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BUY

Current Price	\$1.30
Valuation	\$1.43
TSR	14%

Tuesday, 26 November 2024

SRG Global (SRG)

Water contracts flowing

Analyst | Ian Christie

Quick Read

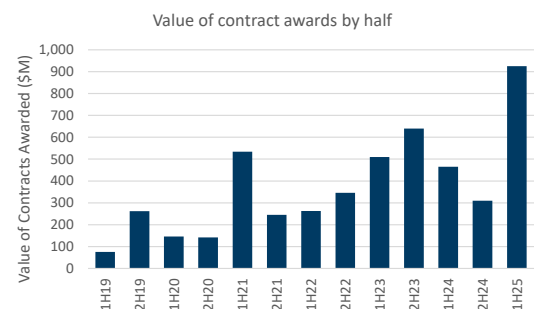
We lift our medium-term forecasts after a broad range of contract awards adds a significant \$700M to the order book. Wins in the water space via newly acquired Diona adds diversity, expanding SRG's exposure to a growing sector, the east coast, and recurring revenue. We maintain our BUY call on a revised valuation of \$1.43 (prior \$1.37).

Key points

Significant contract wins: The \$700M contracts secured across the Water, Transport, Health, Resources and Dairy sectors in Australia and New Zealand in recent months lifts combined wins this half to a record. Awards included:

- SA Water: Pipeline Delivery Services, 4-year contract
- DCCEEW NSW: Water Infrastructure contract, completes July 2026
- Fonterra: Specialist services for dairy operations across 7 sites, 3-year contract
- Dept of Transport & Planning VIC: Various works across 4 bridges, complete mid-2025
- Multiplex: Facilities contract at St John of God Hospital, completes 2025
- South32: Maintenance services for Worsley Alumina SW WA, 5-year contract
- Glencore: Asset integrity services at Murrin Murrin in WA, 5-year contract

A broad base: The awards highlight the broad diversification of the SRG business, with the addition of Diona adding strength in the water and energy transition sectors. Confidence in the outlook comes from the boost to visibility and from 80% of revenue now recurring under longer-term contracts.



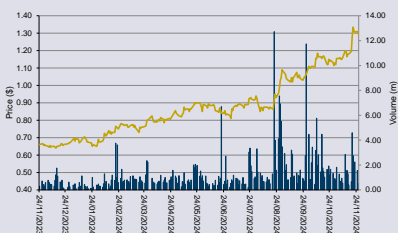
Lift to medium-term forecasts: Our FY25 EBITDA forecast is marginally ahead of guidance, although we see risk to the upside given the extent of recent wins. SRG typically delivers a second half weighting, which we would expect to be more pronounced this financial year given Diona will contribute four months in 1H25 and six months in 2H25. Our FY25 1H:2H EBITDA split is roughly in a 45:55 ratio. Our medium-term forecasts lift on the back of revenue assumptions 2-3% higher than prior. We leave margins unchanged.

Valuation & recommendation

Our valuation increases to \$1.43 (prior \$1.37) due to earnings adjustments impacting both our DCF and valuation multiple calculations. We note we are using FY26 earnings for a multiple valuation to capture a full 12-months from Diona. We believe this acquisition will prove to be an inspired addition to the business. BUY maintained.

Ticker:	SRG.ASX		
Sector:	Services & Construction		
Shares on Issue (m):	603.9		
Market Cap (\$m):	782.1		
Net Debt / (Cash) (\$m):	38.2		
Enterprise Value (\$m):	820.2		
52 wk High/Low:	1.34	0.64	
12m Av Daily Vol (m):	1.24		
Key Metrics		25F	26F
EV/EBITDA (x)		6.5	6.1
EV/EBIT (x)		9.1	8.2
P/E (x)		12.5	11.4
Ratios	24A	25F	26F
ND / Equity	-5.8%	1.3%	-5.4%
EBIT Mgn	6.1%	6.8%	6.9%
RoA	11.8%	14.1%	13.8%
RoE	13.5%	17.5%	17.0%
Financials*:	24A	25F	26F
Revenue (\$m)	1,071.9	1,338.3	1,440.0
EBITDA (\$m)	98.5	125.5	135.0
EBIT (\$m)	65.6	90.5	100.0
NPAT (\$m)	40.3	60.4	67.4
Rep. EBIT (\$m)	56.6	83.3	92.9
Rep. NPAT (\$m)	34.4	53.2	60.3
*Underlying unless otherwise stated			
NTA (\$m)	137.2	120.5	152.2
Op CF (\$m)	93.8	81.6	84.9
Per Share Data:	24A	25F	26F
Norm. EPS (cps)	7.64	10.38	11.35
DPS (cps)	4.50	5.50	6.00
Div Yield	3.5%	4.2%	4.6%
NTAPS (cps)	26.3	20.7	25.6
CFPS (cps)	17.8	14.0	14.3

Share Price Graph



Please refer to important disclosures at the end of the report (from page 4)



SRG Global

Equity Research

Ian Christie

Recommendation	BUY
Current Price (\$)	1.30
Valuation (\$)	1.43
TSR	14%

Sector	Services & Construction
Market Cap (\$m)	782.1
Date	26 November 2024

Trading Metrics	FY23A	FY24A	FY25F	FY26F
EV / EBITDA (x)		8.3	6.5	6.1
EV / EBIT (x)		12.5	9.1	8.2
P/E (x)		17.0	12.5	11.4
Dividend Yield (%)		3.5%	4.2%	4.6%

Per Share Data	FY23A	FY24A	FY25F	FY26F
Reported EPS (cps)	4.7	6.5	9.1	10.2
Adjusted EPS (cps)	6.6	7.6	10.4	11.3
Div. per share (cps)		4.5	5.5	6.0
NTA per share (cps)	25.4	26.3	20.7	25.6
CF per share (cps)	9.0	17.8	14.0	14.3

Profit and Loss (\$m)	FY23A	FY24A	FY25F	FY26F
Revenue	811.6	1,071.9	1,338.3	1,440.0
EBITDA	80.1	98.5	125.5	135.0
EBITDA Margin	9.9%	9.2%	9.4%	9.4%
Depreciation	(29.5)	(32.9)	(35.0)	(34.9)
EBIT	50.0	65.6	90.5	100.0
EBIT margin	6.2%	6.1%	6.8%	6.9%
PBT	45.8	59.1	83.2	93.2
NPAT	31.8	40.3	60.4	67.4
Adjustments:				
Amortisation	(3.3)	(6.8)	(7.2)	(7.1)
One-Offs	(6.6)	(2.2)	-	-
Reported EBIT	40.0	56.6	83.3	92.9
Reported NPAT	22.6	34.4	53.2	60.3

Cash Flow (\$m)	FY23A	FY24A	FY25F	FY26F
Receipts	884.1	1,166.2	1,294.8	1,420.5
Payments	(834.1)	(1,052.1)	(1,181.9)	(1,302.9)
Other	(6.8)	(20.4)	(31.3)	(32.7)
Cash from Operations	43.1	93.8	81.6	84.9
Property, Plant & Equip	(30.3)	(25.5)	(19.9)	(21.9)
Payment for Subsidiary	(81.1)	-	(111.0)	-
Other	8.9	0.2	-	-
Cash From Investing	(102.5)	(25.3)	(130.9)	(21.9)
Issue of Shares	48.8	-	55.0	-
Net Borrowing	16.2	(22.1)	37.6	(12.9)
Dividends / Other	(17.1)	(20.9)	(28.7)	(35.6)
Cash From Financing	47.9	(42.9)	63.9	(48.5)
Net Cash Flow	(11.5)	25.6	14.7	14.5
Ending Cash	47.7	73.4	88.1	102.5

Balance Sheet (\$m)	FY23A	FY24A	FY25F	FY26F
Cash	47.7	73.4	88.1	102.5
Receivables	198.2	213.2	256.7	276.2
Inventory	21.5	26.0	33.2	35.8
Other	4.4	5.1	5.1	5.1
Current Assets	271.8	317.6	383.1	419.5
Property, Plant & Equip	119.0	122.8	128.2	128.3
Intangibles	170.4	167.8	264.1	257.0
Other NC Assets	29.9	32.3	32.3	32.3
Non-Current Assets	319.3	322.9	424.7	417.6
Total Assets	591.2	640.5	807.7	837.2
Payables	151.0	181.3	232.6	250.3
Borrowings	64.7	55.5	93.1	80.2
Provisions	57.4	64.2	64.2	64.2
Other	27.6	34.4	33.2	33.2
Total Liabilities	300.7	335.4	423.1	427.9
Net Assets	290.5	305.1	384.6	409.2
Ordinary Equity	267.5	267.3	322.3	322.3
Reserves	8.0	9.1	9.1	9.1
Retained Earnings	15.0	28.6	53.1	77.8
Total Equity	290.5	305.1	384.6	409.2

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	10.0%		
PV Free Cash Flow (\$m)		959.0	
Less Net Debt / Plus Cash (\$m)		(38.2)	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		920.8	1.52
Earnings Capitalisation Valuation:			
FY26 EBIT multiple	8.0	762.0	1.26
FY26 NPAT multiple	12.5	842.1	1.39
Blended Valuation (\$/share)			1.43

Profit and Loss (\$m)	1H24A	2H24A	1H25F	2H25F
Revenue	512.2	559.6	603.2	735.2
EBITDA	44.7	53.8	56.3	69.2
EBITDA Margin	8.7%	9.6%	9.3%	9.4%
Depreciation	(16.7)	(16.2)	(17.4)	(17.6)
EBIT	28.0	37.6	38.9	51.6
EBIT margin	5.5%	6.7%	6.4%	7.0%
PBT	24.4	34.8	35.3	47.9
NPAT	17.7	22.6	22.2	38.2
Adjustments:				
Amortisation	(3.4)	(3.4)	(3.6)	(3.6)
One-Offs	-	(2.2)	-	-
Reported EBIT	24.5	32.0	35.3	48.0
Reported NPAT	15.3	19.2	22.2	31.0

Cash Flow (\$m)	1H24A	2H24A	1H25F	2H25F
Receipts	572.7	593.5	585.0	709.8
Payments	(512.8)	(539.3)	(531.0)	(650.9)
Other	(10.1)	(10.3)	(15.7)	(15.6)
Cash from Operations	49.8	44.0	38.3	43.3
Property, Plant & Equip	(9.4)	(16.1)	(10.0)	(9.9)
Payment for Subsidiary	-	-	(111.0)	-
Other	0.0	0.2	-	-
Cash From Investing	(9.4)	(15.9)	(121.0)	(9.9)
Issue of Shares	-	-	55.0	-
Net Borrowing	(9.2)	(12.8)	43.9	(6.2)
Dividends / Other	(10.5)	(10.4)	(15.0)	(13.7)
Cash From Financing	(19.7)	(23.2)	83.8	(19.9)
Net Cash Flow	20.7	4.9	1.1	13.5
Ending Cash	68.2	73.4	74.5	88.1

Financial Ratios	FY23A	FY24A	FY25F	FY26F
Growth				
Revenue growth (%)	25.6%	32.2%	25.2%	7.6%
NPAT growth (%)	29.9%	26.9%	49.8%	11.6%
Norm. EPS growth (%)	22.7%	14.9%	35.9%	9.3%
Profitability Ratios				
EBITDA Margin (%)	9.9%	9.2%	9.4%	9.4%
EBIT Margin (%)	6.2%	6.1%	6.8%	6.9%
PBT Margin (%)	5.6%	5.5%	6.2%	6.5%
NPAT Margin (%)	3.9%	3.8%	4.5%	4.7%
Return on Assets (%)	10.3%	11.8%	14.1%	13.8%
Return on Equity (%)	12.1%	13.5%	17.5%	17.0%
ROIC (%)	10.7%	11.8%	14.5%	14.4%
Balance Sheet Ratios				
Net Debt (ND) / (Net Cash) (\$m)	17.0	(17.8)	5.1	(22.3)
Net Debt (ND) / EBITDA	0.2	(0.2)	0.0	(0.2)
ND / ND + Equity (%)	5.5%	-6.2%	1.3%	-5.8%
Net Interest Cover (x)	9.6	8.7	11.4	13.6
Cash Flow Ratios				
Free Cash Flow Yield (%)	-11.0%	10.0%	-6.5%	8.2%
Cash Conversion (x)				

Adjustments to forecasts

Figure 1: Adjustments to forecasts

Underlying (pre one-offs and amortisation)	FY22	FY23	FY24	FY25F			FY26F		
	Actual	Actual	Actual	Old	New	Change	Old	New	Change
Revenue (\$m)	644.2	809.0	1,069.3	1,329.2	1,338.3	1%	1,412.0	1,440.0	2%
EBITDA (\$m)	57.2	80.1	98.5	125.1	125.5	0%	133.1	135.0	1%
EBITDA margin	8.9%	9.9%	9.2%	9.4%	9.4%		9.4%	9.4%	
Depreciation (\$m)	-23.1	-30.1	-32.9	-35.0	-35.0	0%	-34.9	-34.9	0%
EBIT (\$m)	34.2	50.0	65.6	90.1	90.5	0%	98.2	100.0	2%
EBIT margin	5.3%	6.2%	6.1%	6.8%	6.8%		7.0%	6.9%	
Net Interest (\$m)	-2.5	-4.2	-6.5	-7.3	-7.3	0%	-6.8	-6.8	0%
PBT (\$m)	31.6	45.8	59.1	82.8	83.2	0%	91.3	93.2	2%
NPAT (\$m)	24.5	31.8	40.3	60.1	60.4	0%	66.1	67.4	2%
EPS (cps)	5.4	6.6	7.6	10.3	10.4	0%	11.1	11.3	2%

Source: Argonaut Research November 2024

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