

SRG Full year 2023 reporting, updating numbers

SRG.ASX | SRG GLOBAL LIMITED | INDUSTRIALS | ENGINEERING & CONSTRUCTION

PRICE
A\$0.73/sh

TARGET PRICE
A\$1.44/sh
(FROM A\$1.30/sh)

RECOMMENDATION
BUY
(UNCHANGED)

ANALYST
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Event

- SRG Global has released solid numbers for 2023; while broadly in line with expectations, these numbers represent solid growth in relation to 2022 and SRG is well placed for further growth in 2024.

Impact

- Revenue of \$810m (EH \$855m), up 26% on pcip delivering underlying EBITDA of \$80.1m at the high end of guidance (EH \$79.5m).
- NPATA is \$31.8m (EH \$30.9m), up 42% on pcip.
- A 2c final dividend in combination with 2c interim equates to 4c full year 2023, up 33% and implying fully franked yield of circa 5.5%.
- The work in hand position is at \$1.9b, up 46% on this time last year.
- EBITDA margin increased to 9.9% up from 8.9% pcip, consistent with our broad view margins can improve in a strong demand environment where costs are understood; SRG has been better in this regard than some.
- While an investment in working capital associated with the strong growth was required; including in the acquired business Asset Care, the balance sheet remains strong, with \$47.7m in cash, \$64.7m in borrowings, \$27.2m in right to use leasing liabilities and available liquidity of \$143.8m.
- Guidance has been provided, looking for a 20% increase in EBITDA in 2024, or circa \$96m, which is essentially in line with our previously issued forecasts.
- The combination of track record, work in hand position, margin trends and overall demand provides platform for SRG to potentially out perform over the course of 2024; there is more to play out, however SRG is well placed.
- As we have mentioned in recent research we see SRG as in position to generate a rate of earnings off the circa 9x it currently trades on in respect of 2024 earnings.

Action

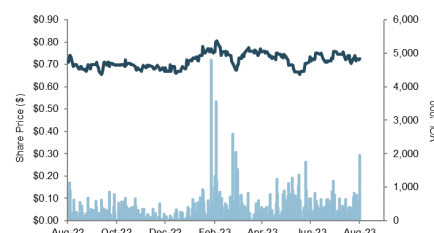
- We have an increased PT in place for SRG of \$1.44 reflecting a roll forward of focus to 2024 and 2025.

Catalyst

- These numbers and guidance can act as catalyst in isolation; all things otherwise equal in our view SRG should be trading higher on a fundamental basis, particularly given the work in hand position and the recurring/annuity nature of circa 2/3rds of its revenue.
- Contract wins in the normal course.

Share Price	0.73	A\$/sh
Price Target	1.44	A\$/sh
Valuation (DCF)	1.64	A\$/sh
WACC	10%	
Terminal Growth	3%	
Shares on issue	519.5	m, dil
Market Capitalisation	379.2	A\$m
Enterprise Value	423.4	A\$m
Net cash (Inc leases)*	(44.1)	A\$m
Net cash (Excl. leases)*	(17.0)	A\$m
Key Financial Metrics	23A	24F
Revenue (A\$m)	809.0	950.0
EBITDA underlying (A\$m)	80.1	96.4
EBIT (A\$m)	40.2	55.4
Reported NPAT (A\$m)	22.5	35.0
Normalised NPAT (A\$m)	31.8	39.2
Gross Cashflow (A\$m)	59.9	66.3
Capex (A\$m)	-31.6	-25.0
Op. Free Cashflow (A\$m)	1.8	30.3
Revenue Growth (%)	26%	17%
EBITDA Growth (%)	29%	31%
Norm. NPAT Growth (%)	36%	23%
Normalised EPS (Ac)	6.9	7.6
Norm. EPS growth (%)	31%	10%
PER (x)	10.6	9.7
EV:EBITDA (x)	5.8	4.4
EV:EBITA adj (x)	9.6	6.9
DPS (Ac)	4.0	4.0
Dividend Yield (%)	5.5%	5.5%
Net cash (debt) (A\$m)**	-44.2	-32.2
**inc leases		

Performance



Source: Euroz Hartleys

Income Statement	23A	24F	25F
Sales	809.0	950.0	1045.0
Other	0.0	0.0	0.0
Revenue	809.0	950.0	1045.0
Operating costs	-713.8	-836.1	-920.2
Overhead	-21.5	-17.5	-18.5
EBITDA	73.6	96.4	106.4
Depreciation	-29.5	-35.0	-37.7
Amortisation	-4.0	-6.0	-6.0
EBIT	40.2	55.4	62.6
Net Interest income/(expense)	-4.3	-5.4	-5.4
Other income/(expense)	0.0	0.0	0.0
EBT	35.9	50.0	57.2
Tax expense	-13.3	-15.0	-17.2
Reported Earnings	22.5	35.0	40.1
Normalized Net Profit	31.8	39.2	44.3
Cash flow	23A	24F	25F
Pretax profit	35.9	50.0	57.2
+ Depreciation & Amort	33.4	41.0	43.7
- Lease Expense	-9.7	-9.7	-9.7
+/- Non Cash	2.8	0.0	0.0
- Profit on sale of non-current assets	0.0	0.0	0.0
- Tax Paid	-2.5	-15.0	-17.2
Gross Cashflow	59.9	66.3	74.1
- Capital Expenditure	-31.6	-25.0	-20.0
- Change in Working Capital	-26.5	-11.0	-3.2
Operating Free Cashflow	1.8	30.3	50.9
- Dividends Paid	-17.1	-18.2	-20.8
- Acquisitions	-75.3	0.0	0.0
+ Proceeds from sale of property	4.4	0.0	0.0
- Investments	0.0	0.0	0.0
+ Equity issued	48.8	0.0	0.0
+ Vendor Finance	0.0	0.0	0.0
+/- Other	-0.1	0.0	0.0
Net Cashflow	-37.5	12.1	30.1
BoP Net Cash / (Debt)	2.0	-44.2	-32.2
(+/-) Net Cashflow	-37.5	12.1	30.1
(+/-) AASB16 Adj.	-8.6	-0.1	-0.1
Net Cash / (Debt)inc leases	-44.2	-32.2	-2.1
Balance Sheet	23A	24F	25F
Cash	47.7	59.7	89.7
Receivables	198.2	239.4	263.3
Inventory	21.5	25.2	27.7
Other	4.4	4.4	4.4
Total current assets	271.8	328.7	385.3
Property, plant and equipment	119.0	118.9	110.9
Intangibles	170.4	164.4	158.4
ROUA	25.8	25.8	25.8
Deferred tax assets	2.8	2.8	2.8
Other	1.2	1.2	1.2
Total non current assets	319.3	313.1	299.2
Total assets	591.2	641.9	684.5
Payables	197.9	231.7	255.0
Interest bearing liabilities	20.3	20.3	20.3
Lease Liability	11.4	11.4	11.4
Current tax liabilities	0.5	0.5	0.5
Deferred income	0.0	0.0	0.0
Total current liabilities	230.0	263.9	287.2
Interest bearing liabilities	44.4	44.4	44.4
Lease Liability	15.7	15.7	15.7
Provisions	10.5	10.5	10.5
Deferred tax	0.0	0.0	0.0
Total non current liabilities	70.6	70.6	70.6
Total liabilities	300.7	334.6	357.9
Net Assets	290.5	307.3	326.6
Contributed equity	267.5	267.5	267.5
Reserves	8.0	8.0	8.0
Retained Earnings	15.0	31.8	51.1
Total equity	290.5	307.3	326.6

PERFORMANCE RATIOS	23A	24F	25F
Growth & Margins			
Revenue Growth	26%	17%	10%
EBITDA Growth	29%	31%	10%
EBIT Growth	32%	38%	13%
Normalized Net Profit Growth	36%	23%	13%
EBITDA margin	9.1%	10.1%	10.2%
EBIT margin	5%	6%	6%
Normalized net profit margin	4%	4%	4%
Effective tax rate	37%	30%	30%
Liquidity			
Capex/depreciation (x)	95%	61%	46%
Current ratio (x)	1.2	1.2	1.3
Quick ratio (x)	1.2	1.3	1.4
Receivable days	89	92	92
Inventory days	11	11	11
Payable days	101	101	101
Risk Measures			
Dividend Cover (x)	1.3	1.9	1.9
Payout ratio (%)	0.8	0.5	0.5
Net interest cover (x)	9.3	10.3	11.7
Net debt/equity (%)	15%	10%	1%
Returns			
ROIC	8%	10%	11%
ROA	5%	6%	6%
ROE	11%	13%	14%
SHARE DATA/VALUATION	23A	24F	25F
Share Data			
Issued shares (m)	519.5	519.5	519.5
Weighted ave shares (m)	462.0	519.5	519.5
Fully diluted shares (m)	462.0	519.5	519.5
Basic EPS (A\$)	4.9	6.7	7.7
YoY change (%)	8%	-38%	14%
Fully diluted EPS (A\$)	4.9	6.7	7.7
YoY change (%)	8%	-38%	14%
Fully diluted normalised EPS (A\$)	6.9	7.6	8.5
YoY change (%)	31%	10%	13%
Dividend/share (A\$)	4.0	4.0	4.0
Franking (%)	100%	100%	100%
Gross cashflow/share (A\$)	13.0	12.8	14.3
NBV/share (A\$)	62.9	59.2	62.9
NTA/Share (A\$)	26.0	27.5	32.4
Valuation			
PER (Basic) (x)	15.0	10.8	9.5
PER (Fully diluted) (x)	15.0	10.8	9.5
PER (Fully diluted, normalized) (x)	10.6	9.7	8.6
P/CFPS (x)	5.6	5.7	5.1
Price/NBV (x)	1.2	1.2	1.2
Price/NTA (x)	2.8	2.7	2.3
Dividend Yield (%)	5.5%	5.5%	5.5%
EV/EBITDA (x)	5.8	4.4	4.0
EV/EBITA (x)	9.6	6.9	6.2
EV/Revenue (x)	0.5	0.4	0.4

^Excl. tran. costs & amort

We build up earnings as follows:

Figure 1: earnings build up

	2022A	1H 2023A	2h 2023A	2023A	2024F	2025F
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Revenues						
Construction	315	186	180	366	400	440
Asset Services	215	123	179	302	400	440
Mining	114	70	70	140	150	165
Other			-			
Total revenues	644	380	429	809	950	1,045
EBITDA						
Construction (Excludes one offs)	22.8	13.8	18	31.8	36.0	39.6
Mining	23.9	14.4	15	29.5	31.5	34.7
Asset services	25.2	14.3	22	35.8	46.4	50.6
Unallocated (corporate Costs)	- 15.7	- 8.3	- 13	- 21.5	- 17.5	- 18.5
Transaction costs	1.0		4.5	4.5	-	-
Group (adjusted) EBITDA	57.2	34.1	46.0	80.1	96.4	106.4
Margins						
Construction	7.2%	7.4%	10.0%	8.7%	9.0%	9.0%
Asset Services	11.7%	11.6%	12.0%	11.9%	11.6%	11.5%
Mining	21.0%	20.4%	21.7%	21.0%	21.0%	21.0%
Less adjustments			-	6.5		
EBITDA	57.2	34.1	39.5	73.6	96.4	106.4
Less depreciation	- 23.1	- 13.1	- 16.4	- 29.5	- 35.0	- 37.7
Underlying EBIT	34.2	21.0	23.1	44.2	61.4	68.6
Amortisation of customer intangibles	- 3.6	- 1.2	- 2.8	- 4.0	- 6.0	- 6.0
Reported EBIT	30.6	19.8	20	40.2	55.4	62.6
EBITA	34.2	21.0	23.1	44.2	61.4	68.6

Source: EH

We note the following:

- Based on the segment reporting per presentation, which adjusts for \$2m in exit costs in the construction business and \$4.5m in integration costs in corporate we observe:
 - Trued up construction margin in 2H 2023 was 10%, solidly up on the half before.
 - Mining margin also improved over the second half.
 - Overall EBITDA margin for full year 2023 was 9.9% versus 8.9% pcg.
- Guidance has been issued looking for 20% EBITDA growth, consistent with our previous forecasts; we are however now tweaking splits and margin as per the above.
- What we conclude is we can find \$96.5m EBITDA for 2024 in a number of different ways.
- We will look to build up orderbook from first principles over the short term, however in a broad sense the top line is supported by a \$1.9b work in hand position, and \$6.5b opportunity pipeline.
- In short, we continue to see solid demand in play for SRG over the medium term.

Price Target

We build our 12 month Price Target as follows:

Figure 2: Price target build up

	2024 (\$m)
EBITDA	96.4
Multiple	7.0
Enterprise value	674.8
Less net debt(inclusive of Leases)	-44.1
Market capitalisation	630.7
Issued shares	519.5
Value per share	\$1.25
Implied PE	14.7
Implied EV/EBITA	11.0
DCF	\$1.64
Average	\$1.44

Source: EH

- SRG trades on 2024 numbers of a PE of circa 9x; a re-rate to 14x equates to \$1.25 per share (also EV/EBITDA of 7x)
- We don't see anything particularly demanding about these ambitions.
- Our \$1.44 targets places further recognition on our longer term ambitions (12 month from now as we are looking at 2025/26).
- We look to digestion of these results as catalyst in the first instance, particularly in relation to prospect of cashflow conversion returning to more normal 80% in 2024, reflecting solid growth looked for after a very strong period of growth in 2023.
- Buy

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SRG Global Limited (SRG.ASX) | Price A\$0.73 | Target price A\$1.44 | Recommendation Buy;

Price, target price and rating as at 22 August 2023 (not covered)*

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