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BUY

Current Price	\$1.40
Valuation	\$1.54
TSR	13%

Tuesday, 18 February 2025

SRG Global (SRG)

Interim results

Analyst | Ian Christie

Quick Read

SRG delivered a solid result ~5% ahead of our earnings expectations. Strong conversion of earnings to cash put the Company in a net cash position at period end. This was despite the acquisition of Diona, which on its early performance looks to be a strategically sound addition to the stable. The order book has climbed to a record, Diona has added diversity, and recurring revenue of ~80% provides confidence that SRG can maintain its momentum. BUY maintained on an upgraded valuation of \$1.54 (prior \$1.43).

Key points

Results ahead of expectations: SRG's interim EBITDA of \$59.0M and EBITA of \$42.1M were up 31% and 48% on 1H24, and up 4% and 6% on Argonaut's forecasts, respectively. The EBIT margin of 6.7% was well ahead of the 5.5% margin in 1H24 and in line with that delivered in 2H24. While a portion of SRG's growth has been inorganic, underlying EPS has doubled over the last three years. A dividend of 2.5cps has been declared.

Net cash despite acquisition: EBITDA cash conversion of 120% (before interest and tax) was strong, delivering operating cash flow of \$52.2M (ahead of Argonaut's \$38.3M forecast). After the Diona acquisition, which was funded by debt and new equity capital, SRG ended the period with cash of \$105.1M and net cash of \$9.1M.

Solid growth in both segments: Boosted by the acquisition of Diona, which completed in early September, the Maintenance & Industrial Services (M&I) segment grew strongly in 1H25, with revenue up 19% to \$388M and EBITDA up 25% to \$56.8M (Argonaut \$54.1M). Engineering & Construction (E&I) revenue climbed 25% to \$232M and EBITDA was up 53% to \$16.5M (Argonaut \$15.2M), despite the margin of 7.1% edging down from the 8.4% in 2H24. Corporate expense was \$14.3M excluding the one-off \$5.0M charge related to Diona's acquisition and integration costs. SRG reports that Diona is fully integrated, with significant wins and a robust pipeline supporting the acquisition investment case.

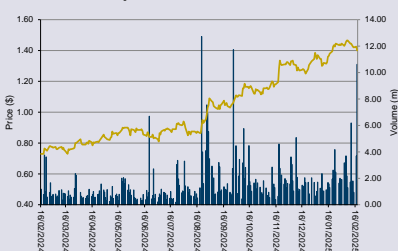
Increased guidance: SRG upgraded guidance from EBITDA of ~\$125M to EBITDA of \$125-128M and EBITA of \$91-94M. Following the 1H25 performance and the \$700M contracts secured across the Water, Transport, Health, Resources and Dairy sectors in Australia and New Zealand in recent months, guidance looks in hand. The order book of \$3.4B is at record levels and the opportunity pipeline of \$8.5B suggests that growth is sustainable in FY26 and beyond. We were towards the bottom end of the new guidance ranges, and have upped our FY25 EBITA forecast accordingly (by ~3%). We have also made upward adjustments to our forecasts for FY26 and beyond (see page 3 for detail).

Valuation & recommendation

Our valuation increases 8% to \$1.54 (prior \$1.43) due to earnings adjustments impacting both our DCF and valuation multiple calculations. BUY maintained.

Ticker:	SRG.ASX		
Sector:	Services & Construction		
Shares on Issue (m):	603.9		
Market Cap (\$m):	845.5		
Net Debt / (Cash) (\$m):	-9.1		
Enterprise Value (\$m):	836.4		
52 wk High/Low:	1.47	0.73	
12m Av Daily Vol (m):	1.60		
Key Metrics		25F	26F
EV/EBITDA (x)	6.6	6.1	
EV/EBIT (x)	9.0	8.2	
P/E (x)	12.9	11.9	
Ratios	24A	25F	26F
ND / Equity	-5.8%	-9.5%	-15.9%
EBIT Mgn	6.1%	6.9%	7.1%
RoA	11.8%	15.1%	15.3%
RoE	13.5%	18.5%	17.8%
Financials*:	24A	25F	26F
Revenue (\$m)	1,071.9	1,343.6	1,445.0
EBITDA (\$m)	98.5	127.2	136.8
EBIT (\$m)	65.6	92.9	102.6
NPAT (\$m)	40.3	64.0	70.9
Rep. EBIT (\$m)	56.6	75.9	90.6
Rep. NPAT (\$m)	34.4	48.5	59.0
<i>*Underlying unless otherwise stated</i>			
NTA (\$m)	137.2	133.0	167.7
Op CF (\$m)	93.8	101.5	88.4
Per Share Data:	24A	25F	26F
Norm. EPS (cps)	7.64	10.84	11.75
DPS (cps)	4.50	5.50	6.00
Div Yield	3.2%	3.9%	4.3%
NTAPS (cps)	26.3	22.5	27.8
CFPS (cps)	17.8	17.2	14.6

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 (\$)	1.40
Valuation (\$)	1.54
TSR	13%

Sector	Services & Construction
Market Cap (\$m)	845.5
Date	18 February 2025

Trading Metrics	FY24A	FY25F	FY26F	FY27F
EV / EBITDA (x)		6.6	6.1	5.8
EV / EBIT (x)		9.0	8.2	7.7
P/E (x)		12.9	11.9	11.2
Dividend Yield (%)		3.9%	4.3%	4.3%

Per Share Data	FY24A	FY25F	FY26F	FY27F
Reported EPS (cps)	6.5	8.2	9.8	10.6
Adjusted EPS (cps)	7.6	10.8	11.7	12.6
Div. per share (cps)		5.5	6.0	6.0
NTA per share (cps)	26.3	22.5	27.8	34.3
CF per share (cps)	17.8	17.2	14.6	15.8

Profit and Loss (\$m)	FY24A	FY25F	FY26F	FY27F
Revenue	1,071.9	1,343.6	1,445.0	1,517.3
EBITDA	98.5	127.2	136.8	143.2
EBITDA Margin	9.2%	9.5%	9.5%	9.4%
Depreciation	(32.9)	(34.2)	(34.2)	(34.4)
EBIT	65.6	92.9	102.6	108.9
EBIT margin	6.1%	6.9%	7.1%	7.2%
PBT	59.1	86.3	96.2	103.2
NPAT	40.3	64.0	70.9	75.8
Adjustments:				
Amortisation	(6.8)	(12.0)	(12.0)	(12.0)
One-Offs	(2.2)	(5.0)	-	-
Reported EBIT	56.6	75.9	90.6	96.9
Reported NPAT	34.4	48.5	59.0	63.9

Cash Flow (\$m)	FY24A	FY25F	FY26F	FY27F
Receipts	1,166.2	1,335.9	1,428.3	1,505.4
Payments	(1,052.1)	(1,205.8)	(1,308.2)	(1,377.2)
Other	(20.4)	(28.6)	(31.7)	(33.1)
Cash from Operations	93.8	101.5	88.4	95.1
Property, Plant & Equip	(25.5)	(24.9)	(23.7)	(21.1)
Payment for Subsidiary	-	(99.0)	-	-
Other	0.2	7.2	-	-
Cash From Investing	(25.3)	(116.7)	(23.7)	(21.1)
Issue of Shares	-	62.9	-	-
Net Borrowing	(22.1)	28.1	(12.9)	(4.5)
Dividends / Other	(20.9)	(28.7)	(36.2)	(36.2)
Cash From Financing	(42.9)	62.3	(49.1)	(40.8)
Net Cash Flow	25.6	47.2	15.6	33.3
Ending Cash	73.4	120.5	136.1	169.4

Balance Sheet (\$m)	FY24A	FY25F	FY26F	FY27F
Cash	73.4	120.5	136.1	169.4
Receivables	213.2	220.8	237.5	249.4
Inventory	26.0	33.5	35.8	37.6
Other	5.1	5.1	5.1	5.1
Current Assets	317.6	379.9	414.6	461.5
Property, Plant & Equip	122.8	119.3	121.9	121.7
Intangibles	167.8	254.8	242.8	230.9
Other NC Assets	32.3	32.3	32.3	32.3
Non-Current Assets	322.9	406.4	397.0	384.9
Total Assets	640.5	786.3	811.6	846.4
Payables	181.3	217.5	233.0	244.7
Borrowings	55.5	83.6	70.7	66.2
Provisions	64.2	64.2	64.2	64.2
Other	34.4	33.2	33.2	33.2
Total Liabilities	335.4	398.5	401.1	408.3
Net Assets	305.1	387.8	410.5	438.1
Ordinary Equity	267.3	330.2	330.2	330.2
Reserves	9.1	9.1	9.1	9.1
Retained Earnings	28.6	48.4	71.1	98.8
Total Equity	305.1	387.8	410.5	438.1

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	10.0%		
PV Free Cash Flow (\$m)		997.0	
Less Net Debt / Plus Cash (\$m)		9.1	
Unpaid Capital (\$m)		-	
Equity Value (\$m)		1,006.1	1.67
Earnings Capitalisation Valuation:			
FY26 EBIT multiple	8.0	829.9	1.37
FY26 NPAT multiple	12.5	886.7	1.47
Blended Valuation (\$/share)			1.54

Profit and Loss (\$m)	1H24A	2H24A	1H25A	2H25F
Revenue	512.2	559.6	620.0	723.6
EBITDA	44.7	53.8	58.3	68.9
EBITDA Margin	8.7%	9.6%	9.4%	9.5%
Depreciation	(16.7)	(16.2)	(16.9)	(17.4)
EBIT	28.0	37.6	41.4	51.5
EBIT margin	5.5%	6.7%	6.7%	7.1%
PBT	24.4	34.8	38.1	48.2
NPAT	17.7	22.6	22.4	41.5
Adjustments:				
Amortisation	(3.4)	(3.4)	(6.0)	(6.0)
One-Offs	-	(2.2)	(5.0)	-
Reported EBIT	24.5	32.0	30.4	45.5
Reported NPAT	15.3	19.2	18.9	29.6

Cash Flow (\$m)	1H24A	2H24A	1H25A	2H25F
Receipts	572.7	593.5	711.6	624.3
Payments	(512.8)	(539.3)	(646.9)	(558.9)
Other	(10.1)	(10.3)	(12.6)	(16.0)
Cash from Operations	49.8	44.0	52.2	49.3
Property, Plant & Equip	(9.4)	(16.1)	(12.3)	(12.6)
Payment for Subsidiary	-	-	(99.0)	-
Other	0.0	0.2	7.2	0.0
Cash From Investing	(9.4)	(15.9)	(104.1)	(12.6)
Issue of Shares	-	-	62.9	-
Net Borrowing	(9.2)	(12.8)	33.8	(5.8)
Dividends / Other	(10.5)	(10.4)	(13.1)	(15.6)
Cash From Financing	(19.7)	(23.2)	83.6	(21.3)
Net Cash Flow	20.7	4.9	31.7	15.4
Ending Cash	68.2	73.4	105.1	120.5

Financial Ratios	FY24A	FY25A	FY26F	FY27F
Growth				
Revenue growth (%)	32.2%	25.6%	7.6%	5.0%
NPAT growth (%)	26.9%	58.8%	10.9%	6.9%
Norm. EPS growth (%)	14.9%	41.9%	8.3%	6.9%
Profitability Ratios				
EBITDA Margin (%)	8.8%	8.7%	9.5%	9.4%
EBIT Margin (%)	6.1%	6.9%	7.1%	7.2%
PBT Margin (%)	5.5%	6.4%	6.7%	6.8%
NPAT Margin (%)	3.8%	4.8%	4.9%	5.0%
Return on Assets (%)	11.8%	15.1%	15.3%	16.1%
Return on Equity (%)	13.5%	18.5%	17.8%	17.9%
ROIC (%)	11.8%	15.6%	16.1%	17.4%
Balance Sheet Ratios				
Net Debt (ND) / (Net Cash) (\$m)	(17.8)	(36.9)	(65.4)	(103.2)
Net Debt (ND) / EBITDA	(0.2)	(0.3)	(0.5)	(0.7)
ND / ND + Equity (%)	-6.2%	-10.5%	-18.9%	-30.8%
Net Interest Cover (x)	8.7	11.5	14.2	17.0
Cash Flow Ratios				
Free Cash Flow Yield (%)	9.2%	-2.7%	7.7%	8.8%
Cash Conversion (x)	1.16	1.01	0.88	0.90

Adjustments to forecasts

Figure 1: Adjustments to forecasts

Underlying (pre one-offs and amortisation)	FY23	FY24	FY25F			FY26F			FY27F		
	Actual	Actual	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (\$m)	809.0	1,069.3	1,338.3	1,343.3	0%	1,440.0	1,445.0	0%	1,490.4	1,517.3	2%
EBITDA (\$m)	80.1	98.5	125.5	127.2	1%	135.0	136.8	1%	138.4	143.2	3%
EBITDA margin	9.9%	9.2%	9.4%	9.5%		9.4%	9.5%		9.3%	9.4%	
Depreciation (\$m)	-30.1	-32.9	-35.0	-34.2	-2%	-34.9	-34.2	-2%	-35.0	-34.4	-2%
EBIT (\$m)	50.0	65.6	90.5	92.9	3%	100.0	102.6	3%	103.5	108.9	5%
EBIT margin	6.2%	6.1%	6.8%	6.9%		6.9%	7.1%		7.1%	7.2%	
Net Interest (\$m)	-4.2	-6.5	-7.3	-6.6	-9%	-6.8	-6.4	-6%	-6.1	-5.7	-6%
PBT (\$m)	45.8	59.1	83.2	86.3	4%	93.2	96.2	3%	97.4	103.2	6%
NPAT (\$m)	31.8	40.3	60.4	64.0	6%	67.4	70.9	5%	70.3	75.8	8%
EPS (cps)	6.6	7.6	10.4	10.8	4%	11.3	11.7	4%	11.8	12.6	6%

Source: Argonaut Research February 2025

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