

# SRG Global <sup>SRG</sup>

## Recommendations

Rating	<b>BUY</b>
Risk	High
Price Target	<b>\$0.50</b>
Share Price	\$0.38

## Snapshot

Monthly Turnover	\$5.0mn
Market Cap	\$165mn
Shares Issued	440.4mn
52-Week High	\$0.86
52-Week Low	\$0.36
Sector	Industrials

## Business Description

SRG Global is a global engineering-led specialist construction, maintenance and mining services group operating across the entire asset life cycle. In August 2018, SRG Limited and Global Construction Services merged to create the combined entity.

## 12 Month Price & Volume



## Research Analyst

Piers Flanagan  
+ 613 9282 8127  
pflanagan@baillieu.com.au

Nicolas Burgess, CFA  
+ 613 9602 9379  
nburgess@baillieu.com.au

## Disclosure

The author owns no shares in SRG.

## Company Report

### Project delays

**Overall:** SRG downgraded FY19 underlying EBIT guidance by ~25% due to further project delays. Although disappointing, we believe any further delays have been contained in SRG's revised guidance. The pipeline of work remains robust and as a specialised service provider across a range of industries, we believe SRG is well placed to capitalise on this growing pipeline. Maintain BUY.

**1H19 result:** SRG reported underlying EBIT of \$12.0m (Bf: \$9.3m) – we had assumed a 30%/70% earnings skew, but now assume a more even 1H/2H earnings split (52%/48%). SRG now expects to deliver FY19 underlying EBITDA and EBIT of \$32m-\$37m (down from \$30m-\$35m) and \$22m-\$27m respectively. This compares to our previous underlying EBIT forecast of \$30.5m. 1H19 cash was \$53.4m, with net cash of \$16.8m. OCF (-\$0.3m) was soft, however we believe this is project timing related. SRG announced a 1cps dividend, slightly lower than our 1.1cps forecast.

**Key takeaways:** Project award delays (construction segment) were the key driver of this downgrade, with SRG to be impacted by: 1) lower project revenue; and 2) accrual of project costs, such as personnel, storage and equipment costs. We believe this updated guidance now washes through delayed awards of key projects. Our updated FY19f underlying EBIT of \$22.8m does not assume any material contribution from the awarding of delayed projects. Although noting the lumpy nature of construction earnings, SRG's mining and asset services divisions help diversify this risk with increased earnings and margin visibility, in our view.

**Changes to earnings:** We lower our underlying EBIT forecasts by 24%-26% over the forecast period, as we reduce our revenue and construction margin forecasts. As a result, our price target reduces from \$0.68 to \$0.50.

**Investment view:** We maintain a BUY rating. We believe the digestion of the GCS/SRG merger has been the key driver of divisional underperformance in 1H19, and this has now been washed through our forecasts. As a specialist services provider, SRG's pipeline remains (along both the east and west coasts of Australia). Looking through the aberrations of FY19, we believe SRG's valuation remains attractive, trading on a FY20f EV/EBITDA of 3.6x.

## Investment Summary

Year End: 30 June		2017 (A)	2018 (A)	2019 (E)	2020 (E)	2021 (E)
Revenue	\$mn	230	240	483	535	580
EBITDA	\$mn	12.9	19.2	32.1	39.4	45.2
EBIT	\$mn	7.9	12.2	22.8	29.0	33.6
Reported Profit	\$mn	7.8	5.7	7.7	14.7	18.0
Adjusted Profit	\$mn	5.8	8.7	14.8	19.1	22.4
EPS (Reported)	¢	9.1	12.8	3.7	4.3	5.0
EPS (Adjusted)	¢	12.2	8.4	1.9	3.3	4.0
EPS Growth	%		-41.4	-71.2	16.8	16.9
PER (Adjusted)	x	-	2.9	10.2	8.7	7.4
EV/EBITDA	x	-	8.6	4.8	3.6	2.8
Dividend	¢	-	-	2.5	2.6	3.0
Yield	%	-	-	6.7	6.9	8.0
Franking	%	-	-	100	100	100

## Financial Summary

**Code:** SRG  
**Analyst:** Piers Flanagan  
**Date:** 26-February-2019  
**Share Price (\$A):** \$0.38  
**Market Capitalisation (\$Am):** \$165.2  
**Year End:** 30 June

**Rating:** **BUY**  
**Price Target:** \$0.50  
**Upside/(Downside):** 33.1%  
**Valuation method:** DCF / EV/EBITDA  
**Risk:** High

PROFIT & LOSS (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Sales Revenue	230.0	240.1	482.9	534.9	580.3
Gross Profit	109.6	92.7	246.0	296.8	319.7
<b>Underlying EBITDA</b>	<b>12.9</b>	<b>19.2</b>	<b>32.1</b>	<b>39.4</b>	<b>45.2</b>
Depreciation & Amortisation	5.0	7.0	15.6	16.7	17.9
<b>Underlying EBIT</b>	<b>7.9</b>	<b>12.2</b>	<b>22.8</b>	<b>29.0</b>	<b>33.6</b>
<b>Reported EBIT</b>	<b>11.8</b>	<b>8.8</b>	<b>11.9</b>	<b>21.9</b>	<b>26.4</b>
Interest Expense	-0.3	-0.6	-0.9	-0.9	-0.8
Other Items	0.0	0.0	0.7	0.9	0.9
<b>Underlying NPBT</b>	<b>7.6</b>	<b>11.6</b>	<b>21.9</b>	<b>28.1</b>	<b>32.8</b>
<b>Reported NPBT</b>	<b>11.6</b>	<b>8.0</b>	<b>11.0</b>	<b>20.9</b>	<b>25.7</b>
Income Tax Expense	3.7	2.3	3.3	6.3	7.7
<b>Underlying NPAT</b>	<b>5.8</b>	<b>8.7</b>	<b>14.8</b>	<b>19.1</b>	<b>22.4</b>
Amortisation of intangibles	0.0	0.0	-4.4	-4.4	-4.4
<b>Underlying NPATA</b>	<b>5.8</b>	<b>8.7</b>	<b>12.0</b>	<b>19.1</b>	<b>22.4</b>
Significant items	2.0	-3.0	-2.8	0.0	0.0
<b>Net Profit After Tax (NPAT)</b>	<b>7.8</b>	<b>5.7</b>	<b>7.7</b>	<b>14.7</b>	<b>18.0</b>
BALANCE SHEET (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	24.4	29.7	46.3	52.7	60.5
Receivables	49.7	73.0	119.8	132.7	144.1
Inventory	9.7	11.8	16.8	15.9	17.3
Other	0.0	0.2	0.0	0.0	0.0
<b>Total Current Assets</b>	<b>85.4</b>	<b>116.9</b>	<b>191.1</b>	<b>209.7</b>	<b>230.1</b>
Property, Plant & Equipment	29.0	38.3	77.6	79.8	80.2
Intangibles	23.0	40.8	111.9	105.6	99.3
Other	3.3	4.8	42.6	36.4	28.7
<b>Total Non Current Assets</b>	<b>55.2</b>	<b>83.9</b>	<b>232.2</b>	<b>221.7</b>	<b>208.1</b>
<b>Total Assets</b>	<b>140.6</b>	<b>200.8</b>	<b>423.3</b>	<b>431.4</b>	<b>438.3</b>
Payables	35.0	40.3	76.6	85.0	92.2
Loans & Borrowings	3.0	19.9	23.3	17.3	12.3
Other	9.8	16.3	32.5	32.5	32.5
<b>Total Current Liabilities</b>	<b>47.7</b>	<b>76.5</b>	<b>132.4</b>	<b>134.8</b>	<b>137.0</b>
Loans & Borrowings	5.8	9.7	11.4	11.4	11.4
Provisions	0.7	0.8	11.5	11.5	11.5
Other	0.0	0.0	9.4	9.4	9.4
<b>Total Non-Current Liabilities</b>	<b>6.6</b>	<b>10.6</b>	<b>32.3</b>	<b>32.3</b>	<b>32.3</b>
<b>Total Liabilities</b>	<b>54.3</b>	<b>87.1</b>	<b>164.7</b>	<b>167.0</b>	<b>169.3</b>
Contributed Capital	41.3	66.3	215.9	218.6	218.6
Reserves	2.1	7.0	8.7	8.7	8.7
Retained Earnings	42.9	40.4	33.9	37.1	41.7
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>86.3</b>	<b>113.7</b>	<b>258.6</b>	<b>264.4</b>	<b>269.0</b>
BV per share (cps)	135.1	166.7	64.2	59.8	60.5
NTA per share (cps)	99.2	107.0	36.4	35.9	38.2

EARNINGS	FY17A	FY18A	FY19E	FY20E	FY21E
EPS - Underling (diluted)	9.1	12.8	3.7	4.3	5.0
EPS Growth - underlying	-7.5%	41.4%	-71.2%	16.8%	16.9%
EPS - Reported (diluted)	12.2	8.4	1.9	3.3	4.0
Diluted shares (m)	63.9	68.2	402.8	442.5	444.5
DPS (cps)	na	na	2.5	2.6	3.0
Payout Ratio	na	na	68%	60%	60%
Franking	na	na	100%	100%	100%

VALUATION	FY17A	FY18A	FY19E	FY20E	FY21E
P/E	-	2.9	10.2	8.7	7.4
EV/EBITDA (x)	-	8.6	4.8	3.6	2.8
EV/EBIT (x)	-	13.5	6.7	4.9	3.8
Dividend Yield (%)	-	na	6.7%	6.9%	8.0%
P/FCF per Share	-	18.7	6.4	1.7	1.4
Price/Book (x)	-	0.2	0.6	0.6	0.6
Price/NTA (x)	-	0.4	1.0	1.0	1.0

GROWTH	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue growth	-	4.4%	101.1%	10.8%	8.5%
Cost growth	-	1.7%	104.1%	9.9%	8.0%
EBITDA growth	-	48.8%	67.0%	22.7%	14.6%
PBT growth	-	52.1%	89.1%	28.1%	16.9%
Reported NPAT growth	-	50.9%	69.9%	28.4%	17.5%
Underlying NPAT growth	-	-26.8%	33.9%	91.0%	22.5%

MARGINS & RETURNS	FY17A	FY18A	FY19E	FY20E	FY21E
EBITDA Margin	-	8.0%	6.7%	7.4%	7.8%
EBIT Margin	-	5.1%	4.7%	5.4%	5.8%
NPBT Margin	-	4.8%	4.5%	5.2%	5.7%
ROIC	-	9.6%	3.4%	6.3%	7.8%
ROE	-	9.5%	6.0%	7.8%	9.5%
ROA	-	5.2%	1.7%	4.1%	5.1%
Effective Tax Rate	-	0.0%	30.0%	30.0%	30.0%

GEARING	FY17A	FY18A	FY19E	FY20E	FY21E
Net Debt / (cash) (A\$m)	-	-0.1	-11.7	-24.1	-36.8
Enterprise value (A\$m)	-	165.1	153.5	141.1	128.3
Net Debt/Equity (%)	-	-0.1%	-4.5%	-9.1%	-13.7%
EBITDA/Net interest	-	30.6	36.1	41.5	57.6
Net Debt/EBITDA	-	na	na	na	na

Segmentals	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>					
Construction	-	-	263.1	284.2	299.3
Asset Services	-	-	125.1	140.7	154.7
Mining Services	-	-	90.8	106.0	122.3
Other	-	-	3.9	3.9	3.9
<b>Group Revenue</b>			<b>482.9</b>	<b>534.9</b>	<b>580.3</b>

Segment EBITDA	FY17A	FY18A	FY19E	FY20E	FY21E
Construction	-	-	11.4	13.5	15.0
Asset Services	-	-	14.1	15.7	17.4
Mining Services	-	-	15.3	17.5	20.2
Corporate costs	-	-	-13.4	-8.2	-8.2
<b>Segment EBITDA</b>			<b>27.4</b>	<b>38.6</b>	<b>44.3</b>

CASH FLOW (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Cash at Start</b>	<b>21.9</b>	<b>24.4</b>	<b>53.4</b>	<b>46.3</b>	<b>52.7</b>
Cash Flow from Ops	7.0	4.6	21.3	34.7	38.9
Capex	-5.9	-2.6	-15.5	-12.5	-12.0
Free cash flow	1.0	2.0	5.8	22.2	26.9
<i>Free cash flow per share (cps)</i>	<i>1.6</i>	<i>2.9</i>	<i>1.5</i>	<i>5.0</i>	<i>6.0</i>
Cash Flow From Investing	2.3	-35.1	-15.5	-12.5	-12.0
Cash Flow From Financing	-6.6	35.7	-13.0	-15.8	-19.1
Net Cash Flow	2.7	5.2	-7.1	6.4	7.7
<b>Cash At End</b>	<b>24.4</b>	<b>29.7</b>	<b>46.3</b>	<b>52.7</b>	<b>60.5</b>

\*Note historical years are SRG Ltd financials

## Project delays

SRG downgraded FY19 underlying EBIT guidance by ~25% due to further project delays. Although disappointing, we believe any further delays have been contained in SRG's revised guidance. The pipeline of work remains robust and as a specialised service provider across a range of industries, we believe SRG is well placed to capitalise on this growing pipeline. Maintain BUY.

**1H19 result:** SRG reported underlying EBIT of \$12.0m, ahead of our \$9.3m forecast. We had assumed a 30%/70% earnings skew, but now assume a more even 1H/2H earning split (52%/48%). SRG now expects to deliver FY19 underlying EBITDA and EBIT of \$32m-\$37m (down from \$30m-\$35m) and \$22m-\$27m respectively. This compares to our previous underlying EBIT forecast of \$30.5m. 1H19 cash was \$53.4m, with net cash of \$16.8m. OCF (-\$0.3m) was soft, however we believe this is project timing related.

SRG announced a 1cps dividend, slightly lower than our 1.1cps forecast.

We believe prior corresponding period (pcp) comparison is more applicable to SRG's Mining and Asset Services division.

Although not broken out, we believe the earnings profile of the TBS acquisition (April-18) provides stable margins (EBITDA margins ~10%-11%) and a longer-dated revenue visibility (~80% of revenue through long term recurring and annuity type contracts). SRG's Asset Services 1H19 margin was stable at 11.2%.

SRG's reported a 1H19 Mining Services segment EBITDA of 16.5% and noted asset utilisation across its fleet of >95%. SRG recently signed a drilling contract with Downer (>2.5yrs). We believe these multi-year contracts provide increased visibility of fleet utilisation over the forecast period.

**Fig.1: SRG Asset and Mining Services divisional performance**

	1H19	FY19f	FY20f	FY20f
<b>Revenue</b>				
Asset services	60.0	125.1	140.7	154.7
Mining Services	<b>43.6</b>	<b>90.8</b>	<b>106.0</b>	<b>122.3</b>
<b>Percentage of SRG revenue</b>	44.6%	45.1%	46.5%	48.1%
<b>Segment EBITDA</b>				
Asset services	<b>6.7</b>	<b>14.1</b>	<b>15.7</b>	<b>17.4</b>
Mining Services	7.2	15.3	17.5	20.2
<b>Percentage of SRG segment EBITDA</b>	68.2%	72.0%	71.0%	71.5%

Source: SRG, Baillieu forecasts

Although noting the lumpy nature of construction earnings, SRG's mining and asset services divisions help diversify this risk with increased earnings and margin visibility, in our view.

**Key takeaways:** Project award delays (construction segment) were the key driver of this downgrade, with SRG impacted by: 1) lower project revenue; and 2) accrual of project costs, such as personnel, storage and equipment costs. We believe this updated guidance now washes through delayed awards of key projects.

**Fig.2: SRG Asset and Mining Services divisional performance**

	1H19	FY19f	FY20f	FY20f
<b>Revenue</b>				
Construction	128.9	263.1	284.2	299.3
Segment EBITDA	6.5	11.4	13.5	15.0
EBITDA margin	5.0%	4.4%	4.8%	5.0%

Source: SRG, Baillieu forecasts

Our FY19f underlying construction segment EBIT of \$11.4m does not assume any material contribution from the awarding of delayed projects.

**Valuation:** We lower our underlying EBIT forecasts by between 24% and 26% over the forecast period, as we reduce our revenue and construction margin forecasts.

As a result, our price target reduces from \$0.68 to \$0.50.

**Fig.3: SRG comp table**

Name	Ticker	Price (A\$)	Mkt Cap (A\$m)	FY19F PE	FY20F PE	FY19F EV/EBITDA	FY20F EV/EBITDA
SRG Global	SRG	0.38	165.2	10.2	8.7	4.8	3.6
BSA LTD	BSA	0.27	113.5	10.6	8.5	4.7	4.2
CARDNO LTD	CDD	1.04	469.5	20.3	15.9	10.0	8.3
CIMIC GROUP LTD	CIM	49.26	15972.8	19.2	18.5	7.8	7.8
DECMIL GROUP LTD	DCG	0.89	210.8	11.2	8.3	6.2	5.6
DOWNER EDI LTD	DOW	7.34	4365.1	14.3	13.0	6.5	6.2
GR ENGINEERING SERVICES LTD	GNG	1.14	175.0	22.4	12.8	11.7	7.2
LENDLEASE GROUP	LLC	12.85	7245.5	15.7	10.2	11.0	8.2
SERVICE STREAM LTD	SSM	2.04	818.9	14.2	13.0	9.5	7.3
AUSDRILL LTD	ASL	1.70	1164.1	10.9	9.4	4.8	4.0
IMDEX LTD	IMD	1.17	440.2	16.0	12.7	8.0	6.5
MACA LTD	MLD	1.00	266.7	14.2	9.9	4.1	3.0
NRW HOLDINGS LTD	NWH	2.33	875.8	14.0	13.2	6.0	5.9
SOUTHERN CROSS ELECTRICAL	SXE	0.60	140.4	10.3	9.1	3.9	3.1
<b>Average</b>				<b>14.9</b>	<b>11.9</b>	<b>7.2</b>	<b>6.0</b>

Source: Bloomberg, Baillieu (for SRG forecast multiples)

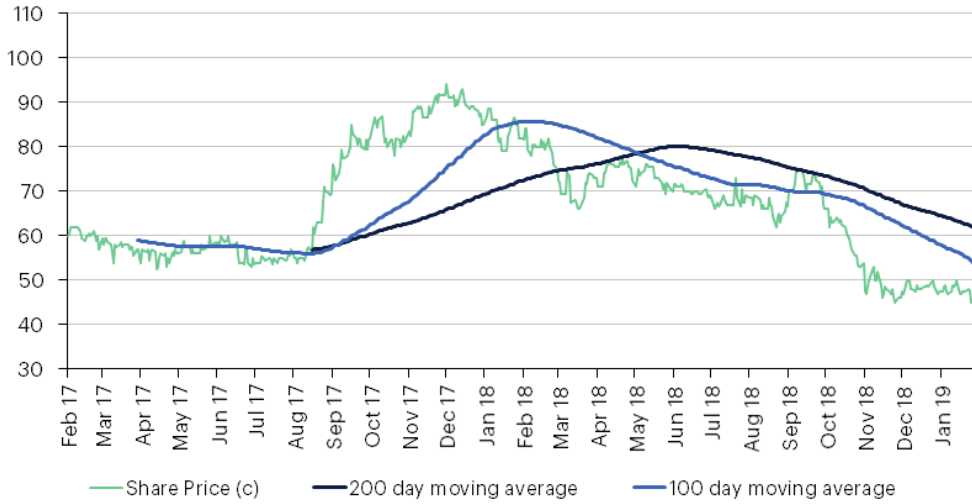
We maintain a BUY rating.

We believe the digestion of the GCS/SRG merger has been the key driver of divisional underperformance in 1H19, and this has now been washed through our forecasts. As a specialist services provider, SRG's pipeline remains (along both the east and west coasts of Australia).

Looking through the aberrations of FY19, we believe SRG's valuation remains attractive, trading on a FY20f EV/EBITDA of 3.6x.

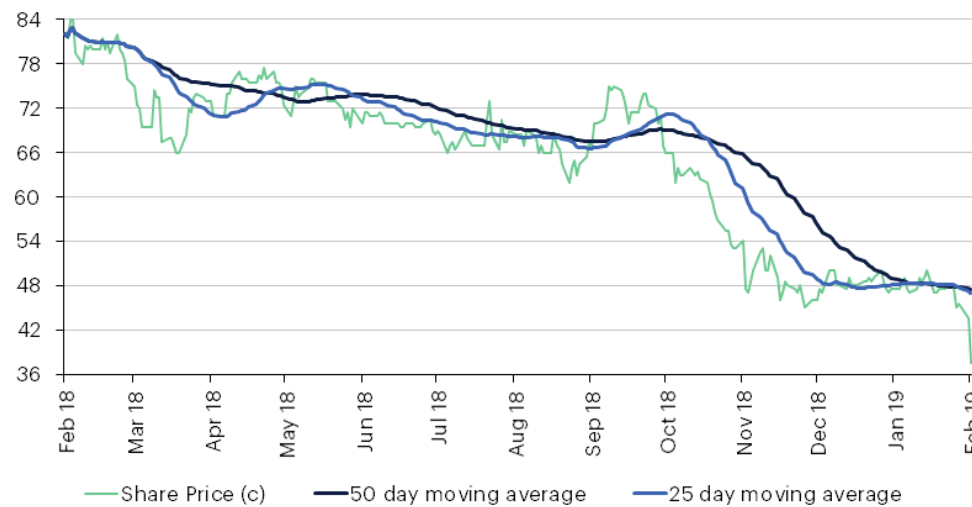
## Appendix

**Fig.4: Long term momentum indicators**



Source: Iress

**Fig.5: Short term momentum indicators**



Source: Iress

This document has been prepared and issued by:

**Baillieu Limited**

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

**Analysts' stock ratings are defined as follows:**

**Buy:** The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

**Hold:** The stock's total return is expected to trade within a range of  $\pm$ 10-15 percent from the current share price over the next 12 months.

**Sell:** The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

**Baillieu Analysts' stock ratings distribution as of 24 January 2019:**

**Buy:** 69%

**Hold:** 28%

**Sell:** 3%

**Disclosure of potential interest and disclaimer:**

Baillieu Limited (Baillieu) and/or its associates may receive commissions, calculated at normal client rates, from transactions involving securities of the companies mentioned herein and may hold interests in securities of the companies mentioned herein from time to time. Your adviser will earn a commission of up to 55% of any brokerage resulting from any transactions you may undertake as a result of this advice.

When we provide advice to you, it is based on the information you have provided to us about your personal circumstances, financial objectives and needs. If you wish to rely on our advice, it is important that you inform us of any changes to your personal investment needs, objectives and financial circumstances.

If you do not provide us with the relevant information (including updated information) regarding your investment needs, objectives and financial circumstances, our advice may be based on inaccurate information, and you will need to consider whether the advice is suitable to you given your personal investment needs, objectives and financial circumstances. Please do not hesitate to contact our offices if you need to update your information held with us. Please be assured that we keep your information strictly confidential.

No representation, warranty or undertaking is given or made in relation to the accuracy of information contained in this advice, such advice being based solely on public information which has not been verified by Baillieu Limited.

Save for any statutory liability that cannot be excluded, Baillieu Limited and its employees and agents shall not be liable (whether in negligence or otherwise) for any error or inaccuracy in, or omission from, this advice or any resulting loss suffered by the recipient or any other person.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

Baillieu Limited assumes no obligation to update this advice or correct any inaccuracy which may become apparent after it is given.

**Baillieu Limited**

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

[www.baillieu.com.au](http://www.baillieu.com.au)

**Melbourne (Head Office)**

**Address** Level 26, 360 Collins Street

Melbourne, VIC 3000 Australia

**Postal** PO Box 48, Collins Street West

Melbourne, VIC 8007 Australia

**Phone** +61 3 9602 9222

**Facsimile** +61 3 9602 2350

**Email** melbourne@baillieu.com.au

**Adelaide Office**

**Address** Ground Floor, 226 Greenhill Road,

Eastwood SA 5063

**Postal** PO Box 171

Fullarton SA 5063

**Phone** +61 8 7074 8400

**Facsimile** +61 8 8362 3942

**Email** adelaide@baillieu.com.au

**Bendigo Office**

**Address** Level 1, 10-16 Forest Street

Bendigo, VIC 3550

**Postal** PO Box 84

Bendigo, VIC 3552

**Phone** +61 3 4433 3400

**Facsimile** +61 3 4433 3430

**Email** bendigo@baillieu.com.au

**Geelong Office**

**Address** 16 Aberdeen Street

Geelong West Vic 3218

**Postal** PO Box 364

Geelong Vic 3220 Australia

**Phone** +61 3 5229 4637

**Facsimile** +61 3 4229 4142

**Email** geelong@baillieu.com.au

**Gold Coast Office**

**Address** Suite 202 Level 2, Eastside Building

6 Waterfront Place, Robina QLD 4226

**Phone** +61 7 5628 2670

**Facsimile** +61 7 5677 0258

**Email** goldcoast@baillieu.com.au

**Newcastle Office**

**Address** Level 1, 120 Darby Street

Cooks Hill, NSW 2300 Australia

**Postal** PO Box 111

The Junction, NSW 2291 Australia

**Phone** +61 2 4037 3500

**Facsimile** +61 2 4037 3511

**Email** newcastle@baillieu.com.au

**Perth Office**

**Address** Level 9, 216 St Georges Terrace

Perth WA 6000 Australia

**Postal** PO Box 7662, Cloisters Square

Perth, WA 6850 Australia

**Phone** +61 8 6141 9450

**Facsimile** +61 8 6141 9499

**Email** perth@baillieu.com.au

**Sydney Office**

**Address** Level 40, 259 George Street

Sydney, NSW 2000 Australia

**Postal** PO Box R1797

Royal Exchange, NSW 1225 Australia

**Phone** +61 2 9250 8900

**Facsimile** +61 2 9247 4092

**Email** sydney@baillieu.com.au