

SRG Global Ltd

(SRG \$0.49) Buy

EUROZ

Analyst	Date	Price Target
Gavin Allen	7 th August 2019	\$0.70/sh ▲ from \$0.49/sh

Company update

Investment case

SRG has won a substantial amount of work in recent times and the share price initially responded off a low base trading from circa \$0.40 to \$0.60. It has since traded back to \$0.49 in a weak broad market. At current prices, there is investment case available with delivery of short term numbers. The longer term investment case requires buy in on the broader opportunity and thematic. 2019 was a disappointing year for SRG, impacted by holding costs in anticipation of work which has proved delayed in a challenging operational environment. As we explore below, there is good reason to look to further 2020 growth with optimism. Our significantly increased PT requires not just delivery of 2020 growth over the next 12 months however also a robust view of 2021 outlook by this time next year. By definition this will require some substantial new work won; ultimately significant stock catalyst and also the primary leap of faith. Buy maintained, 12 month PT \$0.70 up from \$0.49.

Key points

- SRG is poised for substantial growth in our opinion after a disappointing 2019 year, that saw holding costs on anticipated large construction opportunities in the West drop a near enough to \$20m hole in earnings (our estimate).
- The result was a downgrade with the 1h 2019 result which saw a savaging of the share price.
- Since then SRG has won a significant amount of new work, which as we explore below, goes a long way to driving the 2020 growth we are looking for (circa \$40m in EBITDA in 2020, up from \$33m forecast for 2019; good growth off a low base.)
- The majority of the new work won has been in Asset Services, which is higher quality recurring work. We expect this theme to continue.
- Large scale construction opportunities have also continued to evolve; and while clear focus would seem to have been on a couple of WA shopping centres, under the radar a number of large scale projects have quietly been ticking off investment criteria.
- We look to the following over the next six months to provide further share price traction:
 - Hit lower end of guidance issued 1h 2019
 - Outlook consistent with further growth in 2020 based on work won over the last six months; on this front the work in hand position will be directional.
 - We see the stock worth in the region of \$0.60 based on our 2020 forecasts as they are, in isolation.
 - A sense, with the full year result, of the larger opportunities available from a substantial pipeline that might support further material EBITDA growth over the medium term.
 - We can see the stock trading towards our \$0.70 PT with announcement of these contracts.
 - Beyond this, and the bigger picture reason we liked SRG when picking up coverage eighteen months ago, is the idea of delivering strong IP into large markets, and on this front opportunity remains in areas such as facades, US dams and specialist bridge building, concepts that have been over shadowed by the 2019 year.
 - Buy maintained, PT \$0.70; further contract wins the catalyst.

SRG Global Ltd	Year End 30 June	
Share Price	0.49	A\$/sh
Price Target	0.70	A\$/sh
Valuation (DCF)	0.94	A\$/sh
WACC	10.6%	
Terminal Growth	3.0%	
Shares on issue	440.5	m, diluted
Market Capitalisation	215.8	A\$m
Enterprise Value	206.7	A\$m
Net cash (1H 2019)	16.8	A\$m

Key Financials	2018a	2019f	2020f
Revenue (A\$m)	247.5	482.1	530.0
EBITDA (A\$m)	24.1	33.0	40.2
EBIT adj (A\$m)	20.1	22.7	29.2
Reported NPAT (A\$m)	13.6	8.5	14.8
Normalised NPAT (A\$m)	14.8	12.7	19.0

Gross Cashflow (A\$m)	24.0	28.4	31.7
Capex (A\$m)	9.4	15.0	12.0
Op. Free Cashflow (A\$m)	4.8	-13.1	18.4

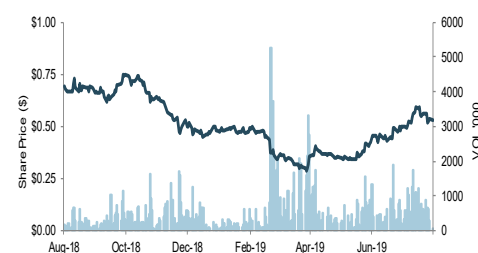
Revenue Growth (%)	19%	95%	10%
EBITDA Growth (%)	-11%	-17%	39%
Norm. NPAT Growth (%)	6%	-14%	49%

Normalised EPS (Ac)	7.02	2.89	4.31
Norm. EPS growth (%)	6%	-59%	49%
PER (x)	7.0	17.0	11.4
EV:EBITDA (x)	3.0	6.3	5.1
EV:EBIT adj (x)	3.6	9.1	7.1

DPS (Ac)	4.00	2.00	2.00
Dividend Yield (%)	8.2%	4.1%	4.1%

Net Cash (A\$m)	35.0	9.2	18.8
Net Debt:Equity (%)	net cash	net cash	net cash
Interest Cover (x)	na	na	na

Share Price Chart



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Analysis

We provide below our build up of earnings for SRG

	2018 A	1h 2019A	2H 2019	2019	2020	2021	2022
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Revenues							
Construction	377	130	146	276	295	375	400
Asset Services	126	60	60	120	150	150	200
Mining	75	43	43	86	85	85	85
Total revenues	578	233	249	482	530	610	685
EBITDA							
Construction	32	7	7	14	21	30	32
Mining	15	7	7	14	14	14	14
Asset services	17	7	7	13	17	17	22
Unallocated	-13	-7	-4	-11	-11	-11	-11
Merger costs		3		3	-	-	-
Group (proforma) EBITDA	51	16	17	33	40.2	50	57
Margins							
Construction	8.4%	5.0%	5.0%	5.0%	7.0%	8.0%	8.0%
Asset Services	13.7%	11.2%	11.0%	11.1%	11.0%	11.0%	11.0%
Mining	20.0%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%
Revenues (tie out 2018 reported)*							
GCS	198						
SRG	310						
TBS	70						
Total 2018 revenues (including TBS)	578						

* 2018 proforma reported assuming \$70m for TBS

We note:

- As we demonstrate below, we derive our 2020 revenue forecast via WIH as at Dec 2018, new work subsequently won and historical win and bill assumptions.
- The primary swing factor on earnings is margin, as 2019 saw holding costs incurred in anticipation of work which was subsequently delayed.
- We can't see these holding costs being incurred in 2020 in the same manner, and our 2020 construction margin assumptions look for some, however not total, recovery.
- In 2021, we look to larger scale construction work ramping outlook further, and see these contracts as potentially announced/won over the next six months; a significant catalyst.

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We provide below an analysis of work in hand and contracts won in support of our 2020 revenue forecast (our estimates):

	2H 2019	2020	2021	2022	2023	2024	2025	Total
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
New wins								
Mining - Evolution		26.0	26.0	26.0	19.0	18.0	-	115.0
Construction								
Kalgoorlie Consolidated		3.5	3.5	3.5	3.5	3.5	-	17.5
Lincoln square		12.0	-	-	-	-	-	12.0
St George Bridge		9.0	-	-	-	-	-	9.0
Infinity Bridge		3.0	4.0	1.0	-	-	-	8.0
Facades Brisbane Tower		5.0	15.0					20.0
		32.5	22.5	4.5	3.5	3.5	-	66.5
Asset Maintenance								
South 32		10.0	10.0	10.0	10.0	10.0	10.0	60.0
One steel		7.5	7.5	7.5	7.5	7.5	7.5	45.0
Transpower NZ		12.0	12.0	12.0				
		29.5	29.5	29.5	17.5	17.5	17.5	105.0
Total work won (Last six months)		91.5	81.5	63.5	43.5	42.5	17.5	304.0
WIH at Dec half	220.0	220.0	80.0					520.0
Visible revenues		311.5	161.5	63.5	43.5	42.5	17.5	
Win and bill		225.0	225.0					
Revenues		536.5	386.5					

- SRG has won in the region of \$300m in new work since the half year result, much of which in higher quality Asset Maintenance work.
- In any given period, our analysis suggests circa \$120m in revenue per half won and billed.
- Overall we build to circa \$530m in revenues for 2020.
- For 2021, there is already a substantial amount of work that could be reasonably expected to occur based on similar analysis.
- However, we believe larger scale construction opportunities are on the horizon, not only in the West (which saw a reduction in activity in 2019), however also in opportunities internationally and on the East coast that have been somewhat forgotten over the last six months or so.
- We see a renewed focus on these opportunities with the full year result.

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SRG Global Ltd

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- We build our interpretation of value as follows:

	forecast
	2020
	(\$m)
EBITDA	40.2
Multiple	6.0
Enterprise value	241.1
Add net cash 1h 2019	16.8
Market capitalisation	257.9
Value per share	\$0.59
EBITA	29.2
Multiple	8.0
Enterprise value	233.7
Add net cash 1h 2019	16.8
Market value	250.5
Issued shares	440.5
Value per share	\$0.57
DCF	\$0.94
Average	\$0.70

- In the first instance we see value around the \$0.60 mark based on our 2020 forecasts as they are.
- However, as discussed above, we see significant opportunity from a substantial pipeline as on offer over the next six months; providing newsflow catalyst and focus on the prospect of meaningful growth beyond 2020.
- We see this work providing share price traction towards our PT of \$0.70.
- Buy maintained

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Financial Statements	2018a	2019f	2020f	2021f	Performance Ratios	2018a	2019f	2020f	2021f
Sales	247.5	482.1	530.0	610.0	Growth & Margins				
Other	0.0	0.0	0.0	0.0	Revenue Growth	19%	95%	10%	15%
Revenue	247.5	482.1	530.0	610.0	EBITDA Growth	-17%	37%	22%	23%
Operating costs	-223.4	-449.1	-489.8	-560.5	EBIT Growth	-11%	-17%	39%	37%
EBITDA	24.1	33.0	40.2	49.5	Normalized Net Profit Growth	6%	-14%	49%	35%
Depreciation	-4.0	-10.3	-11.0	-11.7	EBITDA margin	9.7%	6.8%	7.6%	8.1%
Amortisation	0.0	-6.0	-6.0	-6.0	EBIT margin	8.1%	3.5%	4.4%	5.2%
EBIT	20.1	16.7	23.2	31.8	Normalized net profit margin	6.0%	2.6%	3.6%	4.2%
Net Interest income/(expense)	-0.1	-1.6	-2.1	-1.2	Effective tax rate	29%	30%	30%	30%
Merger costs	0.0	0.0	0.0	0.0	Liquidity				
Other income/(expense)	0.0	0.0	0.0	0.0	Capex/depreciation (x)	2.4	1.5	1.1	1.0
Abnormal items (pretax)	0.0	-3.0	0.0	0.0	Current ratio (x)	2.2	2.4	2.5	2.3
EBT	20.0	12.2	21.1	30.6	Quick ratio (x)	2.1	2.3	2.2	2.0
Tax expense	-5.8	-3.7	-6.3	-9.2	Receivable days	64	48	53	51
Minority interest	-1.5	0.0	0.0	0.0	Inventory days	16	10	10	10
Discontinued operations	0.9	0.0	0.0	0.0	Payable days	56	39	41	41
Reported Earnings	13.6	8.5	14.8	21.4	Risk Measures				
Dividends	-8.4	-10.7	-8.8	-8.8	Dividend Cover (x)	1.6	0.8	1.7	2.4
Adjustments (one off)	0.0	0.0	0.0	0.0	Payout ratio (%)	62%	-103%	-60%	-41%
Retained earnings	5.2	-2.2	6.0	12.6	Net interest cover (x)	201.0	10.7	11.0	25.9
Normalized Net Profit	14.8	12.7	19.0	25.6	Net debt/equity (%)			net cash	net cash
Fully Diluted Net Profit	14.8	12.7	19.0	25.6				net cash	net cash
Cash flow (A\$m)	2018a	2019f	2020f	2021f	Returns				
Pretax Profit	20.0	12.2	21.1	30.6	Return on average capital employed (%)	8.8%	5.1%	4.8%	6.5%
+ Depreciation	4.0	16.3	17.0	17.7	Return on invested capital (%)	10.3%	5.1%	7.0%	9.9%
- Tax Paid	0.0	0.0	-6.3	-9.2	WACC (%)	10.6%	10.6%	10.6%	10.6%
+ inc (- dec) in provisions	0.0	0.0	0.0	0.0	Return on assets (%)	7.5%	2.4%	4.2%	6.0%
- Profit/+ loss on disposal	0.0	0.0	0.0	0.0	Return on average equity (%)	8.8%	3.6%	4.6%	6.5%
+/- Other	0.0	0.0	0.0	0.0	Company cost of equity (%)				
Gross Cashflow	24.0	28.4	31.7	39.1	Share Data	2018a	2019f	2020f	2021f
- Capital expenditure	-9.4	-15.0	-12.0	-12.0	Share Data				
+/- Changes in working capital	-9.8	-26.5	-1.3	-5.9	Issued shares (m)	211.0	440.5	440.5	440.5
Operating Free Cashflow	4.8	-13.1	18.4	21.2	Weighted ave shares (m)	211.0	440.5	440.5	440.5
+/- Investments	0.0	0.0	0.0	0.0	Fully diluted shares (m)	211.0	440.5	440.5	440.5
- Dividends	-6.2	-10.7	-8.8	-8.8	Basic EPS (A\$)	0.064	0.019	0.034	0.049
+ Proceeds from equity raised	0.0	163.0	0.0	0.0	YoY change (%)	24%	-70%	73%	45%
+ Proceeds from sale of property	0.0	0.0	0.0	0.0	Fully diluted EPS (A\$)	0.064	0.019	0.034	0.049
- Acquisition	0.0	-163.0	0.0	0.0	YoY change (%)	24%	-70%	73%	45%
+ Disposal	29.0	0.0	0.0	0.0	Fully diluted normalised EPS (A\$)	0.070	0.029	0.043	0.058
+/- Vendor Finance	0.0	0.0	0.0	0.0	YoY change (%)	6%	-59%	49%	35%
+/- Other	3.6	-2.0	0.0	0.0	Dividend/share (A\$)	0.040	0.020	0.020	0.020
Net cashflow	31.2	-25.8	9.6	12.4	Franking (%)	100%	100%	100%	100%
Net Cash/(Debt) at beginning of period	3.8	35.0	9.2	18.8	Gross cashflow/share (A\$)	0.11	0.06	0.07	0.09
Net Cash/(Debt) at end of period	35.0	9.2	18.8	31.1	NBV/share (A\$)	0.74	0.72	0.73	0.76
					NTA/Share (A\$)	0.47	0.59	0.60	0.63
Balance Sheet (\$m)	2018a	2019f	2020f	2021f	Valuation				
Cash	39.2	49.7	48.8	42.1	PER (Basic) (x)	7.6	25.3	14.6	10.1
Receivables	51.2	74.7	79.5	91.5	PER (Fully diluted) (x)	7.6	25.3	14.6	10.1
Inventories	12.7	14.5	15.9	18.3	PER (Fully diluted, normalized) (x)	7.0	17.0	11.4	8.4
Other	4.1	4.1	4.1	4.1	P/CFPS (x)	4.3	7.6	6.8	5.5
Current Assets	107.2	142.9	148.3	156.0	Price/NBV (x)	0.7	0.7	0.7	0.6
Other Financial Assets	0.1	0.1	0.1	0.1	Price/NTA (x)	1.1	0.8	0.8	0.8
Property/Plant/Equipment	92.8	162.5	163.6	163.9	Dividend Yield (%)	8.2%	4.1%	4.1%	4.1%
Intangibles	23.5	121.5	115.5	109.5	Fully diluted normalized 3 yr EPS Cagr (%)				
Other	0.0	0.0	0.0	0.0	PEG ratio (x)				
Deferred tax assets	11.9	11.9	11.9	11.9	EV/EBITDA (x)	3.0	6.3	5.1	4.2
Non Current Assets	128.3	296.0	291.1	285.4	EV/EBITadj (x)	3.6	9.1	7.1	5.5
Total Assets	235.5	439.0	439.3	441.4	EV/Revenue (x)	0.3	0.4	0.4	0.3
Payables	-42.8	-53.1	-58.0	-66.4	Other Information				
Interest bearing liabilities	-3.5	-3.5	0.0	0.0	Average daily volume (A\$m)				0.5
Provisions	0.0	0.0	0.0	0.0	ASX Code				SRG
Current tax liabilities	-2.3	-2.3	-2.3	-2.3	Next result				Aug-19
Current Liabilities	-48.6	-58.9	-60.3	-68.7	Company Description				
Deferred Tax	-11.6	-8.7	-8.7	-8.7	SRG Global is a global specialist engineering, construction and maintenance group				
Interest bearing liabilities	-0.7	-37.0	-30.0	-11.0					
Provisions	-17.7	-17.7	-17.7	-17.7					
Non Current Liabilities	-30.0	-63.4	-56.4	-37.4					
Total Liabilities	-78.6	-122.3	-116.6	-106.1					
Net Assets	156.9	316.7	322.7	335.3					
Contributed equity	155.8	318.8	318.8	318.8					
Reserves	-10.3	-11.5	-11.5	-11.5					
Retained profits	11.4	9.2	15.1	27.8					
Minority Interests	0.0	0.0	0.0	0.0					
Total equity	156.9	316.5	322.4	335.1					

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