

SRG, Full year expectations snap shot; \$225m in recent new wins

SRG.ASX | SRG GLOBAL LIMITED | INDUSTRIALS | ENGINEERING & CONSTRUCTION

PRICE
A\$0.86/sh

TARGET PRICE
A\$1.59/sh
(FROM A\$1.50/sh)

RECOMMENDATION
BUY
(UNCHANGED)

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Event

We are providing over the next few weeks a snap shot of our expectations for full year reporting for much of our industrial coverage universe together with our view of 2025 outlook for "flavour" as the full year approaches.

In the case of SRG our view of outlook has been enhanced more recently with circa \$500m of new work announced during 4Q 2024, including \$225m of new wins announced last week.

Impact

- The \$225m in new wins recently announced are across Australia with repeat customers.
- The contracts are across the Health, Building and Resources sectors and include specialist facades contracts and tailings dam facilities works.
- The facades works in particular are encouraging as previous major works in WA begin to complete and this speaks more broadly to demand drivers for SRG services.
- The wins follow \$150m of works won in April of a more recurring nature around asset integrity testing and drill and blast mandates.
- Our view is the quality of overall earnings continues to improve with recurring works tracking steadily to 80% of total revenues at the same time as demand for services such as facades is demonstrably solid.
- Overall, while we are comfortable with our forecasts as previously published for the time being, we are increasingly optimistic in delivery of medium and longer term growth ambitions.

Action

Our PT increases to \$1.59/sh as we roll forward into our 2025 growth ambitions.

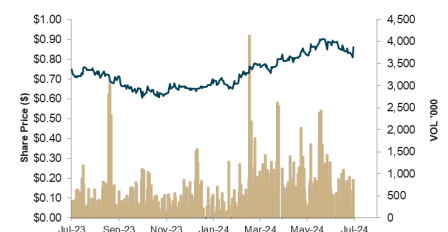
Catalysts

- Hit guided 2024 numbers
- We look for a solid outlook statement and earnings guidance for 2025 consistent with the idea the valuation gap we have identified in previous research continues to tighten.**
- We remind investors of the strong organic growth that has been exhibited by SRG in the Asset Maintenance part of the business; these are often higher quality longer dated earnings that we think deserve to attract higher trading metrics.

Share Price	0.86	A\$/sh	
Price Target	1.59	A\$/sh	
Valuation (DCF)	1.80	A\$/sh	
WACC	9%		
Terminal Growth	3%		
Shares on issue	521.3	m, dil	
Market Capitalisation	448.3	A\$m	
Enterprise Value	469.6	A\$m	
Net cash (Inc leases)*	(21.3)	A\$m	
Net cash (Excl. leas...	6.4	A\$m	
Key Financial Metr...	23A	24F	25F
Revenue (A\$m)	809.0	1077.0	1160.0
EBITDA underlying ...	80.1	97.5	107.5
EBIT (A\$m)	40.2	56.5	63.7
Reported NPAT (A\$m)	22.5	35.8	40.9
Normalised NPAT (...)	31.8	40.0	45.1
Gross Cashflow (A\$...	59.9	67.1	74.9
Capex (A\$m)	-31.6	-25.0	-20.0
Op. Free Cashflow ...	1.8	39.1	52.8
Revenue Growth (%)	26%	33%	8%
EBITDA Growth (%)	29%	32%	10%
Norm. NPAT Growt...	36%	26%	13%
Normalised EPS (Ac)	6.9	7.4	8.3
Norm. EPS growth (...)	31%	7%	13%
PER (x)	12.5	11.7	10.4
EV:EBITDA (x)	6.4	4.8	4.4
EV:EBITA adj (x)	10.6	7.5	6.7
DPS (Ac)	4.0	4.0	4.0
Dividend Yield (%)	4.7%	4.7%	4.7%
Net cash (debt) (A\$...	-44.2	-23.3	8.5

**inc leases

Performance



Source: IRESS

Figure 1: Asset Maintenance Growth

	1H 2023	2H 2023	FY 2023	1H 2024A	2H 2024F	FY 2024F
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Asset Services	14.3	16.6	30.8	18.1	20.8	38.9
Asset care	0.0	5.0	5.0	8.0	8.0	16.0
	14.3	21.6	35.8	26.1	28.8	54.9
Organic growth pcp				27%	25%	26%

Source: EH

Income Statement	23A	24F	25F	PERFORMANCE RATIOS	23A	24F	25F
Sales	809.0	1077.0	1160.0	Growth & Margins			
Other	0.0	0.0	0.0	Revenue Growth	26%	33%	8%
Revenue	809.0	1077.0	1160.0	EBITDA Growth	29%	32%	10%
Operating costs	-713.8	-958.0	-1031.0	EBIT Growth	32%	40%	13%
Overhead	-21.5	-21.5	-21.5	Normalized Net Profit Growth	36%	26%	13%
EBITDA	73.6	97.5	107.5	EBITDA margin	9.1%	9.1%	9.3%
Depreciation	-29.5	-35.0	-37.7	EBIT margin	5%	5%	5%
Amortisation	-4.0	-6.0	-6.0	Normalized net profit margin	3.9%	3.7%	3.9%
EBIT	40.2	56.5	63.7	Effective tax rate	37%	30%	30%
Net Interest income/(expense)	-4.3	-5.4	-5.4	Liquidity			
Other income/(expense)	0.0	0.0	0.0	Capex/depreciation (x)	95%	61%	46%
EBT	35.9	51.1	58.4	Current ratio (x)	1.2	1.2	1.3
Tax expense	-13.3	-15.3	-17.5	Quick ratio (x)	1.2	1.2	1.3
Reported Earnings	22.5	35.8	40.9	Receivable days	89	89	89
Normalized Net Profit	31.8	40.0	45.1	Inventory days	11	11	11
				Payable days	101	101	101
Cash flow	23A	24F	25F	Risk Measures			
Pretax profit	35.9	51.1	58.4	Dividend Cover (x)	1.3	2.0	2.0
+ Depreciation & Amort	33.4	41.0	43.7	Payout ratio (%)	0.8	0.5	0.5
- Lease Expense	-9.7	-9.7	-9.7	Net interest cover (x)	9.3	10.5	11.9
+/- Non Cash	2.8	0.0	0.0	Net debt/equity (%)	15%	8%	-3%
- Profit on sale of non-current a...	0.0	0.0	0.0	Returns			
- Tax Paid	-2.5	-15.3	-17.5	ROIC	8%	11%	11%
Gross Cashflow	59.9	67.1	74.9	ROA	5%	6%	6%
- Capital Expenditure	-31.6	-25.0	-20.0	ROE	11%	13%	14%
- Change in Working Capital	-26.5	-2.9	-2.1	SHARE DATA/VALUATION	23A	24F	25F
Operating Free Cashflow	1.8	39.1	52.8	Share Data			
- Dividends Paid	-17.1	-18.2	-20.9	Issued shares (m)	519.5	521.3	521.3
- Acquisitions	-75.3	0.0	0.0	Weighted ave shares (m)	462.0	521.3	521.3
+ Proceeds from sale of property	4.4	0.0	0.0	Fully diluted shares (m)	462.0	542.8	542.8
- Investments	0.0	0.0	0.0	Basic EPS (A\$)	4.9	6.9	7.8
+ Equity issued	48.8	0.0	0.0	YoY change (%)	8%	-41%	14%
+ Vendor Finance	0.0	0.0	0.0	Fully diluted EPS (A\$)	4.9	6.6	7.5
+/- Other	-0.1	0.0	0.0	YoY change (%)	8%	-35%	14%
Net Cashflow	-37.5	20.9	31.9	Fully diluted normalised EPS (A\$)	6.9	7.4	8.3
BoP Net Cash / (Debt)	2.0	-44.2	-23.3	YoY change (%)	31%	7%	13%
(+/-) Net Cashflow	-37.5	20.9	31.9	Dividend/share (A\$)	4.0	4.0	4.0
(+/-) AASB16 Adj.	-8.6	-0.1	-0.1	Franking (%)	100%	100%	100%
Net Cash / (Debt) inc leases	-44.2	-23.3	8.5	Gross cashflow/share (A\$)	13.0	12.9	14.4
				NBV/share (A\$)	62.9	59.1	62.9
Balance Sheet	23A	24F	25F	NTA/Share (A\$)	26.0	27.6	32.5
Cash	47.7	68.5	100.3	Valuation			
Receivables	198.2	261.7	281.9	PER (Basic) (x)	17.6	12.5	11.0
Inventory	21.5	28.6	30.8	PER (Fully diluted) (x)	17.6	13.0	11.4
Other	4.4	4.4	4.4	PER (Fully diluted, normalized) ...	12.5	11.7	10.4
Total current assets	271.8	363.3	417.5	P/CFPS (x)	6.6	6.7	6.0
Property, plant and equipment	119.0	118.9	110.9	Price/NBV (x)	1.4	1.5	1.4
Intangibles	170.4	164.4	158.4	Price/NTA (x)	3.3	3.1	2.6
ROUA	25.8	25.8	25.8	Dividend Yield (%)	4.7%	4.7%	4.7%
Deferred tax assets	2.8	2.8	2.8	EV/EBITDA (x)	6.4	4.8	4.4
Other	1.2	1.2	1.2	EV/EBITA (x)	10.6	7.5	6.7
Total non current assets	319.3	313.1	299.2	EV/Revenue (x)	0.6	0.4	0.4
Total assets	591.2	676.4	716.7				
Payables	197.9	265.5	285.8				
Interest bearing liabilities	20.3	20.3	20.3				
Lease Liability	11.4	11.4	11.4				
Current tax liabilities	0.5	0.5	0.5				
Deferred income	0.0	0.0	0.0				
Total current liabilities	230.0	297.7	318.0				
Interest bearing liabilities	44.4	44.4	44.4				
Lease Liability	15.7	15.7	15.7				
Provisions	10.5	10.5	10.5				
Deferred tax	0.0	0.0	0.0				
Total non current liabilities	70.6	70.6	70.6				
Total liabilities	300.7	368.4	388.6				
Net Assets	290.5	308.0	328.1				
Contributed equity	267.5	267.5	267.5				
Reserves	8.0	8.0	8.0				
Retained Earnings	15.0	32.6	52.6				
Total equity	290.5	308.1	328.1				

^Excl. tran. costs & amort

Earnings build up below:

Figure 2: earnings build up

	1H 2023A	2H 2023A	2023A	1H 2024	2h 2024	2024F	2025F
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Revenues							
Construction	186	180	366	204	231	435	450
Asset Services	123	179	302	233	257	490	545
Mining	70	70	140	73	79	152	165
Other		-					
Total revenues	380	429	809	511	566	1,077	1,160
EBITDA							
Construction (Excludes one offs)	13.8	18	31.8	14.8	17.4	32.2	33.3
Mining	14.4	15	29.5	15.3	16.6	31.9	34.7
Asset services	14.3	22	35.8	26.1	28.8	54.9	61.0
Unallocated (corporate Costs)	- 8.3	- 13	- 21.5	- 11.2	- 10.3	- 21.5	- 21.5
Transaction costs		4.5	4.5	-	-	-	-
Group (adjusted) EBITDA	34.1	46.0	80.1	45.1	52.4	97.5	107.5
Margins							
Construction	7.4%	10.0%	8.7%	7.3%	7.5%	7.4%	7.4%
Asset Services	11.6%	12.0%	11.9%	11.2%	11.2%	11.2%	11.2%
Mining	20.4%	21.7%	21.0%	20.9%	21.1%	21.0%	21.0%

Source: EH

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SRG Global Limited (SRG.ASX) | Price A\$0.86 | Target price A\$1.59 | Recommendation Buy;

Price, target price and rating as at 09 July 2024 (not covered)*

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