



BUY

Current Price **\$0.77**
Valuation **\$1.08**

Friday, 17 February 2023

SRG Global (SRG)

Building a platform

Analyst | Ian Christie

Quick Read

SRG's interim results, its outlook, and the acquisition of Asset Care reinforces our positive view of the business and strategic direction. Recurring revenue is growing, organically and now acquisitively, underpinning near-term top-line growth while also extending visibility. We see full-year earnings accretion, before any synergies, from the acquisition, and our valuation lifts to \$1.08 (prior \$0.97). SRG is an ably led well rounded business. BUY.

Key points

Trend intact: SRG announced record 1H23 results, with EBITDA up 26% on the pcp to \$34.0M, ahead of our \$32.7M forecast. Margin at this line was little changed at 9.0%. Cash conversion was strong, with net cash increasing from \$20.5M to \$38.1M (\$75.8M cash, \$37.7M debt) over the 6 months to December. Putting icing on the results, FY23 EBITDA guidance was upped from ~\$71M to \$72-75M, implying a 46:54 1H:2H split at the mid-point. An all-round solid performance and update. We have been impressed with the extent and the nature of the work won this financial year (~\$770M to date) and the boost it gives to longer-term visibility (see "[Winning Ways](#)" 07/02/23).

Acquisition: At the same time SRG also announced the acquisition of ALS Asset Care for \$80.0M. It was non-core to the vendor ALS (ASX:ALQ), but looks a compelling fit for SRG, with its national engineering services, testing, inspection, condition monitoring, and certification offerings rounding out SRG's existing asset services. With Asset Care's FY23E revenue and EBITDA of \$135M and \$15.4M respectively, the EBITDA acquisition multiple is a palatable 5.2x. SRG is funding the purchase with a \$46.4M placement (completed) and an up to \$5M SPP (both at \$0.72), a \$30M new loan from NAB, and existing cash.

Impact: The mid-point of EBITDA guidance plus the expected contribution from Asset Care for four months implies FY23 EBITDA of ~\$78.5M. Factoring in some growth in Asset Care and adding it to our little changed forecast for the rest of the business, we pencil in FY24 EBITDA ~\$93M. If SRG continues to win work at recent rates, there could be upside to this number. After our assumptions for additional depreciation and interest charges, we see FY24 PBT of ~\$57M over 20% higher than we had previously for SRG standalone.

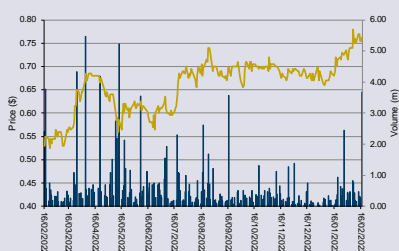
Balance sheet: SRG could have got away with more debt and less equity in our view but, having said that, a balance sheet with no net debt post acquisition and ample liquidity provides a sound platform for continued growth. With the SPP we calculate pro forma net cash of \$5M. Factoring in the equity raise dilution we estimate at least 5% accretion on a per share basis, before any synergies are realised (not yet modelled).

Valuation & recommendation

Using FY24 for a multiple valuation basis to capture the full contribution from Asset Care, our blended valuation lifts to \$1.08 (prior \$0.97). It underpins a maintained BUY call

Ticker:	SRG.ASX		
Sector:	Services & Construction		
Shares on Issue (m)*:	519.5		
Market Cap (\$m)*:	400.0		
Net Debt / (Cash) (\$m)*:	-5.0		
Enterprise Value (\$m)*:	395.0		
<i>*Adj. for Feb '23 equity raise (incl SPP) & acquisition</i>			
52 wk High/Low:	0.78	0.53	
12m Av Daily Vol (m):		0.57	
Key Metrics			
	23F	24F	
EV/EBITDA (x)	5.0	4.3	
EV/EBIT (x)	7.9	6.4	
P/E (x)	11.3	9.8	
Ratios			
	22A	23F	24F
ND / Equity	-8.8%	-4.6%	-11.9%
EBIT Mgn	5.3%	6.0%	6.4%
RoA	8.3%	10.6%	11.7%
RoE	10.6%	12.4%	13.3%
Financials*:			
	22A	23F	24F
Revenue (\$m)	646.4	832.1	966.0
EBITDA (\$m)	57.2	78.6	92.8
EBIT (\$m)	34.2	50.2	61.8
NPAT (\$m)	24.5	33.0	40.7
Rep. EBIT (\$m)	29.5	47.8	59.6
Rep. NPAT (\$m)	20.1	30.7	38.5
<i>*Underlying unless otherwise stated</i>			
NTA (\$m)	131.9	125.0	142.3
Op CF (\$m)	61.1	68.8	65.1
Per Share Data:			
	22A	23F	24F
Norm. EPS (cps)	5.42	6.83	7.83
DPS (cps)	3.00	4.00	4.50
Div Yield	3.9%	5.2%	5.8%
NTAPS (cps)	29.6	25.9	27.4
CFPS (cps)	13.5	14.2	12.5

Share Price Graph



Please refer to important disclosures at the end of the report (from page 3)



SRG Global

Equity Research

Ian Christie

Recommendation	BUY
Current Price (\$)	0.77
Valuation (\$)	1.08

Sector	Services & Construction
Market Cap (\$m)	400.0
Date	17 February 2023

Trading Metrics	FY21A	FY22A	FY23F	FY24F
EV / EBITDA (x)		6.9	5.0	4.3
EV / EBIT (x)		11.6	7.9	6.4
P/E (x)		14.2	11.3	9.8
Dividend Yield (%)		3.9%	5.2%	5.8%

Per Share Data	FY21A	FY22A	FY23F	FY24F
Reported EPS (cps)	2.7	4.5	6.4	7.4
Adjusted EPS (cps)	3.6	5.4	6.8	7.8
Div. per share (cps)		3.0	4.0	4.5
NTA per share (cps)	27.4	29.6	25.9	27.4
CF per share (cps)	12.3	13.5	14.2	12.5

Profit and Loss (\$m)	FY21A	FY22A	FY23F	FY24F
Revenue	570.7	646.4	832.1	966.0
EBITDA	47.0	57.2	78.6	92.8
EBITDA Margin	8.2%	8.9%	9.4%	9.6%
Depreciation	(21.9)	(23.1)	(28.4)	(31.0)
EBIT	25.1	34.2	50.2	61.8
PBT	22.6	31.6	46.1	57.1
NPAT	16.1	24.5	33.0	40.7
Adjustments:				
Amortisation	(4.0)	(3.6)	(2.3)	(2.2)
One-Offs	-	(1.0)	-	-
Reported EBIT	21.1	29.5	47.8	59.6
Reported NPAT	12.1	20.1	30.7	38.5

Cash Flow (\$m)	FY21A	FY22A	FY23F	FY24F
Receipts	618.2	705.7	831.6	942.6
Payments	(558.1)	(646.0)	(745.6)	(856.3)
Other	(5.0)	1.4	(17.2)	(21.2)
Cash from Operations	55.2	61.1	68.8	65.1
Property, Plant & Equip	(18.1)	(18.7)	(25.6)	(18.3)
Payment for Subsidiary	-	(15.1)	(81.9)	-
Other	0.8	0.3	-	-
Cash From Investing	(17.3)	(33.6)	(107.6)	(18.3)
Issue of Shares	-	-	49.9	-
Net Borrowing	(10.8)	(3.4)	13.8	(9.0)
Dividends / Other	(8.9)	(11.1)	(17.8)	(23.4)
Cash From Financing	(19.7)	(14.5)	45.8	(32.4)
Net Cash Flow	18.2	13.0	7.0	14.4
Ending Cash	46.2	59.3	66.3	80.7

Balance Sheet (\$m)	FY21A	FY22A	FY23F	FY24F
Cash	46.2	59.3	66.3	80.7
Receivables	142.2	158.6	159.2	182.6
Inventory	14.9	18.7	20.6	23.9
Other	3.3	5.6	5.6	5.6
Current Assets	206.6	242.3	251.7	292.8
Property, Plant & Equip	81.5	104.3	121.7	119.1
Intangibles	104.6	102.6	172.2	170.1
Other NC Assets	50.2	35.3	39.3	39.3
Non-Current Assets	236.3	242.3	333.2	328.5
Total Assets	442.9	484.6	585.0	621.3
Payables	127.1	155.5	175.5	205.7
Borrowings	34.0	38.8	52.5	43.5
Provisions	33.2	37.2	37.2	37.2
Other	21.9	18.5	22.5	22.5
Total Liabilities	216.1	250.0	287.7	309.0
Net Assets	226.8	234.6	297.2	312.3
Ordinary Equity	218.1	218.1	267.9	267.9
Reserves	8.1	6.9	6.9	6.9
Retained Earnings	0.6	9.5	22.4	37.5
Total Equity	226.8	234.6	297.2	312.3

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	10.0%		
PV Free Cash Flow (\$m)		498.7	
Less Net Debt / Plus Cash (\$m)		88.0	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		586.7	1.13
Earnings Capitalisation Valuation:			
FY24 EBIT multiple	7.5	551.5	1.06
FY24 NPAT multiple	12.5	508.2	0.98
Blended Valuation (\$/share)			1.08

Profit and Loss (\$m)	1H22A	2H22A	1H23A	2H23F
Revenue	297.3	349.2	382.1	450.0
EBITDA	27.0	30.2	34.0	44.6
EBITDA Margin	9.1%	8.6%	8.9%	9.9%
Depreciation	(11.1)	(11.9)	(13.1)	(15.3)
EBIT	15.9	18.2	20.8	29.3
PBT	14.7	16.9	19.1	27.0
NPAT	10.6	13.8	13.6	19.4
Adjustments:				
Amortisation	(1.8)	(1.8)	(1.2)	(1.2)
One-Offs	-	(1.0)	-	-
Reported EBIT	14.1	15.4	19.7	28.2
Reported NPAT	8.8	11.3	12.4	18.2

Cash Flow (\$m)	1H22A	2H22A	1H23A	2H23F
Receipts	360.6	345.0	448.1	383.5
Payments	(325.2)	(320.8)	(400.9)	(344.7)
Other	(2.0)	3.4	(2.6)	(14.5)
Cash from Operations	33.4	27.7	44.5	24.3
Property, Plant & Equip	(8.6)	(10.1)	(15.9)	(9.7)
Payment for Subsidiary	-	(15.1)	(1.9)	(80.0)
Other	(0.4)	0.7	1.6	(1.6)
Cash From Investing	(9.0)	(24.6)	(16.2)	(91.3)
Issue of Shares	-	-	-	49.9
Net Borrowing	(6.4)	3.0	(5.3)	19.0
Dividends / Other	(4.5)	(6.7)	(6.7)	(11.1)
Cash From Financing	(10.8)	(3.7)	(12.0)	57.8
Net Cash Flow	13.5	(0.5)	16.3	(9.3)
Ending Cash	59.9	59.3	75.8	66.3

Financial Ratios	FY21A	FY22A	FY23F	FY24F
Growth				
Revenue growth (%)	9.5%	13.1%	28.8%	16.4%
NPAT growth (%)	1291.0%	52.2%	34.8%	23.3%
Norm. EPS growth (%)	1291.0%	51.8%	26.1%	14.6%
Profitability Ratios				
EBITDA Margin (%)	8.2%	8.9%	9.4%	9.6%
EBIT Margin (%)	4.4%	5.3%	6.0%	6.4%
PBT Margin (%)	4.0%	4.9%	5.5%	5.9%
NPAT Margin (%)	2.8%	3.8%	4.0%	4.2%
Return on Assets (%)	6.3%	8.3%	10.6%	11.7%
Return on Equity (%)	7.2%	10.6%	12.4%	13.3%
ROIC (%)	6.3%	8.9%	11.5%	12.8%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	-5.4%	-8.8%	-4.6%	-11.9%
ND / ND + Equity (%)	-5.7%	-9.6%	-4.9%	-13.5%
Current Ratio (x)	1.2	1.2	1.1	1.2
Net Interest Cover (x)	8.5	11.6	11.8	12.8
Cash Flow Ratios				
Free Cash Flow Yield (%)	10.6%	7.8%	-10.4%	11.7%
Cash Conversion (x)	1.4	1.3	1.0	0.8



RESEARCH:

Ian Christie | Director, Head of Research
+61 8 9224 6872

John Macdonald | Director, Metals & Mining Research
+61 8 9224 6835

George Ross | Analyst, Metals & Mining Research
+61 8 9224 6840

Royce Haese | Analyst, Metals & Mining Research
+61 8 9224 6869

Ben Crooks | Associate Analyst, Metals & Mining Research
+61 8 9224 6818

INSTITUTIONAL SALES:

Chris Wippl | Executive Director, Head of Institutional Sales
+61 8 9224 6875

Damian Rooney | Director, Institutional Sales Trader
+61 8 9224 6862

Josh Welch | Institutional Research Sales
+61 8 9224 6868

George Ogilvie | Institutional Research Sales
+61 8 9224 6871

Matt Middlemas | Associate, Institutional Sales
+61 8 9224 6803

John Santul | Consultant, Institutional Sales & Research
+61 8 9224 6859

CORPORATE AND PRIVATE CLIENT SALES:

Glen Colgan | Executive Director, Desk Manager
+61 8 9224 6874

Kevin Johnson | Executive Director, Corporate Stockbroking
+61 8 9224 6880

Ben Willoughby | Senior Dealer, Corporate Stockbroking
+61 8 9224 6876

David Keogh | Senior Dealer, Corporate Stockbroking
+61 8 9224 6852

Geoff Barnesby-Johnson | Senior Dealer, Corporate Stockbroking
+61 8 9224 6854

Rob Healy | Dealer, Private Clients
+61 8 9224 6873

James Massey | Dealer, Corporate Stockbroking
+61 8 9224 6849

Cameron Prunster | Dealer, Private Clients
+61 8 9224 6853

Harry Massey | Dealer, Private Clients
+61 8 9224 6829

Jake Solomon | Dealer, Private Clients
+61 8 9224 6855

Matej Mandic | Dealer, Private Clients
+61 8 9224 6887

Amanda Fu | Provisional Provider, Private Clients
+61 8 9224 6805

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