

# SRG, Updating Forecasts, Reporting 2024 and Diona

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

PRICE	TARGET PRICE	RECOMMENDATION
A\$1.01/sh	A\$1.59/sh	BUY
	(UNCHANGED)	(UNCHANGED)



## Event

- We are updating numbers after pushing through the Diona acquisition and associated equity raise.
- We will issue far more detailed research in the short term on the specific drivers and aspects of Diona in relation to an acquisition that has by now been well digested by the market and was clearly well received.
- Our summary view; it's a good fit and after many years of trading at a valuation gap we couldn't really understand the acquisition would seem to have tightened this up somewhat - the stock still trades however, at a good discount to our previous, and unchanged 12 month PT of \$1.59.

## Impact

- We have amended our numbers as follows:

Figure 1: old v new

	2025	
	Old** (\$m)	New (\$m)
Revenue	1,160.0	1,360.0
EBITDA	107.5	125.2
EBITA	63.7	89.8
NPATA	40.0	55.3
EPS @	8.3	9.1
Accretion		10%
Market capitalisation	448.0	610.0
EV (inc leases)*	469.3	703.0
EV (exc leases)	441.6	647.5
PE	11.2	11.0
EV/EBITDA	4.4	5.6
EV/EBITA	6.9	7.2

\* proforma net debt calculated at \$125m EBITDA at .3x per presentation

\*\* metrics per research 9 July at \$0.86 - price before acquisition

Source: EH

- SRG has seen a modest re-rate on the back of the acquisition however continues to represent good value in our minds given steady growth profile and the quality of the earnings available.
  - The short summary is \$125m EBITDA guided (10 months Diona), \$3b work in hand and \$8.5b pipeline in the context of 80% of earnings of an annuity/recurring nature. These are investment ticks.
  - Add to this resources and infrastructure services themes where business drivers are big ticket ideas such a Defence, Electricity, Aging Resources and Government Infrastructure, or, in the case of Diona, Water.

## Action

Our PT is unchanged at \$1.59 (see below), however our confidence in the re-rate ahead is increased. Primary catalyst now is execution.

## Analyst

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Share Price	1.01	A\$/sh	
Price Target	1.59	A\$/sh	
Valuation (DCF)	1.97	A\$/sh	
WACC	9%		
Terminal Growth	3%		
Shares on issue	603.9	m, dil	
Market Capitalisation	610.0	A\$m	
Enterprise Value	624.3	A\$m	
Net cash (Inc leases)*	(14.3)	A\$m	
<b>Key Financial Metr...</b>	<b>24A</b>	<b>25F</b>	
Revenue (A\$m)	1069.3	1360.0	1496.0
EBITDA underlying ...	97.0	125.2	139.4
EBIT (A\$m)	57.3	81.8	93.1
Reported NPAT (A\$m)	34.4	49.7	55.4
Normalised NPAT (...)	40.3	55.3	61.0
Gross Cashflow (A\$...)	63.9	80.1	88.8
Capex (A\$m)	-27.5	-25.0	-25.0
Op. Free Cashflow ...	54.0	33.3	47.6
Revenue Growth (%)	32%	27%	10%
EBITDA Growth (%)	32%	29%	11%
PER (x)	13.1	11.0	10.0
EV:EBITDA (x)	6.4	5.6	4.5
EV:EBITA adj (x)	9.7	7.2	6.2
DPS (Ac)	4.5	5.0	6.0
Dividend Yield (%)	4.5%	5.0%	5.9%
Net cash (debt) (A\$...)	-14.3	-51.3	-37.0

\*inc leases

## Performance



Source: IRESS

Income Statement	24A	25F	26F	PERFORMANCE RATIOS	24A	25F	26F
Sales	1069.3	1360.0	1496.0	<b>Growth &amp; Margins</b>			
Other	0.0	0.0	0.0	Revenue Growth	32%	27%	10%
<b>Revenue</b>	<b>1069.3</b>	<b>1360.0</b>	<b>1496.0</b>	EBITDA Growth	32%	29%	11%
Operating costs	-947.2	-1207.8	-1327.6	EBIT Growth	42%	43%	14%
Overhead	-25.0	-27.0	-29.0	Normalized Net Profit Growth	27%	37%	10%
<b>EBITDA (reported)</b>	<b>97.0</b>	<b>125.2</b>	<b>139.4</b>	EBITDA margin	9.1%	9.2%	9.3%
Depreciation	-32.9	-35.4	-38.3	EBIT margin	5.4%	6.0%	6.2%
Amortisation	-6.8	-8.0	-8.0	Normalized net profit margin	3.8%	4.1%	4.1%
<b>EBIT</b>	<b>57.3</b>	<b>81.8</b>	<b>93.1</b>	Effective tax rate	31%	30%	30%
Net Interest income/(expense)	-7.2	-10.9	-13.9	<b>Liquidity</b>			
Other income/(expense)	0.0	0.0	0.0	Capex/depreciation (x)	69%	58%	54%
<b>EBT</b>	<b>50.1</b>	<b>70.9</b>	<b>79.2</b>	Current ratio (x)	1.2	1.3	1.4
Tax expense	-15.7	-21.3	-23.8	Quick ratio (x)	1.2	1.3	1.4
<b>Reported Earnings</b>	<b>34.4</b>	<b>49.7</b>	<b>55.4</b>	Receivable days	73	73	73
<b>Normalized Net Profit</b>	<b>40.3</b>	<b>55.3</b>	<b>61.0</b>	Inventory days	10	10	10
<b>Cash flow</b>	<b>24A</b>	<b>25F</b>	<b>26F</b>	Payable days	90	84	80
<b>Pretax profit</b>	<b>50.1</b>	<b>70.9</b>	<b>79.2</b>	<b>Risk Measures</b>			
+ Depreciation & Amort	39.7	43.4	46.3	Dividend Cover (x)	1.7	2.0	1.7
- Lease Expense	-12.9	-12.9	-12.9	Payout ratio (%)	0.6	0.5	0.6
+/- Non Cash	2.0	0.0	0.0	Net interest cover (x)	8.0	7.5	6.7
- Profit on sale of non-current as...	0.0	0.0	0.0	Net debt/equity (%)	5%	13%	9%
- Tax Paid	-15.0	-21.3	-23.8	<b>Returns</b>			
<b>Gross Cashflow</b>	<b>63.9</b>	<b>80.1</b>	<b>88.8</b>	ROIC	11%	11%	12%
- Capital Expenditure	-27.5	-25.0	-25.0	ROA	6%	7%	7%
- Change in Working Capital	17.6	-21.8	-16.2	ROE	13%	14%	15%
<b>Operating Free Cashflow</b>	<b>54.0</b>	<b>33.3</b>	<b>47.6</b>	<b>SHARE DATA/VALUATION</b>	<b>24A</b>	<b>25F</b>	<b>26F</b>
- Dividends Paid	-20.9	-25.1	-33.2	<b>Share Data</b>			
- Acquisitions	0.0	-111.0	0.0	Issued shares (m)	521.3	603.9	603.9
+ Proceeds from sale of property	2.2	0.0	0.0	Weighted ave shares (m)	521.0	603.9	603.9
- Investments	0.0	0.0	0.0	Fully diluted shares (m)	521.0	603.9	603.9
+ Equity issued	0.0	66.0	0.0	Basic EPS (A\$)	6.6	8.2	9.2
+ Vendor Finance	0.0	0.0	0.0	YoY change (%)	35%	24%	12%
+/- Other	-0.5	0.0	0.0	Fully diluted EPS (A\$)	6.6	8.2	9.2
<b>Net Cashflow</b>	<b>34.8</b>	<b>-36.8</b>	<b>14.4</b>	YoY change (%)	35%	24%	12%
BoP Net Cash / (Debt)	-44.2	-14.3	-51.3	Fully diluted normalised EPS (A\$)	7.7	9.1	10.1
(+/-) Net Cashflow	34.8	-36.8	14.4	YoY change (%)	12%	18%	10%
(+/-) AASB16 Adj.	-5.0	-0.1	-0.1	Dividend/share (A\$)	4.5	5.0	6.0
<b>Net Cash / (Debt) inc leases</b>	<b>-14.3</b>	<b>-51.3</b>	<b>-37.0</b>	Franking (%)	100%	100%	100%
<b>Balance Sheet</b>	<b>24A</b>	<b>25F</b>	<b>26F</b>	Gross cashflow/share (A\$)	12.3	13.3	14.7
Cash	73.4	86.4	100.7	NBV/share (A\$)	58.5	65.5	69.2
Receivables	213.2	272.0	299.2	NTA/Share (A\$)	26.3	22.5	27.5
Inventory	26.0	33.0	36.3	<b>Valuation</b>			
Other	5.1	5.1	5.1	PER (Basic) (x)	15.3	12.3	11.0
<b>Total current assets</b>	<b>317.6</b>	<b>396.6</b>	<b>441.4</b>	PER (Fully diluted) (x)	15.3	12.3	11.0
Property, plant and equipment	122.8	136.4	136.1	PER (Fully diluted, normalized) (x)	13.1	11.0	10.0
Intangibles	167.8	259.8	251.8	P/CFPS (x)	8.2	7.6	6.9
ROUA	30.7	30.7	30.7	Price/NBV (x)	1.7	1.5	1.5
Deferred tax assets	0.3	0.3	0.3	Price/NTA (x)	3.8	4.5	3.7
Other	1.3	1.3	1.3	Dividend Yield (%)	4.5%	5.0%	5.9%
<b>Total non current assets</b>	<b>322.9</b>	<b>428.5</b>	<b>420.2</b>	EV/EBITDA (x)	6.4	5.6	4.5
<b>Total assets</b>	<b>640.5</b>	<b>825.1</b>	<b>861.6</b>	EV/EBITA (x)	9.7	7.2	6.2
Payables	233.7	277.8	292.1	EV/Revenue (x)	0.6	0.5	0.4
Interest bearing liabilities	17.6	17.6	17.6				
Lease Liability	10.2	10.2	10.2				
Current tax liabilities	1.2	1.2	1.2				
Other	1.0	1.0	1.0				
<b>Total current liabilities</b>	<b>263.7</b>	<b>307.8</b>	<b>322.0</b>				
Interest bearing liabilities	38.0	88.0	88.0				
Lease Liability	22.0	22.0	22.0				
Provisions	11.8	11.8	11.8				
Deferred tax	0.0	0.0	0.0				
<b>Total non current liabilities</b>	<b>71.7</b>	<b>121.7</b>	<b>121.7</b>				
<b>Total liabilities</b>	<b>335.4</b>	<b>429.5</b>	<b>443.8</b>				
<b>Net Assets</b>	<b>305.1</b>	<b>395.6</b>	<b>417.8</b>				
Contributed equity	267.3	333.3	333.3				
Reserves	9.1	9.1	9.1				
Retained Earnings	28.6	53.1	75.4				
<b>Total equity</b>	<b>305.1</b>	<b>395.6</b>	<b>417.8</b>				

^Excl. tran. costs & amort

We provide sector trading metrics (consensus):

Figure 2: Comps

Comps table

Ticker	Name	Last price (\$)	Mkt cap (\$m)	Net debt (\$m)	EV (\$m)	EV/EBITDA (x)		EV/EBIT (x)		P/E (x)	
						2025	2026	2025	2026	2025	2026
<b>ASX comparables</b>											
ANG-ASX	Austin Engineering	0.51	296	6	302	4.8	4.1	5.6	4.9	9.0	8.4
DUR-ASX	Duratec	1.28	318	(34)	284	5.1	4.4	7.3	6.1	13.0	11.4
FWD-ASX	Fleetwood	1.70	160	(21)	139	3.1	2.7	5.0	4.1	8.7	6.9
GNG-ASX	GR Engineering Services	1.67	278	(65)	213	4.8	4.5	5.5	5.1	9.8	9.1
GNP-ASX	GenusPlus Grp	2.30	409	(72)	337	6.4	5.2	9.1	7.3	15.5	12.9
IMD-ASX	Imdex	2.12	1,085	81	1,166	8.3	7.2	13.3	11.0	21.1	17.9
LYL-ASX	Lycopodium	11.59	461	(55)	406	5.4	4.9	5.9	5.3	9.7	8.9
MAD-ASX	Mader Group	5.05	1,018	40	1,058	9.3	7.9	12.3	10.4	17.9	15.4
NWH-ASX	NRW	3.31	1,506	79	1,585	4.4	4.2	7.8	7.2	11.3	10.6
SRG-ASX	SRG Global	1.01	603	14	617	5.3	4.8	8.3	7.2	11.3	10.4
SXE-ASX	Southern Cross Electrical	1.77	467	(76)	391	7.2	6.5	8.5	7.6	14.6	13.5
	<b>Mean</b>		<b>600</b>	<b>(9)</b>	<b>591</b>	<b>5.8</b>	<b>5.1</b>	<b>8.0</b>	<b>6.9</b>	<b>12.9</b>	<b>11.4</b>
	<b>Median</b>		<b>461</b>	<b>(21)</b>	<b>391</b>	<b>5.3</b>	<b>4.8</b>	<b>7.8</b>	<b>7.2</b>	<b>11.3</b>	<b>10.6</b>

Source: EH/Factset \*SRG trading metrics above are based on Factset consensus

- SRG trades, based on our forecasts, on 2025 PE of 11.0x, EV/EBITDA of 5.6x and EV/EBIT of 7.2x (based on proforma debt).
- The sector (capital light resources and infrastructure themes) is trading on PE of 13x, EV/EBITDA of 8x and EV/EBIT of 5.8x.
- SRG continues to trade at mild discount.
- Our PT, which is calculated below, rolls forward to 2026 as follows:

Figure 3: Price target calculation

	<b>2026</b>
	<b>(\$m)</b>
EBITDA	139.4
Target Multiple	6.5
Enterprise value	906.2
Less net debt (proforma inc of Leases)	- 77.0
Market capitalisation	829.1
Issued shares	603.9
implied value per share	<b>\$ 1.41</b>
EBIT	101.1
Target multiple	9.0
Enterprise value	910.1
Less net debt (proforma exc leases)	- 37.5
Market capitalisation	872.6
Issued shares	603.9
Implied value per share	<b>\$ 1.44</b>
NPATA	61.0
Target multiple	14.0
Market value	854.7
Issued shares	603.9
implied value per share	<b>\$ 1.42</b>
DCF	<b>\$ 1.97</b>
Average	<b>\$ 1.59</b>

Source: EH

To achieve this does require a re-rate to the top 50% of the sector average which we think is fair in the context of the quality of the earning profile. It also requires a further 10% growth looked for in 2026 12 months from now.

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The companies and securities mentioned in this report, include:

SRG Global Limited (SRG.ASX) | Price A\$1.01 | Target price A\$1.59 | Recommendation Buy;

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

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