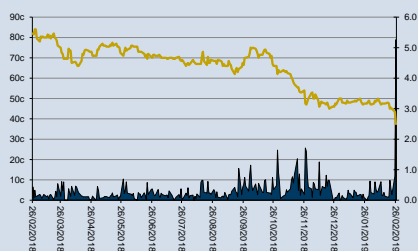


BUY

Current Price \$0.375
Valuation \$0.60

Ticker:	SRG.ASX		
Sector:	Construction		
Shares on Issue (m):	440.4		
Market Cap (\$m):	165.2		
Net Debt / (Cash) (\$m):	-16.8		
Enterprise Value (\$m):	148.4		
52 wk High/Low:	0.84	0.38	
12m Av Daily Vol (m):		0.23	
Key Metrics			
	19F	20F	
EV/EBITDA (x)	4.5	3.3	
EV/EBIT (x)	6.5	4.4	
P/E (x)	9.6	6.9	
Ratios			
	18A	19F	20F
ND / Equity	-0.1%	-5.6%	-8.9%
EBIT Mgn	5.0%	4.7%	5.8%
RoA	8.5%	8.4%	9.0%
RoE	8.3%	9.1%	9.0%
Financials*:			
	18A	19F	20F
Revenue (\$m)	240.0	486.2	588.8
EBITDA (\$m)	19.1	32.9	45.2
EBIT (\$m)	12.1	22.9	34.0
NPAT (\$m)	8.2	17.1	24.1
Rep. EBIT (\$m)	8.5	13.9	28.8
Rep. NPAT (\$m)	5.7	12.3	18.9
<i>*Underlying unless otherwise stated</i>			
Net Assets (\$m)	112.8	265.5	271.1
Op CF (\$m)	4.6	10.8	32.5
Per Share Data:			
	18A	19F	20F
Norm. EPS (cps)		3.89	5.46
DPS (cps)		2.00	3.00
Div Yield		5.3%	8.0%
NTAPS (cps)		34.43	36.89
CFPS (cps)		2.44	7.38

Share Price Graph



Please refer to important disclosures at end of the report (from page 3)

Tuesday, 26 February 2019

SRG Global (SRG)

Interim results

Analyst | Ian Christie, CFA

Quick Read

While 1H19 EBIT of \$11.5m was in line with our expectations, contract delays (a key risk for all contractors) mean previously anticipated second half growth will not eventuate. SRG pulled back FY19 EBIT guidance to \$22-27m (prior \$30-35m), and our revised number falls toward the bottom end of the new range. However we expect the benefits of the SRG-GCS tie-up, and FY19's deferred revenue, to become more apparent in FY20, where we have EBIT climbing to \$34.0m. Next year's metrics look appealing and on this basis we maintain a BUY call, although acknowledge sentiment will weigh in the near term.

Impact | Revenue likely deferred, not lost

Interims in line: The adjusted 1H19 numbers (which include 6 months SRG and 4 months GCS) were close to our forecasts, with revenue of \$235m, EBITDA of \$15.9m, and EBIT of \$11.5m. Operating cash flow was neutral, but the balance sheet finished the period in good shape with the cash GCS brought to the merged entity. At end period, net cash was \$16.8m and cash at bank was \$53.4m.

Guidance downgraded: We had previously assumed a considerably stronger 2H19 to get to prior EBIT guidance of \$30-35m. However, project delays have caused the Company to reconsider and revise EBIT guidance down to \$22-27m (on \$32-37m EBITDA). Margins in 1H19 (EBITDA 6.8%, EBIT 4.9%) were lower due to project delays, resulting in the carrying of additional operational costs without any associated revenue. With guidance for 2H19 EBIT to be at similar levels to 1H19, this theme is expected to continue through FY19.

Project timing is a key risk for contractors: SRG is not the first contractor to highlight delays this reporting season, and will not be the last. However, as long as the projects are not cancelled it reflects a deferral, rather than a loss, of revenue. We expect this is largely the case for SRG, although note an economic slowdown may extend challenges into the next financial year. We point out that current performance is not a reflection of the success or otherwise of the SRG-GCS tie-up; project deferrals would have impacted one or both businesses regardless (and probably to a larger degree on a standalone basis).

Forecast adjustments: We have revised our FY19 forecasts down towards the bottom end of the FY19 guidance range and reduced our FY20 EBIT forecast from \$37.3m to \$34.0m. The latter number falls toward the top end of the Company's prior FY19 guidance range and assumes work originally projected to fall in FY19 now falls in FY20. In this regard, we are encouraged that work in hand of \$520m and the \$4.5b pipeline have not changed by much over the last few months.

Recommendation

Revisions to forecasts result in our blended valuation falling to \$0.60 (prior \$0.70). The current price is at a sufficient discount to warrant a maintained BUY call.

SRG Global

Equity Research

Ian Christie

Recommendation	BUY
Current Price (\$)	0.375
Valuation (\$)	0.60

Sector	Construction
Market Cap (\$m)	165.2
Date	26 February 2019

Trading Metrics	FY17A	FY18A	FY19F	FY20F
EV / EBITDA (x)			4.5	3.3
EV / EBIT (x)			6.5	4.4
P/E (x)			9.6	6.9
Dividend Yield (%)			5.3%	8.0%

Per Share Data	FY17A	FY18A	FY19F	FY20F
Reported EPS (cps)			2.8	4.3
Adjusted EPS (cps)			3.9	5.5
Div. per share (cps)			2.0	3.0
NTA per share (cps)			34.4	36.9
CF per share (cps)			2.4	7.4

Profit and Loss (\$m)*	FY17A	FY18A	FY19F	FY20F
Revenue	235.2	240.0	486.2	588.8
EBITDA	12.8	19.1	32.9	45.2
Depreciation	(5.0)	(7.0)	(10.0)	(11.1)
EBIT	7.7	12.1	22.9	34.0
PBT	7.6	11.6	21.9	32.2
NPAT	5.1	8.2	17.1	24.1
Adjustments:				
Amortisation	-	-	(6.0)	(5.2)
One-Offs	3.9	(3.6)	(3.0)	-
Reported EBIT	11.7	8.5	13.9	28.8
Reported NPAT	7.8	5.7	12.3	18.9

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

Cash Flow (\$m)	FY17A	FY18A	FY19F	FY20F
Receipts	244.2	249.9	446.6	580.4
Payments	(232.5)	(241.8)	(419.9)	(537.9)
Other	(4.7)	(3.4)	(15.9)	(10.0)
Cash from Operations	7.0	4.6	10.8	32.5
Property, Plant & Equip	(5.9)	(2.6)	(23.8)	(10.0)
Payment for Subsidiary	-	(32.8)	(1.8)	-
Other	8.2	0.3	37.2	-
Cash From Investing	2.3	(35.1)	11.6	(10.0)
Issue of Shares	0.5	25.4	0.8	-
Net Borrowing	(2.6)	15.2	3.2	(5.0)
Dividends / Other	(4.5)	(4.9)	(4.4)	(13.2)
Cash From Financing	(6.6)	35.7	(0.4)	(18.2)
Net Cash Flow	2.7	5.2	22.0	4.3
Ending Cash	24.4	29.7	51.5	55.8

Balance Sheet (\$m)	FY17A	FY18A	FY19F	FY20F
Cash	24.4	29.7	51.5	55.8
Receivables	49.7	73.0	112.6	121.0
Inventory	9.7	11.8	12.5	14.9
Other	1.6	3.1	3.9	3.9
Current Assets	85.4	117.6	180.6	195.6
Property, Plant & Equip	29.0	38.3	86.6	85.5
Intangibles	23.0	40.8	113.6	108.4
Other NC Assets	3.3	1.6	46.7	46.7
Non-Current Assets	55.2	80.7	246.9	240.6
Total Assets	140.6	198.3	427.6	436.2
Payables	35.0	43.9	81.3	89.4
Borrowings	8.8	29.7	36.6	31.6
Provisions	9.0	11.9	31.9	31.9
Other	1.5	-	12.2	12.2
Total Liabilities	54.3	85.4	162.1	165.1
Net Assets	86.3	112.8	265.5	271.1
Ordinary Equity	41.3	66.3	305.4	305.4
Reserves	2.1	1.6	(81.1)	(81.1)
Retained Earnings	42.9	45.0	41.1	46.7
Total Equity	86.3	112.8	265.5	271.1

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.0%		
PV Free Cash Flow (\$m)		249.9	
Less Net Debt / Plus Cash (\$m)		16.8	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		266.6	0.61
Earnings Capitalisation Valuation:			
FY20 EBIT multiple	7.0	254.9	0.58
FY20 NPAT multiple	11.0	264.8	0.60
Valuation (\$/share) - blend of DCF & earnings cap			0.60

Profit and Loss (\$m)**	1H18A	2H18A	1H19A	2H19F
Revenue	105.2	134.8	235.0	251.3
EBITDA	6.3	12.9	15.9	17.0
Depreciation	(3.1)	(3.9)	(4.4)	(5.6)
EBIT	3.2	8.9	11.5	11.4
PBT	3.0	8.5	11.2	10.7
NPAT	2.4	5.8	8.8	8.3
Adjustments:				
Amortisation	-	-	(3.2)	(2.8)
One-Offs	-	(3.6)	(3.0)	-
Reported EBIT	3.2	5.3	5.3	8.6
Reported NPAT	2.4	3.3	6.8	5.6

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

Cash Flow (\$m)	1H18A	2H18A	1H19A	2H19F
Receipts	117.2	132.7	221.9	224.7
Payments	(117.3)	(124.5)	(222.2)	(197.7)
Other	(2.1)	(1.3)	(0.0)	(15.8)
Cash from Operations	(2.3)	6.9	(0.3)	11.1
Property, Plant & Equip	(1.6)	(1.0)	(11.6)	(12.2)
Payment for Subsidiary	-	(32.8)	(1.8)	-
Other	0.1	0.2	37.2	-
Cash From Investing	(1.5)	(33.6)	23.8	(12.2)
Issue of Shares	0.6	24.8	0.8	-
Net Borrowing	(3.5)	18.7	3.2	-
Dividends / Other	(2.6)	(2.3)	(3.7)	(0.7)
Cash From Financing	(5.5)	41.2	0.3	(0.7)
Net Cash Flow	(9.3)	14.5	23.8	(1.8)
Ending Cash	15.1	29.7	53.4	51.5

Financial Ratios	FY17A	FY18A	FY19F	FY20F
Growth				
Revenue growth (%)		4.8%	102.9%	21.7%
NPAT growth (%)		62.4%	108.2%	40.4%
Norm. EPS growth (%)				40.4%
Profitability Ratios				
EBITDA Margin (%)	4.0%	5.4%	5.6%	7.7%
EBIT Margin (%)	3.3%	5.0%	4.7%	5.8%
PBT Margin (%)	3.2%	4.8%	4.5%	5.5%
NPAT Margin (%)	2.2%	3.4%	3.5%	4.1%
Return on Assets (%)	13.3%	8.5%	8.4%	9.0%
Return on Equity (%)	11.7%	8.3%	9.1%	9.0%
ROIC (%)	13.4%	8.2%	7.7%	8.1%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	-18.1%	-0.1%	-5.6%	-8.9%
ND / ND + Equity (%)	-22.1%	-0.1%	-6.0%	-9.8%
Current Ratio (x)	1.8	1.6	1.4	1.7
Net Interest Cover (x)	89.2	14.4	13.6	15.4
Cash Flow Ratios				
Free Cash Flow Yield (%)			-8.9%	13.6%
Cash Conversion (x)	0.5	0.2	0.3	0.7

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