Analyst
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Authorisation
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SRG Global (SRG)

Cash is king

Recommendation

Buy (unchanged)

Price

$1.395

Target (12 months)

$1.65 (previously $1.55)

Sector

Commercial Services and Suppliers

Expected Return	
Capital growth	**18.3%**
Dividend yield	**4.3%**
Total expected return	**22.6%**

Company Data & Ratios	
Enterprise value	**$865m**
Market cap	**$842m**
Issued capital	**604m**
Free float	**96.1%**
Avg. daily val. (52wk)	**$2.1m**
12 month price range	**$0.715-1.50**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.36	1.17	0.74
Absolute (%)	2.6	19.7	89.8
Rel market (%)	-0.7	16.3	77.5

Absolute Price

SOURCE: IRESS

1H FY25 result at a glance

Operating result: Revenue and EBITDA was modestly below expectations at $620m (BPe $647m; up 21% YoY) and $59.0m (BPe $61.2m; up 31% YoY), respectively. Maintenance and Industrial Services (M&I) revenue was $388m (BPe $444m) estimate and was up 26% YoY. Engineering & Construction (E&C) delivered revenue of $232m (BPe $203m) and was up 14% YoY. Underlying Group EBITDA margin was a key positive of the result, growing 70bps YoY, and was mostly driven by strong margin growth in M&I segment to 14.6% (vs 13.6% in the PcP; BPe 13.8%). Underlying NPAT(A) of $26.6m (BPe $27.9m) grew 51% YoY. A 2.5cps fully franked interim dividend was declared, up 25% YoY.

FY25 outlook: The Group FY25 EBITDA guidance was upgraded to $125-128m (prev. $125m; BPe $128m) A stronger 2H is implied, with Diona to deliver its first full half of earnings contribution in 2H (vs 4 months in 1H). A FY25 EBIT(A) guidance range was also provided: $91-94m (BPe $91.8m); implying 40% YoY growth. At period-end, SRG's WIH stood at $3.4b (split 84% M&I and 16% E&C), up from $3.0b at FY24.

Balance sheet & cashflow update: At period-end, SRG had cash of $105m and debt (including leases) of $128m for net debt of $22.9m, down from $70.4m at the end of FY24 (pro forma). The rapid de-leveraging was due to strong EBITDA to cash conversion of 120%, delivering operating cashflow of $52.2m, up from $49.8m in 1H FY24. Available liquidity at period-end was $229.0m.

EPS changes: Reflect a downgrade to 2H FY25 M&I segment revenue forecasts, partially offset by higher E&C sales estimates and marginal changes to EBITDA margin assumptions: -1% FY25; +1% FY26; and -1% FY27.

Investment thesis: Buy; TP$1.65/sh (previously $1.55/sh)

Today's upgrade to FY25 EBITDA guidance is a reminder of the strong growth momentum being delivered across the Group. While SRG's valuation gap with the Industrial Services peer group has closed, we argue SRG should trade at a premium given its above sector-average EPS growth outlook (BPe 17.6% CAGR over FY24-27).

Earnings Forecast

Year ending 30 June	**2024a**	**2025e**	**2026e**	**2027e**
Sales ($m)	1,069	1,336	1,492	1,587
EBITDA ($m)	99	128	144	156
NPAT (reported) ($m)	34	47	60	67
NPAT (adjusted) ($m)	35	51	60	67
EPS (adjusted) (¢ps)	6.7	8.5	9.8	10.9
EPS growth (%)	9.1%	26.0%	15.1%	12.0%
PER (x)	20.7x	16.5x	14.3x	12.8x
FCF Yield (%)	9.4%	-3.5%	8.0%	8.8%
EV/EBITDA (x)	8.8x	6.8x	6.0x	5.6x
Dividend (¢ps)	4.5	5.5	6.0	6.5
Yield (%)	3.2%	3.9%	4.3%	4.7%
Franking (%)	100%	100%	100%	100%
ROE (%)	12%	15%	15%	16%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Cash is king

Table 1 - Financial result summary

Period ending	Jun-23(a)	Dec-23(a)	Jun-24(a)	Jun-24(a)	Dec-24(a)	YoY(Δ%)	Dec-24(BPe)	vs BP(Δ%)
Half/Full year	FY	HY	HY	FY	HY		HY	
Revenue $m	809.0	510.7	558.6	1,069.3	619.7	21%	647.3	-4%
Maintenance & Industrial Services $m	442.6	306.7	354.8	661.5	388.0	26%	443.8	-13%
Engineering & Construction $m	366.4	203.9	203.8	407.8	231.7	14%	203.4	14%
Underlying EBITDA $m	80.1	45.1	53.4	98.5	59.0	31%	61.2	-4%
Maintenance & Industrial Services $m	65.4	41.6	52.6	94.2	56.8	37%	61.3	-7%
Engineering & Construction $m	31.8	14.8	14.6	29.4	16.5	12%	14.9	10%
Corporate costs $m	-17.0	-11.3	-13.8	-25.0	-14.3	27%	-15.0	5%
Underlying EBIT(A) $m	50.0	28.4	37.2	65.6	42.1	48%	43.7	-4%
Underlying NPAT $m	29.5	14.7	20.8	35.5	22.4	52%	24.1	-7%
Underlying NPAT(A) $m	31.8	17.7	22.6	40.3	26.6	51%	27.9	-5%
Underlying EPS cps	6.2	2.8	4.0	6.8	3.9	37%	4.2	-8%
Underlying EPS(A) cps	6.7	3.4	4.3	7.7	4.6	36%	4.9	-6%
DPS cps	4.0	2.0	2.5	4.5	2.5	25%	2.5	0%
Net debt / (net cash) (incl. leases) $m	44.1	21.3	14.3	14.3	22.9			
Segment EBITDA margin								
Maintenance & Industrial Services %	14.8%	13.6%	14.8%	14.2%	14.6%	8%	13.8%	6%
Engineering & Construction %	8.7%	7.2%	7.2%	7.2%	7.1%	-2%	7.3%	-3%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Key observations from the financial result

Operating result: Revenue and EBITDA was modestly below expectations at $620m (BPe $647m) and $59.0m (BPe $61.2m), respectively. Maintenance and Industrial Services (M&I) revenue was $388m (BPe $444m) estimate and was up 26% YoY. Engineering & Construction (E&C) delivered revenue of $232m (BPe $203m) and was up 14% YoY. Underlying Group EBITDA margin was a key positive of the result, growing 70bps YoY, and mostly driven by strong margin growth in M&I segment to 14.6% (vs 13.6% in the PcP; BPe 13.8%). Underlying NPAT(A) of $26.6m (BPe $27.9m) grew 51% YoY. A 2.5cps fully franked interim dividend was declared, up 25% YoY.

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Balance sheet & cashflow update: At period-end, SRG had cash of $105m and debt (including leases) of $128m for net debt of $22.9m, down from $70.4m at the end of FY24 (pro forma). The rapid de-leveraging was due to strong EBITDA to cash conversion of 120%, delivering operating cashflow of $52.2m, up from $49.8m in 1H FY24. Available liquidity at period-end was $229.0m.

Earnings & valuation changes

Earnings changes

We have updated our SRG financial model for the 1H FY25 financial update, noting the following:

- Downgraded our 2H FY25 Maintenance & Industrial Services segment revenue forecast;
- Upgraded our Engineering & Construction sales estimates across the forward years;
- Made minor adjustments to EBITDA margins assumptions;
- Made minor changes to our interest rates on borrowings, leases and cash at bank; and
- Adjusted our D&A forecasts.

Our EPS changes are outlined in the table below.

Table 2 - Changes to earnings estimates

	Previous			New			Change		
Year ending 30 June	**FY25**	**FY26**	**FY27**	**FY25**	**FY26**	**FY27**	**FY25**	**FY26**	**FY27**
Revenue $m	1,353	1,482	1,587	**1,336**	**1,492**	**1,587**	-1%	1%	0%
EBITDA (underlying) $m	129	143	155	**128**	**144**	**156**	-1%	1%	1%
NPAT (underlying) $m	51	59	67	**51**	**60**	**67**	0%	1%	0%
NPATA (underlying) $m	59	67	74	**59**	**67**	**74**	-1%	0%	0%
EPS (underlying) cps	8.6	9.7	11.1	**8.5**	**9.8**	**10.9**	-1%	1%	-1%
EPS(A) (underlying) cps	10.0	11.1	12.3	**9.9**	**11.1**	**12.3**	-1%	0%	0%
DPS cps	5.0	6.0	6.5	**5.5**	**6.0**	**6.5**	10%	0%	0%
Valuation $/sh	1.57			**1.64**			4%		

SOURCE: BELL POTTER SECURITIES ESTIMATES

Valuation summary

We have upgraded our Target Price to $1.65/sh (previously $1.55/sh), reflecting the model changes mentioned above. We maintain our Buy recommendation.

Table 3 - SRG valuation summary

Valuation methodology mix	**Weighting (%)**	**Valuation ($/sh)**
Discounted cash flow	50%	0.78
ROIC	50%	0.87
Final valuation	**100%**	**1.64**

SOURCE: BELL POTTER SECURITIES ESTIMATES

SRG Global (SRG)

Company description

SRG is a diversified industrial services group that provides multidisciplinary construction, maintenance, drilling and geotechnical services to clients in sectors including Mining, Industrial Processing, Infrastructure, Renewable Energy and Commercial. SRG operates three segments: Asset Maintenance; Mining Services; and Engineering and Construction. Asset Maintenance delivers inspection, condition monitoring, testing, access solutions, repair and maintenance and shutdown services, underpinned by long-term contracts that generate recurring revenue. Mining Services provisions production drilling and geotechnical services through long-term contracts that also generate recurring revenue. Engineering and Construction's specialist capabilities include bridge, dam and tank construction, structural concrete contracting, design, supply and installation of facades and engineered product sales.

Investment thesis: Buy; TP$1.65/sh (previously $1.55/sh)

Today's upgrade to FY25 EBITDA guidance is a reminder of the strong growth momentum being delivered across the Group. While SRG's valuation gap with the Industrial Services peer group has closed, we argue SRG should trade at a premium given its above sector-average EPS growth outlook (BPe 17.6% CAGR over FY24-27).

Valuation methodology

Our SRG valuation is based on a 50% / 50% blend of discounted cash flow and ROIC-based valuation methods. A nominal WACC of 10.1% and a terminal growth rate of 3.0% have been applied in our valuation determination.

Investment risks

Risk to investment thesis

Key risks to SRG include, although are not limited to:

EPC/Construction risk: The construction industry is inherently risky, and particularly so when EPC contracts are involved. This is exacerbated by the general fixed cost nature of construction contracts. Any unforeseen project costs and delays will thus be borne by the contractor. EPC contracting, and construction contracting more generally, is fraught with examples of major contract disputes which can impact profitability, cash flow and ongoing viability. While SRG appears to have a solid track record of achieving profits, there always remains a risk that negative project cash outflows may occur.

Contract completion risk: There is always a risk that unforeseen issues prevent SRG from completing a contract as initially intended, or that a disagreement arises with the party that awarded the contract. This risk has grown as project developers have attempted to shift a greater proportion of risks onto contractors, and is particularly pertinent with EPC contracts, where contractors are responsible for project delivery.

Contract mispricing risk: In addition to customer disputes, SRG could misprice projects for which it tenders. This could result in SRG winning work on uneconomic terms, which may result in SRG recording large losses on some projects that were not originally anticipated. Mispricing could occur as a result of not factoring into account for unforeseen costs, time constraints and project risks. A potential push into larger sized projects increases this risk, as the potential for larger cost overruns and disputes is greater. A cost inflationary environment can increase this risk, particularly when combined with fixed price contracts.

Contract renewal/replenishment risk: In order to maintain revenue, SRG needs to continually win new projects from clients to replace revenue from other projects as they are completed. The amount of work available for tender varies significantly across periods of time as a result of the cyclical nature of client industries and capital expenditures. During times of low construction activity there is a heightened risk that SRG will not be able to replace completed projects with new work. During times of low project activity, margins are also more likely to come under pressure as engineering & construction companies aggressively tender for a smaller supply of opportunities.

Bad debt risk: Given SRG is not paid entirely upfront for its contracts, there is a risk that a customer(s) will not be able to fully pay SRG for its services in the event that they suffer cash flow issues. This risk is somewhat mitigated given the company’s large exposure to tier-1 repeat customer base.

Availability and cost of employees/subcontractors risk: During times of an upturn in construction activity, there is a possibility that staff shortages can occur. This may impact SRG’s ability to source adequate staff to tender for new projects and increase its revenue. Even if staff are able to be secured, it may require SRG to pay substantially higher rates to both current and newly hired employees/subcontractors in order to secure their services.

Occupational Health & Safety risk: Electrical and construction activity carries with it significant health and safety risks. If not properly mitigated by sufficient safety procedures, there is a risk that employees may suffer serious harm. A lack of proper safety procedures and a proper safety culture would damage employee morale, impact the ability to hire and retain staff, potentially cause litigation risks, and impact a company’s social licence.

Commodity price risk: Given SRG’s exposure to the mining sector, any sustained fall in commodity prices is likely to lead to a reduction in work opportunities and demand for services.

SRG Global
as at 18 February 2025

Recommendation	Buy
Price	$1.395
Target (12 months)	$1.65

Table 4 - Financial summary

Date		**20/02/25**
Price	**$/sh**	**1.40**
Target price	**$/sh**	**1.65**

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PROFIT AND LOSS

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
Revenue	**$m**	**809**	**1,069**	**1,336**	**1,492**	**1,587**
Other income	$m	3	3	2	4	4
Expenses	$m	(732)	(974)	(1,211)	(1,352)	(1,435)
Equity share of accounted investee profits	$m	(0)	0	-	-	-
Underlying EBITDA	**$m**	**80**	**99**	**128**	**144**	**156**
Depreciation & amortisation	$m	(29)	(33)	(35)	(41)	(43)
Underlying EBIT	**$m**	**47**	**59**	**81**	**92**	**101**
Acquired intangible amortisation	$m	(3)	(7)	(11)	(10)	(10)
Underlying EBIT(A)	**$m**	**50**	**66**	**92**	**102**	**111**
Net interest expense	$m	(4)	(7)	(8)	(7)	(5)
Underlying profit before tax	**$m**	**42**	**52**	**73**	**85**	**96**
Tax expense	$m	(13)	(16)	(22)	(26)	(29)
Underlying NPAT	**$m**	**29**	**35**	**51**	**60**	**67**
Adjustments (post-tax)	$m	(7)	(1)	(4)	-	-
Reported NPAT	**$m**	**23**	**34**	**47**	**60**	**67**
Customer relationship amort. (post-tax)	$m	(2)	(5)	(8)	(7)	(7)
Underlying NPATA	**$m**	**32**	**40**	**59**	**67**	**74**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
OPERATING CASH FLOW						
Receipts from customers	$m	884	1,166	1,393	1,473	1,563
Payments to suppliers and employees	$m	(834)	(1,052)	(1,272)	(1,342)	(1,422)
Tax paid	$m	(2)	(13)	(21)	(26)	(29)
Net interest	$m	(4)	(7)	(8)	(7)	(5)
Other	$m	-	-	-	-	(0)
Operating cash flow	**$m**	**43**	**94**	**92**	**99**	**107**
INVESTING CASH FLOW						
Capital expenditures	$m	(30)	(26)	(27)	(29)	(30)
Payments for acquisitions	$m	(81)	-	(122)	-	-
Disposal of assets	$m	4	2	8	-	-
Other	$m	4	(2)	21	(3)	(3)
Investing cash flow	**$m**	**(102)**	**(25)**	**(120)**	**(32)**	**(33)**
Free cash flow	***$m***	***(59)***	***68***	***(28)***	***67***	***74***
FINANCING CASH FLOW						
Proceeds from share issues (net)	$m	49	-	63	-	-
Debt proceeds / (repayments)	$m	26	(9)	33	(15)	(15)
Dividends paid	$m	(17)	(21)	(28)	(36)	(36)
Other	$m	(10)	(13)	(14)	(15)	(15)
Financing cash flow	**$m**	**48**	**(43)**	**54**	**(66)**	**(66)**
Change in cash	**$m**	**(12)**	**26**	**25**	**1**	**8**

BALANCE SHEET

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
ASSETS						
Cash	$m	48	73	99	100	107
Receivables	$m	110	121	143	166	194
Inventories	$m	21	26	25	25	25
Capital assets	$m	119	123	124	127	129
Intangibles	$m	46	41	44	36	27
Other assets	$m	247	256	386	388	389
Total assets	**$m**	**591**	**640**	**822**	**841**	**871**
LIABILITIES						
Payables	$m	116	144	182	191	204
Borrowings	$m	65	56	89	74	59
Provisions	$m	57	64	89	89	89
Leases	$m	27	32	32	33	34
Other liabilities	$m	35	40	42	42	42
Total liabilities	**$m**	**301**	**335**	**434**	**430**	**428**
NET ASSETS						
Share capital	$m	267	267	330	330	330
Reserves	$m	8	9	34	34	34
Retained earnings	$m	15	29	24	47	78
SHAREHOLDER EQUITY	**$m**	**290**	**305**	**388**	**412**	**442**
Weighted average shares	m	473	521	590	604	604

FINANCIAL RATIOS

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
VALUATION						
EPS (underlying)	c/sh	6.2	6.7	8.5	9.8	10.9
EPS growth	%	40.3%	9.1%	26.0%	15.1%	12.0%
EPSA (underlying)	c/sh	6.7	7.7	9.9	11.1	12.3
EPSA growth	%	34.0%	15.0%	28.2%	11.7%	10.7%
PER	x	22.6x	20.7x	16.5x	14.3x	12.8x
DPS	c/sh	4.0	4.5	5.5	6.0	6.5
Franking	%	100%	100%	100%	100%	100%
Yield	%	2.9%	3.2%	3.9%	4.3%	4.7%
FCF/share	c/sh	(12.6)	13.1	(4.8)	11.1	12.2
FCF yield	%	-9.0%	9.4%	-3.5%	8.0%	8.8%
EV/EBITDA	x	10.8x	8.8x	6.8x	6.0x	5.6x
NTA	$/sh	0.25	0.26	0.18	0.23	0.30
P/NTA	x	5.5x	5.3x	7.7x	6.0x	4.7x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	44	14	22	7	(15)
Net debt / Equity	%	15.2%	4.7%	5.7%	1.7%	-3.3%
Net debt / Net debt + Equity	%	13.2%	4.5%	5.4%	1.7%	-3.4%
Net debt / EBITDA	x	0.6x	0.1x	0.2x	0.0x	-0.1x
EBITDA / net interest expense	x	18.4x	13.7x	15.5x	21.8x	30.1x
PROFITABILITY RATIOS						
EBITDA margin	%	9.9%	9.2%	9.6%	9.7%	9.8%
EBIT margin	%	5.8%	5.5%	6.0%	6.2%	6.4%
EBIT(A) margin	%	6.2%	6.1%	6.9%	6.8%	7.0%
Return on assets	%	5.5%	5.8%	6.9%	7.2%	7.8%
Return on equity	%	11.2%	11.9%	14.6%	14.9%	15.7%
Return on capital employed	%	12.9%	15.6%	16.7%	18.7%	19.8%
Return on invested capital	%	18.9%	20.3%	24.4%	24.5%	26.0%

SEGMENTS

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
Maintenance & Industrial Services						
Revenue	$m	443	661	852	979	1,048
Underlying EBIT	$m	42	64	86	94	102
Underlying EBIT margin	%	9.6%	9.6%	10.0%	9.6%	9.7%
Underlying EBIT(A)	$m	46	70	96	104	112
Underlying EBIT(A) margin	%	10.3%	10.6%	11.3%	10.6%	10.7%
Engineering & Construction						
Revenue	$m	366	408	484	513	539
Underlying EBIT	$m	23	22	25	26	29
Underlying EBIT margin	%	6.4%	5.4%	5.1%	5.2%	5.3%

HALF YEARLY ASSUMPTIONS

Year ending 30 June	Unit	1H 2023a	1H 2024a	1H 2025a	1H 2026e	1H 2027e
Revenue	**$m**	**380**	**511**	**620**	**737**	**780**
Other income	$m	2	2	1	2	2
Expenses	$m	(348)	(468)	(562)	(668)	(706)
Equity share of accounted investee profits	$m	(0)	0	-	-	-
Underlying EBITDA	**$m**	**34**	**45**	**59**	**71**	**76**
Depreciation & amortisation	$m	(13)	(17)	(17)	(20)	(21)
Underlying EBIT	**$m**	**19**	**24**	**36**	**45**	**49**
Acquired intangible amortisation	$m	(2)	(4)	(6)	(5)	(5)
Underlying EBIT(A)	**$m**	**21**	**28**	**42**	**50**	**54**
Net interest expense	$m	(1)	(4)	(4)	(4)	(3)
Underlying profit before tax	**$m**	**18**	**20**	**32**	**42**	**47**
Tax expense	$m	(6)	(6)	(10)	(12)	(14)
Underlying NPAT	**$m**	**12**	**15**	**22**	**29**	**33**
Adjustments (post-tax)	$m	-	-	(4)	-	-
Reported NPAT	**$m**	**12**	**15**	**19**	**29**	**33**
Customer relationship amort. (post-tax)	$m	(1)	(3)	(4)	(4)	(4)
Underlying NPATA	**$m**	**13**	**18**	**27**	**33**	**36**

VALUATION SUMMARY

12-month valuation		
Valuation method	**Weight (%)**	**Val. ($m)**
DCF	50%	0.78
ROIC	50%	0.87
Blended equity valuation	**100%**	**1.64**
Current share price		1.40
Upside to current share price (%)		18%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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