Barrenjoey

SRG Global Ltd

Executing the strategy

We expand our emerging companies coverage by initiating on SRG Global (SRG) with an OVERWEIGHT rating and $1.00 PT. As a core maintenance services provider across the heavy industries sector (mining, manufacturing, infrastructure), SRG holds contracts with blue-chip clients and govt. agencies. With recurring-style term revenue representing c.73% of EBITDA, SRG has a strong degree of revenue visibility over FY24 (B*e: c.75%) which underpins our YoY EBITDA growth of +19.8%. We believe the enhanced earnings profile, as SRG has repositioned EPS (FY19-23: +20% EPS CAGR), is not reflected in the current multiple, trading on a NTM PE of 9.5x and FCF yield of 10.7%.

Increasing earnings quality

Since Oct-20, SRG has provided 12 +ive earnings updates which we believe reflects: 1) SRG's non-discretionary exposed capabilities (works ensure asset owners maintain peak efficiency); 2) long-dated term contracts with Tier 1 clients and govt agencies; and 3) a pivot away from project-based construction. These factors have contributed to a group EBITDA margin expansion of +422bps to 9.1% (FY19-23e), and recurring earnings contribution now >73% from higher margin, term-style contracts. The acquisition of Asset Care (AC) for 5.2x (EV/EBITDA) enhances SRG's value proposition to clients with increased capabilities spanning the lifecycle of assets.

FY23 upgrades and FY24e visibility

Our FY23e EBITDA of $79.7m is at the top end of SRG's recently upgraded guidance (2nd upgrade in 2H23) and we believe earnings momentum can continue in FY24e due to record WIH of $1.5bn (excl. Asset Care). We estimate this backdrop allows for c.75% FY24 revenue visibility and supports our FY24e EBITDA of $95.5m. Excl. Asset Care (AC), we believe SRG (standalone) can deliver c.$41m EBITDA in 2H23 with an incremental c.$11m contribution from AC in FY24e supporting our +19.8% YoY uplift.

Valuation appeal: growth warrants re-rate to industry peers

Trading on a NTM PE of 9.5x, SRG screens favourably vs industry peers, in our view. Characteristics including stable margins, strong cash conversion, a 9.4x FCF multiple and 10.7% FCF yield, near-term earnings visibility (FY23 guidance), and 2-year EPS CAGR (+10.1%) underpin our view. Against this backdrop, we believe SRG can re-rate to a 13x NTM PE (more aligned to industry peers 12-14x), which is captured in our valuation methodology.

OVERWEIGHT rating and $1.00/sh PT – blended DCF/NTM PE (13x)

Our positive investment thesis is underpinned by: 1) near-term earnings visibility; 2) increasing demand for SRG's services (increasing and aging industrial infrastructure); and 3) valuation appeal.

Financial & valuation metrics

Y/E Jun (A$)	FY21A	FY22A	FY23E	FY24E	FY25E
NPAT ($m)	15	23	33	41	45
EPS (cps)	3.3	5.2	7.1	7.8	8.6
DPS (cps)	2.0	3.0	4.0	4.3	4.5
PE (x)	15.3	11.8	10.4	9.4	8.6
EV/EBITDA (x)	5.0	4.7	4.6	4.1	3.6
Dividend yield (%)	4.0%	4.9%	5.4%	5.9%	6.1%

Source: Barrenjoey Research estimates, FactSet. All earnings are on an underlying basis.

EQUITY RESEARCH

INITIATION

Industrials

22 May 2023 | 27 pages

Stock Rating	**OVERWEIGHT**
Price Target	**A$ 1.00**

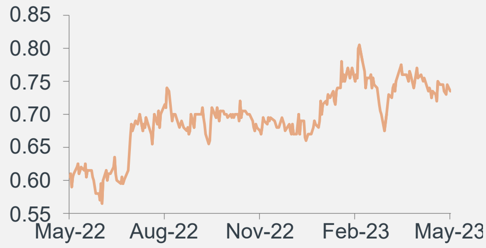
Ticker	SRG AU
Closing price (22-May-23)	A$ 0.74
Expected share price return	36.1%
Expected dividend yield	5.8%
Expected total return	41.9%
Market cap (m)	A$ 380
Shares outstanding (m)	517
52-week avg daily vol (m)	0.53
52-week range	A$ 0.56 - 0.81

EPS forecast changes & consensus

Y/E Jun (A$)	FY23E	FY24E	FY25E
B* from (cps)	n/a	n/a	n/a
B* to (cps)	7.1	7.8	8.6
Change (%)	n/a	n/a	n/a
Consensus (cps)	6.9	7.8	8.2
B* vs cons (%)	2.0%	0.7%	4.7%

Source: FactSet, Visible Alpha, B* estimates use underlying and diluted EPS data

Price performance (A$)



Source: FactSet

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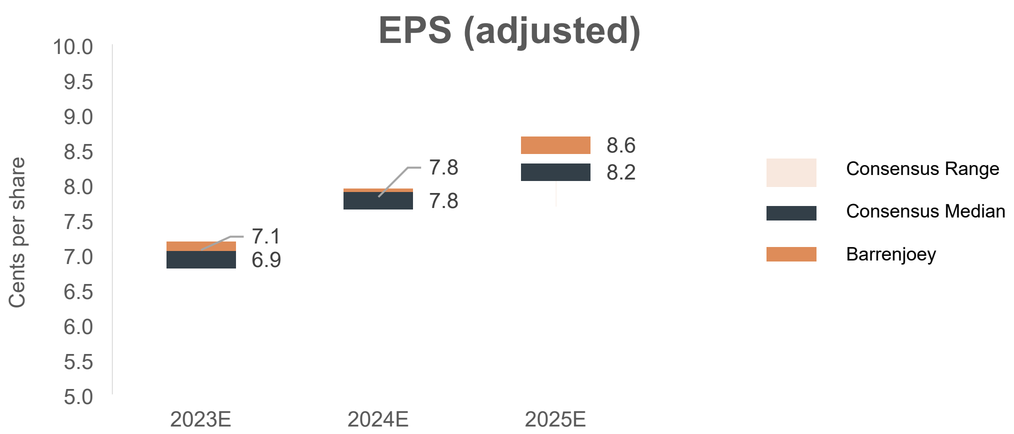
Income Statement (A$m)	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E	CAGR
Sales	569.5	644.2	876.6	1,019	1,083	1,104	1,128	11.8%
EBITDA	47.1	57.2	79.7	95.5	102.3	104.2	105.9	13.1%
EBIT	25.1	34.1	51.3	62.5	67.7	69.0	69.7	15.3%
PBT	22.6	31.6	47.8	58.2	63.7	64.9	65.6	15.7%
NPAT (reported)	14.9	22.6	32.0	39.4	43.3	44.1	44.5	14.5%
NPAT (underlying)	14.9	23.4	33.4	40.8	44.6	45.4	45.9	14.5%
Margin & return data (%)	**FY21A**	**FY22A**	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**	**Average**
EBITDA (adj) margin	8.3%	8.9%	9.1%	9.4%	9.5%	9.4%	9.4%	9.3%
EBIT (adj) margin	4.4%	5.3%	5.8%	6.1%	6.3%	6.2%	6.2%	6.0%
ROIC	7.7%	10.5%	10.4%	11.9%	12.0%	11.6%	11.2%	11.3%
ROA	3.4%	4.8%	5.4%	6.4%	6.6%	6.6%	6.5%	6.0%
ROE	6.6%	10.0%	11.0%	12.7%	13.0%	12.6%	12.1%	11.9%
Balance Sheet (A$m)	**FY21A**	**FY22A**	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**	**Average**
Cash & equivalents	46.2	59.3	67.4	81.2	101.8	112.9	125.5	91.3
PPE	81.5	104.3	103.5	99.4	94.2	90.6	86.3	96.4
Total assets	442.9	484.6	616.9	641.7	676.5	689.9	710.7	710.7
Short & long-term debt	55.3	57.3	90.5	90.5	90.5	90.5	90.5	85.0
Total liabilities	216.1	250.0	313.1	319.7	333.0	328.1	330.2	312.3
Net debt	9.1	(2.0)	23.1	9.4	(11.2)	(22.3)	(35.0)	(6.4)
Total equity	226.8	234.6	303.8	322.0	343.6	361.8	380.5	324.4
Cashflow (A$m)	**FY21A**	**FY22A**	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**	**CAGR**
Change in working capital	9.8	8.2	(7.1)	(12.8)	(10.2)	(14.2)	(12.7)	(209.2%)
Operating cashflow	55.2	61.1	57.6	61.5	69.6	67.0	70.0	2.8%
Capital expenditure	(19.5)	(20.9)	(22.2)	(20.0)	(20.0)	(22.0)	(22.0)	1.1%
Free cash flow	35.7	40.2	35.4	41.5	49.6	45.0	48.0	3.6%
Net acq/disposals	2.2	2.5	2.4	0.0	0.0	0.0	0.0	(100.0%)
Dividends paid	(8.9)	(11.1)	(15.7)	(21.2)	(21.7)	(25.9)	(25.9)	18.3%
Financial ratios	**FY21A**	**FY22A**	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**	**CAGR**
Per share								
Reported EPS (cps)	3.3	5.0	6.8	7.6	8.3	8.5	8.5	11.2%
Underlying EPS (cps)	3.3	5.2	7.1	7.8	8.6	8.7	8.8	11.2%
DPS (cps)	2.0	3.0	4.0	4.3	4.5	5.0	5.5	12.9%
Franking (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%
Wtg avg ord shares (m)	446	446	470	517	517	517	517	3.0%
Wtg avg diluted shares (m)	450	451	474	521	521	521	521	2.9%
Valuation								**Average**
PE (x)	15.3	11.8	10.4	9.4	8.6	8.4	8.3	9.5
EV/Sales (x)	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.4
EV/EBITDA (x)	5.0	4.7	4.6	4.1	3.6	3.4	3.3	4.0
EV/EBIT (x)	9.3	7.9	7.2	6.2	5.4	5.2	5.0	6.2
Free cash flow yield (%)	15.7%	14.6%	10.2%	10.8%	12.9%	11.7%	12.5%	12.1%
Dividend yield (%)	4.0%	4.9%	5.4%	5.9%	6.1%	6.8%	7.5%	6.1%
Payout ratio (%)	60.6%	58.0%	56.6%	55.0%	52.6%	57.4%	62.4%	57.0%
Growth								**Average**
Sales (%)	3.3%	13.1%	36.1%	16.2%	6.3%	1.9%	2.2%	12.6%
EBIT (%)	153.3%	35.9%	50.2%	21.9%	8.3%	1.8%	1.1%	19.9%
Underlying NPAT (%)	5,060.6%	57.1%	43.2%	21.9%	9.5%	1.8%	1.1%	22.4%
Underlying EPS (%)	5,058.0%	56.8%	36.4%	10.7%	9.5%	1.8%	1.1%	19.4%
Liquidity & leverage								**Average**
Net debt/EBITDA (x)	0.2	(0.0)	0.3	0.1	(0.1)	(0.2)	(0.3)	(0.1)
Net debt/(Net debt+equity)(%)	3.9%	(0.9%)	7.1%	2.8%	(3.4%)	(6.6%)	(10.1%)	(1.8%)
EBIT interest cover (x)	10.1	13.3	14.7	14.6	16.9	17.0	17.0	15.6

Source: Barrenjoey Research estimates, FactSet
CAGR and Average (asterisk) are calculated using the most recent actual year and five forward years.

SRG Global Ltd

Barrenjoey vs consensus



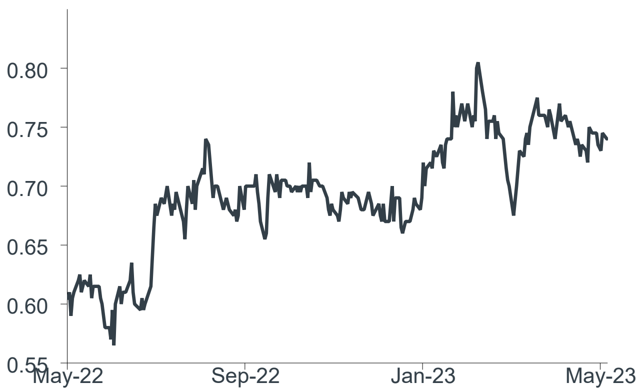
Key debates

What could impact the share price?

1. **Has SRG's earnings quality improved since FY19?** We believe so, with 12 positive trading updates since Oct-20. Since FY19, SRG has delivered EPS CAGR of +20% (FY19-23e) which has been driven by a pivot to longer-dated term contracts. A majority of SRG's earnings (>73% of EBITDA) are aligned to essential maintenance and production services on critical infrastructure across the heavy industries sector providing forward visibility, in our view.
2. **Is +10% EPS CAGR over FY23-25e achievable?** B*e incorporate EPS CAGR of +10.1% over FY23-25. SRG had record WIH of $1.5bn at 1H23 (excl. Asset Care) and strong NTM revenue visibility (B*e c.75% of FY24e). A recent upgrade to FY23e EBITDA (+6% prev. guidance) suggests strong operating momentum into FY24e (c.$41m 2H23 EBITDA from SRG standalone).
3. **What is an appropriate multiple for SRG?** c.13x NTM PE (B*e). We believe SRG's current 9.5x NTM PE multiple does not reflect: 1) 10% 2-year EPS CAGR; 2) the essential services provided on critical industrial assets; and 3) a NTM FCF yield of 10.7% and FCF multiple of 9.4x.

Our view

Price performance (A$)



OVERWEIGHT

B* Scenarios		Upside/ Downside to share price
Upside	$1.19	62%
Price Target	**$1.00**	**36%**
Downside	$0.61	-17%

3.6:1

Upside to Downside skew vs share price

Source: Barrenjoey Research estimates, FactSet.

Scenarios

- **Upside scenario | A$1.19 | NTM 14x PE** We ascribe a 14x NTM PE reflecting a multiple premium vs comps if SRG can continue to execute on contract wins and contract execution which drives minor (<5%) EPS upgrades vs B* base case estimates
- **Price Target | A$1.00 | NTM 13x PE** Our 13x NTM PE is based on growth metrics outlined through this report
- **Downside scenario | A$0.61 | NTM 8.5x PE** Our 8.5x NTM PE reflects a slowing earnings profile for SRG (-10% vs B*e base case EPS) on the back of limited contract wins and ad-hoc maintenance work

Figure 1: SRG financial Summary (B*e)

SRG model - B*e Summary						
P&L summary		**FY21a**	**FY22a**	**FY23e**	**FY24e**	**FY25e**
Revenue	$m	569.5	644.2	876.6	1,019	1,083
Operating costs	$m	522.5	588.0	796.9	923.1	980.6
EBITDA (reported)	$m	47.1	56.2	79.7	95.5	102.3
EBITDA (underlying)	**$m**	**47.1**	**57.2**	**79.7**	**95.5**	**102.3**
D&A	$m	25.9	26.7	30.5	34.9	36.5
EBIT (reported)	$m	21.1	29.6	49.2	60.6	65.9
EBITA (underlying)	**$m**	**25.1**	**34.1**	**51.3**	**62.5**	**67.7**
Net finance	$m	-2.5	-2.6	-3.5	-4.3	-4.0
NPBT	$m	18.6	27.0	45.7	56.3	61.8
Tax	$m	-6.6	-6.9	-13.7	-16.9	-18.6
NPAT (reported)	$m	12.1	20.1	32.0	39.4	43.3
NPATA (underlying)	**$m**	**14.9**	**23.4**	**33.4**	**40.8**	**44.6**
Cash flows		**FY21a**	**FY22a**	**FY23e**	**FY24e**	**FY25e**
OCF	$m	55.2	61.1	57.6	61.5	69.6
Capex						
Payment for PPE/Intangibles	$m	-19.5	-20.9	-22.2	-20.0	-20.0
FCF	**$m**	**35.7**	**40.2**	**35.4**	**41.5**	**49.6**
Purchase of businesses (net cash)	$m	0.0	-15.1	-82.9	0.0	0.0
Other	$m	2.2	2.5	2.4	0.0	0.0
Cashflow from Investing	**$m**	-17.3	-33.6	-102.7	-20.0	-20.0
Cashflow from financing						
Net borrowing	$m	-10.8	-3.4	24.7	0.0	0.0
Other	$m	0.0	0.0	44.0	-6.5	-7.3
Dividends paid		-8.9	-11.1	-15.7	-21.2	-21.7
Total cashflow from financing	**$m**	-19.7	-14.5	53.1	-27.7	-29.0
Cash movement	**$m**	18.2	13.0	7.9	13.7	20.6
Balance sheet		**FY21a**	**FY22a**	**FY23e**	**FY24e**	**FY25e**
Cash	$m	46.2	59.3	67.4	81.2	101.8
Receivables	$m	86.5	97.9	135.9	142.6	160.3
Contract Assets	$m	55.7	60.8	52.6	61.1	65.0
Inventories	$m	14.9	18.7	26.3	30.6	32.5
Other	$m	3.3	5.6	8.6	8.6	8.6
Current assets	**$m**	**206.6**	**242.3**	**290.8**	**324.0**	**368.1**
NCA						
PPE	$m	81.5	104.3	103.5	99.4	94.2
Intangibles	$m	104.6	102.6	183.8	183.9	184.0
Other	$m	50.2	35.3	38.8	34.4	30.2
Total non-current assets	**$m**	**236.3**	**242.3**	**326.1**	**317.7**	**308.5**
Total Assets	**$m**	**442.9**	**484.6**	**616.9**	**641.7**	**676.5**
Current Liabilities						
Payables	$m	106.5	122.4	150.8	151.8	162.4
Contract Liabilities	$m	20.6	33.1	35.1	40.7	43.3
Borrowings	$m	15.3	14.0	45.4	45.4	45.4
Other	$m	34.8	40.1	40.9	40.9	40.9
Current Liabilities	**$m**	**177.2**	**209.6**	**272.2**	**278.8**	**292.1**
Non Current Liabilities						
Borrowings	$m	18.6	24.8	22.2	22.2	22.2
Other	$m	20.2	15.7	18.7	18.7	18.7
Total non-current liabilities	**$m**	**38.9**	**40.4**	**40.9**	**40.9**	**40.9**
Total Liabilities	**$m**	**216.1**	**250.0**	**313.1**	**319.7**	**333.0**
Net Assets	**$m**	**226.8**	**234.6**	**303.8**	**322.0**	**343.6**

Share Price	$	0.74				
Price Target	$	1.00				
Upside / Downside	%	36.1%				
Valuation Metrics		**FY21a**	**FY22a**	**FY23e**	**FY24e**	**FY25e**
EPS reported	cps	2.7	4.5	6.8	7.6	8.3
EPS underlying	cps	3.3	5.2	7.1	7.8	8.6
PE	x	27.4	16.5	10.9	9.7	8.9
PE underlying	x	22.3	14.2	10.4	9.4	8.6
EV	$m	392	381	406	393	372
EV/EBITDA	x	8.3	6.7	5.1	4.1	3.6
EV/EBIT	x	15.6	11.2	7.9	6.3	5.5
FCF multiple	x	10.7	9.5	10.8	9.2	7.7
DPS	cps	2.0	3.0	4.0	4.3	4.5
Dividend yield	%	2.7%	4.1%	5.4%	5.9%	6.1%
FCF yield	%	9.3%	10.5%	9.2%	10.8%	12.9%
Returns and metrics		**FY21a**	**FY22a**	**FY23e**	**FY24e**	**FY25e**
ROE	%	6.6%	10.0%	11.0%	12.7%	13.0%
ROIC	%	6.7%	9.6%	12.6%	13.2%	14.1%
Net debt (incl. leases)	$m	9.1	-2.0	23.1	9.4	-11.2
Net debt (excl. leases)	$m	-12.2	-20.5	0.2	-13.5	-34.1
ND/Equity	%	4.0%	-0.9%	7.6%	2.9%	-3.3%
ND (incl. leases)/EBITDA	x	0.2	0.0	0.3	0.1	-0.1
ND (excl. leases)/EBITDA	x	-0.3	-0.4	0.0	-0.1	-0.3
Growth						
Revenue	%	3.3%	13.1%	36.1%	16.2%	6.3%
EBITDA (underlying)	%	62.0%	21.6%	39.3%	19.8%	7.2%
EBIT (underlying)	%	419.1%	35.9%	50.2%	21.9%	8.3%
Underlying EPS	%	-	56.8%	36.4%	10.7%	9.5%
Margins						
EBITDA	%	8.3%	8.9%	9.1%	9.4%	9.5%
EBIT	%	4.4%	5.3%	5.8%	6.1%	6.3%
Segment Assumptions		**FY21a**	**FY22a**	**FY23e**	**FY24e**	**FY25e**
Revenue						
Asset Services	$m	186.9	214.8	272.6	293.9	314.8
Mining Services	$m	90.9	114.0	153.4	163.1	173.6
Construction	$m	291.7	315.4	407.8	424.5	452.8
Asset Care*	$m	-	-	42.8	137.0	141.8
Group revenue	**$m**	**569.5**	**644.2**	**876.6**	**1,019**	**1,083**
EBITDA by segment						
Asset Services	$m	22.0	25.2	31.8	34.4	37.0
Mining Services	$m	20.0	23.9	31.0	33.3	35.6
Construction	$m	18.9	22.8	29.8	31.4	33.5
Asset Care*	$m	-	-	4.7	15.8	16.3
Corpoorate	$m	13.9	15.7	17.5	19.4	20.0
Group	**$m**	**47.1**	**56.2**	**79.7**	**95.5**	**102.3**
EBITDA margin (%)						
Asset Services	$m	11.8%	11.7%	11.7%	11.7%	11.8%
Mining Services	$m	22.0%	21.0%	20.2%	20.4%	20.5%
Construction	$m	6.5%	7.2%	7.3%	7.4%	7.4%
Asset Care	$m	-	-	11.0%	11.5%	11.5%
Group	**$m**	**8.3%**	**8.7%**	**9.1%**	**9.4%**	**9.5%**

*Asset care was acqn (Mar-23)

Source: Company data, Barrenjoey Research estimates

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B* industry feedback

B* industry feedback suggested a positive industry outlook, however access to labour remains a key risk

We recently caught up with a number of WA based maintenance providers and contractors to gain a greater understanding of the current WA industry backdrop across the mining and industrial services space. We outline our key takeaways in Figure 2 below. Meetings included Austin Engineering (**ANG, Not Covered**), Southern Cross Electrical (**SXE, Not Covered**), DDH1 (**DDH, Not Covered**), Imdex (**IMD, OW $3.20 PT**), Perenti (**PRN, Not Covered**), Monadelphous (**MND, Not Covered**), Mader (**MAD, N $4.65 PT**), MMA Offshore (**MRM, Not Covered**), Develop (**DVP, Not Covered**), Duratec (**DUR, Not Covered**), SRG Global (**SRG, OW $1.00 PT**).

We view the broader industry backdrop as constructive with elevated work levels for service providers across multiple sectors. Despite uncertainty surrounding contract delays, capex budgets for new projects, and labour availability a number of companies have a degree of visibility with SRG, MND, SXE, MAD, PRN, ANG and DUR providing guidance during 2H23.

Figure 2: Key industry themes from Perth feedback

Themes	Industry view	Industry Commentary	SRG implications (B* view)
Project pipeline	+ive	Strong pipeline across multiple commodities (Lithium, Iron Ore, O&G, Gold, Renewables)	Increasing asset base supports SRG's services and construction outlook
Maintenance work demand	+ive	Increasing volume of works as production volumes increase across multiple commodities	Opportunities for elevated levels of ad hoc work (B*e c.10% of initial contract values)
Contract structures	+ive	Cost pressures persist but contracts providing protection (rise and fall mechanisms)	Rise and fall contracts should support margin consistency as short-term timing fluctuations roll over
Contract execution risk	mixed	Risks share models increasing due to labour visibility and execution risk for scope of works	SRG hold term contracts with rise and fall mechanisms however we note execution risk is elevated
Project delays	-ive	Longer approval times needed and DFS / FID changes and delays due to costing	Construction capex may be delayed but SRG operations are primarily production/maintenance based
Access to labour	-ive	Shortage of labour across sectors and disciplines (international workers now being recruited)	SRG currently has c.120 job openings (3.2k total employees). Labour remains on ongoing risk, however SRG self-perform works which we believe is a differentiator vs peers for attracting and retaining staff.
Costs for miners	-ive	Inflationary pressures, access to labour and productivity levels vs initial scope are driving increasing project costs	A track record of contract delivery and long-term client tenures can support SRG's market positioning as miners focus on tier 1 service contractors

Source: Barrenjoey Research

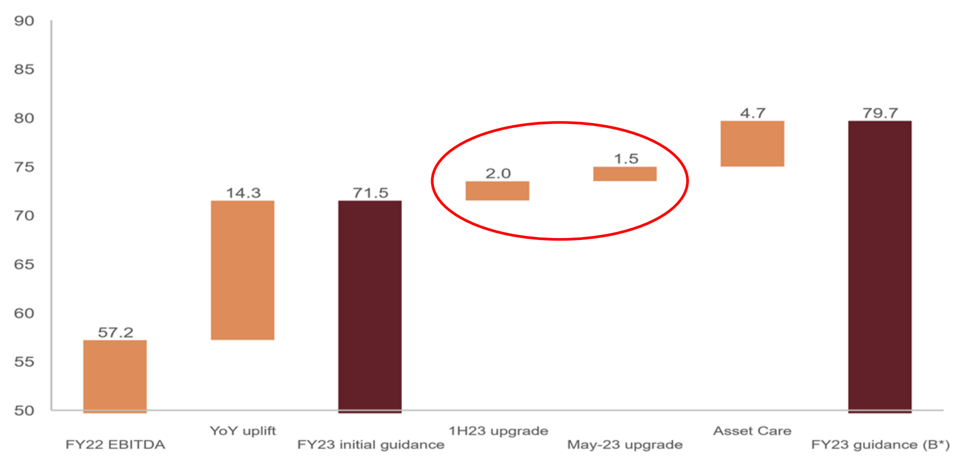
How has SRG performed?

SRG recently upgraded EBITDA guidance (+6% vs prior guidance top end) following a positive c.4-month contribution from Asset Care

Against these industry conditions, SRG is displaying strong earnings momentum. We interpret SRG's upgraded FY23e guidance, as a reflection of: 1) SRG (ex. Asset Care) tracking at the top end/slightly ahead of previous guidance ($72m-$75m EBITDA); and 2) The c.4-month contribution of Asset Care equates to $4.5-$5.0m, implying a Pro-forma FY23 EBITDA of c.$15m. This is in-line with acquisition commentary at SRG's 1H23 result.

We believe FY23 EBITDA guidance implies organic growth of c.+33% YoY ($75m vs $57m). The May-23 update was c.+6% ahead of the initial FY23 guidance provided in Jul-22. The inclusion of Asset Care adds c.$5m EBITDA in 2H23e, with an incremental c.$11m Asset Care contribution anticipated in FY24 (B*e: $16m EBITDA).

Figure 3: SRG FY23 EBITDA guidance bridge and B*e of $79.7m



Source: Company data, Barrenjoey Research estimates

Key debate #1: Has SRG's earnings quality improved since FY19?

Barrenjoey Response

We believe so, and evident from the 12 trading updates since Oct-20 which have either: 1) reaffirmed guidance; or 2) upgraded guidance. Since FY19, SRG has delivered EPSA CAGR of c.+20% (FY19-23e) through: 1) a pivot to longer-dated term contracts; 2) acquisitions focused on recurring maintenance style revenues (Asset care); and 3) a disciplined approach to construction tendering. The net result has enabled SRG to increase its WIH ($1.5bn at 1H23), improve cash conversion and target M&A opportunities.

Earnings quality has improved as evident by 12 positive trading updates since Oct-20; c.73% of segment EBITDA is now aligned to maintenance contracts

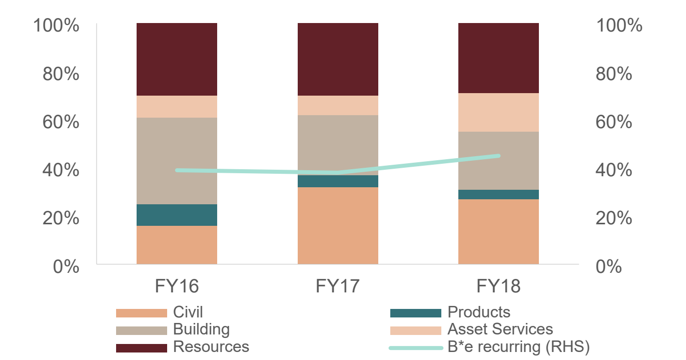
SRG services enabling peak asset performance for clients

Utilising a workforce of >3.2k, SRG provides a range of self-performing engineering capabilities, maintenance services, asset care (inspections, testing), and mining services across multiple industries including mining, utilities, infrastructure, manufacturing, and building. The breadth of SRG capabilities (access solutions, remedial services, civil maintenance, production drill and blast, specialist façade, and inspections) provides a strong value proposition to clients (life of asset capabilities) and ensures peak utilisation of assets.

Building a profile of earnings visibility

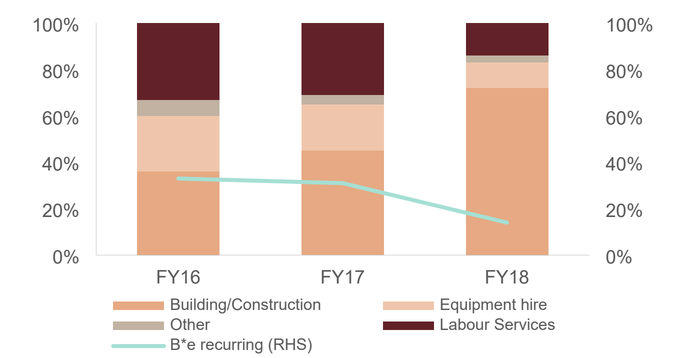
Post the merger with Global Construction Services (GCS) in FY18, SRG has increased exposure to longer dated and recurring style earnings (maintenance work and contracted Drill & Blast mining services), transitioning away from lumpy (higher risk, fixed price) project construction jobs. Pre-merger we believe SRG/GCS recurring revenue was c.<40%, this has increased to 50% of group revenue and c.73% of EBITDA, including Asset Care.

Figure 4: SRG revenue mix pre-merger with GCS



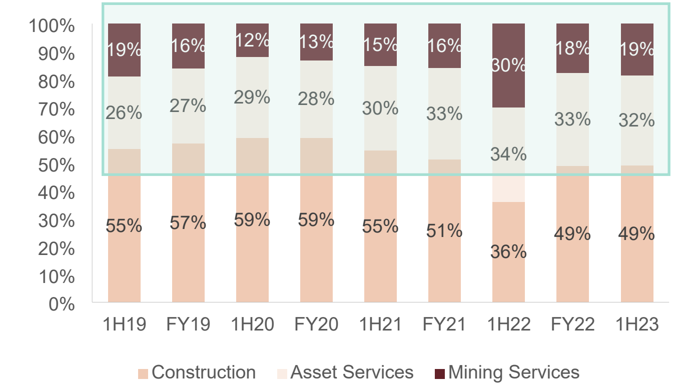
Source: Company data, Barrenjoey Research

Figure 5: GCS revenue mix pre-merger with SRG



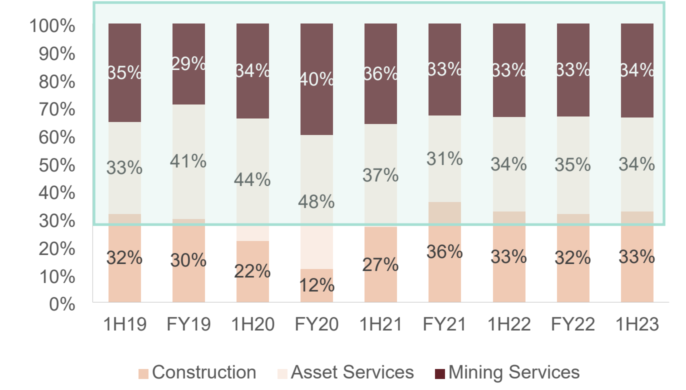
Source: Company data, Barrenjoey Research

Figure 6: Post merger SRG revenue mix by division



Source: Company data, Barrenjoey Research

Figure 7: Post merger SRG segment EBITDA by division

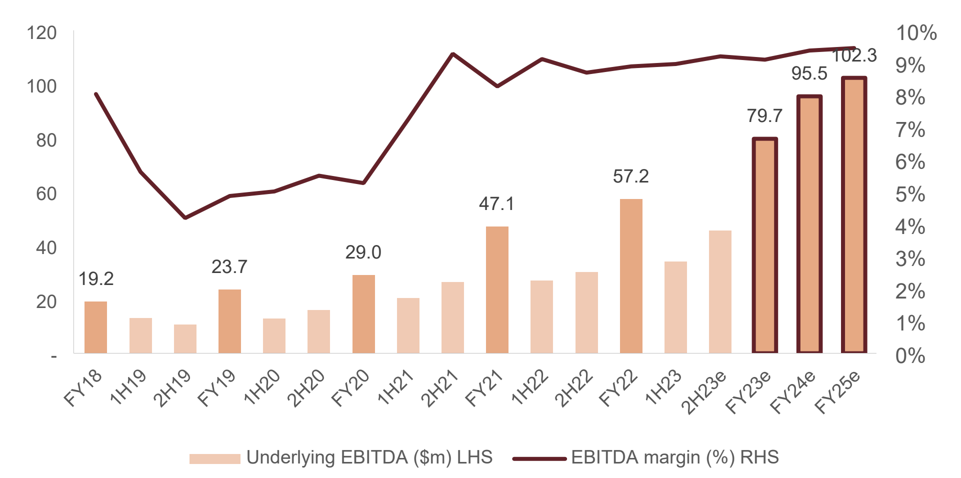


Source: Company data, Barrenjoey Research

Since FY19, SRG has delivered a +422bps EBITDA margin improvement and +20% adj EPS CAGR

The result of this shift towards recurring revenue and selective engineering-based project work has been: 1) an increase in visibility and consistency of earnings; and 2) an increased EBITDA margin profile of the group. Since FY19, SRG has delivered a +422bps EBITDA margin improvement and +19.6% adj EPS CAGR.

Figure 8: SRG EBITDA and margin profile since FY18



Source: Company data, Barrenjoey Research estimates

Compositionally, earnings growth has been driven by all SRG divisional segments with a greater emphasis on higher margin construction projects such as façade installation and engineering construction projects (bridges, dams, tanks).

Earnings growth and earnings consistency

The consistency of earnings is driving EBITDA growth and increased EBITDA visibility with SRG providing 12 positive trading updates since Oct-20. Organic growth has been the primary driver of these impacts with inorganic (Asset Care and WBHO) growth also supporting earnings momentum.

In May-23, SRG upgraded FY23 EBITDA guidance by c.+6% at the mid-point from $72m-$75m to $79m-$80m (B*e: $79.7m)

Figure 9: SRG trading updates

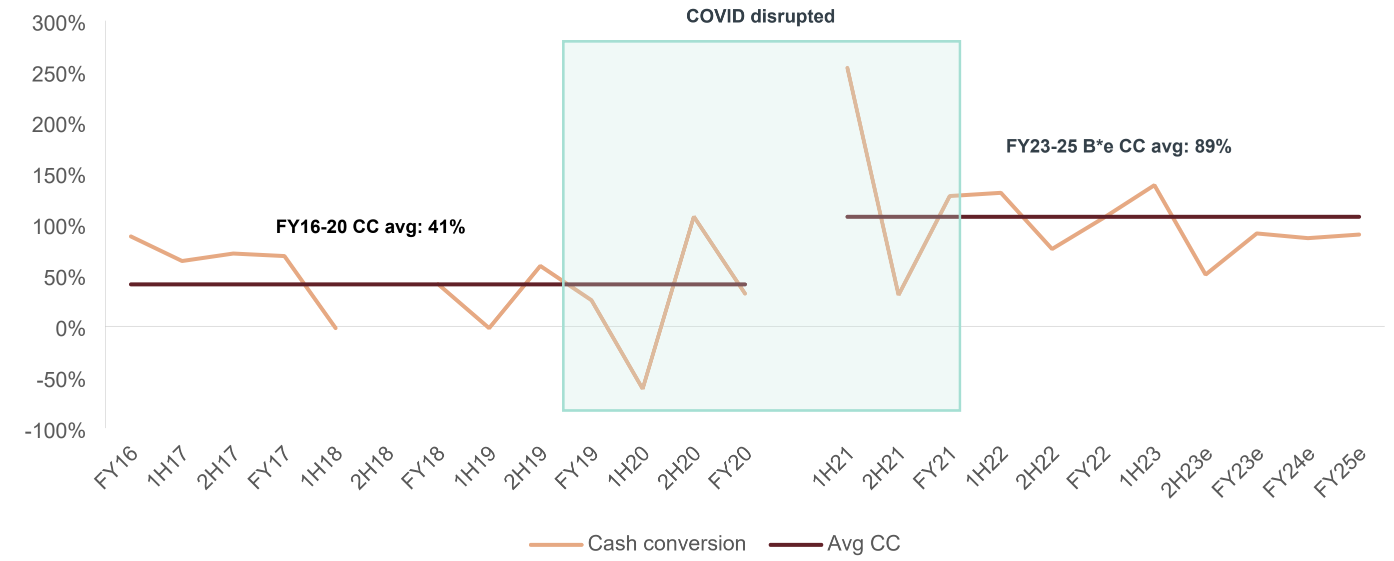
Date	Event	Guidance Year	EBITDA guidance	Net move
Nov-18	AGM	FY19	$32-35m	-
Feb-19	1H19 result	FY19	$32-37m	+ive
Feb-20	1H20 result	FY20	$30-34m	-
Mar-20	Trading update	FY21	Guidance withdrawn	-ive
Jul-20	Trading update	FY22	$20-21m	-ive
Oct-20	AGM	FY21	$38-42m	+ive
Nov-20	Trading update	FY21	$42-45m	+ive
Feb-21	1H21 result	FY21	$45-47m	+ive
Jul-21	Trading update	FY21	Top end of guidance	+ive
Aug-21	FY21 result	FY22	~$54m (+15% EBITDA YoY)	+ive
Oct-21	AGM	FY22	Guidance reaffirmed	+ive
Feb-22	1H22 result	FY22	$54-57m	+ive
Jul-22	Trading update	FY22	Top end of guidance	+ive
Aug-22	Trading update	FY23	~$71.5m (+25% EBITDA YoY)	+ive
Oct-22	AGM	FY23	~$71.5m (+25% EBITDA YoY)	+ive
Feb-23	1H23 result	FY23	$72-75m	+ive
May-23	Trading update	FY23	$79-80m	+ive

Source: Company data, Barrenjoey Research

Higher quality earnings equals higher quality cash conversion

This positive earnings trend is also reflected in SRG's cash conversion profile which has materially improved post COVID with our forecasts incorporating ongoing strong cash conversion of c.80-90% of EBITDA (GOCF/EBITDA).

Figure 10: SRG cash conversion (CC) profile pre and post-merger

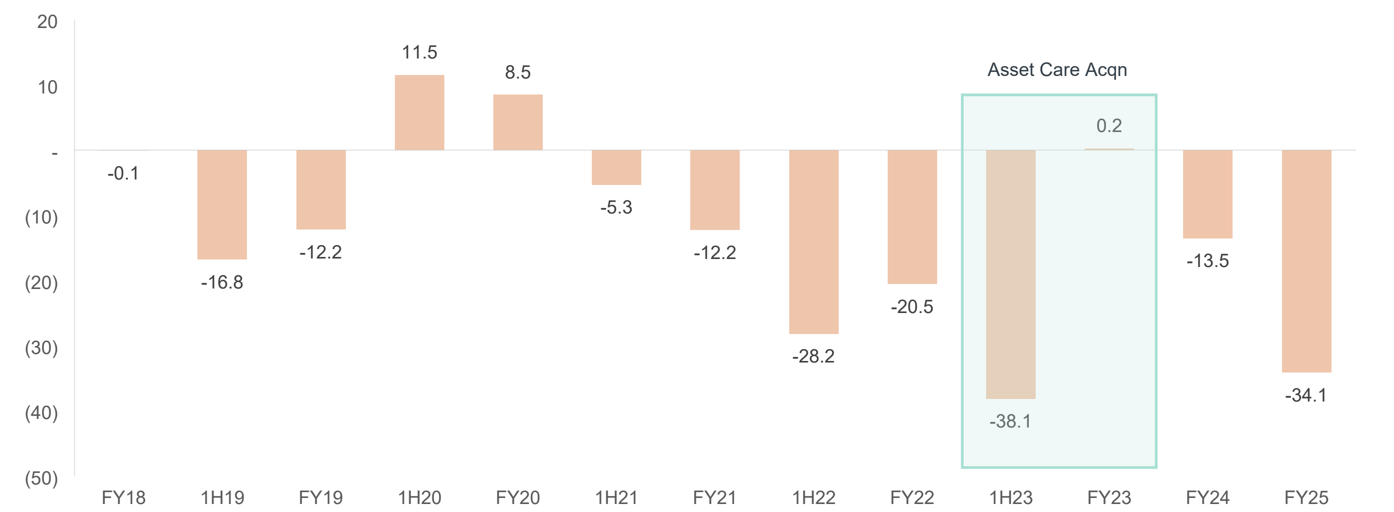


Source: Company data, Barrenjoey Research estimates. NB: FY18 removed due to merger with GCS.

Capital position strength has increased M&A optionality

Strong cash conversion since 1H21 has also supported SRG's capital position. This has moved from a net debt profile over FY20 to a net cash position of $38m at 1H23. Recent EPS accretive acquisitions have been funded in part via cash and debt as a result of this capital position.

Figure 11: SRG's net debt/(cash) profile ($m)



Source: Company data, Barrenjoey Research estimates. ND profile excl. lease liabilities

Our FY23e net debt of $0.2m reflects the debt funding of Asset Care which was acquired from ALS (ALQ) for $80m in Feb-23

Our FY23e net debt of $0.2m reflects the debt funding of Asset Care which was acquired from ALS (ALQ, N $12.65) for $80m in Feb-23. The acquisition of Asset Care enhances SRG's service capabilities and follows the purchase of WBHO in Mar-22 for $15m (from administrators). The acquisition of WBHO strengthened SRG's WA capabilities across asset management, civil maintenance, and construction services.

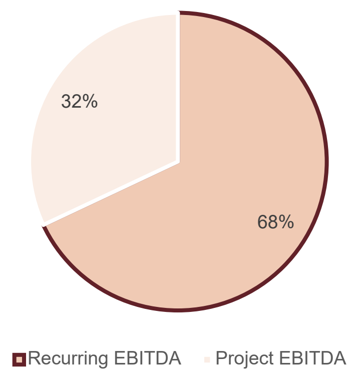
Asset Care – earnings stability

The inclusion of Asset Care increases SRG's recurring EBITDA from c.68% to c.74% (CY22 Pro-forma).

The earnings profile of Asset Care has a degree of predictability with earnings derived from maintenance tasks (pipeline inspection and testing) on essential infrastructure assets. The operating footprint of Asset Care also increases SRG's geographical presence with 70% of work located along the East Coast.

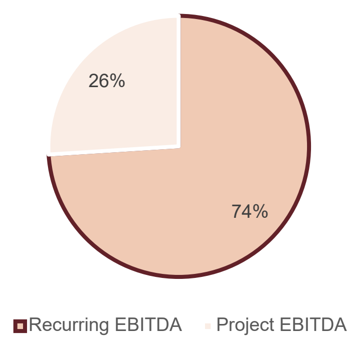
The inclusion of Asset Care increases SRG's recurring EBITDA from c.68% to c.74% (CY22 Pro-forma).

Figure 12: SRG standalone EBITDA by contract type (CY22)



Source: Company data, Barrenjoey Research

Figure 13: SRG/Asset Care EBITDA by contract type (CY22)



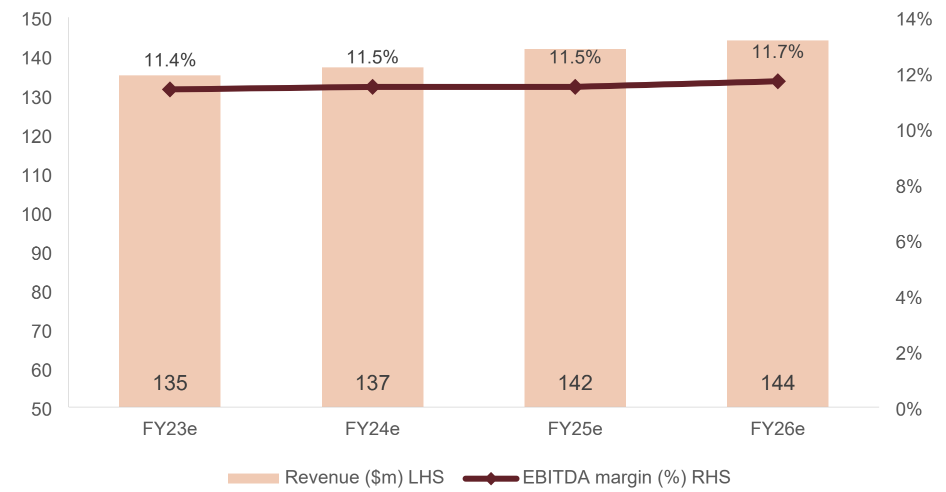
Source: Company data, Barrenjoey Research

Asset care growth outlook

The inclusion of Asset Care enhances this service offering, adding: 1) Integrity engineering; 2) testing and inspections; and 3) condition monitoring

We forecast modest +3.5% EBITDA growth over FY24/25e as SRG integrates the acquisition and retains Asset Care's workforce and clients. Whilst not in our forecast, we believe longer term opportunities exist for margin expansion as SRG capitalises on cross sell opportunities with existing clients. The inclusion of Asset Care enhances this service offering by adding: 1) integrity engineering; 2) testing and inspections; and 3) condition monitoring.

Figure 14: B*e Asset Care earnings profile



Source: Company data, Barrenjoey Research estimates

Key debate#2: Is +10% FY23-25e EPS CAGR achievable?

Barrenjoey Response

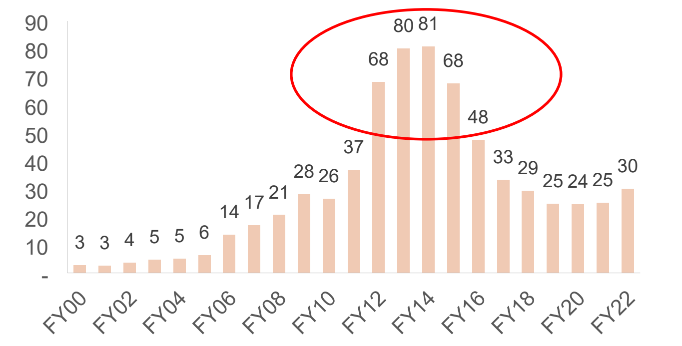
We view: 1) record WIH; 2) long contract tenure with a blue-chip client base; 3) enhanced cross sell capabilities, and 4) aging critical infrastructure as tailwinds supporting our +10% EPS CAGR

We believe so, with B*e EPS of +10.1% over FY23-25e. The essential nature (maintenance of critical infrastructure and production) of SRG's work provides forward visibility and a degree of predictability due to asset maintenance schedules. According to BIS Oxford Economics the outsourced maintenance services industry is expected to grow by +6.6% CAGR over FY23-25e. We view: 1) record WIH; 2) long contract tenure with a blue-chip client base (RIO, FMG, S32); 3) enhanced cross sell capabilities and 4) aging critical infrastructure as tailwinds supporting our +10% EPS CAGR.

Favourable industry backdrop

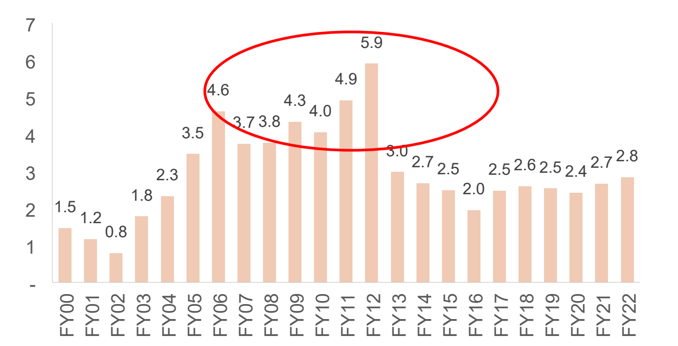
Increasing and aging heavy industries infrastructure: Performing services for heavy industries (mining, manufacturing, production), the increasing age profile (c.10-years) of plant and equipment post a capex boom (FY10-12) supports increasing industrial services requirements from asset owners to ensure optimal production output.

Figure 15: Mining Building & Construction capex ($bn)



Source: ABS, Barrenjoey Research.

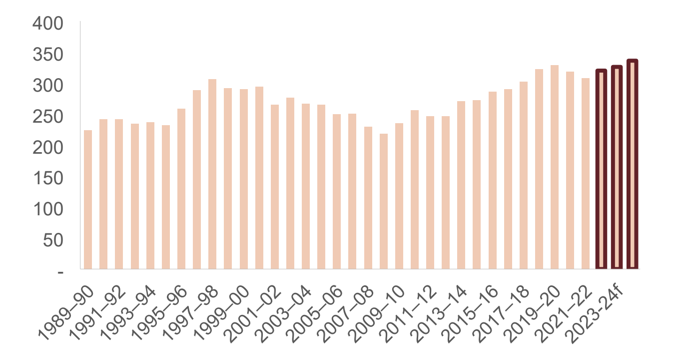
Figure 16: Australian manufacturing expenditure ($bn)



Source: ABS, Barrenjoey Research. NB: HY revenue has been doubled

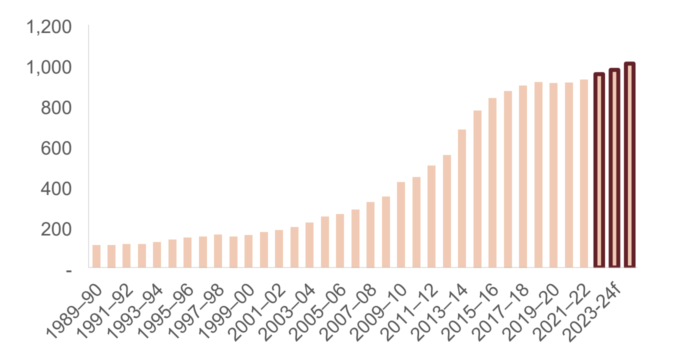
Key commodity exposures across the mining services sector for SRG include Iron Ore, Gold and Lithium (asset maintenance at Kemerton). Whilst we are cognisant mining services revenue can fluctuate due to production levels, Gold/Iron Ore production in Australia has displayed a long-term positive trend with 3-yr production CAGR over 2022-25 of +3.0%/+2.8% with SRG focused on high rig utilisation (c.90%+).

Figure 17: Australian Gold Production (Mn Tonnes)



Source: Dept of Industry, Science and Resources, Barrenjoey Research.

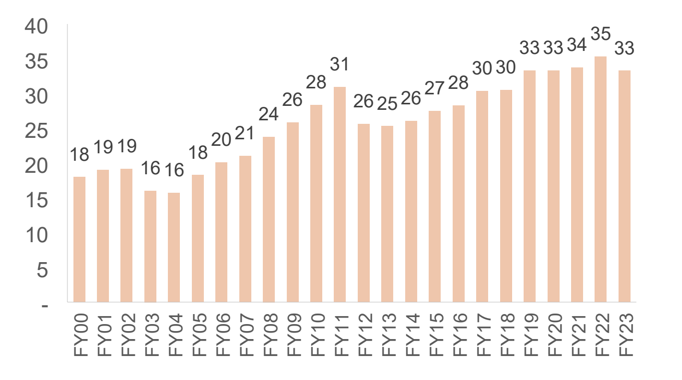
Figure 18: Australian Iron Ore Production (Mn Tonnes)



Source: Dept of Industry, Science and Resources, Barrenjoey Research.

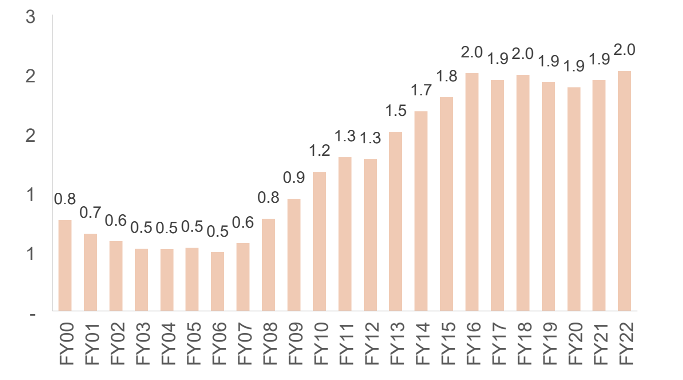
Increasing expenditure and remediation works on public structures provides a favourable backdrop with recent contract wins spanning bridge post tensioning work with the Vic govt and a port maintenance in Fremantle. Across construction, key clients include Lendlease (LLC, N $9.25 PT), Built, and Hutchinson with capabilities spanning access solutions, rehabilitation, engineering and facades installations.

Figure 19: Total Non-residential construction capex FY00-23 ($bn)



Source: ABS, Barrenjoey Research.

Figure 20: Bridges, Harbors, Water Storage and Powerline capex ($bn)

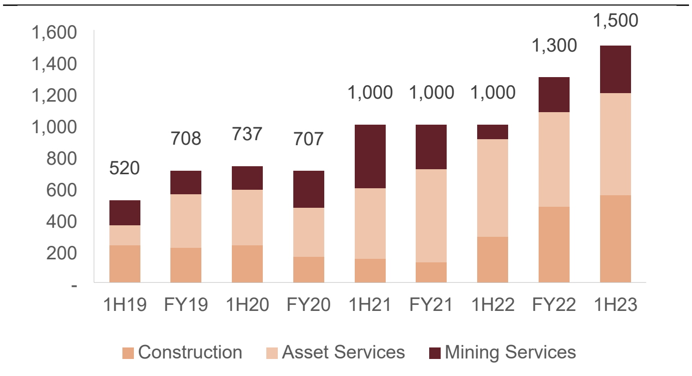


Source: ABS, Barrenjoey Research.

Bottom up - B* FY24/25e outlook supported by a record WIH profile

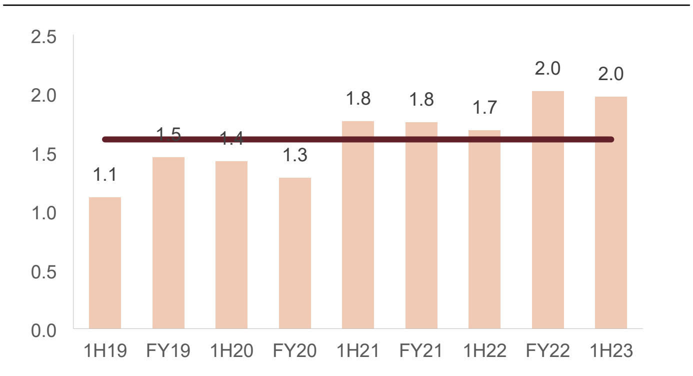
Over 1H23, WIH increased by 15% (to $1.5bn) as SRG secured a number of longer dated contracts across all segments. Whilst WIH across Asset Care has not been disclosed, typical contract lengths range from 2-5 years and enhance the recurring revenue profile for SRG over the forecast period. We believe current WIH (incl. Asset Care) represents c.1.7x B*e FY24 revenue (hist. avg at 1.6x revenue) and provides a solid foundation for our FY23-25e revenue CAGR of +11%.

Figure 21: WIH growth profile ($m) since FY19…



Source: Company data, Barrenjoey Research

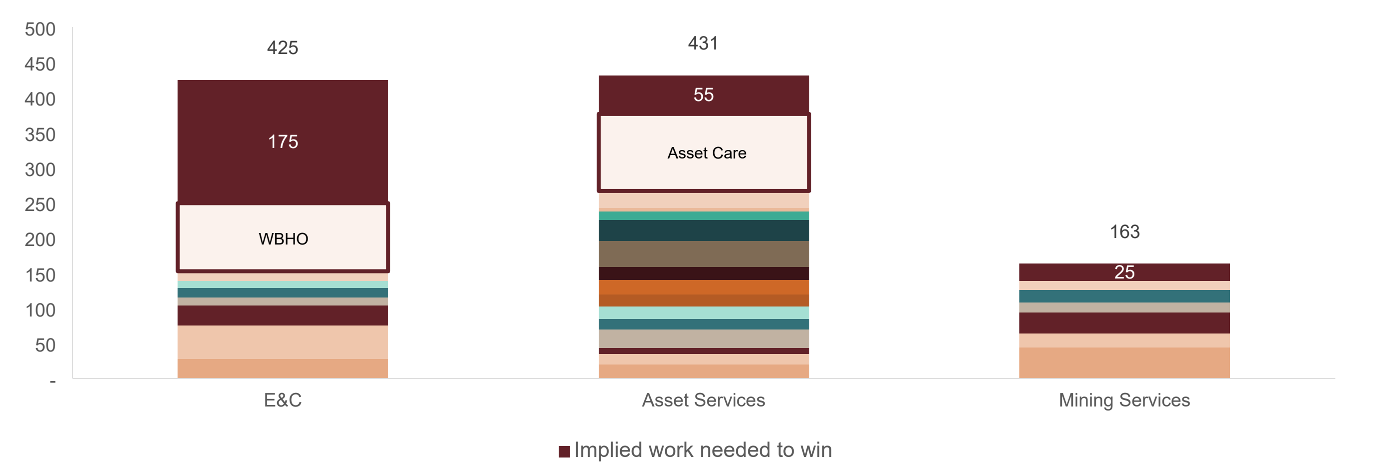
Figure 22: …has increased as % of revenue



Source: Company data, Barrenjoey Research. NB: HY revenues have been doubled

Fig.23 outlines a B* estimate of divisional revenues which is depicted by underlying contract contributions. We forecast both Asset Care and WBHO have c.75-80% forward revenue visibility and believe SRG's current WIH implies c.75% revenue visibility in FY24e (B*e).

Figure 23: B*e of SRG contract contributions FY24e ($m) with implied work needed of c.$254m to reach B*e



Source: Barrenjoey Research estimates

We outline SRG contract awards which contribute to the forward visibility. Shaded contracts represent SRG's quoted $1bn contract wins over FY23TD with 6 of these contracts >3-yrs in length, illustrating management's focus on long dated term style contract preference.

Figure 24: Large SRG contract wins since 2020

Asset Services					
Date	**End date**	**Length (yrs)**	**Value ($m)**	**Annual ($m B*e)**	**Client/Details**
Mar-23	Aug-25	2.5	50	20	Multiple clients (BHP, NST, Albemarle)
Nov-22	Oct-25	3	45	15	NZ multiple client - maintenance work
Oct-22	Sep-27	5	40	8	FMG (Iron Bridge scaffold works)
Sep-22	Aug-25	3	80	27	MS at Alcoa (Wagerup/Pinjara) and MARBLE at Albemarle (rope access)
Jul-22	Jun-28	6	90	15	NST – maintenance services at Superpit and Meridian Energy hydro and wind assets
Jul-22	Jun-24	2	35	18	S32 - Worsley Alumina (civil maintenance)
Jul-22	Jun-24	2	35	18	Fremantle Port concrete maintenance
Jul-22	Jun-27	5	100	20	Iron bridge (Master Shutdown) and Visy Ade (Refractory works)
May-22	Apr-27	5	95	19	Alcoa - Civil infrastructure maintenance (Kwinana Refinery WA)
Nov-21	Oct-24	3	110	37	Multiple clients (diary, O&G, RIO, Transpower)
Feb-21	Jan-26	5	150	30	Master MS with FMG
Sep-20	Aug-28	8	100	13	S32 - Worsley Alumina (Refractory services)
Sep-20	Aug-25	5	25	5	Yara Pilbara (ammonia production) - fixed plant maintenance

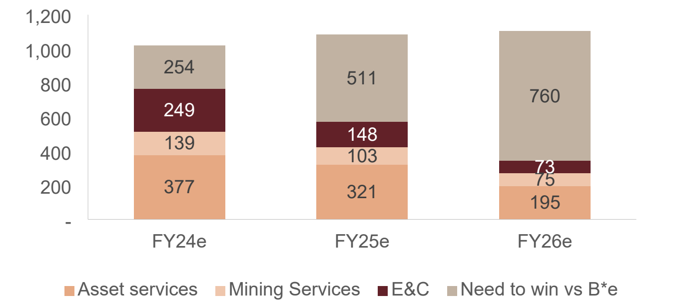
Mining Services					
Date	**End date**	**Length (yrs)**	**Value**	**Annual**	**Client/Details**
Feb-23	Jan-28	5	220	44	NST - Bronzewing, Thunderbox, Carosue Dam
Feb-22	Feb-24	2	60	30	Evolution (Cowal) / Navarre Minerals (Mt Carlton)/Red5 5 (Great Western)
Feb-22	Jan-27	5	150	30	SIMEC (OneSteel Manufacturing)
Mar-20	Feb-25	5	70	14	Saracen drill & Blast (Thunderbox, Carosue Dam)
Jan-20	Dec-24	5	90	18	Alcoa - Asset maintenance (Kwinana WA)

Engineering and Construction					
Date	**End date**	**Length (yrs)**	**Value**	**Annual**	**Client/Details**
Mar-23	Nov-23	0.8	55	41	FMG - road construction (Eliwana)
Feb-23	Aug-25	2.5	120	48	Multiplex - Façade (ECU City Project)
Feb-23	Feb-24	1	40	40	Vic/QLD govt - Bridge, rail, marine
Nov-22	May-25	2.5	30	12	LLC - Façade 51 Flinders Lane
Aug-22	Jul-27	5	65	13	Atlassian Façade contract
Jun-22	May-25	3	30	10	Hutchinsons Builders - Façade (360 Queen Bris)

Source: Company data, Barrenjoey Research

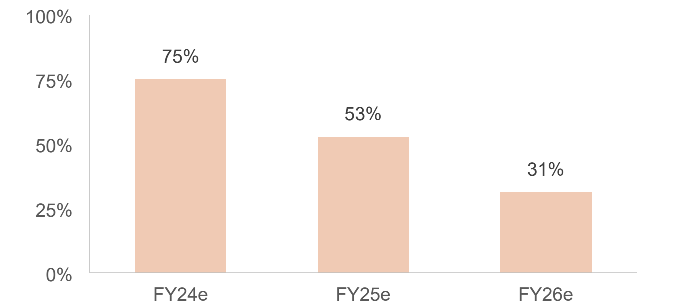
Based on these contract values, we estimate SRG's revenue waterfall chart over FY24-26e.

Figure 25: B*e: revenue waterfall of SRG WIH over FY24-26e ($m)…



Source: Company data, Barrenjoey Research estimates

Figure 26: …corresponding % of forward visibility with current contracts vs B* revenue forecasts



Source: Barrenjoey Research estimates

We believe SRG's Asset Services can deliver +8% EBITDA CAGR over FY23-25e

Asset Services and Asset Care (c.44% of FY24e segment EBITDA)

We believe SRG's Asset Services can deliver +8% EBITDA CAGR over FY23-25e driven by: 1) an increasing asset base (mining, steel, industrial, civil infrastructure); 2) imbedded contract growth (B*e c.10% of initial contract value); and 3) new contract wins. Contract visibility is typically robust (c.+70% NTM) and determined by client scheduled maintenance rosters with contract structure primarily schedule of rates with rise and fall clauses.

Figure 27: Asset Services segment profile: EBITDA FY23-25e CAGR: +8%

Asset Services	FY21	FY22	FY23e	FY24e	FY25e	2-Yr CAGR
Revenue ($m)	186.9	214.8	272.6	293.9	314.8	7.4%
Growth (%)	*23.1%*	*14.9%*	*26.9%*	*7.8%*	*7.1%*	
EBITDA ($m)	22.0	25.2	31.8	34.4	37.0	7.9%
Margin (%)	*11.8%*	*11.7%*	*11.7%*	*11.7%*	*11.8%*	
Growth (%)	*18%*	*14.2%*	*26.2%*	*8.3%*	*7.6%*	
EBIT ($m)	11.5	13.2	19.4	22.2	24.6	12.6%
Margin (%)	*6.1%*	*6.1%*	*7.1%*	*7.6%*	*7.8%*	

Source: Company data, Barrenjoey Research estimates

Contract visibility is typically robust (c.+70% NTM) and determined by client scheduled maintenance rosters

SRG performs a range of services across its Asset Services division including access solutions, asset repair, and multi-discipline maintenance (including shutdown and turnaround operations, refractory services). The inclusion of Asset Care enhances this service offering, adding: 1) Integrity engineering; 2) testing and inspections; and 3) condition monitoring.

Figure 28: Asset Care segment profile: EBITDA FY24/25e +3.5%

Asset Care	FY21	FY22	FY23e	FY24e	FY25e
Revenue ($m)	-	-	42.8	137.0	141.8
Growth (%)	-	-	-	-	*3.5%*
EBITDA ($m)	-	-	4.7	15.8	16.3
Margin (%)			*11.0%*	*11.5%*	*11.5%*
Growth (%)	-	-	-	-	*3.5%*
EBIT ($m)	-	-	3.8	11.6	12.1
Margin (%)	-	-	*8.8%*	*8.5%*	*8.5%*

Source: Company data, Barrenjoey Research estimates

Asset Care revenues are primarily recurring (99%) with contract duration 2-5 years and primarily east coast derived (70/30 East/West exposure)

Asset Care revenues are primarily recurring (99%) with contract duration 2-5 years. Our earnings profile of Asset Care is relatively muted as we believe initial focus will be on integrating SRG and Asset Care. However, we note cross sell synergies exist due to 1) increased scope of offering to existing and new clients; and 2) geographic expansion (AC: 70/30 East/West exposure).

Mining Services (c.29% of segment EBITDA)

SRG's Mining Services revenues are predicated on Drill and Blast services. The underlying drivers include: 1) new contract wins; 2) rig numbers (c.55) and rig utilisation (c.90%); and 3) client production levels. Key services include: 1) Production Drill & Blast; 2) Specialist Drilling Services; and 3) Specialist Geotech. Contract terms are typically schedule of rates and based on production volumes by clients such as NST (OW $14.50 PT) and EVN (UW $3.20 PT).

Figure 29: Quarterly production volumes from key SRG drill and blast clients

Northern Star	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	FYTD	FYTD vs pcp
Thunderbox/Bronzewing (Mn Tn)	0.3	0.7	0.6	0.9	0.9	1.2	1.1	3.21	101%
Carosue Dam (Mn Tn)	0.3	0.5	0.5	1.4	1.5	1.0	0.9	3.48	148%
KCGM (Mn Tn)	1.7	1.9	1.6	2.0	0.8	1.3	1.3	3.42	-36%
SRG mine exposure	**2.4**	**3.2**	**2.7**	**4.3**	**3.2**	**3.6**	**3.3**	**10.1**	**22%**
Evolution	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**FYTD**	**FYTD vs pcp**
Cowal (KT)	1,708	2,494	2,594	3,676	3,525	3,682	4,213	11,420	**68%**

Source: Company data, Barrenjoey Research

The increased capital intensity (vs other divisions) is reflected by segment margins (c.20-22%)

Growth from existing clients, such as NST's Super Pit expansion (Fimiston South Project), provide lower risk growth opportunities for SRG, in our view. The increased capital intensity (vs other divisions) is reflected by segment margins (c.20-22%) with margin fluctuations typically associated by underlying work programs (increased explosives usage results in a lower margin as contract terms are typically cost plus).

Figure 30: Mining Services segment profile: EBITDA FY23-25e CAGR: +7%

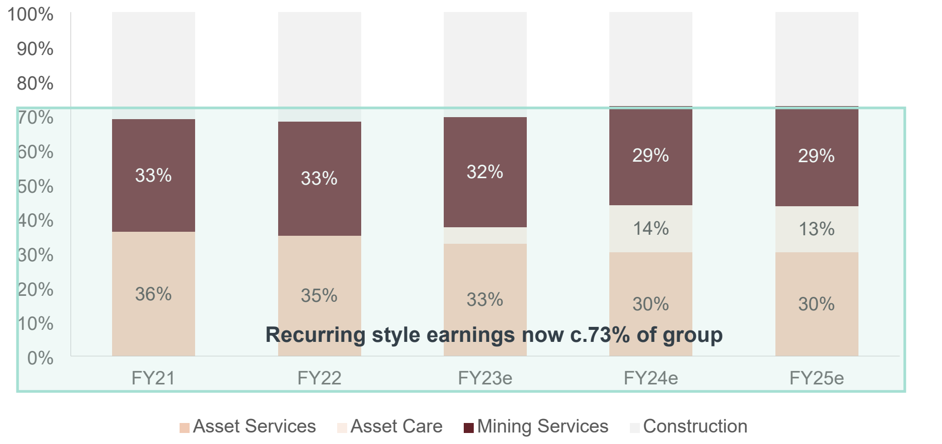
Mining Services	FY21	FY22	FY23e	FY24e	FY25e	2-Yr CAGR
Revenue ($m)	90.9	114.0	153.4	163.1	173.6	6.3%
Growth (%)	*26.7%*	*25.5%*	*34.6%*	*6.3%*	*6.4%*	
EBITDA ($m)	20.0	23.9	31.0	33.3	35.6	6.7%
Margin (%)	*22.0%*	*21.0%*	*20.2%*	*20.4%*	*20.5%*	
Growth (%)	*44%*	*19.4%*	*29.6%*	*6.8%*	*6.9%*	
EBIT ($m)	13.4	17.1	23.3	24.6	26.4	6.3%
Margin (%)	*14.7%*	*15.0%*	*15.2%*	*15.1%*	*15.2%*	

Source: Company data, Barrenjoey Research estimates

Combined, Asset and Mining Services equate to c.73% of segment EBITDA and underpin revenue and EBITDA visibility

Combined, Asset and Mining Services equate to c.73% of segment EBITDA and underpin revenue and EBITDA visibility. SRG's margin profile is a key focus over FY24/25e, however rise and fall contracts (cost increased passed through on revenue rates), gives SRG imbedded levers to mitigate contract pressures, in our view.

Figure 31: Recurring style segment EBITDA now represent c.73% of group



Source: Company data, Barrenjoey Research estimates

Engineering & Construction (c.27% of segment EBITDA)

Since merging with GCS, SRG has maintained a disciplined contract approach with key clients including government agency and tier 1 builders

Since merging with GCS, SRG has maintained a disciplined contract approach with key clients including government agency and tier 1 builders. Typical works include façade installation, and engineering and construction works (anchor monitoring, post-tensioning, corrosion protection) on Bridges, Dams, Harbours, Roads and Defence.

Figure 32: E&C segment profile: EBITDA FY23-25e CAGR: +6%

Construction	FY21	FY22	FY23e	FY24e	FY25e	2-Yr CAGR
Revenue ($m)	291.7	315.4	407.8	424.5	452.8	5.4%
Growth (%)	*-10.9%*	*8.1%*	*29.3%*	*4.1%*	*6.7%*	
EBITDA ($m)	18.9	22.8	29.8	31.4	33.5	6.1%
Margin (%)	*6.5%*	*7.2%*	*7.3%*	*7.4%*	*7.4%*	
Growth (%)	*-169%*	*20.6%*	*30.3%*	*5.5%*	*6.7%*	
EBIT ($m)	12.2	16.5	22.0	23.3	24.9	6.3%
Margin (%)	*4.2%*	*5.2%*	*5.4%*	*5.5%*	*5.5%*	

Source: Company data, Barrenjoey Research estimates

Although a small contributor to overall group revenue (B*e: $40m), we believe SRG's industrial Product's business is another growth vertical where SRG can capitalise on existing client relationships and leverage existing scope of work packages (such as cable bolts for rockfall protection works).

Key debate #3: What is an appropriate multiple for SRG?

We believe SRG warrants a 12-14x PE multiple (B* NTM valn: 13x) which reflects an EPS growth profile of +10% CAGR over FY23-25 and a stable EBITDA margin profile

Barrenjoey Response

We believe SRG warrants a 12-14x PE multiple (B* NTM valuation: 13x) which reflects an EPS growth profile of +10% CAGR over FY23-25 and a stable EBITDA margin outlook. We benchmark SRG against a basket of mining and maintenance service comps to cross reference our 13x ascribed multiple. We believe SRG's current FY24 PE of 9.4x screens attractively against comps which trade on PE multiples >13x with EPS growth in-line or below SRG (see Fig.40).

SRG and ASX comps (B* basket)

We benchmark SRG across a basket of ASX listed maintenance and mining service companies which we categorise according to underlying capabilities and end market positioning. Whilst a number of companies sit across multiple categories (including SRG), we believe the classification have earnings and multiple dispersions.

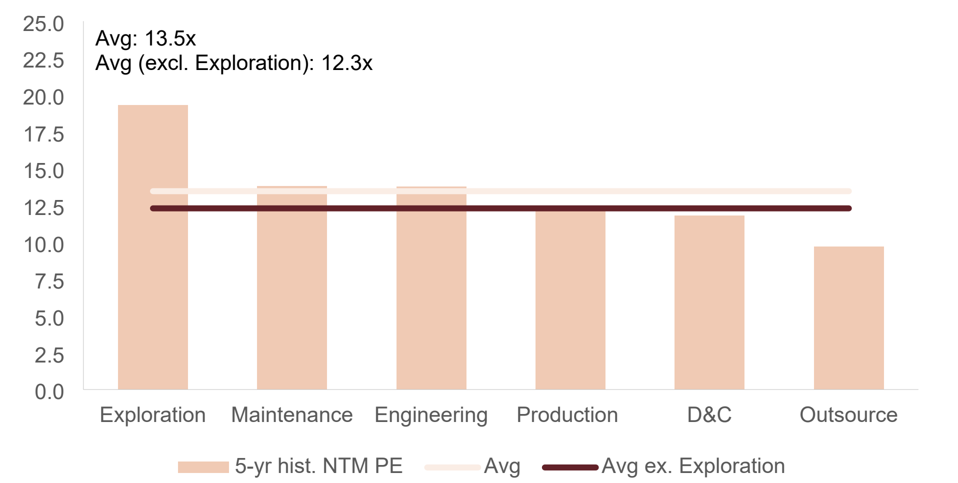
Figure 33: ASX Maintenance and Mining Services companies by industry segments

Exploration		Feasibility		Design & Construct		Production		Outsourced Services		Maintenance Services	
Code	Company	Code	Company	Code	Company	Code	Company	Code	Company	Code	Company
ALQ	ALS Ltd	GNG	GR Engineering	DCG	Decmil	ANG	Austin Engineering	AJL	AJ Lucas	DOW	Downer
IMD	Imdex	LYL	Lycopodium	FWD	Fleetwood	EHL	Emeco	MAD	Mader	MAD	Mader
XRF	Xref	WOR	Worley	GNG	GR Engineering	MRM	MMA Offshore	MAH	Macmahon	MND	Monadelphous
				LYL	Lycopodium	SVW	Seven Group	MIN	Mineral Resources	SVW	Seven Group
				MAH	Macmahon	SRG	SRG Global	NWH	NRW Holdings	SRG	SRG Global
				MND	Monadelphous	WOR	Worley	PRN	Perenti	SSM	ServiceStream
				NWH	NRW Holdings			SRG	SRG Global	VNT	Ventia
				SRG	SRG Global			DUR	Duratec		
				SXE	SECC Electrical						
				WOR	Worley						

Source: Barrenjoey Research

Exploration, which displays the highest margin profile, has historically traded at the highest NTM PE (5-yr avg 19x). Despite a lower margin profile, Maintenance providers have typically commanded a higher multiple (vs industry comps) which we believe is attributable to a more stable margin profile.

Figure 34: 5-yr avg PE (NTM) across B* industry segments



Source: FactSet consensus, Barrenjoey Research

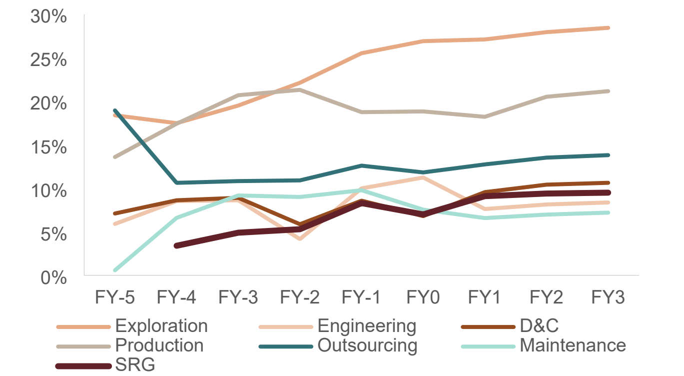
Benchmarking SRG vs B* baskets

We benchmark SRG vs comps across a range of metrics including: 1) EBITDA and EBIT(A) margin profiles; 2) 2-year forward EPS CAGR; 3) ROIC profiles; 4) historical NTM PE (x); 5) 1-year forward EPS CAGR and multiple; and 6) FCF multiple and yield.

Margin profiles (EBITDA/EBITA)

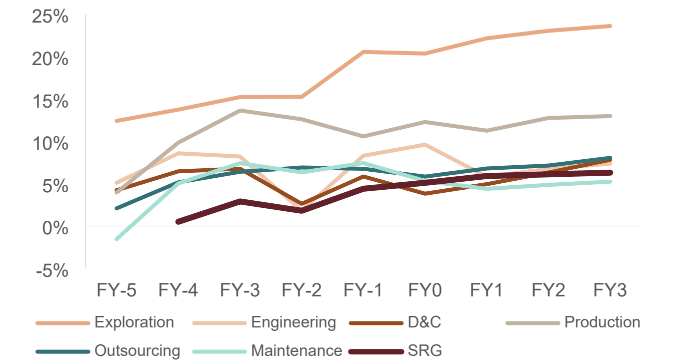
By B* comp benchmarks, exploration, production, and outsourced services deliver a higher margin profile which reflects the increased capital intensity of operations (SRG Drill & Blast segment EBITDA at c.20-22% reflects this capital intensity), in our view. SRG's margins are more closely aligned to maintenance service providers.

Figure 35: Avg EBITDA margin profile of comps



Source: FactSet consensus, Barrenjoey Research. FY1 = current unreported FY

Figure 36: Avg EBIT(A) margin profile of comps

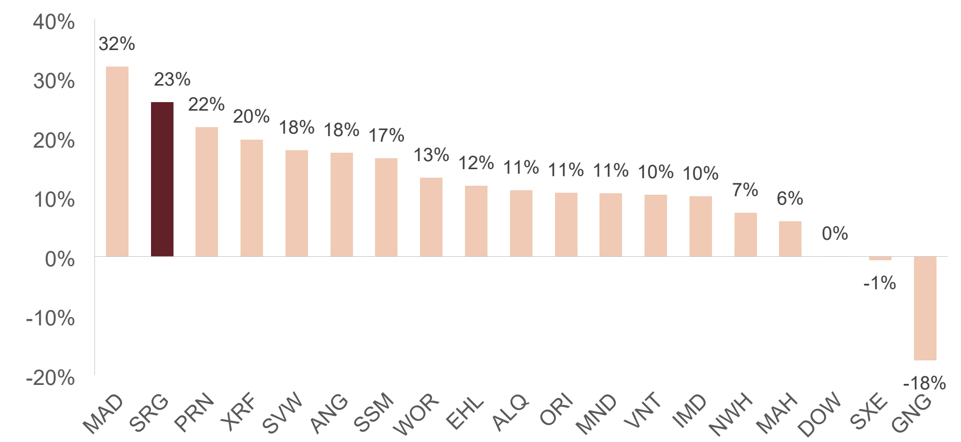


Source: FactSet consensus, Barrenjoey Research. FY1 = current unreported FY

EPS growth (2-year CAGR)

2-year EPS CAGR (FY22 base) suggests a superior SRG growth outlook (23%) vs industry comps which was been supported by both organic and inorganic growth.

Figure 37: 2-yr EPS growth profile (FY0-2)

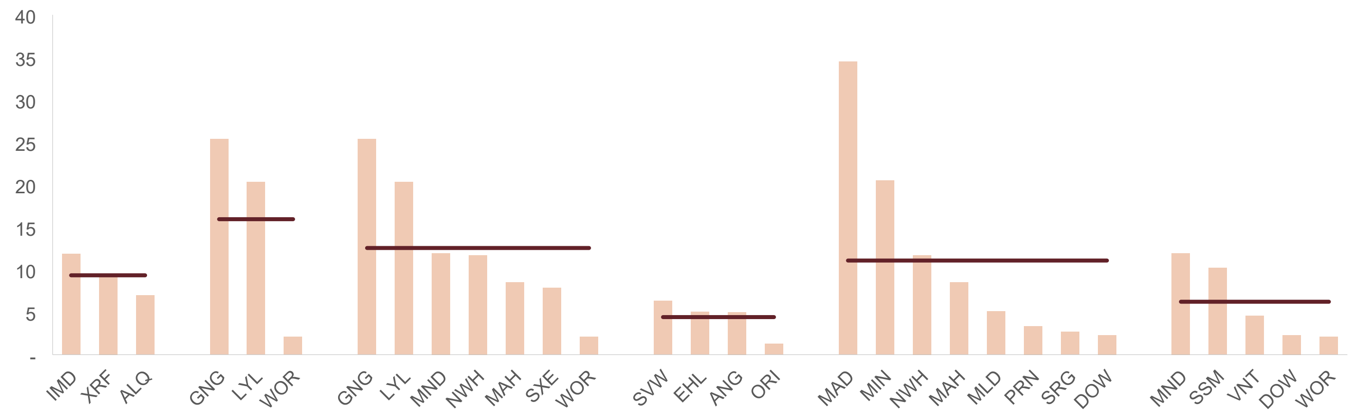


Source: FactSet consensus, Barrenjoey Research estimates (SRG only). FY0 = last reported financial year

ROIC (post-tax)

Post-tax ROICs comparison illustrates Engineering (15.9%), D&C (12.6%), and Outsourced Services (12.1%) have typically had higher returns profiles. This compares to our FY23-25e SRG ROIC profile of 12.6%-14.1%.

Figure 38: ROIC (%) – 5-year average across B* basket categories

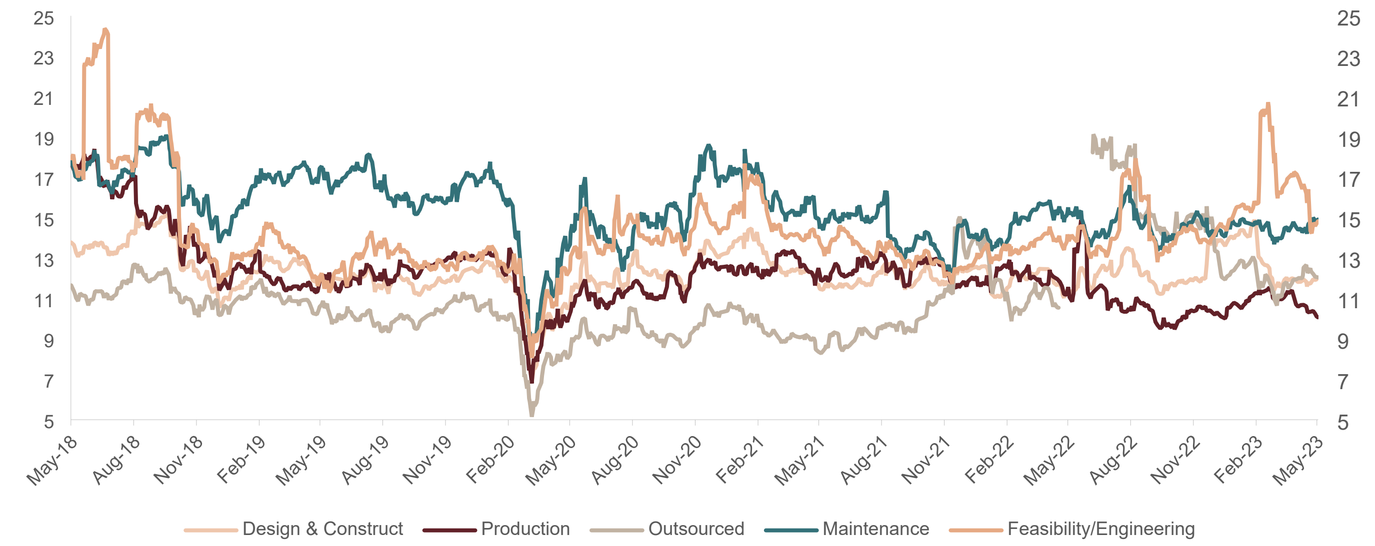


Source: FactSet consensus, Barrenjoey Research. NB: negative period ROIC's have been removed

Historical NTM PE (x) multiples favours Maintenance Services

Although maintenance has demonstrated a lower returns and growth profile, longer dated contracts and more margin stable (schedule of rates) contract structures have resulted in maintenance services commanding a higher multiple vs other B* buckets. As such, we believe SRG can re-rate to a maintenance service multiple given its similarities in earnings profile. In our view, SRG's higher group margins compensate the lumpy and higher nature risk profile of Engineering and Construction work.

Figure 39: Historical NTM PE (x) – 5-year average across B* basket categories



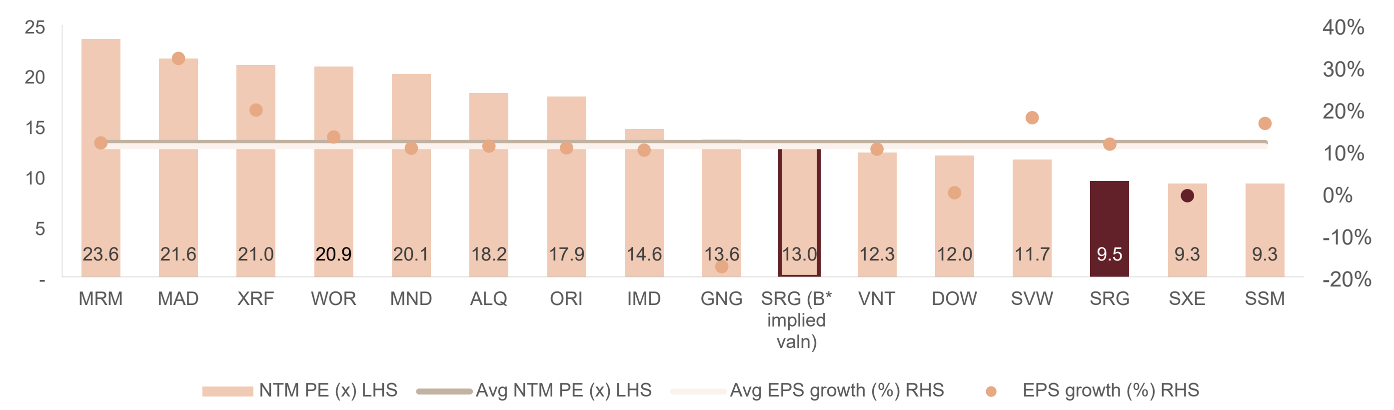
Source: FastSet consensus, Barrenjoey Research

SRG screens attractively when compared to a basket of mining services comps over FY23-25e

Strong EPS growth profile not reflected in SRG's NTM PE (x)

We believe SRG can trade between 12-14x which compares to its current multiple of NTM PE of 9.5x. We believe this multiple does not reflect SRG's maintenance exposure, improving returns profile and stronger EPS near-term EPS growth profile.

Figure 40: 1-year forward EPS growth vs NTM PE (x)

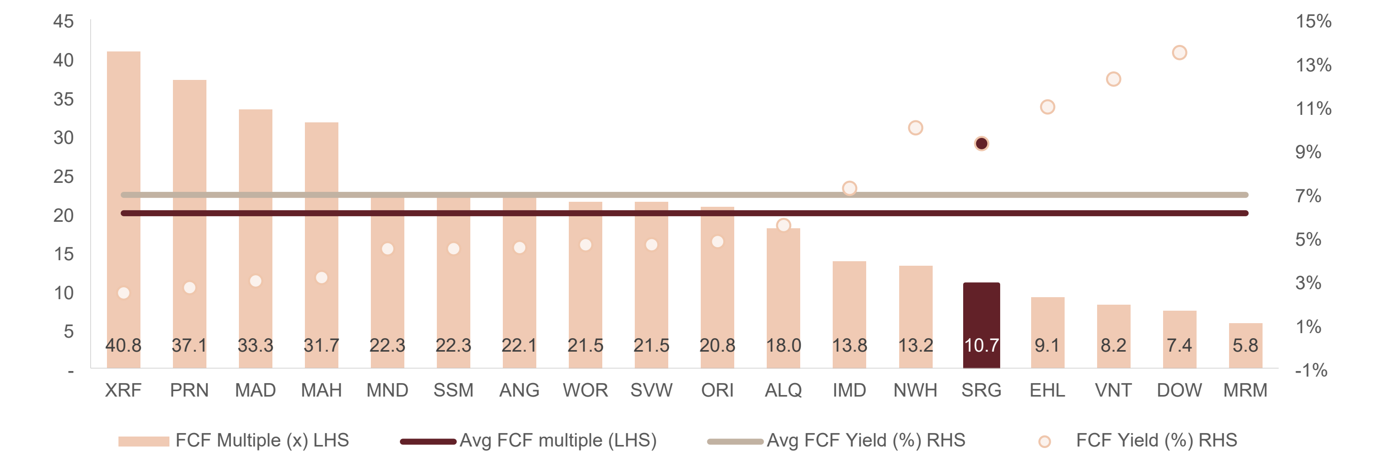


Source: FactSet consensus, Barrenjoey Research estimates (SRG only)

FCF vs comps

Similar to PE multiples, we believe SRG's FCF profile is currently not being reflected with SRG trading on an FY23 FCF of 10.8x (NTM: 9.4x) and FCF yield of 9.2%. This multiple is at a significant discount to industry peers (avg: 20.0x).

Figure 41: 1-year forward FCF multiple (%) and FCF yield (%)

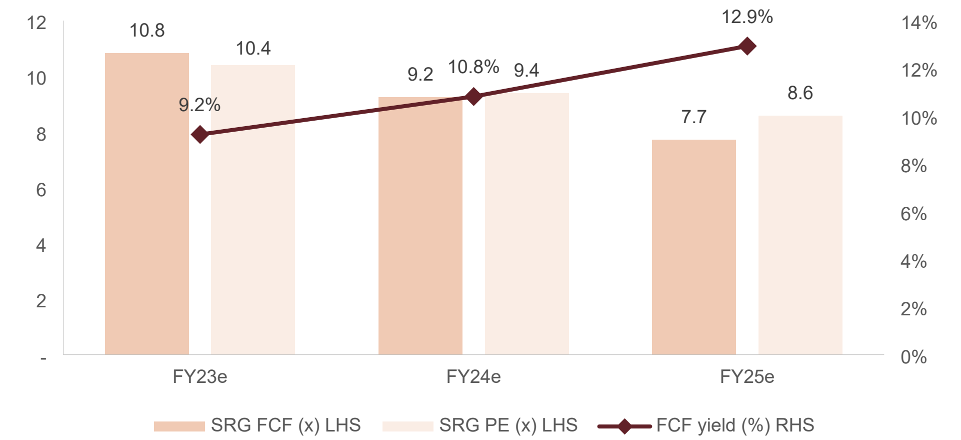


Source: FactSet consensus, Barrenjoey Research estimates (SRG only). 1-year forward = current unreported financial year

SRG trading on an FY23 FCF of 10.8x (NTM: 9.4x) and FCF yield of 9.2% (FY23)

With CC between c.80-90% of EBITDA and sustaining capex of c.$10m (growth capex $7m-$10m driven by client demand), we believe this FCF is sustainable over FY23-25e.

Figure 42: B*e – SRG PE (x), FCF multiple (x) and yield (FY23-25e)



Source: Barrenjoey Research estimates

Figure 43: Comparable companies table

Company		YE	Price ($)	Mkt cap ($m)	EV ($m)	ND/EBITDA (x)	Sales CAGR	EBITA growth (%)		EV/EBITDA (x)		EV/EBITA (x)		EBITA margin (%)		PE (x)		FCF yield (%)	
							FY0-FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2
SRG	**SRG Global**	**Jun**	**0.74**	**387.0**	**406.7**	**0.3**	**25.7%**	**50.2%**	**21.9%**	**5.1**	**4.1**	**7.9**	**6.3**	**9.1%**	**9.4%**	**10.4**	**9.4**	**9.2%**	**10.8%**
Exploration																			
ALQ	ALS	Sep	12.41	6,009	7,102	1.7	7.5%	21.2%	3.8%	10.9	10.6	14.3	13.8	19.9%	20.4%	19.0	18.3	5.5%	5.7%
IMD	Imdex	Jun	2.05	1,036	1,126	0.7	17.6%	36.5%	26.3%	8.6	7.0	11.2	8.9	24.2%	26.8%	17.6	14.2	-16.0%	6.6%
XRF	XRF Scientific	Jun	1.34	184	183	0.0	25.4%	48.8%	10.4%	13.9	12.5	14.7	13.3	22.3%	21.9%	23.2	20.8	2.5%	3.6%
	Average					**0.8**	**16.9%**	**35.5%**	**13.5%**	**11.1**	**10.0**	**13.4**	**12.0**	**22.2%**	**23.1%**	**20.0**	**17.8**	**-2.7%**	**5.3%**
	Median					**0.7**	**17.6%**	**36.5%**	**10.4%**	**10.9**	**10.6**	**14.3**	**13.3**	**22.3%**	**21.9%**	**19.0**	**18.3**	**2.5%**	**5.7%**
Engineering																			
GNG	GR Engineering Services	Jun	1.97	318	323	0.1	-12.8%	-32.1%	2.7%	8.3	8.1	9.7	9.5	6.3%	6.9%	14.3	13.6	0.7%	7.2%
LYL	Lycopodium	Jun	10.59	421	365	-0.8	18.0%	69.9%	-1.9%	5.4	5.5	5.9	6.0	19.3%	18.7%	9.4	10.1	3.1%	8.8%
WOR	Worley	Jun	16.45	8,638	10,201	1.9	11.1%	13.9%	20.9%	12.2	11.0	16.4	13.5	5.8%	6.7%	27.0	21.5	4.6%	6.9%
	Average					**0.4**	**5.4%**	**17.2%**	**7.2%**	**8.6**	**8.2**	**10.7**	**9.7**	**10.5%**	**10.8%**	**16.9**	**15.1**	**2.8%**	**7.6%**
	Median					**0.1**	**11.1%**	**13.9%**	**2.7%**	**8.3**	**8.1**	**9.7**	**9.5**	**6.3%**	**6.9%**	**14.3**	**13.6**	**3.1%**	**7.2%**
Design & Construct																			
FWD	Fleetwood	Jun	1.75	165	142	-1.1	-5.3%	-131.7%	-	6.9	3.6	36.3	6.1	1.0%	5.8%	130.8	11.1	-1.2%	-0.8%
GNG	GR Engineering Services	Jun	1.97	318	323	0.1	-12.8%	-32.1%	2.7%	8.3	8.1	9.7	9.5	6.3%	6.9%	14.3	13.6	0.7%	7.2%
LYL	Lycopodium	Jun	10.59	421	365	-0.8	18.0%	69.9%	-1.9%	5.4	5.5	5.9	6.0	19.3%	18.7%	9.4	10.1	3.1%	8.8%
MAH	Macmahon Holdings	Jun	0.13	269	487	0.7	0.1%	9.2%	11.7%	1.6	1.6	4.4	4.0	5.8%	7.2%	4.0	3.7	3.2%	20.8%
MND	Monadelphous	Jun	13.14	1,266	1,097	-1.6	1.8%	10.6%	22.1%	10.1	8.3	14.9	12.2	4.1%	4.5%	24.6	20.1	4.4%	4.8%
NWH	NRW Holdings	Jun	2.31	1,038	1,135	0.3	7.8%	6.2%	7.5%	4.0	3.7	6.8	6.3	6.2%	6.4%	10.0	9.1	0.8%	9.8%
SXE	Southern Cross Electrical	Jun	0.69	180	122	-	-2.7%	-201.2%	-3.1%	3.4	3.5	4.2	4.3	5.8%	5.4%	9.0	9.4	-	-
WOR	Worley	Jun	16.45	8,638	10,201	1.9	11.1%	13.9%	20.9%	12.2	11.0	16.4	13.5	5.8%	6.7%	27.0	21.5	4.6%	6.9%
	Average					**-0.1**	**2.2%**	**-31.9%**	**8.6%**	**6.5**	**5.7**	**12.3**	**7.7**	**6.8%**	**7.7%**	**28.6**	**12.3**	**2.2%**	**8.2%**
	Median					**0.1**	**0.9%**	**7.7%**	**7.5%**	**6.2**	**4.6**	**8.3**	**6.2**	**5.8%**	**6.6%**	**12.1**	**10.6**	**3.1%**	**7.2%**
Production																			
ANG	Austin Engineering	Jun	0.28	163.3	183.3	0.7	18.6%	-2.6%	72.0%	6.0	3.7	7.4	4.3	9.6%	14.9%	10.2	5.8	4.3%	13.0%
EHL	Emeco Holdings	Jun	0.67	345.1	577.6	0.9	7.5%	-15.6%	22.8%	2.3	2.1	5.6	4.6	12.3%	14.4%	5.7	4.4	11.1%	14.5%
SVW	Seven Group Holdings	Jul	24.22	8,798	13,415	2.8	8.6%	17.6%	16.3%	8.3	7.5	11.6	9.9	12.9%	14.3%	22.6	19.4	2.7%	4.4%
ORI	Orica	Sep	15.65	7,107	8,395	1.2	8.0%	19.3%	14.2%	8.0	7.2	12.2	10.6	8.6%	9.5%	20.0	16.6	4.8%	6.8%
	Average					**1.4**	**10.7%**	**4.7%**	**31.3%**	**6.1**	**5.1**	**9.2**	**7.4**	**10.8%**	**13.3%**	**14.6**	**11.5**	**5.7%**	**9.7%**
	Median					**1.1**	**8.3%**	**7.5%**	**19.5%**	**7.0**	**5.5**	**9.5**	**7.3**	**11.0%**	**14.4%**	**15.1**	**11.2**	**4.6%**	**9.9%**
Outsourcing																			
PRN	Perenti	Jun	1.16	789.0	1,354.4	1.0	7.1%	45.6%	-0.7%	2.4	2.4	5.3	5.3	9.0%	9.1%	7.0	6.6	2.6%	8.3%
DOW	Downer EDI	Jun	3.68	2,471	3,473	1.6	0.6%	-20.9%	22.9%	5.4	4.9	11.0	8.9	2.6%	3.2%	16.0	12.4	12.4%	14.3%
MAH	Macmahon Holdings	Jun	0.13	269	487	0.7	0.1%	9.2%	11.7%	1.6	1.6	4.4	4.0	5.8%	7.2%	4.0	3.7	3.2%	20.8%
MRM	MMA Offshore	Jun	1.10	403	398	-0.1	12.2%	1607.7%	17.1%	6.7	5.9	17.9	15.3	7.4%	7.3%	27.6	24.7	16.4%	5.8%
NWH	NRW Holdings	Jun	2.31	1,038	1,135	0.3	7.8%	6.2%	7.5%	4.0	3.7	6.8	6.3	6.2%	6.4%	10.0	9.1	0.8%	9.8%
MAD	Mader Group	Aug	4.80	960	992	0.4	31.0%	47.6%	15.1%	13.6	11.6	17.3	15.0	9.7%	9.6%	25.4	20.7	0.2%	3.7%
	Average					**0.6**	**11.7%**	**253.3%**	**13.9%**	**5.5**	**4.9**	**10.1**	**8.7**	**6.6%**	**7.0%**	**14.6**	**12.4**	**5.9%**	**10.5%**
	Median					**0.4**	**7.8%**	**45.6%**	**15.1%**	**4.8**	**4.0**	**7.7**	**6.3**	**6.2%**	**7.2%**	**11.9**	**9.7**	**2.9%**	**9.1%**
Maintenance																			
DOW	Downer EDI	Jun	3.68	2,471	3,473	1.6	0.6%	-20.9%	22.9%	5.4	4.9	11.0	8.9	2.6%	3.2%	16.0	12.4	12.4%	14.3%
MND	Monadelphous	Jun	13.14	1,266	1,097	-1.6	1.8%	10.6%	22.1%	10.1	8.3	14.9	12.2	4.1%	4.5%	24.6	20.1	4.4%	4.8%
WOR	Worley	Jun	16.45	8,638	10,201	1.9	11.1%	13.9%	20.9%	12.2	11.0	16.4	13.5	5.8%	6.7%	27.0	21.5	4.6%	6.9%
SSM	Service Stream	Jul	0.65	400	504	0.9	16.5%	18.7%	14.1%	4.4	4.0	7.2	6.4	3.5%	3.9%	10.9	9.3	4.5%	13.4%
VNT	Ventia Services	Dec	2.70	2,310	2,766	1.0	7.0%	7.7%	6.3%	6.2	5.8	8.8	8.3	5.6%	5.6%	12.4	11.2	12.2%	13.6%
	Average					**0.8**	**7.4%**	**6.0%**	**17.3%**	**7.7**	**6.8**	**11.7**	**9.9**	**4.3%**	**4.8%**	**18.2**	**14.9**	**7.6%**	**10.6%**
	Median					**1.0**	**7.0%**	**10.6%**	**20.9%**	**6.2**	**5.8**	**11.0**	**8.9**	**4.1%**	**4.5%**	**16.0**	**12.4**	**4.6%**	**13.4%**

Source: Company data, Barrenjoey Research estimates (SRG only). Date accessed (19-May-23). FY1 = current unreported financial year

Where could we be wrong?

The opportunity pipeline for SRG is c.$6bn and over FY22/23 SRG has executed over the opportunity set with strong contract win momentum as WIH has increased by +30% in FY22 (to $1.3bn) and +15% in FY23 to $1.5bn. Whilst we believe SRG can maintain this earnings momentum, we highlight factors below which could negatively impact B*e:

- **Labour availability:** SRG currently has c.120 job vacancies advertised on its website, which is immaterial on a workforce base of >3.2k, however labour availability could constrain SRG's ability to perform ad-hoc job requests and deliver scopes for new contract wins.
- **Contract execution risk:** With over $1bn of work secured in FY23TD, focus now turns to contract mobilisation and contract execution in an inflationary environment. A track record of delivery and schedule of rate contract structures are mitigating factors; however, we note E&C projects carry this inherent execution risk.
- **New contract wins:** As seen with other industry comps (such as MND), contract delays could negatively impact SRG's current earnings momentum as we believe SRG needs to win c.$1.5bn of new work over the forecast period to meet B*e.

We outline sensitivities to our FY24/25e $95.8m/$102.7m EBITDA based on a lower revenue and EBITDA margin profile

Figure 44: EBITDA impact to Revenue and EBITDA margin sensitivities (FY24e)

		Revenue change vs B* FY24e forecast				
		-12.5%	**-10.0%**	**-5.0%**	**-2.5%**	**$1,019m**
EBITDA margin (%)	**8.4%**	74.6	76.8	81.0	83.2	**85.3**
	8.7%	76.9	79.1	83.5	85.6	**87.8**
	8.9%	79.1	81.4	85.9	88.1	**90.4**
	9.2%	81.3	83.6	88.3	90.6	**92.9**
	9.4%	**83.5**	**85.9**	**90.7**	**93.1**	**95.5**

Source: Barrenjoey Research estimates

Figure 45: Corresponding % change from B*e base case FY24e EBITDA

		Revenue change vs B* FY24e forecast				
		$891m	**$917m**	**$968m**	**$993m**	**$1,019m**
EBITDA margin (%)	**8.4%**	-21.8%	-19.6%	-15.1%	-12.9%	**-10.6%**
	8.7%	-19.5%	-17.2%	-12.6%	-10.3%	**-8.0%**
	8.9%	-17.2%	-14.8%	-10.1%	-7.7%	**-5.3%**
	9.2%	-14.8%	-12.4%	-7.5%	-5.1%	**-2.7%**
	9.4%	**-12.5%**	**-10.0%**	**-5.0%**	**-2.5%**	**0.0%**

Source: Barrenjoey Research estimates

Figure 46: EBITDA impact to Revenue and EBITDA margin sensitivities (FY25e)

		Revenue change vs B* FY25e forecast				
		-13.5%	**-11.0%**	**-7.0%**	**-3.5%**	**$1,084m**
EBITDA margin (%)	**8.5%**	79.2	81.4	85.1	88.3	**91.5**
	8.7%	81.5	83.9	87.6	90.9	**94.2**
	9.0%	83.8	86.3	90.1	93.5	**96.9**
	9.2%	86.2	88.7	92.7	96.1	**99.6**
	9.5%	**88.5**	**91.1**	**95.2**	**98.8**	**102.3**

Source: Barrenjoey Research estimates

Figure 47: Corresponding % change from B*e base case FY25e EBITDA

		Revenue change vs B* FY25e forecast				
		$937m	**$964m**	**$1,007m**	**$1,045m**	**$1,083m**
EBITDA margin (%)	**8.5%**	-22.7%	-20.4%	-16.8%	-13.7%	**-10.6%**
	8.7%	-20.4%	-18.1%	-14.4%	-11.2%	**-7.9%**
	9.0%	-18.1%	-15.7%	-11.9%	-8.6%	**-5.3%**
	9.2%	-15.8%	-13.4%	-9.5%	-6.1%	**-2.6%**
	9.5%	**-13.5%**	**-11.0%**	**-7.0%**	**-3.5%**	**0.0%**

Source: Barrenjoey Research estimates

Valuation methodology and risks

We adopt an equally weighted DCF and multiple (PE) valuation methodology for SRG to capture: 1) the longer dated term contract structures and subsequent cash flow generation; and 2) a PE multiple to a reflect near-term comp comparison given the number of listed industrial service providers.

Our blended $0.95/sh intrinsic valuation is rolled forward by our cost of equity minus dividends over the next 12-months to derive a $1.00/sh Price Target.

Figure 48: SRG valuation summary

DCF (WACC: 9.2%; Rfr: 3.5%; Tgr; 2.0%)	$0.88/sh
Multiple (PE NTM 13x)	$1.01/sh
Weighting	50%
Applied Premium/Discount	0%
Intrinsic value	$0.95/sh
12-month forward PT	$1.00/sh
Upside/Downside potential	36.1%

Source: Barrenjoey Research estimates

Downside risks to our Price Target

- SRG's access to labour and ability to perform work according to the scope of the contract
- A lack of contract wins to replace work completed
- Access to labour and ability to procure raw materials
- Lower contract margins in a rising inflationary period
- Client work orders which may fluctuate and negatively impact SRG's revenue profile
- Integration of the recently acquired Asset Care and SRG ability to retain key staff

Upside risks to our Price Target

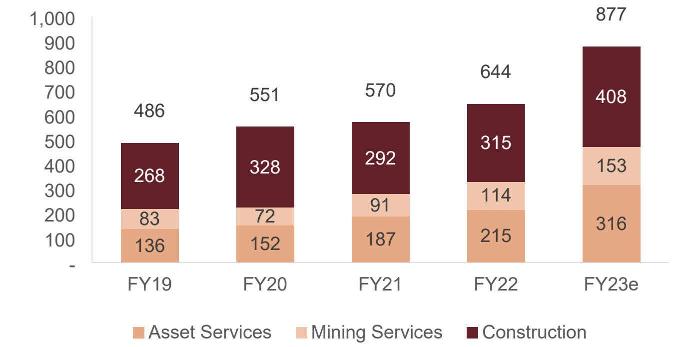
- Further M&A to increase SRG's capabilities and end market verticals
- New contract wins
- Increased ad-hoc job volumes which can be higher margin and lower risk revenue opportunities

Company overview

SRG (c.$383m market cap) is a multi-disciplinary industrial services company with operations spanning maintenance, engineering, and construction and delivered by a workforce of c.3.2k. SRG provides services across 20 end market industries (including mining and resources, industrial processing, energy, utilities and civil infrastructure, commercial building, and defence) in five countries. Core revenue segment are divided into:

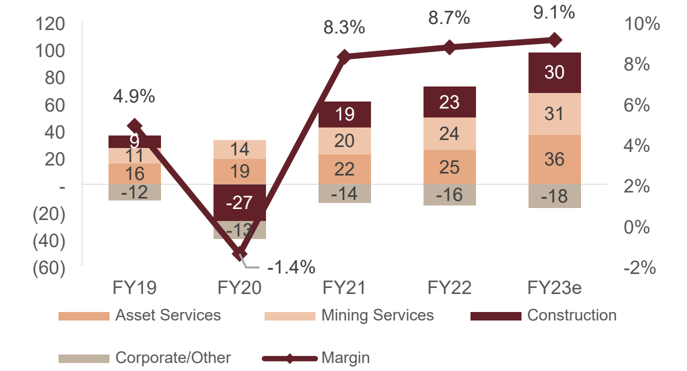
- **Asset Services (c.38% FY23e segment EBITDA):** SRG performs a range of services including access solutions, asset repair, and multi-discipline maintenance (including shutdown and turnaround operations, refractory services). The inclusion of Asset Care enhances this service offering, adding: 1) Integrity engineering; 2) testing and inspections; and 3) condition monitoring.
- **Mining Services (c.32% FY23e segment EBITDA):** Revenues are predicated on Drill and Blast services with key services such as: 1) Production Drill & Blast; 2) Specialist Drilling Services; and 3) Specialist Geotech. Contract terms are typically schedule of rates and based on production volumes by clients.
- **Engineering & Construction (c.30% FY23e segment EBITDA):** Since merging with GCS (and FY20 challenges), SRG has maintained a discipline contract approach with key clients including government agency and tier 1 builders. Typical works include façade installation, and E&C works (anchor monitoring, post-tensioning, corrosion protection) on Bridges, Dams, Harbours, Roads.

Figure 49: SRG revenue profile by division ($m)



Source: Company data, Barrenjoey Research estimates

Figure 50: SRG EBITDA profile and margin by division ($m)



Source: Company data, Barrenjoey Research estimates

Key management and board

Figure 51: SRG board and key management

Person	Position	Experience	SRG Tenure
Board			
Peter McMorrow	Chairman	MD of Leighton Contractors (2004-10)	Jul-10
David Macgeorge	MD	Snr executive roles at BIS Industries, Cleanaway and CHEP (Brambles)	May-14
Michael Atkins	NED	Numerous public company experience (Legend Mining, Azumah Resources, and Castle Minerals) and previously held Director roles and Patersons/Canaccord	Sep-14
Amber Banfield	NED	20-years at Worley with management positions spanning operations, strategy, M&A and services. Public company board experience includes Perseus Mining and Leo Lithium	Oct-21
Key Management			
David Macgeorge	MD	As above	May-14
Roger Lee	CFO/Company Secretary	Involved in the establishment of Broad Group (Leighton owned) and various executive roles at Leighton/CPB	Jul-14
David Williamson	COO/EGM (Asset Services and Mining)	Snr management positions across Cleanaway and Brambles	Jul-18
Nick Combe	EGM (E&C)	Large civil infrastructure projects as the GM at CPB Contractors	Jul-17
Paul Dawson	EGM (Building)	Founded Gallery Facades which was purchased by SRG	Oct-19

Source: Company data, Barrenjoey Research

Companies Mentioned

ALS Ltd (ALQ.AX, A$12.35, N, PT A$12.65)
Evolution Mining Limited (EVN.AX, A$3.72, UW, PT A$3.20)
IMDEX Ltd (IMD.AX, A$1.92, OW, PT A$3.20)
Lendlease Group (LLC.AX, A$7.88, N, PT A$9.25)
Mader Group Ltd. (MAD.AX, A$4.98, N, PT A$4.65)
Northern Star Resources Ltd (NST.AX, A$13.19, OW, PT A$14.50)

Disclosure appendix

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