BELL POTTER

17 May 2024

SRG Global (SRG)

Making the complex simple

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Authorisation
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Recommendation
Buy (Initiation)
Price
$0.865
Target (12 months)
$1.30 (Initiation)

Sector

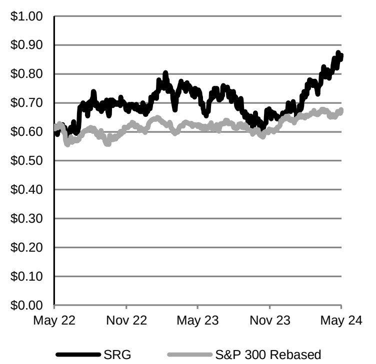
Commercial Services and Suppliers

Expected Return	
Capital growth	**50.3%**
Dividend yield	**6.1%**
Total expected return	**56.4%**
Company Data & Ratios	
Enterprise value	**$462m**
Market cap	**$451m**
Issued capital	**521m**
Free float	**95.5%**
Avg. daily val. (52wk)	**$551,946**
12 month price range	**$0.60-0.875**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.81	0.74	0.75
Absolute (%)	7.5	16.9	16.1
Rel market (%)	6.7	14.2	8.6

Absolute Price



SOURCE: IRESS

A leading diversified industrial services group

SRG is a diversified industrial services group that provides multidisciplinary construction, maintenance, drilling and geotechnical services to clients in sectors including Mining, Industrial Processing, Infrastructure, Renewable Energy and Commercial. SRG operates three segments: Asset Maintenance; Mining Services; and Engineering and Construction. Asset Maintenance delivers inspection, condition monitoring, testing, access solutions, repair and maintenance and shutdown services, underpinned by long-term contracts that generate recurring revenue. Mining Services provisions production drilling and geotechnical services through long-term contracts that also generate recurring revenue. Engineering and Construction's specialist capabilities include bridge, dam and tank construction, structural concrete contracting, design, supply and installation of facades and engineered product sales.

All segments firing: Ongoing growth expected

We forecast group revenue CAGR of 16.7% over FY23-26 driven by: 1) growth in asset bases across the Resources, Industrial Processing, Utilities and Infrastructure sectors following recent and current significant investment in these sectors, lifting asset maintenance requirements; 2) cross-selling revenues following the integration of Asset Care; 3) an acceleration in iron ore and gold production volumes over the next five years, boosting demand for production drilling and geotechnical services; and 4) near-term growth in the value of work done for Infrastructure, Non-Residential and Resources building construction, fuelled by Government and private spending.

Investment thesis: Initiate with Buy; TP$1.30/sh

SRG's short-to-medium term outlook is reinforced by Government-stimulated construction activity in the Infrastructure and Non-Residential sectors and increased development and sustaining capital expenditures in the Resources industry. The resulting expansion in infrastructure bases across these sectors will likely support increased demand for asset care and maintenance in the medium to long-term. We anticipate Mining Services will be a beneficiary of accelerating growth in iron ore and gold production volumes over the next five years. Trading at 4.2x FY25 EBITDA, we see potential for a rerate towards the Industrial Services peer group average of 5.6x.

Earnings Forecast

Year ending 30 June	2023a	2024e	2025e	2026e
Sales ($m)	809	1,059	1,179	1,286
EBITDA ($m)	80	98	110	121
NPAT (reported) ($m)	23	35	41	48
NPAT (adjusted) ($m)	29	35	41	48
EPS (adjusted) (¢ps)	6.2	6.5	7.8	9.1
EPS growth (%)	40.3%	6.1%	19.7%	16.0%
PER (x)	14.0x	13.2x	11.1x	9.5x
FCF Yield (%)	-14.5%	10.2%	13.3%	13.8%
EV/EBITDA (x)	5.8x	4.7x	4.2x	3.8x
Dividend (¢ps)	4.0	4.7	5.6	6.5
Yield (%)	4.6%	5.4%	6.5%	7.5%
Franking (%)	100%	100%	100%	100%
ROE (%)	11%	12%	13%	15%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Contents

Investment thesis & recommendation

Investment thesis: Initiate with Buy; TP$1.30/sh

We initiate coverage of SRG with a Buy recommendation, noting the following drivers:

Positive near outlook: We forecast group revenue CAGR of 16.7% over FY23-26 driven by: 1) growth in asset bases across the Resources, Industrial Processing, Utilities and Infrastructure sectors following recent and current significant investment in these sectors, lifting asset maintenance requirements; 2) greater R&M intensity of ageing infrastructure; 3) sales growth from cross-selling opportunities with Asset Care; 4) growth in Mining Services' activity, which is leveraged to production volume growth in the iron ore and gold sectors; and 5) growth in the value of work done for Infrastructure, Non-Residential and Resources building construction, fuelled by Government and private spending.

Long term maintenance activity growth expected: Current capital expenditure cycles in the Resources, Infrastructure and Utilities sectors will likely drive increased demand for maintenance in the long-term. Greater maintenance intensity of ageing infrastructure would also lead to increased maintenance requirements.

Strategy emphasises incoming skew towards recurring earnings: A key pillar of SRG's Leadership Horizon strategy is to achieve 80% of its earnings from recurring work, with the remainder to be generated from project-based customers. Implementing this strategy would be earnings margin accretive given Asset Maintenance and Mining Services are more profitable than Engineering and Construction. We also argue achievement of this strategy would be value-accretive given the larger valuation multiples ascribed to peers that generate a greater proportion of their group revenue from recurring work.

Conservative balance sheet: SRG has historically maintained a conservative balance sheet. Having drawn debt in 2H FY23 to acquire Asset Care, net leverage is 0.3x FY24 underlying EBITDA and net gearing is 9.8%. We expect SRG's FCF generation over FY24-26 will drive rapid deleveraging while addressing a greater dividend payout that is consistent with its prior year payout ratio of 65-75% of NPAT.

Credible management & guidance outperformance: Management's credibility has strengthened in recent years as they have delivered on their growth strategy to shift the group's earnings mix towards recurring work– a value accretive direction (in our view). The acquisition of the highly complementary Asset Care business in FY23 supported this strategy. In addition, management have demonstrated an ability to upgrade and outperform EBITDA guidance each year since the onset of COVID-19. This track record would give investors confidence in guidance outperformance in years to come.

Brand equity & history of positive project execution: SRG is a leading provider of specialist engineering construction and maintenance services, with a 60+ year history of reliable project execution and positive customer engagement. This reputation is showcased by SRG's large base of repeat tier-1 customers.

Relative undervaluation unwarranted: SRG's relative undervaluation of -25% (FY25 EV / EBITDA) to the Industrial Services peer group is unwarranted. Our peer analysis of the Industrial Services sector and close peer, Monadelphous (MND; Buy; TP$15.40/sh), shown on pages 6-7 of this report, supports this view. We expect this valuation gap to close as SRG delivers on its strategy to continue expanding its recurring earnings, particularly from Asset Maintenance.

Attractive FCF & dividend yield: We estimate SRG trades on a FY25 dividend and FCF yield of 6.5% and 13.3%, respectively. These estimates compare favourably against the Industrial Services peer group averages of 4.4% and 8.0%, respectively. These yields emphasise that SRG generates robust free cashflow that supports attractive dividend payments relative to its current share price.

Valuation & methodology

Valuation summary: Mix of DCF & ROIC

Our SRG valuation is based on a 50% / 50% blend of discounted cash flow and ROIC-based valuation methods. A nominal WACC of 10.7% and a terminal growth rate of 3.0% have been applied in our valuation determination. Table 1 outlines our SRG valuation summary.

We initiate coverage of SRG with a Buy recommendation and a Target Price of $1.30/sh.

Table 1 - SRG valuation summary

Valuation method	Weight (%)	Val. ($m)
DCF	50%	0.63
ROIC	50%	0.66
Blended equity valuation	**100%**	**1.30**
Current share price		0.87
Upside to current share price (%)		50%

SOURCE: BELL POTTER SECURITIES ESTIMATES

DCF MODELLING OF EACH SEGMENT

The table below outlines our Sum of The Parts DCF valuation summary.

Table 2 - Sum of The Parts DCF valuation summary

Diluted shares on issue	**544m**	
Valuation period	**T=1**	
	$m	**$/sh**
Asset Maintenance	435	0.80
Mining Services	304	0.56
Engineering & Construction	206	0.38
Corporate costs	-238	-0.44
Enterprise valuation	**706**	**1.30**
Net debt / (net cash)	19	0.04
Equity valuation	**687**	**1.26**

SOURCE: BELL POTTER SECURITIES ESTIMATES

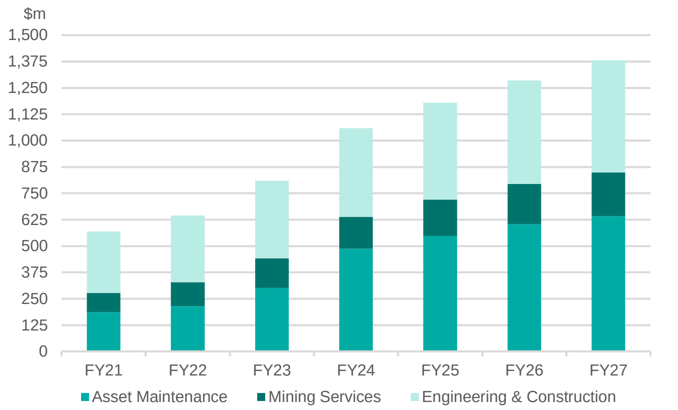
Key financial and operating assumptions used in our DCF model include:

- **Asset Maintenance:** We forecast revenue CAGR of 16.5% over FY23-26 (pro forma Asset Care acquisition in 2H FY23). EBITDA margins are expected to hold around 11.3-11.4% over FY24-26 and 11.5% terminally, consistent with segment profitability reported before the acquisition of Asset Care. We estimate capital expenditures as a % of revenue to track depreciation at ~3.6-3.8% in the short and long-term.
- **Mining Services:** We estimate revenue CAGR of 10.8% over FY23-26. EBITDA margins are expected to remain at 21.0% over FY24-26 and 21.5% in terminal years, reflecting minor operating leverage from scaling. Capital expenditures are forecast to be 6.5% of revenue over FY24-26, before stepping down to 5.0% from FY27.

- **Engineering & Construction:** Revenue CAGR is expected to be 10.3% over FY23-26. We forecast EBITDA margins to hold at ~8.0% over FY24-26 and in terminal years. Capital expenditures as a % of revenue are expected to track depreciation at ~2.2% in the short and long-term.

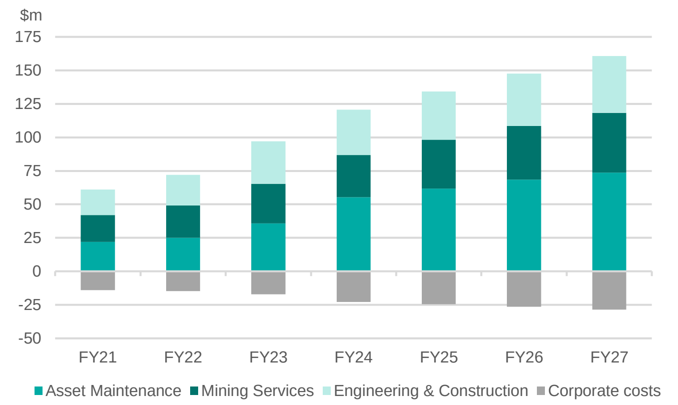
The Figures below illustrate our DCF model assumptions.

Figure 1 - Revenue mix



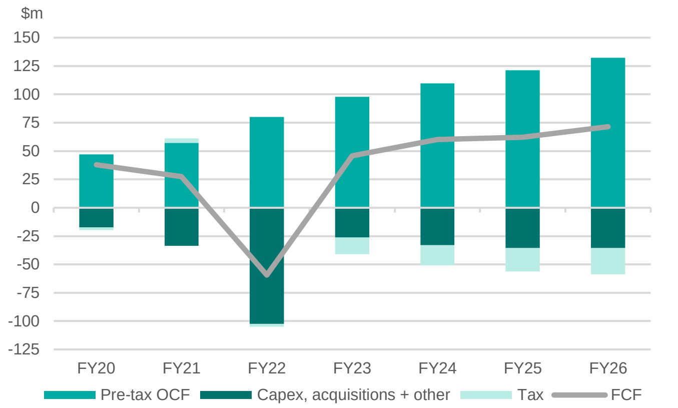
SOURCE: COMPANY DATA & BELL POTTER SECURITIES ESTIMATES

Figure 2 - EBITDA mix



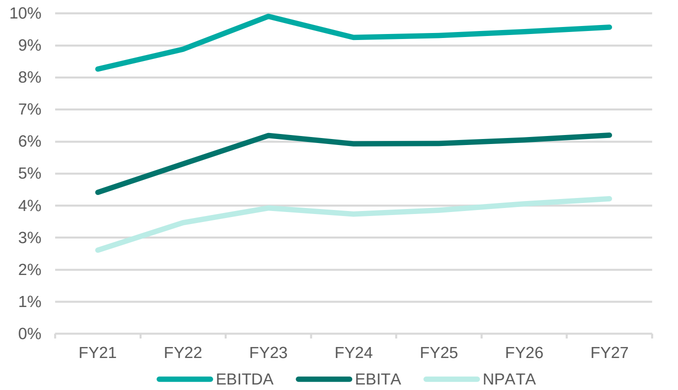
SOURCE: COMPANY DATA & BELL POTTER SECURITIES ESTIMATES

Figure 3 - FCF split



SOURCE: COMPANY DATA & BELL POTTER SECURITIES ESTIMATES

Figure 4 - Margins: EBITDA; EBITA; & NPATA



SOURCE: COMPANY DATA & BELL POTTER SECURITIES ESTIMATES

The table below outlines our ROIC-based valuation outcome. Our ROIC-based valuation determines an intrinsic EV / EBITDA multiple using ROIC, pre-tax WACC and terminal growth rate inputs. We then derive an equity valuation from a back-solved enterprise valuation.

Table 3 - ROIC-based valuation summary

Financial year	FY24	FY25	FY26
As at 17-May-24	**Jun-24**	**Jun-25**	**Jun-26**
Underlying EBITDA ($m)	97.9	109.8	121.2
Depreciation ($m)	34.7	38.9	42.6
EBITA* ($m)	62.8	70.1	77.8
Average invested capital ($m)	329	329	325
ROIC (%)	19.1%	21.3%	23.9%
Pre-tax WACC (%)	11.2%	11.2%	11.2%
Terminal growth rate (%)	3.0%	3.0%	3.0%
Calculated EV/EBITDA (x)	6.7	6.8	7.0
Enterprise valuation ($m)	**654**	**747**	**844**
Net debt / (cash) ($m)	32.8	11.7	-4.7
Equity valuation ($m)	**621**	**735**	**848**
Diluted shares on issue (m)	544	544	544
Equity value per share ($/sh)	1.14	1.35	1.56
Time weighted valuation ($/sh)	**1.33**		

SOURCE: BELL POTTER SECURITIES ESTIMATES
NOTE:* DOES NOT INCLUDE AMORTISATION OF ACQUIRED INTANGIBLES

Valuation cross-check: Relative undervaluation unwarranted

Table 4 outlines our valuation cross-check of SRG against the Industrial Services peer group. Based on our FY25 EBITDA and EPS forecasts, SRG trades at a discount to its peer group's average EV / EBITDA of -25% and PE of -11%. We believe this relative valuation discount is unwarranted given the company's above-sector-average EBITDA margin, FCF yield and relatively capital-light operating model. We also view SRG's consensus EPS growth outlook as conservative relative to our forecasts.

Table 4 - Valuation cross-check: BPe vs comps

EV / EBITDA (FY25)	
EV / EBITDA (BPe) x	4.2
Industrial Services sector EV / EBITDA x	5.6
Premium / (discount) to peer group average %	**-25%**
PE (FY25)	
PE (BPe) x	11.1
Industrial Services sector PE x	12.4
Premium / (discount) to peer group average %	**-11%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Domestic peer group comparison

Table 5 - Industrial Services peer group comparison

	EV ($m)	EPS growth (%)		EV/EBITDA (x)		PE ratio (x)		Dividend yield (%)		FCF yield (%)	
Company		**FY24**	**FY25**	**FY24**	**FY25**	**FY24**	**FY25**	**FY24**	**FY25**	**FY24**	**FY25**
Downer EDI (DOW)	4,452	24.8%	39.4%	6.6x	5.6x	17.6x	12.6x	3.5%	4.9%	8.7%	11.2%
Ventia Services Group (VNT)	3,646	13.3%	11.3%	7.3x	6.9x	14.7x	13.2x	5.3%	5.7%	10.0%	10.1%
Monadelphous (MND)	1,212	17.0%	16.4%	9.8x	8.6x	22.2x	19.1x	3.8%	4.5%	6.0%	5.6%
Service Stream (SSM)	800	31.7%	15.2%	6.3x	5.8x	15.3x	13.3x	3.4%	3.8%	9.5%	11.4%
SRG Global (SRG)	**490**	**6.0%**	**14.1%**	**5.0x**	**4.6x**	**12.7x**	**11.1x**	**4.8%**	**5.3%**	**9.0%**	**10.6%**
Acrow (ACF)	429	8.3%	11.0%	5.7x	5.0x	9.7x	8.8x	4.8%	5.0%	-2.1%	-8.4%
Southern Cross Electrical Engineering (SXE)	371	10.5%	45.2%	9.7x	7.1x	19.3x	13.3x	3.3%	4.1%	3.2%	8.4%
Genusplus Group (GNP)	300	55.3%	14.4%	6.7x	5.7x	15.3x	13.3x	1.2%	1.4%	1.4%	5.6%
Duratec (DUR)	243	19.7%	17.6%	5.2x	4.5x	11.9x	10.1x	3.4%	4.5%	1.5%	11.3%
Simple average				**6.9x**	**6.0x**	**15.4x**	**12.8x**	**3.7%**	**4.4%**	**5.2%**	**7.3%**
Median				**6.6x**	**5.7x**	**15.3x**	**13.2x**	**3.5%**	**4.5%**	**6.0%**	**10.1%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Comparison with peer: Monadelphous Group

Table 6 - Peer analysis

	SRG Global (SRG)	Monadelphous Group (MND)
Market metrics & capital structure		
Market capitalisation $m	451	1,282
Cash $m	68	263
Bank debt & leases $m	79	107
Net debt / (cash) $m	11	-156
Enterprise valuation $m	462	1,125
Free float %	95%	98%
Financials (FY24 BPe)		
Total Revenue ($m)	1,059	2,015
Engineering & Construction revenue ($m)	420	634
Asset Maintenance / Maintenance & Industrial Services revenue $m	488	1,381
Other revenue* $m	151	NA
% of revenue from maintenance business %	46%	69%
Underlying EBITDA $m	97.9	124.7
EBITDA margin %	9.2%	6.2%
Underlying NPAT $m	34.6	62.5
NPAT margin %	3.3%	3.1%
EPS CAGR over FY23-26 %	13.7%	13.6%
ROIC %	19.1%	26.8%
Valuation (FY25 BPe)		
EV / EBITDA x	4.2x	8.0x
PE x	11.1x	17.9x
P / NTA x	2.9x	2.7x
FCF yield %	13.3%	4.4%
Dividend yield %	6.5%	4.2%

SOURCE: BELL POTTER SECURITIES ESTIMATES
NOTE: * MINING SERVICES REVENUE FOR SRG; MND DOES NOT HAVE ANOTHER OPERATING DIVISION

Discussion:

The purpose of this peer analysis is to highlight the valuation gap between SRG and MND, a close peer in our view. Our comparison highlights the similarities in operating models, with both companies generating a high proportion of recurring maintenance revenue. Both companies have an extensive history of servicing clients, SRG commencing operations over 60 years ago and MND over 50 years ago.

Scope of capabilities & end-market exposures: MND predominantly services the Resources and Energy sectors, with minor construction work done in the civil infrastructure and renewable energy industries. SRG's end-market exposures are more diversified, servicing mining, industrial processing, aviation, marine, commercial, other non-residential and civil infrastructure clientele. SRG's Mining Services segment is a key differentiator between the companies, MND does not provide drilling or geotechnical services. SRG provides specialist engineering construction services (for example supply and installation of facades and dam strengthening) while MND delivers SMPEI construction packages (Structural, Mechanical, Piping, Electrical and Instrumentation).

Profitability: SRG generates a higher EBITDA margin and a slightly higher NPAT margin, driven by their more profitable Asset Maintenance and Mining Services segments.

Valuation gap: We believe MND's valuation premium to SRG is partly explained by its greater revenue skew towards recurring maintenance revenues. In addition, SRG's Mining Services business, which is comparable to drilling contracting businesses on the ASX, would likely be priced at a relatively lower valuation multiple than its other segments (when thinking about SRG's Sum of the Parts valuation), given this business' capital intensity.

Operations & financials snapshot

Below we provide a snapshot of SRG's operating segments and financials.

Table 7 - SRG's operating segments

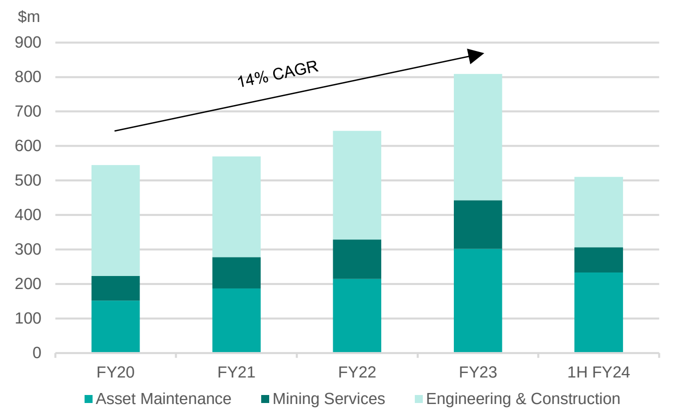
Segment name	Principle activity	Segment drivers	Share of WIH (at 1H FY24)	Share of revenue (1H FY24)	Share of EBITDA (1H FY24)
Asset Maintenance	Supplies integrated services to customers across the entire asset life cycle in sectors including renewable energy, major infrastructure, mining and water treatment.	Leveraged to growth in Australia's infrastructure base across the Mining, Energy, Infrastructure and Utilities sectors. Growth is driven by prior capital investment cycles, which overtime, expands the volume (and size) of infrastructure requiring maintenance.	52%	46%	47%
Mining Services	Services Australian mining clients and provides comprehensive ground solutions including production drilling, blasting and ground and slope stablisation.	Leveraged to growth in Australian gold and iron ore production volumes. Greater mining activity generally leads to greater demand for production drilling, grade control drilling and specialist geotechnical services.	16%	14%	31%
Engineering & Construction	Supplies integrated products and services to customers involved in the construction of complex infrastructure, including bridges, dams, office towers, high rise apartments, shopping centers and hospitals.	Construction activity is leveraged to capital investment cycles in mining, non-residential and engineering construction sectors. Increases to government spending for the construction of critical infrastructure and buildings, and Resources capital expenditures for the construction of mining developments can spur activity.	32%	40%	23%

SOURCE: COMPANY DATA & BELL POTTER SECURITIES ESTIMATES

END-MARKET EXPOSURES & FINANCIALS

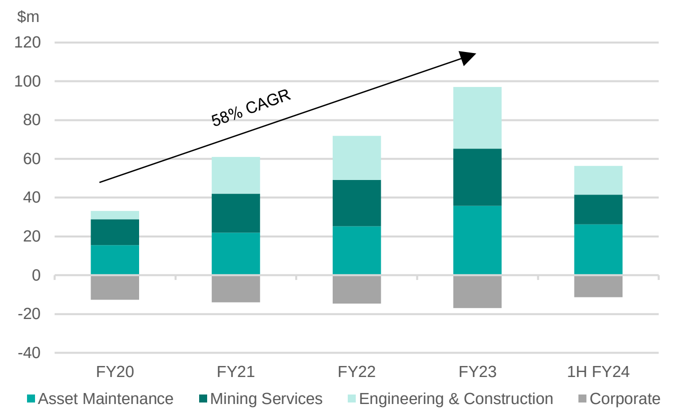
SRG's major end-market exposures are Mining, Civil Infrastructure and Commercial / Office buildings and Utilities. Asset Maintenance's customer base is diversified across these end-markets; Engineering and Construction has a strong skew towards repeat customers including government bodies, energy retailers, tier-1 contractors, industrial businesses and mining companies; and Mining Services' customers are tier-1 miners, predominately in the gold and iron ore markets.

Figure 5 - Revenue split



SOURCE: COMPANY DATA

Figure 6 - EBITDA split

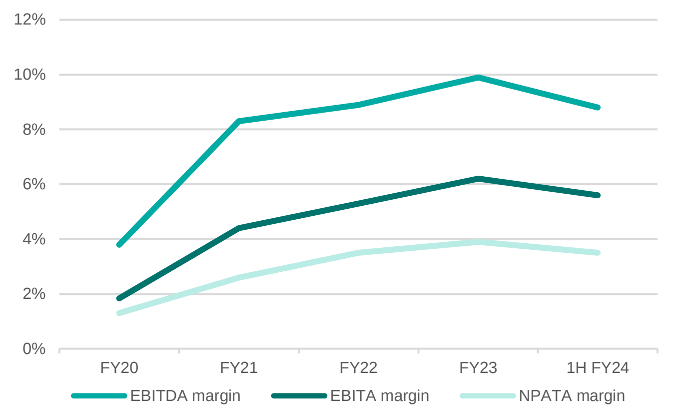


SOURCE: COMPANY DATA

SRG's Group EBITDA margins have been expanding since FY20, growing from 3.8% in FY20 to as high as 9.9% in FY23. We forecast FY24 EBITDA margin of 9.2%. The expansion in margins was primarily driven by a recovery in profitability by the Engineering and Construction segment, which is a material contributor to Group EBITDA. Underlying NPATA margins have also improved markedly since FY20, rising from 1.3% in FY20 to 3.9% in FY23. We estimate FY24 NPATA margins to be 3.7%.

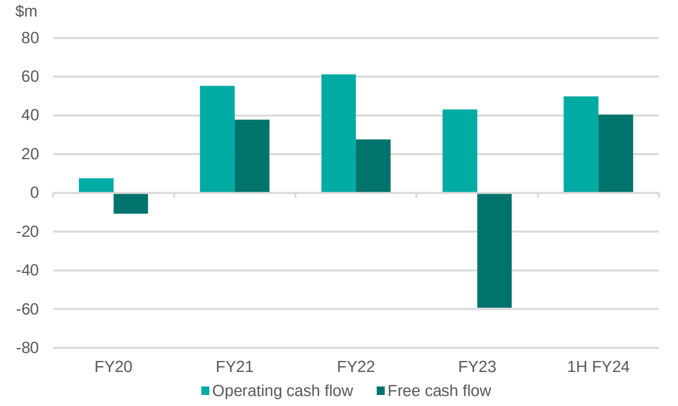
Being a capital-light business, SRG's depreciation (as a % of revenue) is low. Amortisation of customer contracts, primarily relating to the Asset Maintenance segment, has been reported at ~0.5-0.8% of revenue since FY20. Amortisation of acquired intangible assets rose following the acquisition of Asset Care from ALS (ALQ; not rated).

Figure 7 - Group margins: EBITDA; EBITA; & NPATA



SOURCE: COMPANY DATA

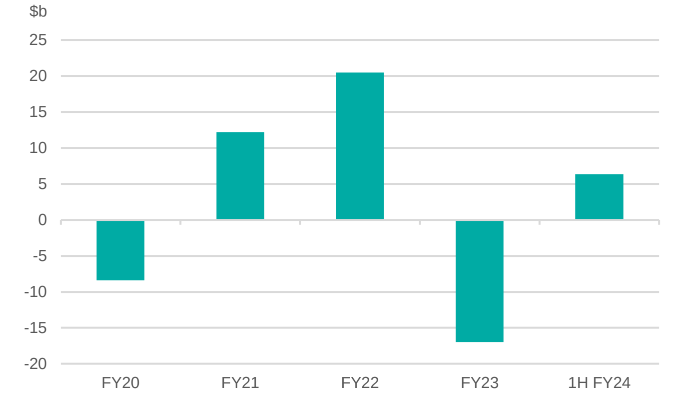
Figure 8 - Operating & free cash flow



SOURCE: COMPANY DATA

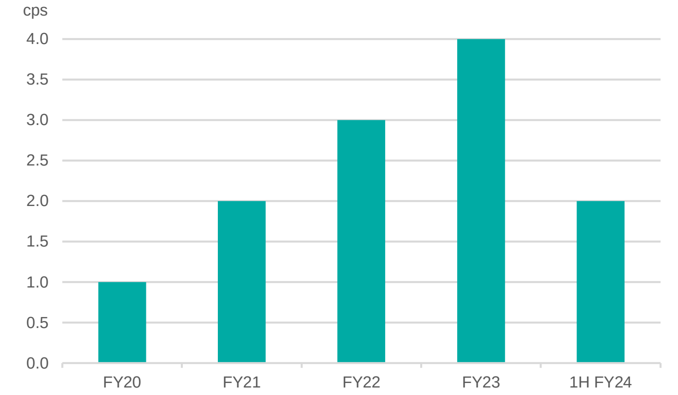
Excluding leases, SRG has maintained a conservative balance sheet since FY20, with net gearing held below 6%. During this period, FCF has been trending upwards, with the exception of FY23 when SRG acquired ALS' Asset Care business for $80m. Also during this period, dividend payments have increased (see Figure 10) while maintaining a dividend payout ratio of ~65-75% of underlying NPAT.

Figure 9 - Net cash (debt) excluding leases



SOURCE: COMPANY DATA

Figure 10 - Dividend payments declared cps

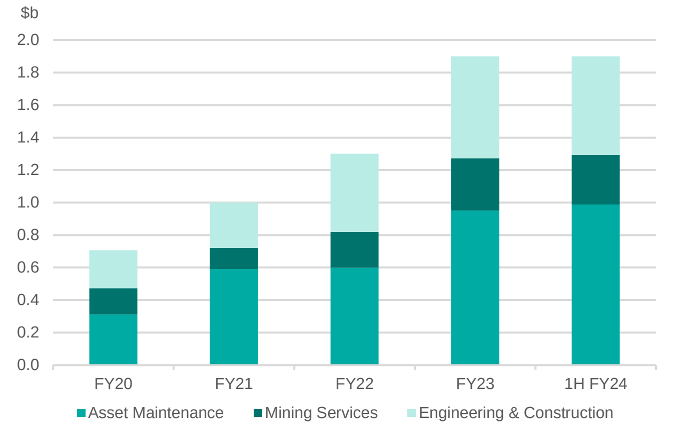


SOURCE: COMPANY DATA

HISTORY OF UPGRADING & ACHIEVING GUIDANCE

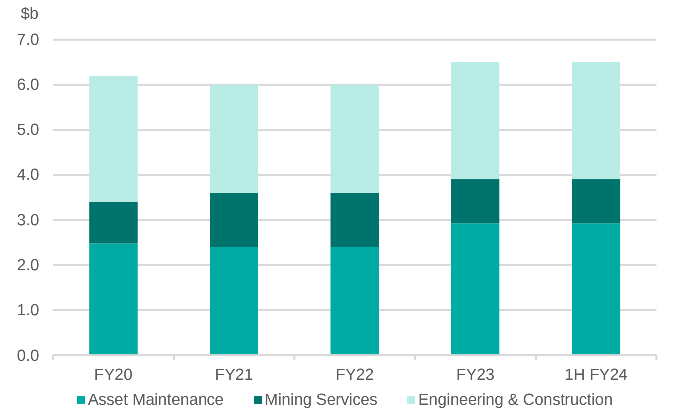
SRG has upgraded its FY24 underlying EBITDA guidance at its FY24 interim result to $95-100m (BPe $98m; previously ~20% YoY growth to ~$96.1m). We note current management have a history of upgrading and outperforming published outlooks since FY20, a year when guidance was withdrawn due to unprecedented events following the onset of COVID-19. SRG has reported strong growth in WIH across its three operating segments since FY20. During this time, the opportunity pipeline has remained steady at ~$6.0-6.5b.

Figure 11 - Work in hand over time



SOURCE: COMPANY DATA

Figure 12 - Opportunity pipeline over time



SOURCE: COMPANY DATA

Asset Maintenance (~46% of revenue)

A leader in integrated multi-disciplinary maintenance services

Asset Maintenance involves the provision of integrated multi-disciplinary maintenance, access solutions, asset repair and protection and shutdown services that sustain and extend the service life of infrastructure. Asset Maintenance services a blue-chip customer base across the Mining, Infrastructure and Utilities sectors. Revenue generated by this segment is stable and predictable and is underpinned by long-term contracts. Some customers have been contracting Asset Maintenace's services for decades.

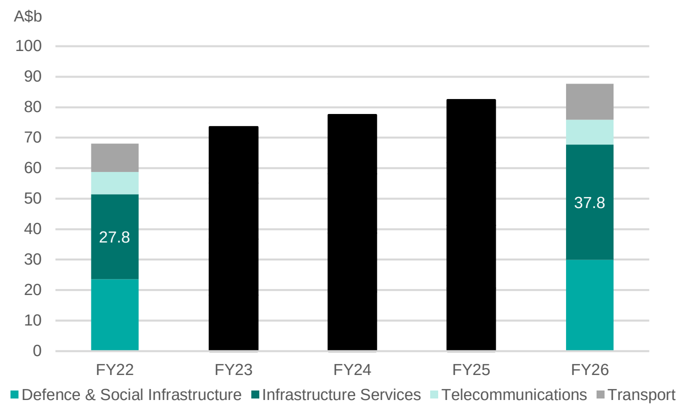
Core capabilities include integrated maintenance services (mechanical, electrical and plumbing for fixed plant maintenance); access solutions (scaffold and rope access); industrial services (industrial cleaning, paint and blast and Non-Destructive Testing); refractory services (construction and repair of refractory infrastructure); and asset care (asset monitoring, inspection and testing).

In FY23, SRG acquired and integrated ALS's Asset Care unit, a complementary "front-end" inspection and testing business to SRG's existing "back-end" maintenance segment. The rationale behind the acquisition was to enhance the value proposition of SRG's maintenance service offering by providing an end-to-end solution across the asset management lifecycle. This upgraded asset maintenance solution is expected to yield cross-selling opportunities across both businesses' clientele. Asset Care FY23 pro forma revenue was $135m and EBITDA was $15.4m; EBITDA margins are consistent with SRG's Asset Maintenance business (pre Asset Care acquisition). Asset Care is a market leader in asset integrity and reliability services across Australia.

A GROWING INFRASTRUCTURE BASE IS KEY

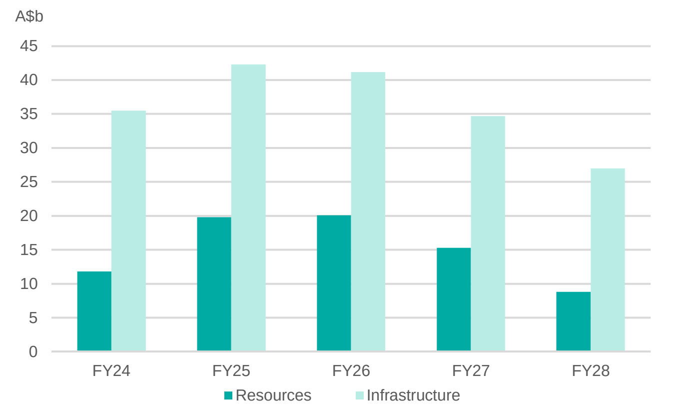
Growth in Australia's infrastructure base (across the Mining, Industrial Processing, Utilities, Marine and Infrastructure sectors) from prior investment cycles has increased demand for maintenance today. This trend is expected to continue as significant investment in infrastructure and non-residential construction continues in the short-to-medium term. In Mining, the Australian Government forecasts ongoing growth in iron ore production volumes (see Figure 15; CAGR of 2.2%pa over the next 5 years vs. 1.2%pa over the prior 5 years) as greenfield projects are brought online. We expect the resulting growth in iron ore mine site infrastructure (to support this production expansion) would add to sector-wide maintenance requirements. SRG provides Asset Maintenance services to BHP, RIO and FMG.

Figure 13 - Outsourced Maintenance Services addressable market



SOURCE: VENTIA SERVICES GROUP'S (VNT) FY23 RESULT PRESENTATION, REFERENCING BIS OXFORD ECONOMICS (2022)
NOTE: NUMBERS PRESENTED IN CURRENT PRICES (NOMINAL VALUE)

Figure 14 - Construction opportunities: Resources; & Infra.



SOURCE: CIVMEC (CVL), REFERENCING BIS OXFORD ECONOMICS, 2024

Figure 13 outlines an ~8.0%pa CAGR over FY22-26 for the addressable market of outsourced Infrastructure Services maintenance. Infrastructure Services (a segment of Ventia Services Group (VNT; not rated)) refers to activity associated with assets in sectors including Utilities (transmission lines, power generation, water, energy networks and renewable assets), Resources and Industrial.

To add, the significant pipeline of construction opportunities reported by Civmec (CVL; not rated; as shown in Figure 14) reinforces the positive theme of growing asset bases in the Australian Resources and Infrastructure sectors, a positive driver of demand for R&M solutions in the medium to long-term.

SRG also provides maintenance services to wind turbine and hydro projects (to Meridian and Genesis Energy in NZ) and transmission towers (to Transpower, also in NZ). Significant investment in Australian renewable energy infrastructure over the current and next decade as outlined by the Australian Energy Market Operator – AEMO – suggests a fast-growing maintenance market could occur for these structures as large-scale transmission lines and onshore wind farms are developed.

Mining Services (~14% of revenue)

Providing production drilling & geotechnical services to miners

Services offered by Mining Services include production drilling (drill and blast, explosives supply and management and equipment hire), specialist drilling services (grade control drilling, high-reach drilling, geotechnical drilling and dewatering drilling) and geotechnical services (geotechnical investigation, rope access, mine wall support and remediation, installation of rockfall protection systems and ground support).

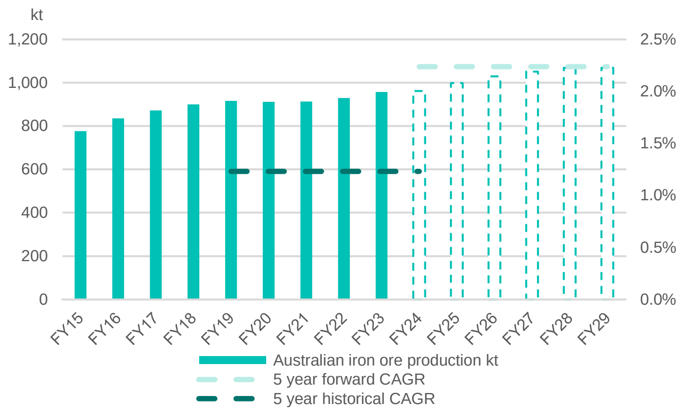
SRG operates over 50 drill rigs throughout Australia, with models including Caterpillar, Epiroc and Sandvick. SRG applies its in-house developed analytics software, Orbix, to generate data-driven insights to improve decision making for its specialist teams and clients.

Key clients include tier-1 iron ore and gold miners: BHP Group (BHP; not rated); Rio Tinto (RIO; not rated); Fortescue (FMG; Sell; TP$20.63/sh); Northern Star (NST; not rated); and Evolution Mining (EVN; not rated). Contracts awarded by these clients tend to be long-term and generate recurring and predictable revenue. Production drilling is leveraged to mining activity, which is less cyclical than exploration drilling.

INCOMING ACTIVITY ACROSS IRON ORE & GOLD MARKETS

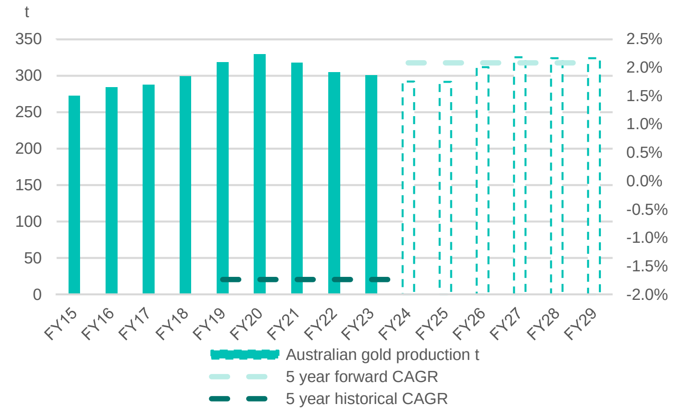
A key driver of production drilling and geotechnical services activity is mining activity (or production volume expansion). Mining Services is entirely leveraged to mined volumes in the Australian iron ore and gold sectors. As we outline in the Figures below, growth in iron ore and gold production volumes is expected to accelerate over the next five years. In the gold market, reported declines in grades for deposits mined have either contributed to lower gold production or driven an imperative by miners to increase mined tonnes to maintain gold production rates (assuming no processing plant capacity constraints). If gold grades continue to decline, during a period when gold production volume growth is expected to accelerate, mined volumes may increase at a greater rate, driving greater demand for production drilling and geotechnical services.

Figure 15 - Historical & expected iron ore production



SOURCE: AUS. GOV.

Figure 16 - Historical & expected gold production



SOURCE: AUS. GOV.

Engineering & Construction (~40% of rev.)

Providers of specialist engineering & construction services

SRG's Engineering & Construction segment provides specialist engineering and construction services in key markets including dams, bridges and roads, tanks and mine site infrastructure as well as curtain wall facades and structural concrete construction. SRG are market leaders in the design, supply and installation of engineered curtain wall facades, having completed work on some of Australia's most iconic high-rise commercial buildings. SRG are also world leaders in the design, engineering and installation of ground anchors for dams, having applied its internally developed anchor technology (developed over 50 years) in some of the world's largest dams.

SRG services repeat tier-1 clients including contractors (Built and Multiplex), utilities (WaterNSW and Water Corporation), industrial businesses (Alcoa and BlueScope Steel) and Resources companies (South32 and Fortescue). Activity is project-based in nature, with revenue generated lumpier than Asset Maintenance and Mining Services.

Civil / Infrastructure: Focuses on delivering construction services for dams (including dam strengthening), bridges, tanks, mine site infrastructure and civil maintenance.

Specialist Facades: Design, supply and installs engineered curtain wall facades as well as facade restoration and facade / cladding replacement.

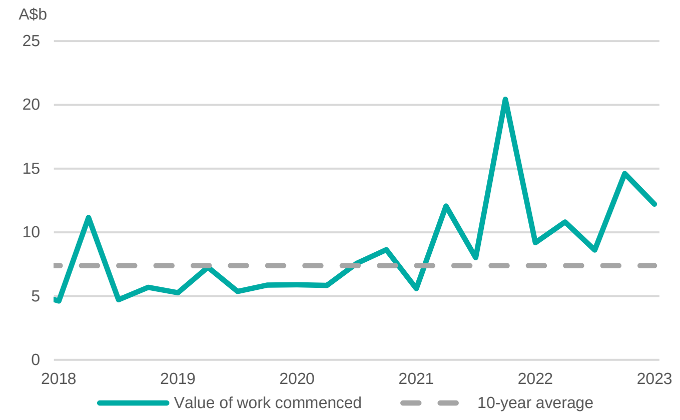
Structures West: End to end delivery of structural concrete solutions, involving formwork, falsework and propping contracting, concrete placement and concrete post-tensioning.

Engineered Products: Supply of structural, facade, post-tensioning, reinforcing and ground stabilisation products. SRG supplies these products domestically and internationally (recently in New Zealand).

LEVERAGED TO MINING, INFRA. & NON-RES. CONSTRUCTION ACTIVITY

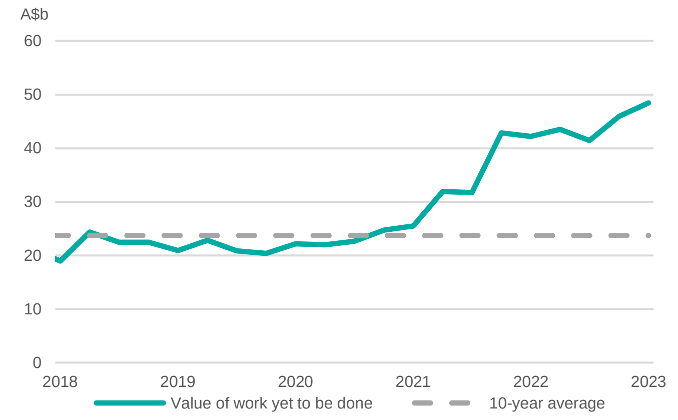
SRG's Engineering & Construction services are contracted to build Infrastructure and Non-Residential developments as well as to provision civil and supporting infrastructure construction services to the Mining sector. Figures 17 and 18 outline value of work commenced and value of work yet to be done (our proxy for activity backlog) for the Engineering Construction (Infrastructure) and Non-Residential sectors.

Figure 17 - Value of work commenced: Engineering Construction*



SOURCE: ABS
NOTE: *ROADS, HIGHWAYS AND SUBDIVISIONS, BRIDGES, HARBOURS, WATER INFRASTRUCTURE & OTHER HEAVY INDUSTRY

Figure 18 - Value of work yet to be done: Engineering Con*.



SOURCE: ABS
NOTE: *ROADS, HIGHWAYS AND SUBDIVISIONS, BRIDGES, HARBOURS, WATER INFRASTRUCTURE & OTHER HEAVY INDUSTRY

Engineering Construction: Value of work commenced has been trending higher since 2021, driven partly by inflation of infrastructure projects following the onset of COVID-19. In real terms, value of work commenced has also increased, reflecting expansion in new project builds and new build size. Notably, the Australian Government's post-COVID-19 fiscal measures have stimulated a strong response in construction activity of infrastructure projects, including road and rail infrastructure across capital cities, and renewable energy developments.

The Infrastructure Market Capacity Report 2023 (published by Infrastructure Australia – December 2023) highlighted a flattening of the rolling five-year major public infrastructure investment pipeline (2023-2028), delaying and softening a major roll-off in activity by two years (from 2024 to 2026). This flattening of the public infrastructure investment pipeline was driven by the Government's review of the $120m Infrastructure Investment Pipeline in 2023, which resulted in the scrapping or delay of planned projects to be built.

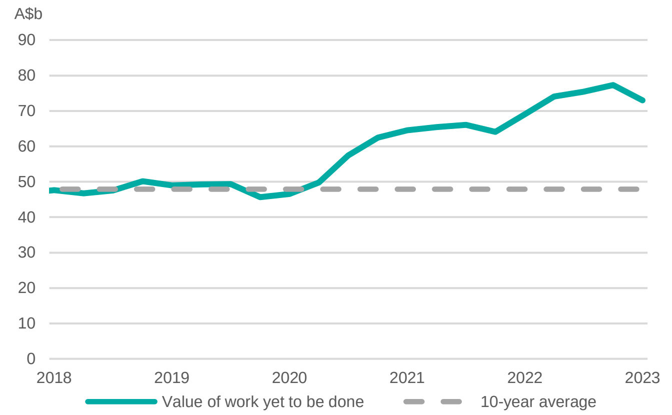
The value work yet to be done is currently at a record level, indicating a significant pipeline of infrastructure work that will need to be completed in the short to medium term. We believe this elevation in the Engineering Construction backlog is partly due to sector-wide labour shortages, impacting industry's capacity to deliver existing projects to schedule.

Non-Residential: Value of work has been rising since 2021, again, driven partly by the Australian Government's fiscal response to the pandemic, funding hospital buildings and airports (for example the Western Sydney Airport), among other non-residential buildings. The elevated Non-Residential backlog could support sector activity as it unwinds, all things equal.

Figure 19 - Value of work commenced: Non-residential*

SOURCE: ABS
NOTE: *COMMERCIAL, INDUSTRIAL, OFFICE, HEALTH, TRANSPORT & OTHER NON-RESIDENTIAL BUILDINGS

Figure 20 - Value of work yet to be done: Non-residential*



SOURCE: ABS
NOTE: *COMMERCIAL, INDUSTRIAL, OFFICE, HEALTH, TRANSPORT & OTHER NON-RESIDENTIAL BUILDINGS

Utilities: While population growth can be an explainer of investment in non-residential and infrastructure projects (over the long term) as Australia's urban density increases, it has been a driver of investment in water-related facilities and infrastructure. Significant migration reported following the easing of COVID-19 related border restrictions may drive further investment in water-related infrastructure, a positive for SRG.

Appendix 1: Company timeline

SRG GLOBAL MERGER OF EQUALS

July 2018: Release of Scheme Booklet for SRG Limited and Global Services Limited proposed merger of equals to create SRG Global Limited.

SRG UPGRADES FY21 EBITDA GUIDANCE

December 2020: SRG revise guidance for FY21 EBITDA to $42m - $45m (previously $38m - $42m). SRG also announces record work in hand of $1b, as at November 2020, up 41.5% since 30 June 2020.

February 2021: At the 1H21 financial result, SRG upgrades FY21 EBITDA guidance to $45m - $47m (previously $42m - $45m).

July 2021: FY21 EBITDA expected to be at the top end of previous guidance ($45m - $47m)

SRG ACQUIRES WBHO INFRASTRUCTURE

March 2022: SRG acquires WBHO Infrastructure Pty Ltd for $15.2m. WBHO Infrastructure is a leading provider of infrastructure asset management, civil maintenance and construction services in Western Australia, with a 35-year track record of operations.

SRG UPGRADES FY22 EBITDA GUIDANCE

February: SRG upgrades FY22 EBITDA guidance to $54m - $57m (previously ~15% higher than FY21 result).

July 2022: FY22 EBITDA expected to be at the top end of previous guidance ($54m - $57m).

SRG UPGRADES FY23 EBITDA GUIDANCE

October 2022: SRG reaffirms FY23 EBITDA guidance of ~25% higher than the FY22 EBITDA result.

May 2023: SRG upgrades guidance to a range of $79m - $80m EBITDA for FY23 (previously ~25% higher than the FY22 EBITDA result), including the EBITDA contribution from the recently acquired Asset Care business of $4.5m - $5.0m.

SRG ACQUIRES BARTEK

December 2022: SRG acquires Bartek for $2.6m. Bartek has over 20 years' experience in the Engineered Products Segment with significant expertise in the supply of engineered couplers, precast ferrules, starter bars, threaded anchors and rebar threading services. It currently services a diverse range of clients across Australia and New Zealand.

SRG ACQUIRES ALS ASSET CARE

February 2023: SRG acquires ALS Asset Care for $80m. Asset Care was a 100%-owned subsidiary of ALS Ltd (ALQ, not rated) and specialises in asset integrity and reliability services with core end-markets in mining, oil & gas, energy, infrastructure and utilities. Asset Care has been operating for 65+ years and employs 600+ people, with sites located across Western Australia, Victoria, New South Wales and Queensland, and a 70% East / 30% West geographic split.

SRG UPGRADES FY24 EBITDA GUIDANCE

February 2024: SRG upgrades FY24 EBITDA guidance to $95m - $100m (previously ~20% higher than FY23 EBITDA result).

Appendix 2: Major contracts

Table 8 - Recent major contract awards: Asset Maintenance

Mining

5-year maintenance and shutdown contract with FMG Iron Bridge JV at Iron Bridge Mine Site in the Pilbara region of WA;

5-year multi-disciplinary services term contract for scaffold services at port operations and facilities with FMG (through SRG Global's Aboriginal JV 'Bugarrba'); and

5-year term contract with BHP to provide shutdown engineered access services in the Pilbara region of WA (through SRG Global's Aboriginal JV 'Bugarrba').

Refinery – Alumina

4-year Industrial services term contract with Alcoa at both its Wagerup and Pinjarra operations in WA.

Refinery - Lithium

2.5-year contract with Albemarle at its new Kemerton facility in WA for specialist access services.

Marine Infrastructure

2-year contract for wharf remediation works as part of Port of Melbourne's Swanson Dock West Remediation Project in VIC;

3-year term contract with QAL to provide specialist remediation works at the South Trees Island Wharf in Gladstone, QLD; and

3-year marine remediation contract with Fremantle Ports at Kwinana Bulk Jetty, WA.

Manufacturing

Maintenance contract for specialist refractory installation for Visy Australia.

Renewable Energy

7-year term contract with Meridian Energy to maintain its hydro andwind assets across New Zealand (NZ); and

3-year term contract with Genesis Energy Ltd to provide asset maintenance services for its hydro and wind farm infrastructure in NZ.

Energy

1-year term contract with Transpower New Zealand to provide coatings and minor steel replacement services for transmission tower refurbishments.

Fuel Terminal

3-year term contract with Channel Infrastructure New Zealand to provide industrial coatings for maintenance of fuel storage assets and associated infrastructure at Marsden Point.

Bridge Maintenance

Bridge maintenance works at the West Gate Bridge for the Department of Transport Victoria (DoT);

Bridge maintenance works at the Nine Mile Creek Bridge for the DoT;

Bridge maintenance works at the Glenferrie Road over Caulfield Rail Bridge for the DoT; and

Bridge maintenance works at the Donnybrook Road Bridge over Barbers Creek for the DoT.

Asset Care

2-year contract for the supply of non-destructive testing, condition monitoring and inspection services for BHP Iron Ore across all its WA iron ore mine sites, rail, road and port infrastructure.

SOURCE: COMPANY DATA

Table 9 - Recent major contract awards: Mining Services

5-year term contract with Northern Star at its Bronzewing gold operations in WA where the scope of works include the provision of specialist drill and blast services, explosives management and grade control drilling;

2-year contract extension at Northern Star's Thunderbox and Carosue Dam gold operations in WA. The scope of services includes the provision of specialist drill and blast services, explosives management and grade control drilling; and

5-year term contract for geotechnical ground support, rock fall protection systems, depressurisation drilling and rope access services at Northern Star's KCGM gold operations in WA.

SOURCE: COMPANY DATA

Table 10 - Recent major contract awards: Engineering & Construction

Water Infrastructure

Specialist civil water infrastructure project with Water Corporation Western Australia, to construct an ocean outfall transition tower, associated pipework and other wastewater infrastructure assets.

Mining

Term contract extension with South32 for civil maintenance works at Worsley Alumina;

Construction of a 21km haul road at the existing Eliwana mine site for FMG;

Earthworks and civil construction contract for the laydown area to facilitate the delivery of Trains 3 and 4 for Albemarle at their Kemerton lithium processing plant;

Specialist earthworks, mechanical, electrical and HDPE lining associated with the construction of tailings storage facility for BHP Nickel West;

Tailings storage facility construction contract at Northern Star Resources' Gidji mine site; and

Contract for the earthworks and civil contract extension with BCI Minerals at Mardie Salt and Potash.

Aviation

Aviation infrastructure contract for the upgrade to the Tropicana Aerodrome in the Goldfields region for AngloGold Ashanti Australia.

Rail

Supply of engineered products and specialist engineering services at the Cross River Rail project in Queensland.

High-rise Commercial

Specialist facades contract for the Atlassian Headquarters that will be the world's tallest hybrid timber building in Sydney;

Specialist facades contract for the 51 Flinders Lane development in Melbourne; and

Specialist Facades contract with Lendlease for One Circular Quay in Sydney.

Design, supply, and installation of specialist engineered curtain wall facades and structures works for the Edith Cowan University Campus in Perth's CBD.

Health

Specialist facades contract for the new Dunedin hospital development in NZ; and

Specialist facades contract for the Frankston Hospital Redevelopment in VIC.

SOURCE: COMPANY DATA

Appendix 3: Board & Management

Table 11 - Board of Directors & senior management

Name	Position	Date appointed to current position
Peter McMorrow	Non-Executive Chairman	November 2019
David Macgeorge	Managing Director	September 2018
Roger Lee	Director, Chief Financial Officer & Company Secretary	November 2023
Michael Atkins	Non-Executive Director	September 2018
Amber Banfield	Non-Executive Director	October 2021
Kerry Wilson	Non-Executive Director	November 2023

SOURCE: COMPANY ANNUAL REPORT & WEBSITE

Board of Directors & executive team

Peter McMorrow - Non-Executive Chairman

Peter McMorrow joined the Board of SRG Global as Deputy Chairman in September 2018 and was appointed Chairman on 26 November 2019. He is also a member of the Remuneration & Nomination Committee. Peter has over forty years' project and executive experience and is a respected leader in the infrastructure and resources industries. Encompassing a wide variety of large and complex infrastructure projects both overseas and within Australia, his industry knowledge extends to all facets of engineering, project identification, winning and delivery as well as management of dynamic, profitable and long lasting business operations. Prior to joining SRG Global, Peter was Managing Director of Leighton Contractors from 2004 to 2010. Under his guidance, Leighton Contractors expanded considerably with turnover increasing to over $5 billion and the workforce increasing fourfold to approximately 10,000 employees. Peter was previously a board member for Valmec Limited until October 2021. Peter is an advocate for health and safety and brings a strong zero harm vision to both SRG Global and the industry in which it operates.

David Macgeorge – Managing Director

David Macgeorge was appointed Managing Director of SRG Global in September 2018. Prior to this, David held the role of Managing Director for SRG Limited since May 2014. David has extensive senior executive experience in contracting, logistics, infrastructure and mining service industries and has a strong record of leading business transformations, driving value creation and growth through a unique understanding of strategy, customer focus and shareholder returns. Prior to joining SRG, David held senior executive roles with BIS Industries, Cleanaway and CHEP (a subsidiary of Brambles (BXB, not rated)). He also provided consultancy to Leighton Contractors. David holds a Bachelor of Business and has completed the Senior Executive Management program at INSEAD Business School in France.

Roger Lee – Director, Chief Financial Officer & Company Secretary

Roger joined the SRG Global Board as Executive Director on 23 November 2023. Roger brings over 25 years' experience in senior and executive management in Australia and has played an instrumental role in the strategic transformation of the Company since his appointment to the Executive Leadership Team in July 2014. Prior to joining SRG, Roger played an integral role in the establishment of Broad Group Holdings (now part of the Leighton Contractors Group), a national commercial and civil construction company which grew from inception to annual revenues of over half a billion dollars during his tenure. During his time at Broad, he held various executive roles including Director/CFO, and subsequently Managing Director of Broad. He has also held other Executive Finance roles at Leighton Contractors (now part of CPB), both at corporate level and within the Infrastructure Division. Roger is a qualified CPA and is a graduate of the University of Western Australia in Commerce, majoring in Finance and Accounting.

Michael Atkins – Non-Executive Director

Michael joined the SRG Global Board as a Non-Executive Director in September 2018 and is Chairman of the SRG Global Audit Committee. Michael was a founding partner of a national Australian Chartered Accounting practice from 1979 to 1987 and was a Fellow of the Institute of Chartered Accountants in Australia. Since 1987 he has been both an executive and non-executive director of numerous publicly listed companies with operations in Australia, USA, South East Asia and Africa. Michael is currently Non-Executive Chairman of Australian listed company Castle Minerals Limited (CDT, not rated). Michael more recently was Non-Executive Chairman of Australian listed company Legend Mining Limited, Senior Advisor – Corporate Finance at Canaccord Genuity (Australia) Limited, Non-Executive Director of Warrego Energy Limited and Non-Executive Chairman of Azumah Resources Limited. Michael is a Fellow of the Australian Institute of Company Directors.

Amber Banfield - Non-Executive Director

Amber joined the SRG Global Board as a Non-Executive Director on 25 October 2021. Amber is a member of the SRG Global Audit Committee and is Chair of the SRG Global Zero Harm Board Committee. Amber brings valuable experience in transformational growth supporting the customers, markets and sectors serviced by SRG Global, as well as additional skills in sustainability and new energy markets. Amber has been involved in the resource and energy sectors for over 25 years. She held operations, management and advisory positions with several ASX-listed entities, including Worley Limited (WOR, not rated) supporting the company's growth to become the world's largest energy and resources engineering service provider. Her roles related to strategy, commercial, sustainability, mergers and acquisitions, servicing the sectors of mining, renewable power, gas and infrastructure. More recently, Amber has supported companies relating to ESG, decarbonisation and sustainable investments. Amber is also a Non-Executive Director of Perseus Mining (PRU, not rated), Non-Executive Director of Leo Lithium (LLL, not rated) and is on the Board of the Western Australian Football Commission, responsible for the governance of Australian Rules football in WA. Amber holds a Bachelor of Engineering (Environmental) degree and a Master of Business Administration, both awarded by the University of Western Australia.

Kerry Wilson –Non-executive Director

Kerry joined the SRG Global Board as a Non-Executive Director on 23 November, 2023. Mr Wilson is Chairman of the Remuneration and Nominations Committee of SRG Global. Kerry holds a degree in Psychology and brings significant experience to the Board in relation to human resources, safety and industrial relations both domestically and internationally. Kerry has held a number of global executive roles in his 30-year career in the Brambles Group. From 2013 to 2023, Kerry held positions on the NSW Business Chamber as a State Councillor and Chair of the Work, Health and Safety Committee. He also was the principal owner of an industrial relations consultancy firm which was sold in 2023.

SOURCE: COMPANY WEBSITE & REPORTS

Appendix 4: Capital structure

Capital structure

Table 12 - Capital structure	
Cash $m	68.2
Debt $m	61.8
Lease liabilities $m	17.6
Net debt (incl. leases) $m	**11.3**
Issued shares m	521
Share price $	0.865
Market cap $m	451
Net debt $m	11
EV (undiluted) $m	**462**
Options / rights m	22
Issued shares (diluted) m	544
Market cap (diluted) m	**470**
Net debt $m	11
EV (diluted) $m	**482**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Major shareholders

Table 13 - Director, cornerstone & restricted share holdings (as at 31 December 2023)

Board & management holdings	m	%
Peter McMorrow	12.8	2.4%
David MacGeorge	5.4	1.0%
Roger Lee	4.2	0.8%
Michael Atkins	1.0	0.2%
Amber Banfield	0.1	0.0%
Kerry Wilson	0.0	0.0%
Sub-total	**23.5**	**4.5%**
Other	497.8	95.5%
Total	**521.3**	**100.0%**
Free float	**497.8**	**95.5%**

SOURCE: COMPANY REPORTS

SRG Global (SRG)

Company description

SRG is a diversified industrial services group that provides multidisciplinary construction, maintenance, drilling and geotechnical services to clients in sectors including Mining, Industrial Processing, Infrastructure, Renewable Energy and Commercial. SRG operates three segments: Asset Maintenance; Mining Services; and Engineering and Construction. Asset Maintenance delivers inspection, condition monitoring, testing, access solutions, repair and maintenance and shutdown services, underpinned by long-term contracts that generate recurring revenue. Mining Services provisions production drilling and geotechnical services through long-term contracts that also generate recurring revenue. Engineering and Construction's specialist capabilities include bridge, dam and tank construction, structural concrete contracting, design, supply and installation of facades and engineered product sales.

Investment thesis: Initiate with Buy; TP$1.30/sh

SRG's short-to-medium term outlook is reinforced by Government-stimulated construction activity in the Infrastructure and Non-Residential sectors and increased development and sustaining capital expenditures in the Resources industry. The resulting expansion in infrastructure bases across these sectors will likely support increased demand for asset care and maintenance in the medium to long-term. We anticipate Mining Services will be a beneficiary of accelerating growth in iron ore and gold production volumes over the next five years. Trading at 4.2x FY25 EBITDA, we see potential for a rerate towards the Industrial Services peer group average of 5.6x.

Valuation methodology

Our SRG valuation is based on a 50% / 50% blend of discounted cash flow and ROIC-based valuation methods. A nominal WACC of 10.7% and a terminal growth rate of 3.0% have been applied in our valuation determination. Table 1 outlines our SRG valuation summary.

We initiate coverage of SRG with a Buy recommendation and a Target Price of $1.30/sh.

Investment risks

Risk to investment thesis

Key risks to SRG include, although are not limited to:

EPC/Construction risk: The construction industry is inherently risky, and particularly so when EPC contracts are involved. This is exacerbated by the general fixed cost nature of construction contracts. Any unforeseen project costs and delays will thus be borne by the contractor. EPC contracting, and construction contracting more generally, is fraught with examples of major contract disputes which can impact profitability, cash flow and ongoing viability. While SRG appears to have a solid track record of achieving profits, there always remains a risk that negative project cash outflows may occur.

Contract completion risk: There is always a risk that unforeseen issues prevent SRG from completing a contract as initially intended, or that a disagreement arises with the party that awarded the contract. This risk has grown as project developers have attempted to shift a greater proportion of risks onto contractors, and is particularly pertinent with EPC contracts, where contractors are responsible for project delivery.

Contract mispricing risk: In addition to customer disputes, SRG could misprice projects for which it tenders. This could result in SRG winning work on uneconomic terms, which may result in SRG recording large losses on some projects that were not originally anticipated. Mispricing could occur as a result of not factoring into account for unforeseen costs, time constraints and project risks. A potential push into larger sized projects increases this risk, as the potential for larger cost overruns and disputes is greater. A cost inflationary environment can increase this risk, particularly when combined with fixed price contracts.

Contract renewal/replenishment risk: In order to maintain revenue, SRG needs to continually win new projects from clients to replace revenue from other projects as they are completed. The amount of work available for tender varies significantly across periods of time as a result of the cyclical nature of client industries and capital expenditures. During times of low construction activity there is a heightened risk that SRG will not be able to replace completed projects with new work. During times of low project activity, margins are also more likely to come under pressure as engineering & construction companies aggressively tender for a smaller supply of opportunities.

Bad debt risk: Given SRG is not paid entirely upfront for its contracts, there is a risk that a customer(s) will not be able to fully pay SRG for its services in the event that they suffer cash flow issues. This risk is somewhat mitigated given the company's large exposure to tier-1 repeat customer base.

Availability and cost of employees/subcontractors risk: During times of an upturn in construction activity, there is a possibility that staff shortages can occur. This may impact SRG's ability to source adequate staff to tender for new projects and increase its revenue. Even if staff are able to be secured, it may require SRG to pay substantially higher rates to both current and newly hired employees/subcontractors in order to secure their services.

Occupational Health & Safety risk: Electrical and construction activity carries with it significant health and safety risks. If not properly mitigated by sufficient safety procedures, there is a risk that employees may suffer serious harm. A lack of proper safety procedures and a proper safety culture would damage employee morale, impact the ability to hire and retain staff, potentially cause litigation risks, and impact a company's social licence.

Commodity price risk: Given SRG's exposure to the mining sector, any sustained fall in commodity prices is likely to lead to a reduction in work opportunities and demand for services.

SRG Global

as at 17 May 2024

Recommendation	Buy
Price	$0.865
Target (12 months)	$1.30

Table 14 - Financial summary

Date		**17/05/24**
Price	**$/sh**	**0.87**
Target price	**$/sh**	**1.30**

Bell Potter Securities

Joseph House (jhouse@bellpotter.com.au, +61 3 9235 1624)

PROFIT AND LOSS

Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e
Revenue	**$m**	**644**	**809**	**1,059**	**1,179**	**1,286**
Other income	$m	2	3	2	-	-
Expenses	$m	(589)	(732)	(963)	(1,069)	(1,164)
Equity share of accounted investee profits	$m	(0)	(0)	0	-	-
Underlying EBITDA	**$m**	**57**	**80**	**98**	**110**	**121**
Depreciation & amortisation	$m	(23)	(29)	(35)	(39)	(43)
Underlying EBIT	**$m**	**31**	**47**	**56**	**64**	**72**
Net interest expense	$m	(3)	(4)	(7)	(5)	(3)
Underlying profit before tax	**$m**	**28**	**42**	**49**	**59**	**69**
Tax expense	$m	(8)	(13)	(14)	(18)	(21)
Underlying NPAT	**$m**	**20**	**29**	**35**	**41**	**48**
Adjustments (post-tax)	$m	0	(7)	-	-	-
Reported NPAT	**$m**	**20**	**23**	**35**	**41**	**48**
Customer relationship amort. (post-tax)	$m	(3)	(2)	(5)	(4)	(4)
Underlying NPATA	**$m**	**22**	**32**	**40**	**46**	**52**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e
OPERATING CASH FLOW						
Receipts from customers	$m	706	884	1,094	1,171	1,273
Payments to suppliers and employees	$m	(646)	(834)	(1,000)	(1,055)	(1,151)
Tax paid	$m	4	(2)	(15)	(18)	(21)
Net interest	$m	(3)	(4)	(7)	(5)	(3)
Other	$m	-	-	-	(0)	0
Operating cash flow	**$m**	**61**	**43**	**72**	**93**	**98**
INVESTING CASH FLOW						
Capital expenditures	$m	(19)	(30)	(26)	(32)	(34)
Disposal of assets	$m	2	4	1	-	-
Other	$m	(17)	(77)	(2)	(1)	(2)
Investing cash flow	**$m**	**(34)**	**(102)**	**(26)**	**(33)**	**(36)**
Free cash flow	***$m***	***28***	***(59)***	***46***	***60***	***62***
FINANCING CASH FLOW						
Proceeds from share issues (net)	$m	-	49	-	-	-
Debt proceeds / (repayments)	$m	5	26	(8)	(10)	(10)
Dividends paid	$m	(11)	(17)	(24)	(29)	(34)
Other	$m	(8)	(10)	(13)	(14)	(15)
Financing cash flow	**$m**	**(15)**	**48**	**(45)**	**(53)**	**(59)**
Change in cash	**$m**	**13**	**(12)**	**0**	**7**	**3**

BALANCE SHEET

Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e
ASSETS						
Cash	$m	59	48	48	55	58
Receivables	$m	98	110	137	145	158
Inventories	$m	19	21	25	25	25
Capital assets	$m	104	119	121	125	127
Intangibles	$m	13	46	42	36	31
Other assets	$m	191	247	254	253	255
Total assets	**$m**	**485**	**591**	**627**	**639**	**654**
LIABILITIES						
Payables	$m	122	116	139	153	166
Borrowings	$m	39	65	57	47	37
Provisions	$m	37	57	61	61	61
Leases	$m	19	27	24	20	17
Other liabilities	$m	33	35	44	44	44
Total liabilities	**$m**	**250**	**301**	**324**	**324**	**325**
NET ASSETS						
Share capital	$m	218	267	267	267	267
Reserves	$m	7	8	9	9	9
Retained earnings	$m	10	15	26	38	53
SHAREHOLDER EQUITY	**$m**	**235**	**290**	**302**	**315**	**329**
Weighted average shares	m	446	473	521	521	521

FINANCIAL RATIOS

Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e
VALUATION						
EPS (underlying)	c/sh	4.4	6.2	6.5	7.8	9.1
EPS growth	%	64.1%	40.3%	6.1%	19.7%	16.0%
EPSA (underlying)	c/sh	5.0	6.7	7.6	8.7	10.0
EPSA growth	%	50.5%	34.0%	13.0%	14.8%	14.5%
PER	x	19.7x	14.0x	13.2x	11.1x	9.5x
DPS	c/sh	3.0	4.0	4.7	5.6	6.5
Franking	%	100%	100%	100%	100%	100%
Yield	%	3.5%	4.6%	5.4%	6.5%	7.5%
FCF/share	c/sh	6.2	(12.6)	8.8	11.5	11.9
FCF yield	%	7.1%	-14.5%	10.2%	13.3%	13.8%
EV/EBITDA	x	8.1x	5.8x	4.7x	4.2x	3.8x
NTA	$/sh	0.30	0.25	0.26	0.29	0.33
P/NTA	x	2.9x	3.4x	3.3x	2.9x	2.6x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(2)	44	33	12	(5)
Net debt / Equity	%	-0.9%	15.2%	10.9%	3.7%	-1.4%
Net debt / Net debt + Equity	%	-0.9%	13.2%	9.8%	3.6%	-1.4%
Net debt / EBITDA	x	0.0x	0.6x	0.3x	0.1x	0.0x
EBITDA / net interest expense	x	22.3x	18.4x	13.8x	21.5x	35.9x
PROFITABILITY RATIOS						
EBITDA margin	%	8.9%	9.9%	9.2%	9.3%	9.4%
EBIT margin	%	4.7%	5.8%	5.3%	5.5%	5.6%
Return on assets	%	4.3%	5.5%	5.7%	6.6%	7.4%
Return on equity	%	8.6%	11.2%	11.7%	13.4%	14.9%
Return on capital employed	%	11.1%	12.9%	15.2%	17.6%	19.7%
Return on invested capital	%	14.9%	18.9%	19.1%	21.3%	23.9%

SEGMENTS

Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e
Asset Maintenance						
Revenue	$m	215	302	488	547	603
Underlying EBIT	$m	13	21	32	36	41
Underlying EBIT margin	%	6.1%	6.8%	6.5%	6.6%	6.8%
Mining Services						
Revenue	$m	114	140	151	173	191
Underlying EBIT	$m	17	22	25	28	31
Underlying EBIT margin	%	15.0%	15.4%	16.2%	16.0%	16.0%
Engineering & Construction						
Revenue	$m	315	366	420	459	491
Underlying EBIT	$m	17	23	24	26	28
Underlying EBIT margin	%	5.2%	6.4%	5.8%	5.6%	5.7%

HALF YEARLY ASSUMPTIONS

Year ending 30 June	Unit	1H 2022a	1H 2023a	1H 2024a	1H 2025e	1H 2026e
Revenue	**$m**	**297**	**380**	**511**	**576**	**629**
Other income	$m	1	2	2	-	-
Expenses	$m	(270)	(348)	(468)	(524)	(571)
Equity share of accounted investee profits	$m	(0)	(0)	0	-	-
Underlying EBITDA	**$m**	**27**	**34**	**45**	**52**	**58**
Depreciation & amortisation	$m	(11)	(13)	(17)	(19)	(21)
Underlying EBIT	**$m**	**15**	**19**	**24**	**30**	**34**
Net interest expense	$m	(1)	(1)	(4)	(3)	(2)
Underlying profit before tax	**$m**	**13**	**18**	**20**	**27**	**32**
Tax expense	$m	(4)	(6)	(6)	(8)	(10)
Underlying NPAT	**$m**	**9**	**12**	**15**	**19**	**22**
Adjustments (post-tax)	$m	-	-	-	-	-
Reported NPAT	**$m**	**9**	**12**	**15**	**19**	**22**
Customer relationship amort. (post-tax)	$m	(1)	(1)	(3)	(2)	(2)
Underlying NPATA	**$m**	**10**	**13**	**18**	**21**	**24**

VALUATION SUMMARY

12-month valuation		
Valuation method	**Weight (%)**	**Val. ($m)**
DCF	50%	0.63
ROIC	50%	0.66
Blended equity valuation	**100%**	**1.30**
Current share price		0.87
Upside to current share price (%)		50%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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