

# SRG Global Limited

## Strength in Diversity

SRG Global ('SRG') announced today it has secured >\$500m of major contracts in 4QFY24 alone, across a wide range of sectors. Whilst several other competitors have recently cited delays in the award of projects, we believe SRG continues to benefit from its diverse end-market exposure. In our view, this is reflective of its strong momentum throughout FY24, which we expect will carry over into FY25. In this context, we believe it is well-placed to deliver ~10% EBITDA growth in FY25, which would represent upside vs consensus estimates. We have lifted our PT to \$1.06 (from \$0.96), reflecting a combination of EBITDA upgrades and a reduction in the discount applied to our SOTP valuation. We believe recent share price weakness is largely attributable to the closure of a major shareholder's fund, rather than fundamental reasons. Thus, we reiterate our BUY rating and SRG's position in the OML Analyst Conviction List.

### Expecting strong FY24 result, with momentum into FY25

- Similar to its 1H24 result, we expect SRG's Asset Maintenance division to be the key driver of its upcoming FY24 result, supported by cross-selling and geographic expansion opportunities stemming from its ALS Asset Care acquisition. In addition, we expect a stronger second half for both the Engineering & Construction ('E&C') and Mining Services ('MS') divisions.
- SRG has secured >\$500m of new contracts in 4QFY24 alone, across a wide range of sectors. Whilst several other competitors have recently cited delays in the award of projects, we believe SRG continues to benefit from its diverse end-market exposure. In that context, we expect its Order Book to remain steady at ~\$2bn at the FY24.

### Earnings and Valuation Impact

- We have increased our FY24e-26e EBITDA estimates by an average of 0.8%, however our PT rises ~10% to \$1.06, as we rolled forward our valuation methods and reduced the discount applied within our SOTP valuation due to increased revenue visibility (to -10% from -20%).

### Investment View

- In our view, SRG has achieved an underappreciated turnaround. It currently trades at 4.3x FY25e EV/EBITDA, representing a ~34% discount to peers, supported a ~5% FF div yield. We believe our forecasted improved profitability, cash generation and return metrics may justify a narrowing in SRG's valuation gap vs peers over time.

Year-end June (\$)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (\$m)	644.2	809.0	1,050.7	1,136.0	1,215.7
EBITDA (\$m)	57.2	80.1	98.3	107.9	115.7
EBIT (\$m)	29.6	40.2	56.1	61.6	67.2
Reported NPAT (\$m)	20.1	22.6	35.0	39.2	43.5
Reported EPS (c)	4.0	4.8	6.7	7.4	8.3
Normalised NPAT (\$m)	19.8	29.5	35.0	39.2	43.5
Normalised EPS (c)	4.5	4.7	6.7	7.4	8.3
EPS Growth (%)	66.6	5.8	40.9	11.9	10.9
Dividend (c)	3.0	4.0	4.5	4.9	5.4
Net Yield (%)	3.5	4.6	5.2	5.7	6.2
Franking (%)	100	100	100	100	100
EV/EBITDA (X)	6.4	5.3	4.7	4.3	4.1
Normalised P/E (x)	19.4	18.3	13.0	11.6	10.5
Normalised ROE (%)	8.6	11.2	11.8	12.5	13.2

Source: OML, Iress, SRG Global Limited

### Last Price

**A\$0.87**

### Target Price

**A\$1.06** (Previously A\$0.96)

### Recommendation

**Buy**

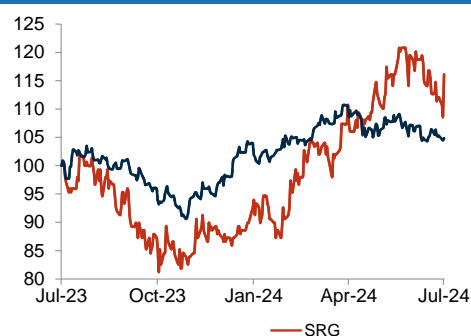
**Risk**

**Higher**

### Construction and Engineering

ASX Code	SRG
52 Week Range (\$)	0.61 - 0.90
Market Cap (\$m)	451.0
Shares Outstanding (m)	521.3
Av Daily Turnover (\$m)	0.0
3 Month Total Return (%)	8.1
12 Month Total Return (%)	16.1
Benchmark 12 Month Return (%)	4.9
NTA FY24E (¢ per share)	34.7
Net Debt FY24E (\$m)	7.5

### Relative Price Performance



Source: FactSet

### Consensus Earnings

	FY24E	FY25E
NPAT (C) (\$m)	35.2	40.1
NPAT (OM) (\$m)	35.0	39.2
EPS (C) (c)	6.8	7.6
EPS (OM) (c)	6.7	7.4

Source: OML, Iress, SRG Global Limited

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## Earnings and Valuation Changes

We have increased both our Revenue and EBITDA estimates, driven by continued strength in SRG’s pipeline, accompanied by incremental fixed cost leverage. We have also altered the discount applied in our SOTP valuation, as detailed below:

- **Revenue:** We have raised our FY24e-26e Revenue estimates by an average of +2.7%. This has been driven primarily by sustained order book momentum in both the Asset Maintenance and E&C divisions.
- **Earnings:** We increase our FY24e-26e EBITDA by an average of +0.9%. This is primarily driven by incremental fixed cost leverage, particularly within the Group’s E&C division. We note that our FY24e-26e Underlying NPAT(A) declines by an average of -0.6%, after incorporating higher D&A and net interest assumptions.
- **Valuation:** Despite relatively modest changes to our revenue and earnings, we have increased our PT by ~10%. The greater proportional increase in both valuation methods are driven by the following:
  - **DCF:** Marginally higher long-term EBITDA margins and rolling forward our valuation.
  - **SOTP:** We have reduced the discount applied to SRG’s key operating segments to -10% (from -20%). In our view, SRG has continued to display consistent growth, with our forecasts assuming it surpasses \$1bn in revenue in FY24. In addition, we reiterate our view that it is well-placed to deliver more consistent profitability and cash generation, which we believe further justifies a reduction in its valuation discount.

Taking these factors into account, we increase our PT to \$1.06 (from \$0.96) and maintain our Buy Rating.

**Figure 1: Key Earnings and Valuation Changes Summary**

	Group Revenue			Group Underlying EBITDA			Underlying NPAT(A)			DPS		
	New	Old	Chg	New	Old	Chg	New	Old	Chg	New	Old	Chg
<b>FY24e</b>	<b>1,050.7</b>	1,029.6	2.1%	<b>98.3</b>	97.6	0.8%	<b>39.3</b>	39.1	0.5%	<b>4.5</b>	4.5	0.0%
<b>FY25e</b>	<b>1,136.0</b>	1,108.6	2.5%	<b>107.9</b>	107.4	0.5%	<b>42.8</b>	43.6	-1.8%	<b>4.9</b>	5.1	-3.9%
<b>FY26e</b>	<b>1,215.7</b>	1,175.4	3.4%	<b>115.7</b>	114.6	1.0%	<b>47.0</b>	47.2	-0.5%	<b>5.4</b>	5.5	-1.8%

Valuation	DCF	Multiples	Blended
<b>New</b>	<b>1.02</b>	<b>1.10</b>	<b>1.06</b>
<b>Old</b>	0.97	0.96	0.96
<b>Chg.</b>	5.7%	14.8%	10.3%

Source: Ord Minnett Limited estimates

## Recent contract wins highlight more than just momentum

As noted earlier, SRG has announced it has won >\$500m worth of new contracts in 4QFY24, across a wide range of sectors with blue-chip clients (e.g. BHP, RIO, Origin Energy & Snowy Hydro). **Interestingly, SRG has been successful in winning some these contracts from Tier 1 contractors** (e.g. Monadelphous, Downer EDI), **which in our view highlights both SRG’s strong reputation for technical expertise, as well as its ability to compete against the largest contractors in the country.** Some of the recent contracts announced by SRG include:

- **Rio Tinto (Asset Maintenance):** 6-year contract for asset integrity and rope access services. We note that SRG displaced Monadelphous in winning this contract.
- **Origin Energy (Asset Maintenance):** Contract extension encompassing Asset Integrity services across Origin Energy’s QLD-based upstream infrastructure.
- **BHP Iron Ore (Engineering & Construction):** Contract for the design and construction of concrete tanks.

Figure 2: SRG FY24 Result Preview

		FY22A	FY23A	OML FY24e	Cons FY24e	OMLe vs Cons
<b>External Sales</b>						
Asset Maintenance	\$Am	214.8	302.3	476.7		
Change (yoy)	%	14.9%	40.7%	57.7%		
Mining Services	\$Am	114.0	140.4	148.9		
Change (yoy)	%	25.5%	23.1%	6.1%		
Engineering & Construction	\$Am	315.4	366.4	425.1		
Change (yoy)	%	8.1%	16.2%	16.0%		
Corporate/Other	\$Am	0.0	0.0	0.0		
<b>Total External Revenue</b>	<b>\$Am</b>	<b>644.2</b>	<b>809.0</b>	<b>1,050.7</b>	<b>1,064.8</b>	<b>-1.3%</b>
Change (yoy)	%	13.1%	25.6%	29.9%	31.6%	
<b>Total EBITDA</b>						
Asset Maintenance	\$Am	25.2	35.8	54.0		
...margin	%	11.7%	11.9%	11.3%		
Mining Services	\$Am	23.9	29.5	31.9		
...margin	%	21.0%	21.0%	21.4%		
Engineering & Construction	\$Am	22.8	31.8	34.7		
...margin	%	7.2%	8.7%	8.2%		
Corporate/Other	\$Am	(14.7)	(17.0)	(22.3)		
...as a % of Rev	%	2.3%	2.1%	2.1%		
<b>Total Underlying EBITDA</b>	<b>A\$m</b>	<b>57.2</b>	<b>80.1</b>	<b>98.3</b>	<b>97.7</b>	<b>0.6%</b>
Margin	%	8.9%	9.9%	9.4%	9.2%	0.2ppt
...change (YoY)	%	21.6%	40.0%	22.7%	22.0%	
One-off Costs		(1.0)	(6.5)	0.0		
<b>Total EBITDA (Stat)</b>	<b>A\$m</b>	<b>56.2</b>	<b>73.6</b>	<b>98.3</b>		
Margin	%	8.7%	9.1%	9.4%		
...change (YoY)	%	19.5%	31.0%	33.5%		
<b>Total D&amp;A</b>	<b>\$Am</b>	<b>(26.7)</b>	<b>(33.4)</b>	<b>(42.2)</b>	<b>(39.0)</b>	<b>8.3%</b>
D&A as a % of Rev.	%	4.1%	4.1%	4.0%	3.7%	
<b>Total EBIT</b>	<b>\$Am</b>	<b>29.6</b>	<b>40.2</b>	<b>56.1</b>	<b>58.8</b>	<b>-4.5%</b>
Margin	%	4.6%	5.0%	5.3%	5.5%	-0.2ppt
Change (yoy)	%	39.9%	36.1%	39.6%	46.1%	
<b>EBIT(A)</b>	<b>\$Am</b>	<b>34.1</b>	<b>50.0</b>	<b>61.6</b>		
Margin	%	5.3%	6.2%	5.9%		
Change (yoy)	%	35.9%	46.5%	23.1%		
<b>Net Financial Result</b>	<b>\$Am</b>	<b>(2.6)</b>	<b>(4.3)</b>	<b>(7.0)</b>		
Equity-Accounted Results	\$Am	(0.0)	(0.0)	0.0		
<b>Profit Before Tax</b>	<b>\$Am</b>	<b>27.0</b>	<b>35.9</b>	<b>49.2</b>	<b>52.2</b>	<b>-5.7%</b>
Margin	%	4.2%	4.4%	4.7%	4.9%	-0.2ppt
Change (yoy)	%	45.0%	32.9%	37.1%	45.3%	
Corporate Income Tax	\$Am	(6.9)	(13.3)	(14.2)		
Effective Operational Tax Rate	%	25.4%	37.1%	28.8%		
<b>Net Profit After Tax (Reported)</b>	<b>\$Am</b>	<b>20.1</b>	<b>22.6</b>	<b>35.0</b>	<b>35.2</b>	<b>-0.6%</b>
Margin	%	3.1%	2.8%	3.3%	3.3%	0.0ppt
Change (yoy)	%	67.0%	12.1%	55.2%	56.1%	
Amortisation of acquired intangibles	\$Am	2.5	2.3	4.3		
One-off costs	\$Am	0.0	1.4	0.0		
Acquisition, integration & restructuring costs	\$Am	0.7	4.5	0.0		
Tax impact from prior year	\$Am	(1.0)	1.0	0.0		
<b>Underlying NPAT (A)</b>	<b>\$Am</b>	<b>22.4</b>	<b>31.8</b>	<b>39.3</b>		

Source: Company Data, Ord Minnett Limited estimates

**SRG Global Limited**

<b>PROFIT &amp; LOSS (A\$m)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Revenue	644.2	809.0	1,050.7	1,136.0	1,215.7
Operating costs	(587.0)	(728.8)	(952.4)	(1,028.1)	(1,099.9)
<b>Operating EBITDA</b>	<b>57.2</b>	<b>80.1</b>	<b>98.3</b>	<b>107.9</b>	<b>115.7</b>
D&A	(26.7)	(33.4)	(42.2)	(46.2)	(48.5)
Non-operating items	(1.0)	(6.5)	-	-	-
<b>EBIT</b>	<b>29.6</b>	<b>40.2</b>	<b>56.1</b>	<b>61.6</b>	<b>67.2</b>
Net interest	(2.6)	(4.3)	(7.0)	(5.6)	(5.1)
<b>Pre-tax profit</b>	<b>27.0</b>	<b>35.9</b>	<b>49.2</b>	<b>56.0</b>	<b>62.1</b>
Net tax (expense) / benefit	(6.9)	(13.3)	(14.2)	(16.8)	(18.6)
Significant items/Adj.	(0.3)	6.9	-	-	-
Associate NPAT	-	-	-	-	-
<b>Normalised NPAT</b>	<b>19.8</b>	<b>29.5</b>	<b>35.0</b>	<b>39.2</b>	<b>43.5</b>
<b>Reported NPAT</b>	<b>20.1</b>	<b>22.6</b>	<b>35.0</b>	<b>39.2</b>	<b>43.5</b>
Normalised dil. EPS (cps)	4.5	4.7	6.7	7.4	8.3
Reported EPS (cps)	4.0	4.8	6.7	7.4	8.3
Effective tax rate (%)	25.4	37.1	28.8	30.0	30.0
DPS (cps)	3.0	4.0	4.5	4.9	5.4
DPS (cps)	-	-	-	-	-
Dividend yield (%)	3.5	4.6	5.2	5.7	6.2
Payout ratio (%)	67.2	84.7	67.6	65.8	65.4
Franking (%)	100.0	100.0	100.0	100.0	100.0
Diluted # of shares (m)	451.2	477.7	526.2	526.5	526.5

<b>CASH FLOW (A\$m)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
EBITDA incl. adjustments	57.2	80.1	98.3	107.9	115.7
Change in working capital	2.5	(30.2)	(8.6)	(24.1)	(25.0)
Net Interest (paid)/received	(2.6)	(4.3)	(7.0)	(5.6)	(5.1)
Income tax paid	4.0	(2.5)	(14.1)	(16.8)	(18.6)
Other operating items	-	-	-	-	-
<b>Operating Cash Flow</b>	<b>61.1</b>	<b>43.1</b>	<b>68.6</b>	<b>61.4</b>	<b>67.0</b>
Capex	(18.7)	(30.3)	(25.4)	(27.7)	(31.5)
Acquisitions	(17.3)	(76.6)	(1.2)	-	-
Other investing items	-	-	-	-	-
<b>Investing Cash Flow</b>	<b>(33.6)</b>	<b>(102.5)</b>	<b>(25.4)</b>	<b>(27.7)</b>	<b>(31.5)</b>
Inc/(Dec) in equity	-	48.8	-	-	-
Inc/(Dec) in borrowings	4.8	25.9	(2.8)	(6.0)	(6.0)
Dividends paid	(11.1)	(17.1)	(20.9)	(24.5)	(26.6)
Other financing items	(8.2)	(9.7)	(12.8)	(14.1)	(14.8)
<b>Financing Cash Flow</b>	<b>(14.5)</b>	<b>47.9</b>	<b>(36.6)</b>	<b>(44.6)</b>	<b>(47.4)</b>
FX adjustment	-	(0.1)	-	-	-
Net Inc/(Dec) in Cash	13.0	(11.6)	6.7	(11.0)	(11.9)

<b>BALANCE SHEET (A\$m)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Cash	59.3	47.7	54.4	43.4	31.4
Receivables	97.9	110.3	129.2	142.0	155.0
Inventory	60.8	88.0	113.5	125.0	136.8
Other current assets	24.3	25.9	40.8	54.3	60.1
PP & E	104.3	119.0	108.0	103.6	101.4
Investments	-	-	-	-	-
Financial Assets	-	-	-	-	-
Intangibles	102.6	170.4	172.4	171.8	171.8
Other non-current assets	35.3	29.9	35.4	37.0	40.3
<b>Total Assets</b>	<b>484.6</b>	<b>591.2</b>	<b>653.7</b>	<b>677.0</b>	<b>696.9</b>
Short term debt	14.0	20.3	18.1	12.1	9.1
Payables	122.4	116.1	149.2	159.0	170.2
Other current liabilities	40.8	46.2	58.5	61.7	56.2
Long term debt	24.8	44.4	43.7	43.7	40.7
Other non-current liabilities	10.9	15.7	17.6	19.2	22.5
<b>Total Liabilities</b>	<b>250.0</b>	<b>300.7</b>	<b>348.1</b>	<b>356.8</b>	<b>359.7</b>
<b>Total Equity</b>	<b>234.6</b>	<b>290.5</b>	<b>305.6</b>	<b>320.3</b>	<b>337.2</b>
Net debt (cash)	(20.5)	17.0	7.5	12.5	18.4

**Buy**

<b>DIVISIONS</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>Revenue (A\$m)</b>					
Asset Maintenance	214.8	302.3	476.7	517.4	550.6
Mining Services	114.0	140.4	148.9	157.8	166.5
E&C	315.4	366.4	425.1	460.7	498.6
<b>EBITDA (A\$m)</b>					
Asset Maintenance	25.2	35.8	54.0	59.4	63.6
Mining Services	23.9	29.5	31.9	33.7	35.4
E&C	22.8	31.8	34.7	39.2	42.8

<b>KEY METRICS (%)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Revenue growth	13.1	25.6	29.9	8.1	7.0
EBITDA growth	21.6	40.0	22.7	9.7	7.3
EBIT growth	39.9	36.1	39.6	9.8	9.1
Normalised EPS growth	66.6	5.8	40.9	11.9	10.9
EBITDA margin	8.9	9.9	9.4	9.5	9.5
OCF / EBITDA	104.3	62.3	91.3	77.7	78.4
EBIT margin	4.6	5.0	5.3	5.4	5.5
Return on assets	4.8	4.7	6.4	6.5	6.9
Return on equity	8.6	11.2	11.8	12.5	13.2

<b>VALUATION RATIOS (x)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Reported P/E	21.5	18.1	13.0	11.6	10.5
Normalised P/E	19.4	18.3	13.0	11.6	10.5
Price To Free Cash Flow	9.1	31.8	10.4	13.4	12.7
Price To NTA	2.7	2.5	2.5	2.3	2.1
EV / EBITDA	6.4	5.3	4.7	4.3	4.1
EV / EBIT	12.4	10.6	8.2	7.5	7.0

<b>LEVERAGE</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
ND / (ND + Equity) (%)	(9.6)	5.5	2.4	3.7	5.2
Net Debt / EBITDA (%)	(35.9)	21.2	7.6	11.6	15.9
EBIT Interest Cover (x)	11.5	9.3	8.1	10.9	13.2
EBITDA Interest Cover (x)	22.3	18.4	14.1	19.1	22.7

<b>SUBSTANTIAL HOLDERS</b>	<b>m</b>	<b>%</b>
Perennial Value Management Limited	36.4	7.0%
First Sentier Investors (Australia) IM L	30.1	5.8%
Ryder Investment Management Pty Limited	19.7	3.8%

<b>VALUATION</b>	
WACC (%)	11.0

Equity NPV Per Share (\$)	1.02
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Multiples valuation	1.10
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Target Price Method	Blended (DCF/SOTP)
Target Price (\$)	1.06
Valuation disc. / (prem.) to share price (%)	22.8

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Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

<b>SPECULATIVE BUY</b>	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
<b>BUY</b>	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
<b>ACCUMULATE</b>	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
<b>HOLD</b>	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
<b>LIGHTEN</b>	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
<b>SELL</b>	We expect the total return to lose 15% or more.
<b>RISK ASSESSMENT</b>	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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