

SRG Global Ltd

(SRG \$0.37) Buy

EUROZ

Analyst	Date	Price Target
Gavin Allen	28 th February 2019	\$0.49/sh ▼ from \$0.87/sh

Half year results 2019

Investment case

SRG has posted half year results below expectations and reduced 2019 guidance from EBIT of \$30m to \$35m to an adjusted \$22m to \$27m. Revenues required to generate this ilk of earning we estimate in the region of \$480m. On guided 2019 numbers SRG now trades on adjusted EV/EBIT between 6.6x and 5.4x, broadly fair. SRG however talks to step change growth in 2020 and this ultimately is the investment question. On one hand, management talks to a \$4.5b pipeline which as we explore below, is certainly sufficient to drive step change future growth. In addition, we estimate proforma actual 2018 to be in the region of \$580m; suggesting clear pedigree. On the other hand, revenues have slipped in 2019. On balance, despite 1h 2019 disappointment, with \$16.8m net cash, the stock is worth more than \$0.37 fundamentally. That said, it may trade sideways for a period pending outlook clarity.

Key points

SRG has reported half year results as follows:

- Adjusted revenue of \$238.5m, Adjusted EBITDA of \$16.4m and Adjusted EBIT of \$12m (adjustments for merger costs and associated amortisation)
- Full year guidance has been amended to adjusted EBITDA of between \$32m and \$37m and adjusted EBIT of between \$22m and \$27m (previously \$30m to \$35m).
- A 1c dividend per share has been declared and the business was net cash \$16.8m at end December 2018.
- The downgrade is discussed in commentary as a result of further delays in award of large scale projects which resulted in the business carrying operational costs consistent with a bigger business.
- Work in hand is \$520m and the pipeline of opportunities described as \$4.5b.
- While the work in hand position broadly supports guidance conceptually, the downgrade, on back of guidance issued at 2018 AGM a few months ago, now may require delivery to see shareholder reward.
- In addition, based on guidance, SRG now trades on adj EV/EBITA multiples between 6.6x and 5.4x, such that assuming eventual delivery of 2019 numbers as guided, SRG is broadly fair value.
- The investment case is therefore around delivery of the step change growth SRG looks for in 2020 (as discussed in commentary.)
- With a \$4.5b pipeline of work available, SRG is certainly not without opportunity and we have conviction in the likelihood of SRG winning work and potentially significant work, potentially over the short term.
- We do not however yet have sufficient detail on the nature of the 2020 orderbook or detail on the pipeline of opportunities to meaningfully assess the prospect of 2020 step change growth other than conceptually (assisted by prior period revenues).
- Consequently SRG is perhaps likely to trade sideways for a period until sufficient information comes to light to bank 2020 growth.

SRG Global Ltd	Year End 30 June	
Share Price	0.37	A\$/sh
Price Target	0.49	A\$/sh
Valuation (DCF)	0.63	A\$/sh
WACC	10.6%	
Terminal Growth	3.0%	
Shares on issue	440.5 m,	diluted
Market Capitalisation	163.0	A\$m
Enterprise Value	146.2	A\$m
Net cash	16.8	A\$m

Key Financials	2018a	2019f	2020f
Revenue (A\$m)	247.5	482.1	556.0
EBITDA (A\$m)	24.1	33.0	39.4
EBIT adj (A\$m)	20.1	22.7	28.4
Reported NPAT (A\$m)	13.6	8.8	14.8
Normalised NPAT (A\$m)	14.8	8.8	14.8
Gross Cashflow (A\$m)	24.0	28.8	31.9
Capex (A\$m)	9.4	15.0	15.0
Op. Free Cashflow (A\$m)	4.8	11.0	14.9
Revenue Growth (%)	19%	95%	15%
EBITDA Growth (%)	-11%	-17%	34%
Norm. NPAT Growth (%)	6%	-41%	69%
Normalised EPS (Ac)	7.02	1.99	3.36
Norm. EPS growth (%)	6%	-72%	69%
PER (x)	5.3	18.6	11.0
EV:EBITDA (x)	1.9	4.4	3.7
EV:EBIT adj (x)	2.3	6.4	5.2
DPS (Ac)	4.00	2.00	2.00
Dividend Yield (%)	10.8%	5.4%	5.4%
Net Cash (A\$m)	35.0	33.2	39.3
Net Debt:Equity (%)	net cash	net cash	net cash
Interest Cover (x)	na	na	na

Share Price Chart



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Analysis

We build (our estimates), back of envelop analysis aimed at like for like 2018 and 1h 2019 revenues and EBITDA given combined business segments. The split are our estimates and are not going to be accurate however maybe useful indicatively:

Euroz Estimates	2018 A	1h 2019	2H 2019	2019	2020
Revenues	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Construction	377	130	146	276	350
Asset Services	126	60	60	120	120
Mining	75	43	43	86	86
Total revenues	578	233	249	482	556
EBITDA					
Construction	32	7	7	14	25
Mining	15	7	7	14	14
Asset services	17	7	7	13	14
Unallocated	-13	-7	-4	-11	-10
Merger costs		3		3	-
Group (proforma) EBITDA	51	16	17	33	39
Margins					
Construction	8.4%	5.0%	5.0%	5.0%	7.0%
Asset Services	13.7%	11.2%	11.0%	11.1%	12.0%
Mining	20.0%	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:

- We have back calculated estimated split of actual 2018 reported revenues and inserted actual 1h 2019 segments to drive our forecast 2019 EBITDA of \$33m (guided band is \$32- \$37m).
- The clear revenue missing in 2019 versus 2018 is construction activity, and while no detail is provided on specifics, we guess the slow down to have occurred across certain construction activities, particularly in formworks and scaffolding and in some civil activities.
- In 2018 there was significant work performed in WA on a number of large commercial projects which is lumpy by nature.
- There are numerous opportunities we are aware of that would set the business up for step change growth in 2020, and while we don't have detail on the make up of the \$4.5b pipeline talked to in commentary by SRG, we need only a fraction to fill the gap.
- Despite the emotion that is inevitably associated with disappointing results (and there is no hiding from this reality), SRG has the balance sheet to drive the step change growth sought.
- With this growth the stock trades up, without it and the investment case is not clear.

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- We calculate fundamental value as follows:

	forecast	forecast
	2019	2020
	(\$m)	(\$m)
EBITA	22.7	28.4
Multiple	7.0	7.0
Enterprise value	159.2	198.5
Add net cash	16.8	16.8
Market value	176.0	215.3
Issued shares	440.5	440.5
Value per share	\$0.40	\$0.49
DCF	\$0.63	
Average	\$0.49	

- We look to contract wins to fill the order book and on this front SRG has time given the balance sheet.
- Without growth the stock is perhaps fairly priced.
- Despite disappointment we see fundamental value with growth returning.
- In meantime, the stock may trade sideways for a period.

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Financial Statements	2017a	2018a	2019f	2020f	Performance Ratios	2017a	2018a	2019f	2020f
Income Statement					Growth & Margins				
Sales	207.7	247.5	482.1	556.0	Revenue Growth	13%	19%	95%	15%
Other	0.0	0.0	0.0	0.0	EBITDA Growth	-4%	-17%	37%	19%
Revenue	207.7	247.5	482.1	556.0	EBIT Growth	-126%	-11%	-17%	34%
Operating costs	-178.6	-223.4	-449.1	-516.6	Normalized Net Profit Growth	-122%	6%	-41%	69%
EBITDA	29.1	24.1	33.0	39.4	EBITDA margin	14.0%	9.7%	6.8%	7.1%
Depreciation	-6.5	-4.0	-10.3	-11.1	EBIT margin	10.9%	8.1%	3.5%	4.0%
Amortisation	0.0	0.0	-6.0	-6.0	Normalized net profit margin	6.7%	6.0%	1.8%	2.7%
EBIT	22.6	20.1	16.7	22.4	Effective tax rate	35%	29%	30%	30%
Net Interest income/(expense)	-2.7	-0.1	-1.2	-1.2	Liquidity				
Merger costs	0.0	0.0	0.0	0.0	Capex/depreciation (x)	0.5	2.4	1.5	1.4
Other income/(expense)	0.0	0.0	0.0	0.0	Current ratio (x)	2.2	2.2	2.0	2.0
Abnormal items (pretax)	0.0	0.0	-3.0	0.0	Quick ratio (x)	2.6	2.1	1.9	1.8
EBT	19.9	20.0	12.5	21.2	Receivable days	57	64	40	39
Tax expense	-7.0	-5.8	-3.8	-6.3	Inventory days	10	16	10	10
Minority interest	-2.0	-1.5	0.0	0.0	Payable days	43	56	41	44
Discontinued operations	0.0	0.9	0.0	0.0	Risk Measures				
Reported Earnings	10.9	13.6	8.8	14.8	Dividend Cover (x)	1.6	1.6	0.8	1.7
Dividends	-7.0	-8.4	-10.7	-8.8	Payout ratio (%)	64%	62%	-101%	-59%
Adjustments (one off)	0.0	0.0	0.0	0.0	Net interest cover (x)	8.4	201.0	13.6	18.5
Retained earnings	3.9	5.2	-2.0	6.0	Net debt/equity (%)	net cash net cash net cash net cash			
Normalized Net Profit	13.9	14.8	8.8	14.8	Returns				
Fully Diluted Net Profit	13.9	14.8	8.8	14.8	Return on average capital employed (%)	9.3%	8.8%	5.3%	4.8%
Cash flow (A\$m)					Return on invested capital (%)	8.2%	10.3%	5.6%	7.8%
Pretax Profit	19.9	20.0	12.5	21.2	WACC (%)	10.6%	10.6%	10.6%	10.6%
+ Depreciation	6.5	4.0	16.3	17.1	Return on assets (%)	6.4%	7.5%	2.5%	4.1%
- Tax Paid	-6.0	0.0	0.0	-6.3	Return on average equity (%)	7.4%	8.8%	3.7%	4.6%
+ inc (- dec) in provisions	-0.3	0.0	0.0	0.0	Company cost of equity (%)				
- Profit/+ loss on disposal	0.0	0.0	0.0	0.0	Share Data/Valuation				
+/- Other	0.0	0.0	0.0	0.0	Share Data				
Gross Cashflow	20.1	24.0	28.8	31.9	Issued shares (m)	210.5	211.0	440.5	440.5
- Capital expenditure	-3.0	-9.4	-15.0	-15.0	Weighted ave shares (m)	210.5	211.0	440.5	440.5
+/- Changes in working capital	2.0	-9.8	-2.8	-1.9	Fully diluted shares (m)	210.5	211.0	440.5	440.5
Operating Free Cashflow	19.1	4.8	11.0	14.9	Basic EPS (A\$)	0.052	0.064	0.020	0.034
+/- Investments	0.0	0.0	0.0	0.0	YoY change (%)	-108%	24%	-69%	69%
- Dividends	-8.0	-6.2	-10.7	-8.8	Fully diluted EPS (A\$)	0.052	0.064	0.020	0.034
+ Proceeds from equity raised	0.0	0.0	163.0	0.0	YoY change (%)	-108%	24%	-69%	69%
+ Proceeds from sale of property	0.0	0.0	0.0	0.0	Fully diluted normalised EPS (A\$)	0.066	0.070	0.020	0.034
- Acquisition	0.0	0.0	-163.0	0.0	YoY change (%)	-112%	6%	-72%	69%
+ Disposal	6.0	29.0	0.0	0.0	Dividend/share (A\$)	0.040	0.040	0.020	0.020
+/- Vendor Finance	0.0	0.0	0.0	0.0	Franking (%)	100%	100%	100%	100%
+/- Other	0.0	3.6	-2.0	0.0	Gross cashflow/share (A\$)	0.10	0.11	0.07	0.07
Net cashflow	17.1	31.2	-1.8	6.1	NBV/share (A\$)	0.71	0.74	0.72	0.75
Net Cash/(Debt) at beginning of period	-13.3	3.8	35.0	33.2	NTA/Share (A\$)	0.44	0.47	0.59	0.61
Net Cash/(Debt) at end of period	3.8	35.0	33.2	39.3	Valuation				
Balance Sheet (\$m)					PER (Basic) (x)	7.1	5.7	18.6	11.0
Cash	31.2	39.2	53.7	53.3	PER (Fully diluted) (x)	7.1	5.7	18.6	11.0
Receivables	35.5	51.2	55.4	63.9	PER (Fully diluted, normalized) (x)	5.6	5.3	18.6	11.0
Inventories	8.8	12.7	14.5	16.7	P/CFPS (x)	3.9	3.3	5.7	5.1
Other	6.6	4.1	4.1	4.1	Price/NBV (x)	0.5	0.5	0.5	0.5
Current Assets	82.1	107.2	127.7	138.0	Price/NTA (x)	0.8	0.8	0.6	0.6
Other Financial Assets	0.1	0.1	0.1	0.1	Dividend Yield (%)	10.8%	10.8%	5.4%	5.4%
Property/Plant/Equipment	116.4	92.8	162.5	166.5	Fully diluted normalized 3 yr EPS Cagr (%)				
Intangibles	23.9	23.5	121.5	121.5	PEG ratio (x)				
Other	0.0	0.0	0.0	0.0	EV/EBITDA (x)	1.6	1.9	4.4	3.7
Deferred tax assets	2.9	11.9	11.9	11.9	EV/EBITadj (x)	2.0	2.3	6.4	6.5
Non Current Assets	143.3	128.3	296.0	300.0	EV/Revenue (x)	0.2	0.2	0.3	0.3
Total Assets	225.4	235.5	423.7	438.0	NPV/SOP (A\$)				
Payables	-25.7	-42.8	-57.5	-66.3	WACC (%)				
Interest bearing liabilities	-9.4	-3.5	-3.5	0.0	Other Information				
Provisions	0.0	0.0	0.0	0.0	12-mth High/Low (A\$/sh)	\$0.81/\$0.35			
Current tax liabilities	-3.0	-2.3	-2.3	-2.3	Average daily volume (A\$m)	0.5			
Current Liabilities	-38.1	-48.6	-63.3	-68.6	ASX Code	SRG			
Deferred Tax	-15.2	-11.6	-8.7	-8.7	Next result	Aug-19			
Interest bearing liabilities	-18.0	-0.7	-17.0	-14.0	Company Description				
Provisions	-3.7	-17.7	-17.7	-17.7	SRG Global is a global specialist engineering, construction and maintenance group.				
Non Current Liabilities	-36.9	-30.0	-43.4	-40.4					
Total Liabilities	-75.0	-78.6	-106.7	-109.0					
Net Assets	150.4	156.9	317.1	329.1					
Contributed equity	147.7	155.8	318.8	318.8					
Reserves	0.4	-10.3	-11.5	-11.5					
Retained profits	4.0	11.4	9.4	15.4					
Minority Interests	-1.5	0.0	0.0	0.0					
Total equity	150.6	156.9	316.7	322.7					

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