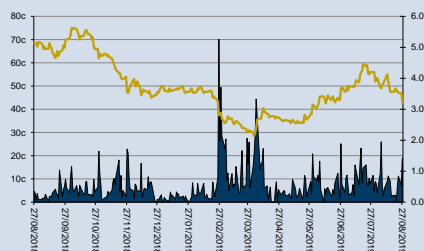


BUY

Current Price \$0.44
Valuation \$0.55

Ticker:	SRG.ASX		
Sector:	Construction		
Shares on Issue (m):	440.4		
Market Cap (\$m):	193.8		
Net Debt / (Cash) (\$m):	-12.2		
Enterprise Value (\$m):	181.6		
52 wk High/Low:	0.75	0.29	
12m Av Daily Vol (m):	0.59		
Key Metrics			
	20F	21F	
EV/EBITDA (x)	4.7	4.0	
EV/EBIT (x)	6.5	5.3	
P/E (x)	9.8	8.0	
Ratios			
	19A	20F	21F
ND / Equity	-4.8%	-3.0%	-4.4%
EBIT Mgn	4.5%	5.0%	5.6%
RoA	8.1%	7.3%	8.7%
RoE	11.7%	7.7%	9.3%
Financials*:			
	19A	20F	21F
Revenue (\$m)	492.7	555.0	613.1
EBITDA (\$m)	31.6	38.5	45.4
EBIT (\$m)	22.1	27.8	34.3
NPAT (\$m)	21.5	19.7	24.3
Rep. EBIT (\$m)	7.6	22.8	29.2
Rep. NPAT (\$m)	9.4	14.6	19.2
<i>*Underlying unless otherwise stated</i>			
Net Assets (\$m)	252.7	258.5	266.8
Op CF (\$m)	3.7	19.8	30.7
Per Share Data:			
	19A	20F	21F
Norm. EPS (cps)	5.34	4.47	5.52
DPS (cps)	1.50	2.00	2.50
Div Yield	3.4%	4.5%	5.7%
NTAPS (cps)	28.62	28.62	31.64
CFPS (cps)	0.91	4.51	6.98

Share Price Graph



Please refer to important disclosures at end of the report (from page 4)

Tuesday, 27 August 2019

SRG Global (SRG)

FY19 results

Analyst | Ian Christie, CFA

Quick Read

Adjusted FY19 EBITDA and EBIT of \$32.0m and \$22.5m respectively was toward the low end of the guidance range, impacted by difficult conditions in the Construction segment where delays hurt margin. However, the order book has grown considerably and is made up in large part of recurring revenue streams from higher margin Asset and Mining Services segments. A pick-up in construction activity in coming periods would build significantly on this more consistent baseload. Although FY20 is likely to remain challenging in construction, we believe the business is well set up for a medium-term recovery and upgrade to BUY (prior HOLD) on a \$0.55 valuation (prior \$0.52).

View | Well set up

Construction tough: Margins in FY19 were impacted by challenging market conditions, delays in awards, and the carrying costs of maintaining capability. This was largely felt in the Construction segment, where we estimate the EBITDA margin before one-offs was ~4.5%. As a result, adjusted FY19 EBITDA and EBIT of \$32.0m and \$22.5m respectively was towards the lower end of guidance (although in line with our estimates).

Broader business: However the SRG business has an increasingly significant exposure to recurring income from Asset Services (which delivered ~40% of adjusted EBITDA before corporate costs) and Mining Services (~30%). These should prove more consistent earners in the coming years, and it is a telling statistic that almost 70% of the \$708m work in hand falls within these two segments. The order book has grown 36% (\$188m) over the last 6 months, benefitting recently from longer term asset services contracts with South32, OneSteel and Transpower New Zealand.

Construction the swing factor: SRG has not provided guidance, although notes ~\$380m is already locked away for FY20, which is ~70% of our revenue forecast for this year. Construction opportunities are likely to be forthcoming, however we suspect delays will mean the potential top line and margin benefits are more likely to be felt in 2H20 than 1H20. Costs continue to be incurred when construction work is delayed, but does mean the margin swing can be significant when work commences.

FY19 atypical: We refer to our prior report ("[FY19 atypical](#)", 4th April 2019) and still think that \$40m is a low case EBITDA scenario in a more normal year, even if this may not be achieved in FY20 while the Construction segment still lags.

Recommendation

While the timing and pace of recovery from FY19 is hard to predict, we believe the trend will be upward from here. Following share price falls today, there is 25% upside to our blended valuation of \$0.55 (prior \$0.52). We upgrade to BUY (prior HOLD) noting the upside should SRG show a meaningful recovery in the Construction segment.

SRG Global

Equity Research

Ian Christie

Recommendation	BUY
Current Price (\$)	0.44
Valuation (\$)	0.55

Sector	Construction
Market Cap (\$m)	193.8
Date	27 August 2019

Trading Metrics	FY18A	FY19A	FY20F	FY21F
EV / EBITDA (x)			4.7	4.0
EV / EBIT (x)			6.5	5.3
P/E (x)			9.8	8.0
Dividend Yield (%)			4.5%	5.7%

Per Share Data	FY18A	FY19A	FY20F	FY21F
Reported EPS (cps)	0.7	2.3	3.3	4.4
Adjusted EPS (cps)	2.3	5.3	4.5	5.5
Div. per share (cps)		1.5	2.0	2.5
NTA per share (cps)	43.2	28.6	28.6	31.6
CF per share (cps)	2.5	0.9	4.5	7.0

Profit and Loss (\$m)*	FY18A	FY19A	FY20F	FY21F
Revenue	240.0	492.7	555.0	613.1
EBITDA	13.4	31.6	38.5	45.4
Depreciation	(7.0)	(9.5)	(10.6)	(11.1)
EBIT	6.4	22.1	27.8	34.3
PBT	5.9	21.2	26.0	32.6
NPAT	4.2	21.5	19.7	24.3
Adjustments:				
Amortisation	-	(6.6)	(5.1)	(5.1)
One-Offs	(4.3)	(7.8)	-	-
Reported EBIT	2.1	7.6	22.8	29.2
Reported NPAT	1.2	9.4	14.6	19.2

* Assumes 10 mths GCS in FY19; excludes one-off costs & amortisation unless otherwise stated

Cash Flow (\$m)	FY18A	FY19A	FY20F	FY21F
Receipts	249.8	522.6	543.8	599.6
Payments	(241.8)	(516.5)	(514.1)	(558.9)
Other	(3.3)	(2.4)	(9.9)	(10.0)
Cash from Operations	4.6	3.7	19.8	30.7
Property, Plant & Equip	(2.6)	(19.4)	(15.5)	(15.6)
Payment for Subsidiary	(32.8)	34.7	-	-
Other	0.3	4.0	-	-
Cash From Investing	(35.1)	19.3	(15.5)	(15.6)
Issue of Shares	25.4	0.8	-	-
Net Borrowing	15.2	12.6	(7.7)	(4.4)
Dividends / Other	(4.9)	(8.1)	(8.8)	(11.0)
Cash From Financing	35.7	5.3	(16.5)	(15.4)
Net Cash Flow	5.2	28.3	(12.2)	(0.3)
Ending Cash	29.7	58.3	46.1	45.8

Balance Sheet (\$m)	FY18A	FY19A	FY20F	FY21F
Cash	29.7	58.3	46.1	45.8
Receivables	73.0	118.0	129.2	142.8
Inventory	11.8	13.0	17.0	18.7
Other	2.4	5.1	5.1	5.1
Current Assets	116.9	194.5	197.4	212.3
Property, Plant & Equip	38.3	71.5	76.4	80.8
Intangibles	40.8	137.6	132.5	127.4
Other NC Assets	4.8	27.2	27.2	27.2
Non-Current Assets	83.9	236.2	236.0	235.4
Total Assets	200.8	430.6	433.4	447.7
Payables	44.8	99.7	106.1	116.7
Borrowings	29.7	46.1	38.4	33.9
Provisions	12.7	30.3	30.3	30.3
Other	-	1.8	0.1	0.1
Total Liabilities	87.1	177.9	174.9	181.0
Net Assets	113.7	252.7	258.5	266.8
Ordinary Equity	66.3	215.9	215.9	215.9
Reserves	7.0	8.2	8.2	8.2
Retained Earnings	40.4	28.6	34.4	42.7
Total Equity	113.7	252.7	258.5	266.8

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.0%		
PV Free Cash Flow (\$m)		242.2	
Less Net Debt / Plus Cash (\$m)		12.2	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		254.3	0.58
Earnings Capitalisation Valuation:			
FY20 EBIT multiple	6.5	192.5	0.44
FY20 NPAT multiple	10.5	205.9	0.47
Valuation (\$/share) - blend of DCF & earnings cap			0.55

Profit and Loss (\$m)**	1H18A	2H18A	1H19A	2H19A
Revenue	105.2	134.8	235.0	257.7
EBITDA	6.3	7.2	15.9	15.6
Depreciation	(3.1)	(3.9)	(4.4)	(5.1)
EBIT	3.2	3.2	11.5	10.5
PBT	3.0	2.9	11.2	9.9
NPAT	2.4	3.1	12.1	9.4
Adjustments:				
Amortisation	-	-	(3.2)	(3.4)
One-Offs	-	(4.3)	(3.0)	(4.8)
Reported EBIT	3.2	(1.1)	5.3	2.4
Reported NPAT	2.4	(1.2)	6.8	2.6

* Assumes 4 mths GCS in FY19; excludes one-off costs & amortisation unless otherwise stated

Cash Flow (\$m)	1H18A	2H18A	1H19A	2H19A
Receipts	117.2	132.6	221.9	300.6
Payments	(117.3)	(124.5)	(222.2)	(294.3)
Other	(2.1)	(1.2)	(0.0)	(2.3)
Cash from Operations	(2.3)	6.9	(0.3)	4.0
Property, Plant & Equip	(1.6)	(1.0)	(11.6)	(7.8)
Payment for Subsidiary	-	(32.8)	(1.8)	36.5
Other	0.1	0.2	37.2	(33.2)
Cash From Investing	(1.5)	(33.6)	23.8	(4.5)
Issue of Shares	0.6	24.8	0.8	-
Net Borrowing	(3.5)	18.7	3.2	9.4
Dividends / Other	(2.6)	(2.3)	(3.7)	(4.4)
Cash From Financing	(5.5)	41.2	0.3	5.0
Net Cash Flow	(9.3)	14.5	23.8	4.4
Ending Cash	15.1	29.7	53.4	58.3

Financial Ratios	FY18A	FY19A	FY20F	FY21F
Growth				
Revenue growth (%)	5.2%	103.3%	14.1%	10.5%
NPAT growth (%)	-60.3%	411.5%	-8.4%	23.4%
Norm. EPS growth (%)		131.1%	-16.3%	23.4%
Profitability Ratios				
EBITDA Margin (%)	5.2%	6.3%	6.9%	7.4%
EBIT Margin (%)	2.7%	4.5%	5.0%	5.6%
PBT Margin (%)	2.5%	4.3%	4.7%	5.3%
NPAT Margin (%)	1.8%	4.4%	3.5%	4.0%
Return on Assets (%)	4.5%	8.1%	7.3%	8.7%
Return on Equity (%)	4.2%	11.7%	7.7%	9.3%
ROIC (%)	4.3%	7.7%	7.0%	8.5%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	-0.1%	-4.8%	-3.0%	-4.4%
ND / ND + Equity (%)	-0.1%	-5.1%	-3.1%	-4.6%
Current Ratio (x)	1.5	1.4	1.5	1.5
Net Interest Cover (x)	2.1	8.0	12.1	17.1
Cash Flow Ratios				
Free Cash Flow Yield (%)	-38.5%	9.9%	2.2%	7.8%
Cash Conversion (x)	0.3	0.1	0.5	0.7

Adjustments to forecasts

Figure 1: Adjustments to forecasts

Underlying	FY19	FY20F			FY21F		
	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	486.4	530.0	555.0	5%	598.3	613.1	2%
EBITDA (\$m)	31.6	41.0	38.5	-6%	46.6	45.4	-3%
EBITDA margin	6.5%	7.7%	6.9%		7.8%	7.4%	
Depreciation (\$m)	-9.5	-11.1	-10.6	-5%	-11.1	-11.1	0%
EBIT (\$m)	22.1	29.9	27.8	-7%	35.5	34.3	-4%
PBT (\$m)	21.2	28.0	26.0	-7%	33.9	32.6	-4%
NPAT (\$m)	21.5	21.2	19.7	-7%	25.3	24.3	-4%

Source: Argonaut forecasts

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