

28 Aug 2019

SRG GLOBAL LTD (SRG)

Capital intensive to grow

SRG Global Ltd (SRG) reported FY19 NPAT of \$9.4m (we expected \$10.4m). A 0.5cps DPS declared (we expected 1cps). Adjusted EBITDA was \$32m. The normalised EBITDA assumes only 10mths of GCS. We estimate that on a 12mth contribution, EBITDA would have been around \$2m higher. On that basis, EBITDA in 2H fell to \$15.7m, from \$18.3m in 1H and margins fell 100bp to 5.7%.

Adjusted EBITA was \$22.5m (Guidance was \$22-27m, we expected \$23m). Operating cash flow was \$3.7m (we expected \$17.2m). Capex was \$19.4m (we expected \$17.6m). Net cash was \$12.2m (we expected \$27.7m).

Segment results

Mining profit was down in 2H to \$4.0m (from \$7.2m in 1H) and margins fell to 10.2%, from 16.5% due to some civil geotech contracts which have now ended. Construction revenue was up slightly from 1H, and EBITDA improved to \$9.3m in 2H, from \$6.5m (margins 1H/2H of 5.0%/6.7%). Asset management had 2H revenue of \$75m and EBITDA of \$8.8m (excellent margins of 11.6%).

Hartleys assumes FY20 EBITDA \$36.7m, FY21 \$40.7m

The Company has current WIH of \$708m. There is no specific guidance other than that SRG is "positioned for sustainable growth in FY20 and beyond".

There is ~\$380m WIH for FY20, which puts SRG in a good position for this year. We assume FY20 revenue of \$530m (implies ~\$150m contracts wins / walk in door / extensions). For FY20, we assume \$36.7m EBITDA. We assume 1.5cps DPS.

For FY21, we assume \$585m of revenue and \$40.7m EBITDA. We assume 2.0cps DPS.

Neutral recommendation

SRG is still in a building phase. There is significant potential for both margin and revenue growth. The balance sheet is okay, although weaker than we had assumed. The business continues to require working capital to grow, which the balance sheet can currently finance but very high growth rates are out of reach for now. We move to Neutral recommendation (from Speculative Buy) on valuation grounds.

Fig. 1: Earnings Changes

Profit & Loss (\$m)	6/18A		6/19A		6/20F		
	actual	F'cast	Actual	% diff	Old	New	% diff
Revenue	239.1	471.3	506.4	7.5%	528.7	530.9	0.4%
Underlying Pro-forma EBITDA	19.1	35.0	34.0	-2.8%	38.6	36.7	-4.9%
Depreciation/Amortisation	-7.0	-16.5	-16.1		-18.8	-17.2	
Depreciation		-10.0	-9.5	-5.4%	-10.8	-11.2	3.5%
Amortisation		-6.5	-6.6		-8.0	-6.0	
Underlying pro-forma EBITA	12.1	25.0	24.5	-1.8%	27.8	25.5	-8.2%
Underlying EBITA (guidance FY19 \$22-27m)		23.0	22.5	-2.0%			
Net Interest	-0.5	-0.8	-1.3	61.7%	-0.8	-1.8	119.2%
Underlying pro-forma PBTA	11.6	24.1	23.2	-4.0%	27.0	23.8	-12.0%
- margin	4.8%	5.1%	4.6%	-10.7%	5.1%	4.5%	-12.3%
Tax Reported	-2.3	4.4	2.7	-39.2%	-7.8	-6.9	-12.0%
Tax normalised	-3.3	-7.0	-6.3		-7.8	-6.9	
- rate	-28%	-29%	-27%		-29%	-29%	
Norm. NPATA	8.3	17.1	14.8	-13.5%	19.2	16.9	-12.0%
- margin	3.5%	3.6%	2.9%	-19.5%	3.6%	3.2%	-12.3%

Source: Hartleys Research

Share Price:	\$0.440
Valuation:	\$0.44
12mth price target:	\$0.48

Brief Business Description:

Global specialist construction services for CBD, dams and bridges. Drill and blast services for Aust mining.

Hartleys Brief Investment Conclusion

Disappointing performance post merger. Business is improving but fair on valuation until growth accelerates.

Chairman & CEO:

Peter Wade (Chairman)
Peter McMorrow (Deputy Chairman)
David Macgeorge (MD)
Enzo Gullotti (Exec-director)

Substantial shareholders:

Perennial (14.9%)
MUFG (8.7%)

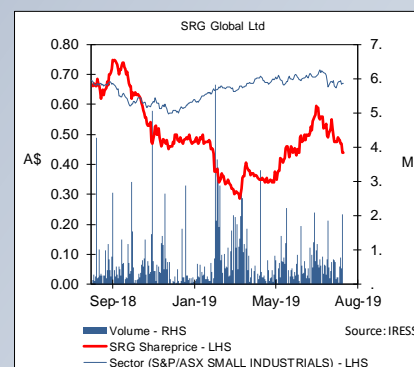
Company Address:

Level 1, 338 Barker Rd
Subiaco, WA, 6008

Issued Capital:	440.4m
- fully diluted	443.4m
Market Cap:	\$193.8m
- fully diluted	\$195.1m
Net Cash (30 Jun '19a):	\$12.2m

	FY19a	FY20e	FY21e
Op Cash Flw	3.7	12.8	25.9
Free Cash Flw	-150.8	-2.7	12.6
NPAT* (A\$m)	14.8	16.9	18.9
EPS (\$, bas)	2.3	2.5	2.9
P/E (basic)	18.8x	17.8x	15.0x
P/E (diluted)	13.2x	11.6x	10.3x
EV / EBITDA	5.7x	5.3x	4.8x
DPS (cps)	1.50	1.50	2.00
Franking	100%	100%	100%
Dividend Yield	3.4%	3.4%	4.5%
N.D. / equity	-5%	-2%	-4%

Source: Hartleys Research. * normalised



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Hartleys has completed a capital raising for SRG Limited ("SRG") and acted as Co-Adviser to the scheme of arrangement completed in September 2018 with Global Construction Services Limited within the past 12 months for which it has earned fees. See back page for disclaimers.

SRG Global Ltd (SRG)					Recommendation: Neutral				
Company Information					Profit & Loss (\$m)				
Date	28 Aug 2019	Level 1, 338 Barker Rd			6/18A	6/19A	6/20F	6/21F	
Share Price	\$0.440	Subiaco, WA, 6008			Mining - Rev	76.8	82.6	85.0	89.3
52 Week High-Low	\$0.78 - \$0.29	Ph: +61 8 9268 5400			Mining - EBITDA	12.7	11.2	11.5	12.1
Market Cap (\$m)	\$193.8				Mining - Margin	16.5%	13.5%	13.5%	13.5%
Enterprise Value (\$m)	\$181.6	www.srgglobal.com.au			Construction - Rev (100%)	162.0	268.0	276.0	317.4
Ordinary Shares	440.4				Construction - EBITDA (100%)	12.2	15.7	16.2	18.6
Fully Diluted Shares	443.4				Construction - Margin	7.5%	5.9%	5.9%	5.9%
					Asset Mgt - Revenue	247.5	135.8	169.8	178.3
					Asset Mgt - EBITDA	24.9	15.5	19.4	20.4
					Asset Mgt - Margin	10.1%	11.4%	11.4%	11.4%
					Group Revenue	239.1	506.4	530.9	585.0
					growth	4.0%	111.8%	4.8%	10.2%
					Pro-forma revenue	546.4	530.9	585.0	
					pro-forma EBITDA	19.1	34.0	36.7	40.7
					margin	8.0%	6.2%	6.9%	7.0%
					Rep. EBITDA (FY19 guid. \$32-37m)	15.6	32.0	36.7	40.7
					Rep. Depreciation/Amortisation	-7.0	-16.1	-17.2	-18.2
					Deprec.	-7.0	-9.5	-11.2	-12.2
					Amort.	0.0	-6.6	-6.0	-6.0
					Norm + pro-forma EBITA	12.1	24.5	25.5	28.5
					EBITA / Sales	5.1%	4.8%	4.8%	4.9%
					Underlying EBITA (FY19 guidance \$22-27m)	22.5			
					Net Interest	-0.5	-1.3	-1.8	-1.8
					Pro-forma PBTA	11.6	23.2	23.8	26.7
					Tax	-3.3	-6.3	-6.9	-7.7
					Normalised Tax Rate	28.4%	30.0%	29.0%	29.0%
					NPATA Pre Minorities	8.3	14.8	16.9	18.9
					NPATA / Sales	3.5%	2.7%	3.2%	3.2%
					Minorities	0.0	0.0	0.0	0.0
					Pro-forma NPATA to equity	8.3	14.8	16.9	18.9
					Abnormals / discontinued	-2.6	-5.4	-6.0	-6.0
					Reported Profit to equity	5.7	9.4	10.9	12.9
					Reported EPS (basic, wghted)	3.4	2.3	2.5	2.9
					Normalised EPS (weighted)	4.9	3.7	3.8	4.3
					Normalised EPS (full. diluted)	1.9	3.3	3.8	4.3
					DPS (cps)	2.62	1.50	1.50	2.00
					Franking	100%	100%	100%	100%
					Payout Ratio	77.3%	64.1%	60.7%	39.1%
					Cashflow Statement (\$m)	6/18A	6/19A	6/20F	6/21F
					Cash Receipts	249.9	522.6		
					EBITDA	19.1	34.0	36.7	40.7
					Working Capital Change	-11.1	-28.0	-15.3	-5.2
					Cash from Operations	8.1	6.0	21.4	35.4
					Net interest Paid	-0.6	-1.3	-1.8	-1.8
					Tax Paid	-2.8	-1.0	-6.9	-7.7
					Net Operating Cash Flow	4.6	3.7	12.8	25.9
					Capital Expenditure	-2.6	-19.4	-15.5	-13.3
					Asset Sales	0.1	3.7	0.0	0.0
					Other (inc Investments)	-32.6	-135.1	0.0	0.0
					Net Investing Cash Flow	-35.1	-150.7	-15.5	-13.3
					Proceeds from Equity Issues	24.5	170.8	0.0	0.0
					Net Change in Debt & Leases	15.2	12.6	7.1	-4.9
					Dividends Paid	-3.9	-8.1	-4.4	-7.7
					Net Financing Cash Flow	35.7	175.3	2.7	-12.6
					Movement in Cash	5.2	28.3	0.0	0.0
					HP Lease Capex (non-cash)	-8.2	0.0	0.0	0.0
					Balance Sheet (\$m)	6/18A	6/19A	6/20F	6/21F
					Cash	29.7	58.3	58.3	58.3
					Receivables	73.0	70.6	87.3	96.2
					Inventories	11.8	64.5	67.1	73.9
					Other	3.1	1.1	1.1	1.1
					Total Current Assets	117.6	194.5	213.8	229.4
					Property, Plant & Equipment	38.3	71.5	75.8	76.9
					Intangibles	40.8	137.6	131.6	125.6
					Other	1.6	27.2	27.2	27.2
					Total Non Current Assets	80.7	236.2	234.5	229.6
					Total Assets	198.3	430.6	448.3	459.0
					Accounts Payable	43.9	99.7	103.8	114.1
					Interest Bearing Liabilities	19.9	21.2	1.0	1.0
					Other	11.1	22.6	22.6	22.6
					Total Current Liabilities	74.9	143.6	127.4	137.8
					Accounts Payable	0.0	0.0	0.0	0.0
					Interest Bearing Liabilities	9.7	24.9	52.2	47.3
					Other	0.8	9.5	9.5	9.5
					Total Non Current Liabilities	10.6	34.4	61.7	56.8
					Total Liabilities	85.4	177.9	189.1	194.6
					Net Assets	112.8	252.7	259.2	264.4
					Net Asset Value / Share (\$)	0.56	0.57	0.59	0.60
					NTA / Share (\$)	0.36	0.26	0.29	0.32
					Net Debt (net cash)	-0.1	-12.2	-5.0	-9.9
					Analyst: Trent Barnett	Last Earnings Estimate Changes:			
					Phone: +61 8 9268 3052	27 August 2019			
					Sources: IRESS, Company Information, Hartleys Research				

Fig. 2: Company normalisations

*FY19 profit is for
10mths contribution to
GCS*

REVENUE ADJUSTMENTS (\$m)

	FY18	FY19
Reported Revenue	486.7	486.4
ADD ADJUSTMENT ITEMS		
49% of Gallery Facades not owned & GCS July - Aug 17 contribution	(75.1)	-
50% of JV revenue	20.0	20.0
Total Adjustment Items	(55.1)	20.0
Adjusted Revenue	431.6	506.4

EBIT AND EBITDA ADJUSTMENTS (\$m)

	FY18	FY19
Reported EBIT	28.8	8.1
ADD ADJUSTMENT ITEMS		
49% of Gallery Facades not owned & GCS July - Aug 17 contribution	(5.0)	-
Transaction and restructuring costs	4.3	7.8
Amortisation of customer related intangibles	-	6.6
Total Adjustment Items	(0.7)	14.4
Adjusted EBIT	28.2	22.5
Add Depreciation	10.9	9.5
Adjusted EBITDA	39.1	32.0

Note: FY18 is based the addition of the financial information contained in the Appendix 4E's released to ASX by SRG Limited and Global Construction Services Limited on 14 August 2018

Source: SRG

Fig. 3: P&L and Balance sheet

Profit & Loss (\$m)	Jun-17(a)	Dec-17(a)	Jun-18(a)	Dec-18(a)	Jun-19(a)
Contract Mining - Rev	35.9	37.6	39.2	43.6	39.0
Contract Mining - EBITDA	6.2	5.9	6.8	7.2	4.0
Contract Mining - Margin	17.2%	15.8%	17.2%	16.5%	10.2%
Construction - Rev (100%)	73.8	67.3	94.7	128.9	139.1
Construction - EBITDA (100%)	5.5	4.4	7.8	6.5	9.3
Construction - Margin	7.5%	6.5%	8.3%	5.0%	6.7%
Asset Mgt - Revenue				60.0	75.8
Asset Mgt - EBITDA				6.7	8.8
Asset Mgt - Margin				11.2%	11.6%
Group Revenue	111.6	104.8	134.3	238.5	267.9
sequential growth	-5.7%	-6.1%	28.1%	77.6%	12.3%
Pro-forma revenue				278.5	267.9
pro-forma EBITDA	6.0	7.2	11.9	18.3	15.7
margin	5.4%	6.9%	8.9%	6.6%	5.8%
Reported EBITDA (guidance \$32-37m)	7.1	6.3	9.3	16.3	15.7
Rep. Depreciation/Amortisation	-2.8	-3.1	-3.9	-7.7	-8.5
Deprec.	-2.8	-3.1	-3.9	-4.4	-5.1
Amort.				-3.2	-3.4
Norm + pro-forma EBITA	3.3	4.1	8.0	13.9	10.6
EBITA / Sales	2.9%	3.9%	6.0%	5.8%	4.0%
Underlying EBITA (guidance \$22-27m)				11.9	10.6
Net Interest	-0.1	-0.1	-0.4	-0.7	-0.7
Pro-forma PBTA	3.2	4.0	7.6	13.2	9.9
Tax	-1.1	-1.2	-2.1	-4.0	-2.4
Normalised Tax Rate	34.5%	30.0%	27.6%	30.0%	24.0%
NPATA Pre Minorities	2.1	2.8	5.5	9.3	5.6
NPATA / Sales	1.9%	2.6%	4.1%	3.9%	2.1%
Minorities	0.0	0.0	0.0	0.0	0.0
Pro-forma NPATA to equity	2.1	2.8	5.5	9.3	5.6
Abnormals / discontinued	1.1	-0.4	-2.2	-2.5	-2.9
Reported Profit to equity	3.2	2.4	3.3	6.8	2.6
Reported EPS (basic, w'ghted)	2.0	1.5	1.9	1.9	0.5
Normalised EPS (weighted)	1.3	1.7	3.2	1.6	2.1
Normalised EPS (full. diluted)	0.5	0.6	1.2	2.1	1.3
DPS (cps)	1.61	0.81	1.82	1.00	0.50
Franking	100%	100%	100%	100%	100%
Payout Ratio	80.6%	54.2%	95.4%	53.7%	104.2%
Balance Sheet (\$m)	Jun-17(a)	Dec-17(a)	Jun-18(a)	Dec-18(a)	Jun-19(a)
Cash	24.4	15.1	29.7	53.4	58.3
Receivables	49.7	46.7	73.0	116.5	70.6
Inventories	9.7	10.0	11.8	12.9	64.5
Other	1.6	4.9	3.1	8.3	1.1
Total Current Assets	85.4	76.7	117.6	191.1	194.5
Property, Plant & Equipment	29.0	31.1	38.3	71.5	71.5
Intangibles	23.0	23.0	40.8	118.1	137.6
Other	3.3	1.9	1.6	45.9	27.2
Total Non Current Assets	55.2	56.0	80.7	235.5	236.2
Total Assets	140.6	132.7	198.3	426.6	430.6
Accounts Payable	35.0	26.7	43.9	75.6	99.7
Interest Bearing Liabilities	3.0	5.0	19.9	25.3	21.2
Other	9.8	6.0	11.1	32.5	22.6
Total Current Liabilities	47.7	37.8	74.9	133.4	143.6
Accounts Payable	0.0	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	5.8	7.2	9.7	11.4	24.9
Other	0.7	0.8	0.8	20.9	9.5
Total Non Current Liabilities	6.6	8.0	10.6	32.3	34.4
Total Liabilities	54.3	45.7	85.4	165.7	177.9
Net Assets	86.3	87.0	112.8	261.0	252.7
Net Asset Value / Share (\$)	0.54	0.53	0.56	0.59	0.57
NTA / Share (\$)	0.40	0.39	0.36	0.32	0.26
Net Debt (net cash)	-15.6	-3.0	-0.1	-16.8	-12.2

Margins are okay

Balance sheet net cash

Source: Hartleys Estimates, SRG

Working capital likely
to be a continued drag

Fig. 4: Cash Flow

Cashflow Statement (\$m)	Jun-17(a)	Dec-17(a)	Jun-18(a)	Dec-18(a)	Jun-19(a)
Cash Receipts	107.1	117.2	132.7	221.9	300.6
EBITDA	6.0	7.2	11.9	18.3	15.7
Working Capital Change	1.9	-7.3	-3.7	-18.6	-9.4
Cash from Operations	8.0	-0.1	8.2	-0.2	6.3
Net interest Paid	-0.1	-0.1	-0.5	-0.6	-0.7
Tax Paid	-4.4	-2.0	-0.8	1.0	-2.1
Net Operating Cash Flow	3.5	-2.3	6.9	0.2	3.5
Capital Expenditure	-3.5	-1.6	-1.0	-11.6	-7.8
Asset Sales	0.0	0.1	0.0	0.0	3.7
Other (inc Investments)	0.0	0.0	-32.6	-135.1	0.0
Net Investing Cash Flow	-3.4	-1.5	-33.6	-146.7	-4.0
Proceeds from Equity Issues	0.0	0.6	23.8	170.8	0.0
Net Change in Debt & Leases	0.7	-3.5	18.7	3.2	9.4
Dividends Paid	-1.9	-2.6	-1.3	-3.7	-4.4
Net Financing Cash Flow	-1.3	-5.5	41.2	170.3	5.0
Movement in Cash	-1.2	-9.3	14.5	23.8	4.4
HP Lease Capex (non-cash)	-6.5	-3.6	-4.6	0.0	0.0
Free Cash Flow Analysis (\$m)	Jun-17(a)	Dec-17(a)	Jun-18(a)	Dec-18(a)	Jun-19(a)
Net Operating Cash Flow	3.5	-2.3	6.9	0.2	3.5
Capex (Reported)	-3.5	-1.6	-1.0	-11.6	-7.8
Group Free Cash Flow (reported)	0.0	-3.9	5.9	-11.4	-4.3
Fixed Debt Repayments	-1.5	-1.5	-2.5	-10.0	-12.6
Equity Free Cash Flow	-1.5	-5.4	3.4	-21.4	-16.9
HP Lease Capex (non-cash)	-6.5	-3.6	-4.6	0.0	0.0
Free Cash Flow (normalised)	-7.9	-9.0	-1.2	-21.4	-16.9
Capex (inc HP) / depreciation	356%	171%	141%	151%	92%

Source: Hartleys Estimates, SRG

Fig. 5: Earnings Changes

Profit & Loss (\$m)	6/19A				6/20F			6/21F		
	6/18A actual	F'cast	Actual	% diff	Old	New	% diff	Old	New	% diff
Revenue	239.1	471.3	506.4	7.5%	528.7	530.9	0.4%	585.0	585.0	0.0%
Underlying Pro-forma EBITDA	19.1	35.0	34.0	-2.8%	38.6	36.7	-4.9%	41.9	40.7	-3.0%
Depreciation/Amortisation	-7.0	-16.5	-16.1		-18.8	-17.2		-20.1	-18.2	
Depreciation		-10.0	-9.5	-5.4%	-10.8	-11.2	3.5%	-12.1	-12.2	0.8%
Amortisation		-6.5	-6.6		-8.0	-6.0		-8.0	-6.0	
Underlying pro-forma EBITA	12.1	25.0	24.5	-1.8%	27.8	25.5	-8.2%	29.8	28.5	-4.5%
Underlying EBITA (guidance FY19 \$22-27m)		23.0	22.5	-2.0%						
Net Interest	-0.5	-0.8	-1.3	61.7%	-0.8	-1.8	119.2%	-0.7	-1.8	158.3%
Underlying pro-forma PBTA	11.6	24.1	23.2	-4.0%	27.0	23.8	-12.0%	29.1	26.7	-8.4%
- margin	4.8%	5.1%	4.6%	-10.7%	5.1%	4.5%	-12.3%	5.0%	4.6%	-8.4%
Tax Reported	-2.3	4.4	2.7	-39.2%	-7.8	-6.9	-12.0%	-8.4	-7.7	-8.4%
Tax normalised	-3.3	-7.0	-6.3		-7.8	-6.9		-8.4	-7.7	
- rate	-28%	-29%	-27%		-29%	-29%		-29%	-29%	
Norm. NPATA	8.3	17.1	14.8	-13.5%	19.2	16.9	-12.0%	20.7	18.9	-8.4%
- margin	3.5%	3.6%	2.9%	-19.5%	3.6%	3.2%	-12.3%	3.5%	3.2%	-8.4%
Minorities	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
Abnormals (net of tax)	-2.6	-6.7	-20.1		-8.0	-6.0		-8.0	-6.0	
Reported Profit	5.7	10.4	9.4	-9.6%	11.2	10.9	-2.7%	12.7	12.9	2.1%
Net Debt (net cash)	-0.1	-27.7	-12.2	-56.0%	-28.1	-5.0	-82.0%	-34.2	-9.9	-70.9%
Capex	-10.8	-17.6	-19.4	10.5%	-15.1	-15.5	2.8%	-13.0	-13.3	2.3%
DPS	2.6	2.0	1.5	-25.0%	2.0	1.5	-25.0%	2.2	2.0	-7.2%
Weighted Shares	169.0	395.2	402.4	1.8%	440.4	440.4	0.0%	440.4	440.4	0.0%

Source: Hartleys Estimates, Iress

PRICE TARGET

Our twelve month price target is \$0.48 (unchanged from previous).

SRG Price Target Methodology	Weighting	Spot	12 mth out
DCF (WACC 11.4%, Terminal growth 3.00%)	25%	\$0.42	\$0.44
12mth forward P/E base case earnings of 10x (peak-cycle)	25%	\$0.39	\$0.43
12mth forward EV/EBIT of 6x (mid-cycle)	25%	\$0.37	\$0.41
12mth forward EV/EBIT of 12x (peak-cycle)	15%	\$0.72	\$0.80
Jun19a 1x Price / NTA (1x \$0.26)	1%	\$0.26	\$0.26
12mth fwd Div Yield of 4.5% (Gross yield=6.4%)	9%	\$0.22	\$0.39
Risk weighted composite		\$0.42	\$0.48
12 Months Price Target		\$0.48	
Shareprice - Last		\$0.44	
12 mth total return (% to 12mth target + dividend)		11%	

Source: Hartleys Estimate

Fig. 6: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Group Revenue reaches ~\$650m by FY23	High	High	The outlook for the industry suggests that this is achievable
EBITDA margins ~7%	Moderate to High	High	Appears reasonable and hopefully conservative
Capex is low	Moderate	Moderate	SRG is predominantly a services business, and capex is low. Note, the drill & blast division is capital intensive, and hence there will be an eventual capex replacement cycle.
No substantial acquisitions	High	Upside / Downside	We believe it's likely SRG makes further acquisitions

Conclusion

We believe our assumptions are reasonable but there is significant risk given recent track record.

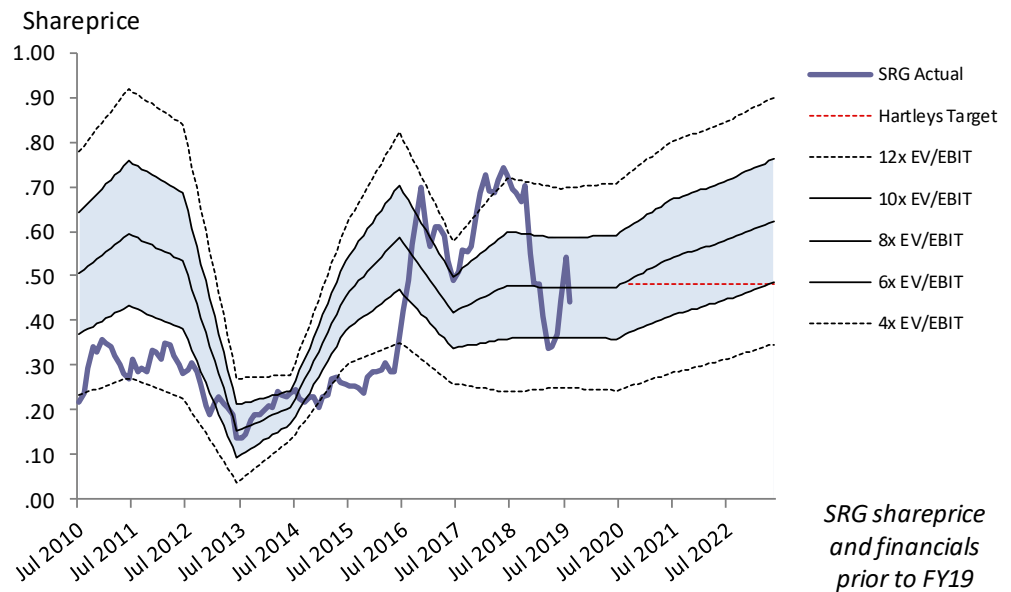
Source: Hartleys

RISKS

The key risks for SRG (like most industrial companies) is earnings disappointments given the industry is volatile and earnings can disappoint due to cost overruns, project delays, loss of contracts or slower than anticipated new project wins. Although some earnings disappointments can be short term and just a timing issue, other disappointments can be materially value destructive and can sometimes overhang stocks for a long period of time (for example contract disputes). Such disappointments can be very difficult to predict and share price reactions can be severe and immediate upon disclosure by the company. High financial leverage can increase the impact.

EV/EBIT BANDS

Fig. 2: Using Hartleys base case forecasts



Source: Hartleys Estimates, IRESS

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.
Buy	

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