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BUY

Current Price \$0.90
Valuation \$1.15
TSR 33%

Thursday, 6 June 2024

SRG Global (SRG)

Wins show business breadth

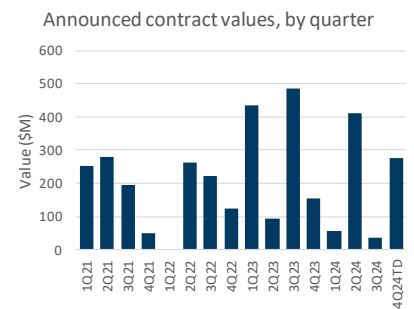
Analyst | Ian Christie

Quick Read

Recent wins take the announced work awarded this financial year to nearly \$800M. Importantly the contract details show the diversity in services offerings and sectors, and that this work is typically being awarded by a blue-chip client base. Asset Care and its complementary service offering looks to be integrating well. BUY maintained.

Key points

Breadth of service offering: Since interims SRG has announced \$310M in new work, taking total announced contract wins this financial year to \$775M. The work has been countrywide across numerous disciplines, and with high quality clients. Work is often an extension of an existing contract, demonstrating performance. Recent updates have noted that the recurring earnings base is approaching SRG's target of 80% of overall earnings.



Solid outlook: At the interims SRG updated FY24 EBITDA guidance to \$95-100M, indicating 19-25% growth on FY23 compared to the prior guidance of ~20% growth. In the latest contract update SRG highlighted its strong growth profile, implying solid earnings growth in FY24 will extend into next financial year. Our unchanged forecast for FY25 assumes EBITDA growth of 6% on the FY24 guidance midpoint. As at December work in hand was \$1.9B and the pipeline was \$6.5B, split 45% Asset Maintenance, 15% Mining Services, and 40% Engineering & Construction. The breadth of services provides confidence in the outlook and importantly means SRG can be selective in the work it takes on.

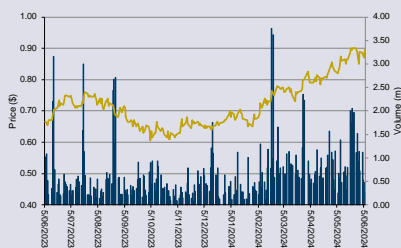
Integration of Asset Care: In February 2023 SRG announced the acquisition of ALS Asset Care, a leading provider of asset integrity and reliability services (including engineering, testing, inspecting, monitoring, and certification). At the time SRG indicated the business was highly complementary in enabling SRG to offer clients an ability to identify risks through inspection and testing as well as carrying out the repair and maintenance services. With typically longer-term contracted revenues ALS boosted the combined recurring earnings profile close to 75%. The latest update specifically notes the progress of the Asset Care business and the cross-selling opportunities, implying the integration is proceeding well.

Valuation & recommendation

Our forecasts are unchanged on prior and our blended valuation lifts marginally to \$1.15 (prior \$1.13). SRG has grown to offer diversified industrials services across multiple sectors and jurisdictions. We maintain our BUY call.

Ticker:	SRG.ASX		
Sector:	Services & Construction		
Shares on Issue (m):	521.3		
Market Cap (\$m):	466.6		
Net Debt / (Cash) (\$m):	-6.4		
Enterprise Value (\$m):	460.2		
52 wk High/Low:	0.90	0.61	
12m Av Daily Vol (m):	0.65		
Key Metrics			
	24F	25F	
EV/EBITDA (x)	4.7	4.5	
EV/EBIT (x)	7.2	6.7	
P/E (x)	10.8	9.7	
Ratios			
	23A	24F	25F
ND / Equity	5.8%	-2.1%	-8.1%
EBIT Mgn	6.2%	6.1%	6.2%
RoA	10.3%	11.5%	12.1%
RoE	12.1%	14.5%	15.4%
Financials*:			
	23A	24F	25F
Revenue (\$m)	811.6	1,044.5	1,107.9
EBITDA (\$m)	80.1	97.6	103.1
EBIT (\$m)	50.0	63.6	68.9
NPAT (\$m)	31.8	43.1	48.1
Rep. EBIT (\$m)	40.0	56.7	62.1
Rep. NPAT (\$m)	22.6	36.2	41.3
<i>*Underlying unless otherwise stated</i>			
NTA (\$m)	120.1	141.1	164.6
Op CF (\$m)	43.1	72.0	66.0
Per Share Data:			
	23A	24F	25F
Norm. EPS (cps)	6.65	8.30	9.26
DPS (cps)	4.00	4.25	4.75
Div Yield	4.5%	4.7%	5.3%
NTAPS (cps)	25.4	27.2	31.7
CFPS (cps)	9.0	13.9	12.7

Share Price Graph



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



SRG Global

Equity Research

Ian Christie

Recommendation	BUY
Current Price (\$)	0.90
Valuation (\$)	1.15
TSR	33%

Sector	Services & Construction
Market Cap (\$m)	466.6
Date	6 June 2024

Trading Metrics	FY22A	FY23A	FY24F	FY25F
EV / EBITDA (x)		5.7	4.7	4.5
EV / EBIT (x)		9.2	7.2	6.7
P/E (x)		13.5	10.8	9.7
Dividend Yield (%)		4.5%	4.7%	5.3%

Per Share Data	FY22A	FY23A	FY24F	FY25F
Reported EPS (cps)	4.5	4.7	7.0	7.9
Adjusted EPS (cps)	5.4	6.6	8.3	9.3
Div. per share (cps)		4.0	4.3	4.8
NTA per share (cps)	29.6	25.4	27.2	31.7
CF per share (cps)	13.5	9.0	13.9	12.7

Profit and Loss (\$m)	FY22A	FY23A	FY24F	FY25F
Revenue	646.4	811.6	1,044.5	1,107.9
EBITDA	57.2	80.1	97.6	103.1
EBITDA Margin	8.9%	9.9%	9.3%	9.3%
Depreciation	(23.1)	(29.5)	(34.0)	(34.2)
EBIT	34.2	50.0	63.6	68.9
PBT	31.6	45.8	58.7	65.8
NPAT	24.5	31.8	43.1	48.1
Adjustments:				
Amortisation	(3.6)	(3.3)	(6.9)	(6.8)
One-Offs	(1.0)	(6.6)	-	-
Reported EBIT	29.5	40.0	56.7	62.1
Reported NPAT	20.1	22.6	36.2	41.3

Cash Flow (\$m)	FY22A	FY23A	FY24F	FY25F
Receipts	705.7	884.1	1,028.5	1,094.4
Payments	(646.0)	(834.1)	(935.6)	(1,007.7)
Other	1.4	(6.8)	(20.9)	(20.8)
Cash from Operations	61.1	43.1	72.0	66.0
Property, Plant & Equip	(18.7)	(30.3)	(26.6)	(21.7)
Payment for Subsidiary	(15.1)	(81.1)	-	-
Other	0.3	8.9	-	-
Cash From Investing	(33.6)	(102.5)	(26.6)	(21.7)
Issue of Shares	-	48.8	-	-
Net Borrowing	(3.4)	16.2	(21.3)	(39.4)
Dividends / Other	(11.1)	(17.1)	(22.1)	(24.7)
Cash From Financing	(14.5)	47.9	(43.4)	(64.0)
Net Cash Flow	13.0	(11.5)	2.0	(19.7)
Ending Cash	59.3	47.7	49.7	29.9

Balance Sheet (\$m)	FY22A	FY23A	FY24F	FY25F
Cash	59.3	47.7	49.7	29.9
Receivables	158.6	198.2	214.2	227.6
Inventory	18.7	21.5	28.5	30.3
Other	5.6	4.4	4.4	4.4
Current Assets	242.3	271.8	296.8	292.3
Property, Plant & Equip	104.3	119.0	124.0	123.7
Intangibles	102.6	170.4	163.5	156.7
Other NC Assets	35.3	29.9	29.9	29.9
Non-Current Assets	242.3	319.3	317.4	310.3
Total Assets	484.6	591.2	614.2	602.6
Payables	155.5	151.0	181.6	192.7
Borrowings	38.8	64.7	43.4	4.0
Provisions	37.2	57.4	57.4	57.4
Other	18.5	27.6	27.2	27.2
Total Liabilities	250.0	300.7	309.6	281.3
Net Assets	234.6	290.5	304.6	321.3
Ordinary Equity	218.1	267.5	267.5	267.5
Reserves	6.9	8.0	8.0	8.0
Retained Earnings	9.5	15.0	29.2	45.8
Total Equity	234.6	290.5	304.6	321.3

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	10.0%		
PV Free Cash Flow (\$m)		660.8	
Less Net Debt / Plus Cash (\$m)		6.4	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		667.1	1.28
Earnings Capitalisation Valuation:			
FY24 EBIT multiple	8.0	515.3	0.99
FY24 NPAT multiple	12.5	539.1	1.03
Blended Valuation (\$/share)			1.15

Profit and Loss (\$m)	1H23A	2H23A	1H24A	2H24F
Revenue	382.1	429.4	512.2	532.3
EBITDA	34.0	46.1	44.7	52.9
EBITDA Margin	8.9%	10.7%	8.7%	9.9%
Depreciation	(13.1)	(16.3)	(16.7)	(17.3)
EBIT	20.8	29.1	28.0	35.6
PBT	19.1	26.7	24.4	34.3
NPAT	13.2	18.5	17.7	25.5
Adjustments:				
Amortisation	(1.2)	(2.1)	(3.4)	(3.4)
One-Offs	-	(6.6)	-	-
Reported EBIT	19.7	20.4	24.5	32.2
Reported NPAT	12.4	10.1	15.3	21.0

Cash Flow (\$m)	1H23A	2H23A	1H24A	2H24F
Receipts	448.1	436.0	572.7	455.8
Payments	(400.9)	(433.2)	(512.8)	(422.7)
Other	(2.6)	(4.2)	(10.1)	(10.9)
Cash from Operations	44.5	(1.4)	49.8	22.2
Property, Plant & Equip	(15.9)	(14.4)	(9.4)	(17.2)
Payment for Subsidiary	(1.9)	(79.2)	-	-
Other	1.6	7.3	0.0	(0.0)
Cash From Investing	(16.2)	(86.2)	(9.4)	(17.3)
Issue of Shares	-	48.8	-	-
Net Borrowing	(5.3)	21.5	(9.2)	(12.1)
Dividends / Other	(6.7)	(10.4)	(10.5)	(11.6)
Cash From Financing	(12.0)	59.9	(19.7)	(23.7)
Net Cash Flow	16.3	(27.8)	20.7	(18.7)
Ending Cash	75.8	47.7	68.2	49.7

Financial Ratios	FY22A	FY23A	FY24F	FY25F
Growth				
Revenue growth (%)	13.1%	25.6%	28.9%	6.3%
NPAT growth (%)	52.2%	29.9%	35.8%	11.6%
Norm. EPS growth (%)	51.8%	22.7%	24.9%	11.6%
Profitability Ratios				
EBITDA Margin (%)	8.9%	9.9%	9.3%	9.3%
EBIT Margin (%)	5.3%	6.2%	6.1%	6.2%
PBT Margin (%)	4.9%	5.6%	5.6%	5.9%
NPAT Margin (%)	3.8%	3.9%	4.1%	4.3%
Return on Assets (%)	8.3%	10.3%	11.5%	12.1%
Return on Equity (%)	10.6%	12.1%	14.5%	15.4%
ROIC (%)	8.9%	10.7%	11.5%	12.6%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	-8.8%	5.8%	-2.1%	-8.1%
ND / ND + Equity (%)	-9.6%	5.5%	-2.1%	-8.8%
Current Ratio (x)	1.2	1.2	1.2	1.1
Net Interest Cover (x)	11.6	9.6	11.5	20.2
Cash Flow Ratios				
Free Cash Flow Yield (%)	6.7%	-16.0%	9.8%	9.5%
Cash Conversion (x)	1.3	0.6	0.8	0.7

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