price ($ps)	0.65
12m Target Price ($ps)	1.00
52 Week Range ($ps)	0.43 - 0.65
Target Price Upside (%)	55.0%
TSR (%)	59.7%
Reporting Currency	AUD
Market Cap ($m)	287.5
Sector	Industrials
Avg Daily Volume (m)	0.9
ASX 200 Weight (%)	0.01%

Fundamentals

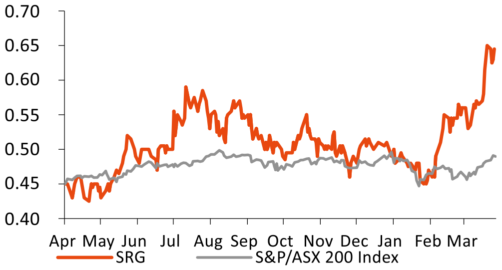
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales ($m)	570.7	645.7	801.4	851.2
NPAT ($m)	12.1	19.8	26.9	30.7
EPS (cps)	2.7	4.4	6.0	6.9
EPS Growth (%)	752.9%	64.3%	35.8%	14.0%
DPS (cps) (AUD)	2.0	3.0	3.5	4.0
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	18.7	14.5	10.7	9.4
EV/EBITDA (x)	5.9	5.0	3.9	3.4
Div Yield (%)	4.0%	4.7%	5.4%	6.2%
Payout Ratio (%)	74.0%	67.5%	58.0%	58.2%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	8.6%	34.8%	25.8%	30.5%
Absolute (%)	14.2%	41.8%	26.5%	40.2%
Benchmark (%)	5.6%	7.0%	0.7%	9.7%



Price performance indexed to 100 *Source: FactSet*

Major Shareholders

Perennial Value Management	8.5%
First Sentier Investors (Australia) IM L	7.4%
Ryder Capital Ltd.	5.1%

Aiden Bradley | **Senior Analyst**
+61 8 9263 5221
Aiden.Bradley@shawandpartners.com.au

Event

SRG have announced that the acquisition of WBHO Infrastructure in WA ('WBHO WA') for $15.2mn completed on 31 March 2022. This follows a successful second meeting of creditors who supported 'overwhelmingly' the sale by way of a Deed of Company Arrangement. We do not expect there to be any major integration issues given the knowledge that SRG has of this company, contracts and customers. Given the low implied multiple paid (and funded by the strong balance sheet) for this business, the integration of WBHO into our SRG forecasts has a very material positive impact, a very high teen percentage increase in revenue and EBITDA in FY23. We have upgraded our 12-month target price to $1.00ps (from $0.75ps).

Highlights

- WBHO looks like a good deal for SRG, paying $15.2mn for a business that historically generated circa $150mn in revenue (with the majority recurring). For further detail on the transaction see our research from the 14th March Opportunistic Acquisition. The integration of WBHO into our SRG forecasts has a very material positive impact, a very high teen percentage increase in revenue and EBITDA in FY23. Reported net cash was over $28mn at the end of 1H22, with total available liquidity of over $100mn to support SRG's growth plans. So even after paying the transaction price and likely required injection of working capital, we still expect SRG to be net cash positive at the end of FY22. We also believe WBHO requires little investment or capex (beyond an initial working capital injection) so is very much a 'plug and play' acquisition.

- There are also several potential growth opportunities from the combination which could further boost revenue going forward. WBHO brings to SRG additional large clients, the highest available national road / bridge accreditation (R5 / B4), an Integrated Service Agreement with Main Roads plus a strategic position in the Kwinana Industrial Area.

- We recently had the opportunity to catch up with Ventia (VNT.asx) and Service Stream (SSM.asx) and discussed the strong growth outlook for the asset maintenance sector in Australia and the discount valuations ASX listed Industrial Service names trade on versus International peers. With a Market Cap of circa $290mn and Net Cash of circa $5mn (Shaw and Partners end FY22 estimate) – recent guidance for FY22 (before WBHO integration) valued SRG at circa 5.0x FY22 EBITDA and 14.5x Earnings. However, including the WBHO WA acquisition for full year FY23 reduces these to 3.9x and 10.7x respectively based on our FY23 estimates. This is a material discount to larger ASX peers, despite SRG's potentially higher growth profile, net cash balance sheet and strong annuity margins. ASX listed Asset Service firms themselves seem to trade on material discounts to more established US Industrial Service peers. Implying material upside for SRG and the ASX Asset Service sector generally if they continue to deliver in line with expectations.

Recommendation

WBHO looks like a good deal for SRG, paying $15.2mn for a business that historically generated circa $150mn in revenue (with the majority recurring). WBHO's integration has resulted in a high teen % increase to our FY23 Revenue and EBITDA estimates. Partially from this, our 12-month forward composite valuation and price target has increased to $1.00 per share (from $0.75 per share). Circa 11cps of this increase relates to the WBHO acquisition, with the remaining 14cps split between the higher multiples of peers (see 3-month performance chart) and rolling forward our 12-month target. Based on our target price the stock would be trading on 7.8x, 6.1x and 5.4x our FY22-24 EBITDA forecasts respectively.

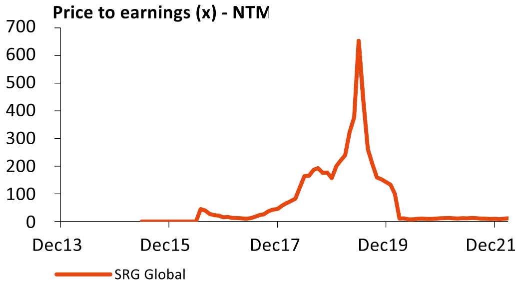
The recent 1H22 result and FY22 outlook provided strong evidence that SRG is delivering on its strategy and is a lower risk investment when compared to many construction and mining service peers. We additionally expect the macro outlook to remain strong, across infrastructure, asset services, mining and select construction. This acquisition provides SRG with even greater leverage to these tailwinds and supports what was already strong organic growth. We expect SRG to continue to re-rate towards a valuation closer to its lower risk maintenance focused peers (FY23 6.0x EBITDA). Given the upside in relative valuation, current WIH and likely positive catalysts, we continue to rate SRG a Buy.

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

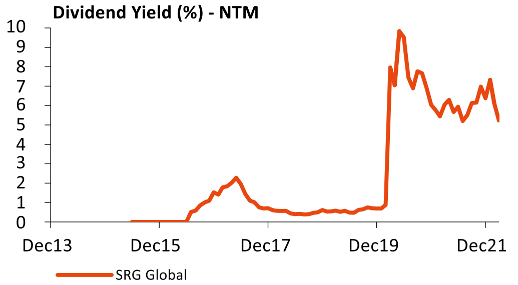
Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.65
Target Price ($ps)	1.00
52 Week Range ($ps)	0.43 - 0.65
Shares on Issue (m)	445.8
Market Cap ($m)	287.5
Enterprise Value ($m)	282.7
TSR (%)	59.7%

Valuation NPV	Data
Beta	1.30
Cost of Equity (%)	10.8%
Cost of Debt (net) (%)	7.5%
Risk Free Rate (%)	3.0%
Terminal Growth (%)	2.0%
WACC (%)	10.0%

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.



Source: FactSet



Source: FactSet

Financial Year End: 30 June

Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	**(6.7)**	**2.7**	**4.4**	**6.0**	**6.9**
EPS (Underlying) (cps)	**0.3**	**2.7**	**4.4**	**6.0**	**6.9**
EPS (Underlying) Growth (%)	(86.1%)	752.9%	64.3%	35.8%	14.0%
PE (Underlying) (x)	**66.2**	**18.7**	**14.5**	**10.7**	**9.4**
EV / EBIT (x)	**59.4**	**13.0**	**9.2**	**6.6**	**5.5**
EV / EBITDA (x)	**10.1**	**5.9**	**5.0**	**3.9**	**3.4**
DPS (cps) (AUD)	1.0	2.0	3.0	3.5	4.0
Dividend Yield (%)	4.8%	4.0%	4.7%	5.4%	6.2%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	315.5%	74.0%	67.5%	58.0%	58.2%
Free Cash Flow Yield (%)	(53.0%)	15.6%	2.1%	10.3%	11.4%

Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	522.4	570.7	645.7	801.4	851.2
Sales Growth (%)	*7.4%*	*9.2%*	*13.1%*	*24.1%*	*6.2%*
EBITDA	**29.2**	**47.1**	**56.7**	**69.6**	**75.7**
EBITDA Margin (%)	*5.6%*	*8.2%*	*8.8%*	*8.7%*	*8.9%*
Depreciation & Amortisation	(24.2)	(25.9)	(26.0)	(28.8)	(29.5)
EBIT	**5.0**	**21.1**	**30.7**	**40.8**	**46.2**
EBIT Margin (%)	*1.0%*	*3.7%*	*4.8%*	*5.1%*	*5.4%*
Net Interest	(3.0)	(2.5)	(2.4)	(2.4)	(2.4)
Pretax Profit	2.0	18.6	28.3	38.4	43.8
Tax	(0.6)	(6.6)	(8.5)	(11.5)	(13.1)
Tax Rate (%)	*(30.0%)*	*(35.3%)*	*(30.0%)*	*(30.0%)*	*(30.0%)*
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	**1.4**	**12.1**	**19.8**	**26.9**	**30.7**
Significant Items	(31.1)	0.0	0.0	0.0	0.0
NPAT Reported	**(29.7)**	**12.1**	**19.8**	**26.9**	**30.7**

Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	5.0	21.1	30.7	40.8	46.2
Tax Paid	(0.6)	(6.6)	(8.5)	(11.5)	(13.1)
Net Interest	(3.0)	(2.5)	(2.4)	(2.4)	(2.4)
Change in Working Capital	3.9	(5.3)	(0.1)	1.1	2.3
Depreciation & Amortisation	24.2	25.9	26.0	28.8	29.5
Other	(22.1)	22.5	0.3	(2.2)	(4.6)
Operating Cashflow	**7.5**	**55.2**	**46.0**	**54.6**	**57.8**
Capex	(57.1)	(18.6)	(40.0)	(25.0)	(25.0)
Acquisitions and Investments	0.0	0.0	0.0	0.0	0.0
Disposal of Fixed Assets/Investments	(25.2)	(0.1)	0.0	0.0	0.0
Other	64.1	1.4	0.0	0.0	0.0
Investing Cashflow	**(18.2)**	**(17.3)**	**(40.0)**	**(25.0)**	**(25.0)**
Free Cashflow	**(49.6)**	**35.2**	**6.0**	**29.6**	**32.8**
Equity Raised / Bought Back	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(2.2)	(8.9)	(13.4)	(15.6)	(17.8)
Change in Debt	(9.5)	(2.6)	0.0	0.0	0.0
Other	(7.7)	(8.2)	0.0	0.0	0.0
Financing Cashflow	**(19.5)**	**(19.7)**	**(13.4)**	**(15.6)**	**(17.8)**
Exchange Rate Effect	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	**(30.2)**	**18.1**	**(7.4)**	**14.0**	**15.0**

Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	28.1	46.2	38.9	52.8	67.9
Accounts Receivable	124.2	142.2	141.3	153.5	163.0
Inventory	15.6	14.9	16.8	20.9	22.2
Other Current Assets	8.8	3.3	3.3	3.3	3.3
PPE	79.3	81.5	99.0	98.5	97.3
Goodwill & Intangibles	107.3	104.6	101.1	97.7	94.5
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	59.6	50.2	50.2	50.2	50.2
Total Assets	**422.9**	**442.9**	**450.5**	**477.0**	**498.4**
Accounts Payable	104.5	127.1	128.2	143.4	152.0
Short Term Debt	12.7	15.3	15.3	15.3	15.3
Long Term Debt	23.9	18.6	18.6	18.6	18.6
Income Taxes Payable	2.5	0.5	0.5	0.5	0.5
Other	57.9	54.6	54.6	54.6	54.6
Total Liabilities	**201.4**	**216.1**	**217.3**	**232.5**	**241.0**
Total Shareholder Equity	**221.4**	**226.8**	**233.2**	**244.5**	**257.3**

Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	0.6%	5.4%	8.6%	11.3%	12.2%
ROIC (%)	1.6%	9.2%	14.2%	17.4%	18.8%
Gearing (%)	3.7%	(5.7%)	(2.1%)	(8.4%)	(15.2%)
Net Debt / EBITDA (x)	0.3	(0.3)	(0.1)	(0.3)	(0.4)
Price to Book (x)	nm	nm	nm	nm	nm

WBHO acquisition adds even more upside to an already compelling story

SRG have announced that the acquisition of WBHO Infrastructure in WA ('WBHO WA') for $15.2mn completed on 31 March 2022. This follows a successful second meeting of creditors who supported 'overwhelmingly' the sale by way of a Deed of Company Arrangement. We do not expect there to be any major integration issues given the knowledge that SRG has of this company, contracts and customers. For further detail on the transaction see our research from the 14th March **Opportunistic Acquisition**.

With the announcement of deal completion, we now include our initial estimates for the WBHO transaction in our published forecasts. As stated in our prior research, SRG currently achieves a Group EBITDA margin of 9.1% (11.5% in Asset Services and 7.8% in Specialist Construction) and we would not expect WBHO to be at these performance levels but getting up in line with the rest of the Group would obviously be the target. We do not expect WBHO's revenue to be too adversely affected given the speed of the transaction and annuity nature of the contracts (beyond the contracts that we believe SRG did not retain). For modelling purposes, we also split our initial estimate of WBHO's revenue 60/40 in favor of annuity/asset services versus construction. Given the low implied multiple paid (and funded by the strong balance sheet) for this business, the integration of WBHO into our SRG forecasts has a very material positive impact as shown, a very high teen percentage increase in revenue and EBITDA in FY23.

Figure 1: Shaw and Partners estimate changes

	FY21A	FY22E			FY23E		
	Actual	Old	New	Chg	Old	New	Chg
Sales (A$m)	569.5	612.0	644.5	5%	673.8	800.3	19%
Underlying EBITDA (A$m)	47.1	55.4	56.7	2%	60.0	69.6	16%
Underlying NPAT (A$m)	12.1	19.6	19.8	1%	22.9	26.9	18%
EPS (cents)	2.7	4.4	4.4	1%	5.1	6.0	18%
DPS (cents)	2.0	3.0	3.0	0%	3.5	3.5	0%

Source: Shaw and Partners estimates

Our estimates seem to be marginally above consensus.

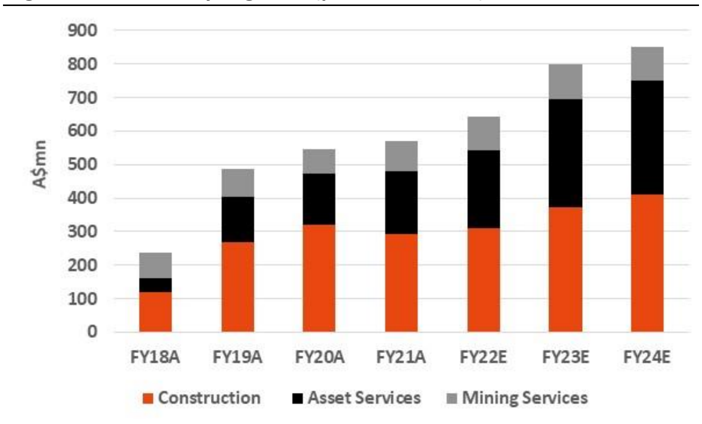
Figure 2: Shaw and Partners estimate versus Consensus

	Consensus		Shaw and Partners			Consensus vs. Shaw	
	FY22e	FY23e	FY21	FY22e	FY23e	FY22e	FY23e
Revenue ($m)	625.5	785.0	569.5	644.5	800.3	-3.0%	-1.9%
EBITDA ($m)	56.2	69.3	47.1	56.7	69.6	-1.0%	-0.5%
EBITDA margin	9.0%	8.8%	8.3%	8.8%	8.7%	17bp	13bp
NPAT ($m)	18.7	26.3	12.1	19.8	26.9	-5.6%	-2.4%
DPS (cps)	3.3	3.8	2.0	3.0	3.5	8.3%	7.1%

Source: Shaw and Partners and Consensus estimates

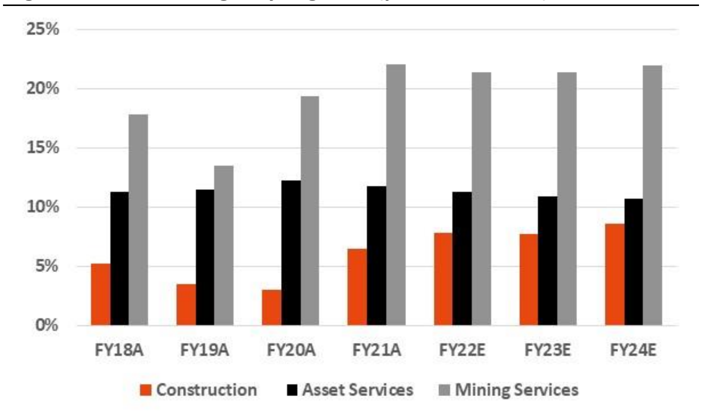
Upon integrating the WBHO business, our margin assumptions for the integrated Group have fallen slightly as we assume an initial 25% lower EBIT margin for WBHO than SRG in both Construction and Maintenance/Asset Services.

Figure 3: Revenue by Segment (post WBHO WA)



Source: Shaw and Partners

Figure 4: EBITDA Margin by Segment (post WBHO WA)



Source: Shaw and Partners

Reported net cash was over $28mn at the end of 1H22, with total available liquidity of over $100mn to support SRG's growth plans. So even after paying the transaction price and likely required injection of working capital, we still expect SRG to be net cash positive at the end of FY22.

Figure 5: Net Debt to Net Cash

Source: Shaw and Partners estimates

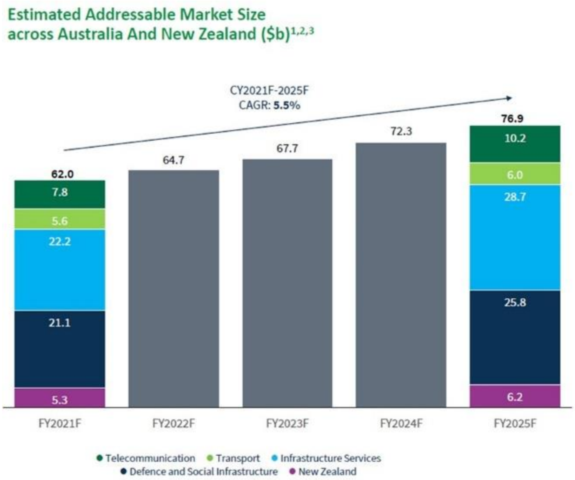
There are also several potential growth opportunities from the combination which could further boost revenue going forward. WBHO brings to SRG additional large clients, the highest available national road / bridge accreditation (R5 / B4), an Integrated Service Agreement with Main Roads plus a strategic position in the Kwinana Industrial Area.

https://developmentwa.com.au/projects/industrial-and-commercial/kwinana-sia/overview

Valuation, Outlook and Recommendation

WBHO looks like a good deal for SRG, paying $15.2mn for a business that historically generated circa $150mn in revenue (with the majority recurring). SRG can keep in employment the 275 WBHO staff, which is obviously a huge plus of the deal for all involved. The macro environment remains very supportive for SRG as well. We recently had the opportunity to catch up with Ventia (VNT.asx) and Service Stream (SSM.asx) and discussed the strong growth outlook for the asset maintenance sector in Australia and the discount valuations ASX listed Industrial Service names trade on versus International peers (see charts below).

Figure 6: Positive Asset/Maintenance Services Outlook



Source: VNT

With a Market Cap of circa $290mn and Net Cash of circa $5mn (Shaw and Partners end FY22 estimate) – recent guidance for FY22 (before WBHO integration) values SRG at circa 5.0x FY22 EBITDA and 14.5x Earnings. However, including the WBHO WA acquisition for full year FY23 reduces these to 3.9x and 10.7x respectively based on our FY23 estimates. This is a material discount to larger ASX peers, despite SRG's potentially higher growth profile, net cash balance sheet and strong annuity margins.

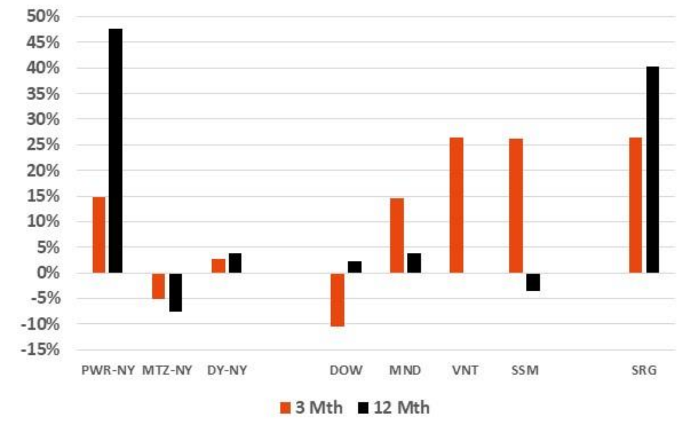
Figure 7: SRG versus ASX and NYSE Industrial Service Peers

	3 Mth	12 Mth	PE FY1	PE FY2	EV/EBITDA FY1	EV/EBITDA FY2
PWR-NY	14.8%	47.6%	20.82	18.97	14.06	12.79
MTZ-NY	-5.1%	-7.6%	16.48	13.09	9.06	7.77
DY-NY	2.8%	3.9%	29.84	18.76	10.30	8.06
DOW1	-10.4%	2.3%	15.96	13.00	6.00	5.67
MND	14.5%	4.0%	21.95	18.98	9.36	8.29
VNT	26.5%	-	12.82	10.27	7.00	6.63
SSM	26.1%	-3.6%	16.19	11.42	8.27	5.70
SRG	26.5%	40.2%	15.38	10.95	5.03	4.08
Discount to ASX			*-8%*	*-18%*	*-34%*	*-38%*
Discount to NYSE			*-31%*	*-35%*	*-55%*	*-57%*

Source: FactSet and FactSet consensus. 1: Downer Net Debt excludes Lease Liabilities.

Source: FactSet consensus. 1: Downer Net Debt excludes Lease Liabilities.

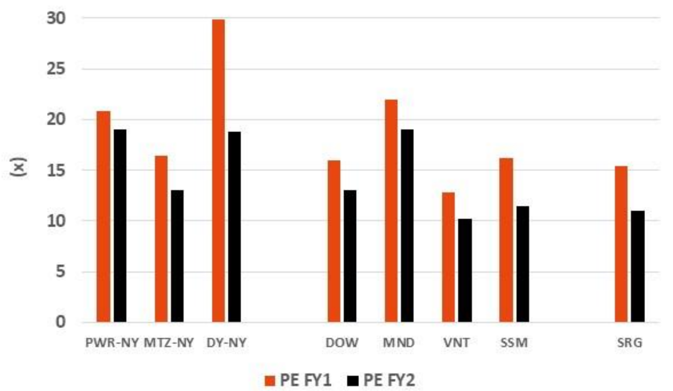
Figure 8: Peer Group – 3- and 12-month performance



Source: FactSet

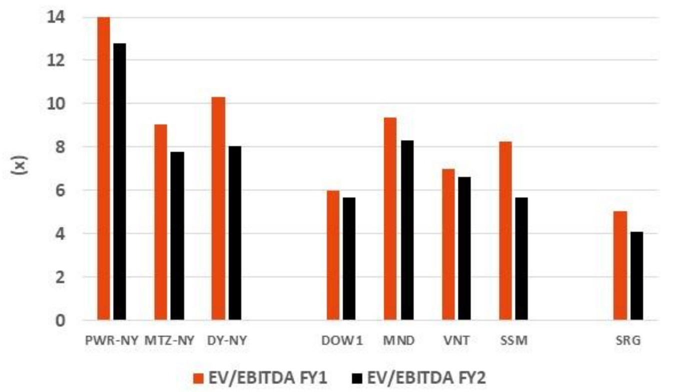
ASX listed Asset Service firms themselves then seem to trade on material discounts to more established US Industrial Service peers.

Figure 9: Peer Group FY1 and FY2 PE Multiples



Source: FactSet Consensus

Figure 10: Peer Group FY1 and FY2 EV/EBITDA Multiples



Source: FactSet. 1: Downer Net Debt excludes Lease Liabilities

The recent 1H22 result and 2H22 outlook is strong evidence that SRG is delivering on its strategy and is a lower risk investment (due to the nature of its business and 2/3 recurring earnings) when compared to many construction and mining service peers.

We additionally expect the macro outlook to remain strong as evidenced by the data presented by SRG's peers, across infrastructure, asset services, mining and select construction. Overseas Specialist Civil Engineering may also provide a further boost post FY22.

The Company also highlighted in this result that liquidity and their current corporate structure supports the delivery of the strong WIH and a further substantial increase in earnings from the current cost base.

We value SRG on a relative basis to peers and the market (FY22 PE Relative 20.19x = $0.90ps) as well as sense checking the relative valuation using a DCF ($1.21ps) and Sum of the Parts (break up) valuation ($0.88ps).

From this, our 12 month forward composite valuation and price target is increased to $1.00 per share (from $0.75 per share). Circa 11cps of this increase relates to the WBHO acquisition, with the remaining 14cps split between the higher multiples of peers (see 3-month performance above) and rolling forward our 12-month target. Based on our target price the stock would be trading on 7.8x, 6.1x and 5.4x our FY22-24 EBITDA forecasts respectively (post WBHO WA).

Our DCF assumes a WACC of 10.0% average annual FCF of circa $40.17mn (from $28.74mn) over the 10-year forecast period and a 2.0% (from 2.5%) terminal growth rate (TV=51% of EV). Our Sum of the Parts assumes relative peer EV/EBITDA multiples for each division (5.0x for Construction, 4.0x for Mining and 6.3x for Asset Services). Our peer multiples are based upon target rather than current share prices.

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

- FY22-23 revenue underpinned by high quality WIH.
- Major boost to FY23+ EBITDA from integration of WBHO acquisition.
- 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.
- Solid balance sheet and forecast strong earnings momentum in the next few years.
- Further 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 (FY23 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 (pre WBHO).
- $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) and Engineering products business.
- Revenue synergies from WBHO acquisition.

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.
- Integration of WBHO acquisition.

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% 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 over $100mn at the end of 1H FY22.

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.

WBHO Integration Risk

Any transaction comes with some integration risk. However, we expect given SRG's knowledge of WBHO, the customers and contracts that this risk is not significant for this particular transaction.

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.

• Growth opportunities from WBHO acquisition.

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	100	85%
Hold	16	14%
Sell	2	2%

History of Investment Rating and Target Price - SRG Global

Date	Closing Price ($)	Target Price ($)	Rating
31-Mar-22	0.65	1.00	Buy
6-Jul-21	0.56	0.75	Buy
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

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Sydney | Head Office	Melbourne	Brisbane	Adelaide	Canberra	Perth	Noosa
Level 7, Chifley Tower	Level 36	Level 28	Level 23	Level 7	Level 20	Suite 11a Q Place
2 Chifley Square	120 Collins Street	111 Eagle Street	91 King William Street	54 Marcus Clarke Street	108 St Georges Terrace	2 Quamby Place
Sydney NSW 2000	Melbourne VIC 3000	Brisbane QLD 4000	Adelaide SA 5000	Canberra ACT 2600	Perth WA 6000	Noosa Heads QLD 4567
Telephone: +61 2 9238 1238	Telephone: +61 3 9268 1000	Telephone: +61 7 3036 2500	Telephone: +61 8 7109 6000	Telephone: +61 2 6113 5300	Telephone: +61 8 9263 5200	Telephone: +61 7 3036 2570
Toll Free: 1800 636 625	Toll Free: 1800 150 009	Toll Free: 1800 463 972	Toll Free: 1800 636 625	Toll Free: 1800 636 625	Toll Free: 1800 198 003	Toll Free: 1800 271 201

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