Wednesday, 23 August 2023

SRG Global (SRG)

FY23 Results

Analyst | Ian Christie

BUY

Current Price	$0.72
Valuation	$1.08

Ticker:		SRG.ASX
Sector:		Services & Construction
Shares on Issue (m):		519.5
Market Cap ($m):		374.0
Net Debt / (Cash) ($m):		17.0
Enterprise Value ($m):		391.0
52 wk High/Low:	0.81	0.66
12m Av Daily Vol (m):		0.56

Key Metrics

	24F	25F
EV/EBITDA (x)	4.1	3.8
EV/EBIT (x)	6.4	5.9
P/E (x)	9.2	8.1

Ratios

	23A	24F	25F
ND / Equity	5.8%	-0.5%	-5.8%
EBIT Mgn	6.2%	6.2%	6.5%
RoA	10.3%	11.0%	11.7%
RoE	12.1%	13.8%	15.0%

Financials*:

	23A	24F	25F
Revenue ($m)	811.6	980.0	1,030.1
EBITDA ($m)	80.1	96.1	101.9
EBIT ($m)	50.0	61.0	66.6
NPAT ($m)	31.8	40.8	46.0
Rep. EBIT ($m)	*40.0*	*54.1*	*59.7*
Rep. NPAT ($m)	*22.6*	*33.9*	*39.2*

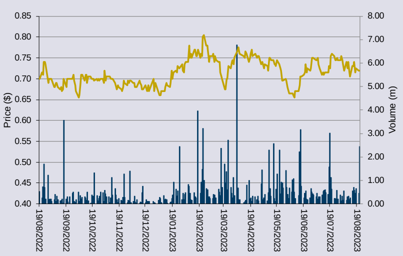
**Underlying unless otherwise stated*

	23A	24F	25F
NTA ($m)	120.1	137.5	157.5
Op CF ($m)	43.1	68.5	65.7

Per Share Data:

	23A	24F	25F
Norm. EPS (cps)	6.65	7.85	8.86
DPS (cps)	4.00	4.50	5.00
Div Yield	5.6%	6.3%	6.9%
NTAPS (cps)	25.4	26.5	30.3
CFPS (cps)	9.0	13.2	12.6

Share Price Graph



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Quick Read

No surprises in SRG's results, which met earnings guidance and expectations. The Company's outlook for ~20% EBITDA growth in FY24 reflects both inorganic (Asset Care) and organic growth. Results demonstrate a well-rounded business, with all segments contributing evenly at appropriately good margins.

Key points

Results summary: Revenue of $809M was up 26% and EBITDA of $80.1M was up 40%, in line with guidance. NPAT before amortisation of $2.3M and one-offs of $6.9M was $31.8M, and the FY23 dividend of 4.0cps was up on last year's 3.0cps payout. The EBITDA margin climbed from 8.9% to 9.9%. Segment results were well balanced, with appropriate margins generated across all divisions. The EBITDA to cash conversion of 68% was below our thinking, so net debt of $17M was higher than our net cash expectation. Still, the balance sheet remains strong, with negligible gearing and available liquidity of $144M.

Outlook and forecasts: Having won over $1.2B contracts since the start of FY23, work in hand is now $1.9B, two thirds of which is annuity/recurring. There is an identified pipeline of opportunities worth another $6.5B. SRG has given FY24 EBITDA growth guidance of ~20%, implying EBITDA of ~$96M. It suggests organic growth in the high single digits, with the balance coming from a full year contribution from recently acquired Asset Care. Our FY24 EBITDA forecast is adjusted upward by 4% to match guidance, although offset by higher depreciation and net interest costs.

Figure 1: FY23 actuals and Argonaut forecast earnings adjustments

Underlying (pre one-offs and amortisation)	FY23	FY24F			FY25F		
	Actual	Old	New	Change	Old	New	Change
Revenue ($m)	809.0	966.0	980.0	1%	995.6	1,030.1	3%
EBITDA ($m)	80.1	92.8	96.1	4%	96.6	101.9	5%
EBITDA margin	*9.9%*	*9.6%*	*9.8%*		*9.7%*	*9.9%*	
PBT ($m)	45.8	57.1	55.3	-3%	62.7	62.8	0%

Good balance: SRG has executed well to date on the strategy to diversify and transform into a diversified industrial services business. The underlying EBIT(A) split between Asset Maintenance, Mining Services, and Engineering & Construction was 31%, 33% and 36% respectively in FY23. Work in hand is split 50%, 17%, and 33%, while the pipeline split is 45%, 15% and 40%.

Valuation & recommendation

Our valuation of $1.08 and BUY recommendation are unchanged.

SRG Global

Equity Research

Ian Christie

Recommendation	BUY
Current Price ($)	0.72
Valuation ($)	1.08

Sector	Services & Construction
Market Cap ($m)	374.0
Date	23 August 2023

Trading Metrics	FY22A	FY23A	FY24F	FY25F
EV / EBITDA (x)		4.9	4.1	3.8
EV / EBIT (x)		7.8	6.4	5.9
P/E (x)		10.8	9.2	8.1
Dividend Yield (%)		5.6%	6.3%	6.9%

Per Share Data	FY22A	FY23A	FY24F	FY25F
Reported EPS (cps)	4.5	4.7	6.5	7.5
Adjusted EPS (cps)	5.4	6.6	7.9	8.9
Div. per share (cps)		4.0	4.5	5.0
NTA per share (cps)	29.6	25.4	26.5	30.3
CF per share (cps)	13.5	9.0	13.2	12.6

Valuation	Calcs.	$m	$ps
DCF Valuation:			
Discount Rate / WACC (%)	10.0%		
PV Free Cash Flow ($m)		637.8	
Less Net Debt / Plus Cash ($m)		(17.0)	
Unpaid Capital ($m)		-	
Equity Value ($m)		620.8	1.20
Earnings Capitalisation Valuation:			
FY24 EBIT multiple	8.0	471.0	0.91
FY24 NPAT multiple	12.5	509.8	0.98
Blended Valuation ($/share)			**1.08**

Profit and Loss ($m)	FY22A	FY23A	FY24F	FY25F
Revenue	646.4	811.6	980.0	1,030.1
EBITDA	57.2	80.1	96.1	101.9
EBITDA Margin	*8.9%*	*9.9%*	*9.8%*	*9.9%*
Depreciation	(23.1)	(29.5)	(35.1)	(35.3)
EBIT	34.2	50.0	61.0	66.6
PBT	31.6	45.8	55.3	62.8
NPAT	24.5	31.8	40.8	46.0
Adjustments:				
Amortisation	*(3.6)*	*(3.3)*	*(6.9)*	*(6.8)*
One-Offs	*(1.0)*	*(6.6)*	-	-
Reported EBIT	*29.5*	*40.0*	*54.1*	*59.7*
Reported NPAT	*20.1*	*22.6*	*33.9*	*39.2*

Profit and Loss ($m)	1H22A	2H22A	1H23A	2H23A
Revenue	297.3	349.2	382.1	429.4
EBITDA	27.0	30.2	34.0	46.1
EBITDA Margin	*9.1%*	*8.6%*	*8.9%*	*10.7%*
Depreciation	(11.1)	(11.9)	(13.1)	(16.3)
EBIT	15.9	18.2	20.8	29.1
PBT	14.7	16.9	19.1	26.7
NPAT	10.6	13.8	13.6	18.2
Adjustments:				
Amortisation	*(1.8)*	*(1.8)*	*(1.2)*	*(2.1)*
One-Offs	-	*(1.0)*	-	*(6.6)*
Reported EBIT	*14.1*	*15.4*	*19.7*	*20.4*
Reported NPAT	*8.8*	*11.3*	*12.4*	*10.1*

Cash Flow ($m)	FY22A	FY23A	FY24F	FY25F
Receipts	705.7	884.1	963.4	1,019.1
Payments	(646.0)	(834.1)	(874.3)	(932.9)
Other	1.4	(6.8)	(20.7)	(20.6)
Cash from Operations	61.1	43.1	68.5	65.7
Property, Plant & Equip	(18.7)	(30.3)	(26.6)	(22.8)
Payment for Subsidiary	(15.1)	(81.1)	-	-
Other	0.3	8.9	-	-
Cash From Investing	(33.6)	(102.5)	(26.6)	(22.8)
Issue of Shares	-	48.8	-	-
Net Borrowing	(3.4)	16.2	(12.1)	(39.4)
Dividends / Other	(11.1)	(17.1)	(23.4)	(26.0)
Cash From Financing	(14.5)	47.9	(35.4)	(65.3)
Net Cash Flow	13.0	(11.5)	6.4	(22.5)
Ending Cash	59.3	47.7	54.1	31.6

Cash Flow ($m)	1H22A	2H22A	1H23A	2H23A
Receipts	360.6	345.0	448.1	436.0
Payments	(325.2)	(320.8)	(400.9)	(433.2)
Other	(2.0)	3.4	(2.6)	(4.2)
Cash from Operations	33.4	27.7	44.5	(1.4)
Property, Plant & Equip	(8.6)	(10.1)	(15.9)	(14.4)
Payment for Subsidiary	-	(15.1)	(1.9)	(79.2)
Other	(0.4)	0.7	1.6	7.3
Cash From Investing	(9.0)	(24.6)	(16.2)	(86.2)
Issue of Shares	-	-	-	48.8
Net Borrowing	(6.4)	3.0	(5.3)	21.5
Dividends / Other	(4.5)	(6.7)	(6.7)	(10.4)
Cash From Financing	(10.8)	(3.7)	(12.0)	59.9
Net Cash Flow	13.5	(0.5)	16.3	(27.8)
Ending Cash	59.9	59.3	75.8	47.7

Balance Sheet ($m)	FY22A	FY23A	FY24F	FY25F
Cash	59.3	47.7	54.1	31.6
Receivables	158.6	198.2	214.8	225.8
Inventory	18.7	21.5	30.3	31.8
Other	5.6	4.4	4.4	4.4
Current Assets	242.3	271.8	303.6	293.6
Property, Plant & Equip	104.3	119.0	122.9	122.6
Intangibles	102.6	170.4	163.5	156.7
Other NC Assets	35.3	29.9	29.9	29.9
Non-Current Assets	242.3	319.3	316.3	309.2
Total Assets	484.6	591.2	619.8	602.8
Payables	155.5	151.0	181.6	190.7
Borrowings	38.8	64.7	52.6	13.3
Provisions	37.2	57.4	57.4	57.4
Other	18.5	27.6	27.2	27.2
Total Liabilities	250.0	300.7	318.8	288.6
Net Assets	234.6	290.5	301.0	314.2
Ordinary Equity	218.1	267.5	267.5	267.5
Reserves	6.9	8.0	8.0	8.0
Retained Earnings	9.5	15.0	25.5	38.7
Total Equity	234.6	290.5	301.0	314.2

Financial Ratios	FY22A	FY23A	FY24F	FY25F
Growth				
Revenue growth (%)	13.1%	25.6%	21.1%	5.1%
NPAT growth (%)	52.2%	29.9%	28.4%	12.8%
Norm. EPS growth (%)	51.8%	22.7%	18.1%	12.8%
Profitability Ratios				
EBITDA Margin (%)	8.9%	9.9%	9.8%	9.9%
EBIT Margin (%)	5.3%	6.2%	6.2%	6.5%
PBT Margin (%)	4.9%	5.6%	5.6%	6.1%
NPAT Margin (%)	3.8%	3.9%	4.2%	4.5%
Return on Assets (%)	8.3%	10.3%	11.0%	11.7%
Return on Equity (%)	10.6%	12.1%	13.8%	15.0%
ROIC (%)	8.9%	10.7%	11.0%	12.2%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	-8.8%	5.8%	-0.5%	-5.8%
ND / ND + Equity (%)	-9.6%	5.5%	-0.5%	-6.2%
Current Ratio (x)	1.2	1.2	1.2	1.2
Net Interest Cover (x)	11.6	9.6	9.5	15.9
Cash Flow Ratios				
Free Cash Flow Yield (%)	8.4%	-19.8%	11.2%	11.5%
Cash Conversion (x)	1.3	0.6	0.8	0.7

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