

SRG; Further Unpacking 1H 2025



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

PRICE	TARGET PRICE	RECOMMENDATION
A\$1.32/sh	A\$1.70/sh	BUY
	(FROM A\$1.59/sh)	(UNCHANGED)

Event

- Post reporting very solid 1H 2025 results last week, SRG has traded off a little. We suspect this primarily reflects a little profit taking around the edges- we explore the ongoing opportunity and investment case in more detail below:

Impact

- In our First Impressions [Research](#), we presented the first half highlights as we saw them, which we don't intend to replicate here, however in summary saw very strong pcp growth, and steady improvements in 1H 2025 in comparison to 2H 2024 as Diona contributed for the first time.
- Cash conversion was a clear highlight and SRG finished the half net cash \$9m (excluding leases) versus net debt \$38.5m at time of the acquisition of Diona.
- Under the hood, investors will have recognised that the maths suggests Diona was a large part of the adjacent half on half growth; investors following the company for a long period would equally recognise there is often a second half skew, a natural reflection of year on year growth and, depending on timing, as new works ramps up (in this case SRG won \$700m in new works late November) and other works complete, organic growth will briefly slow or accelerate - all part of operating a diverse business.
- The point really being that despite these swings and roundabouts; - the maths of full year guidance requires circa 10%-13% organic growth plus ten months of Diona contribution.
- So the crux of the investment case:
 - Long track record of circa 10% organic growth (sometimes higher, rarely lower full year)
 - A history of complementary acquisitions which have accelerated earnings and EPS growth.
 - A higher quality of earnings, with 80% recurring or annuity - on a fundamental basis at least, earnings security and visibility allows for higher capitalisation multiples.
 - Long history of hitting or exceeding guidance.
- We are amending numbers as consequence of the upgraded guidance accompanying the half, which increased expectations from EBITDA of \$125m to a \$125m to \$128m range.
- On our updated numbers SRG trades of PE of 14x, EV/EBITA of 8.9x and EV/EBITDA of 6.5x- these metrics represent a modest discount to the sector and arguably the quality of earnings here can demand higher than average metrics all other things equal.
- We see this mild recent sell off as an opportunity; in the end we continue to see SRG delivering steady growth, generating cash, paying dividends and making sensible acquisitions over time, to which we would expect the share price to respond to equally steadily.

We retain our Buy recommendation and our PT increases to \$1.70 (see body of report)

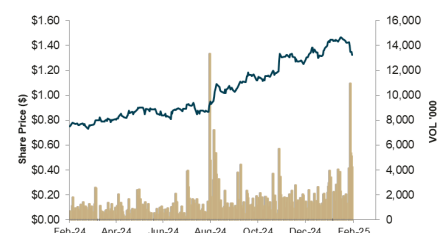
Analyst

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Share Price	1.32	A\$/sh	
Price Target	1.70	A\$/sh	
Valuation (DCF)	2.10	A\$/sh	
WACC	9%		
Terminal Growth	3%		
Shares on issue	603.9	m, dil	
Market Capitalisation	797.2	A\$m	
Enterprise Value	820.1	A\$m	
Net Cash	9.0		
Net cash (Inc leases)*	(22.9)	A\$m	
Key Financial Metr...	24A	25F	26F
Revenue (A\$m)	1069.3	1320.0	1440.0
EBITDA reporting (...)	97.0	121.7	138.7
EBITDA underlying ...	98.5	126.7	138.7
EBIT (A\$m)	57.3	74.3	89.5
EBITA underlying (...)	65.6	91.3	101.5
Reported NPAT (A\$m)	34.4	45.0	54.1
Normalised NPAT (...)	40.3	56.9	62.5
Gross Cashflow (A\$...)	63.9	79.5	90.4
Capex (A\$m)	-27.5	-25.0	-30.0
Op. Free Cashflow ...	54.0	71.2	49.0
Revenue Growth (%)	32%	23%	9%
EBITDA Growth (%)	32%	25%	14%
PER (x)	17.1	14.0	12.7
EV:EBITDA (x)	8.5	6.5	5.9
EV:EBITA adj (x)	12.8	8.9	8.0
DPS (Ac)	4.5	5.0	6.0
Dividend Yield (%)	3.4%	3.8%	4.5%
Net cash (debt) (A\$...)	-14.3	-13.3	2.4

Performance



Source: IRESS

Income Statement	24A	25F	26F	PERFORMANCE RATIOS	24A	25F	26F
Sales	1069.3	1320.0	1440.0	Growth & Margins			
Other	0.0	0.0	0.0	Revenue Growth	32%	23%	9%
Revenue	1069.3	1320.0	1440.0	EBITDA Growth	32%	25%	14%
Operating costs	-947.2	-1164.3	-1271.4	EBIT Growth	42%	30%	20%
Overhead	-25.0	-34.0	-30.0	Normalized Net Profit Growth	27%	41%	10%
EBITDA (reported)	97.0	121.7	138.7	EBITDA margin	9.1%	9.2%	9.6%
Depreciation	-32.9	-35.4	-37.2	EBIT margin	5.4%	5.6%	6.2%
Amortisation	-6.8	-12.0	-12.0	Normalized net profit margin	3.8%	4.3%	4.3%
EBIT	57.3	74.3	89.5	Effective tax rate	31%	30%	30%
Net Interest income/(expense)	-7.2	-10.0	-12.1	Liquidity			
Other income/(expense)	0.0	0.0	0.0	Capex/depreciation (x)	69%	53%	61%
EBT	50.1	64.3	77.4	Current ratio (x)	1.2	1.2	1.3
Tax expense	-15.7	-19.3	-23.2	Quick ratio (x)	1.2	1.2	1.3
Reported Earnings	34.4	45.0	54.1	Receivable days	73	62	62
Normalized Net Profit	40.3	56.9	62.5	Inventory days	10	10	10
Cash flow	24A	25F	26F	Payable days	90	84	80
Pretax profit	50.1	64.3	77.4	Risk Measures			
+ Depreciation & Amort	39.7	47.4	49.2	Dividend Cover (x)	1.7	1.8	1.6
- Lease Expense	-12.9	-12.9	-12.9	Payout ratio (%)	0.6	0.6	0.6
+/- Non Cash	2.0	0.0	0.0	Net interest cover (x)	8.0	7.4	7.4
- Profit on sale of non-current as...	0.0	0.0	0.0	Net debt/equity (%)	5%	3%	-1%
- Tax Paid	-15.0	-19.3	-23.2	Returns			
Gross Cashflow	63.9	79.5	90.4	ROIC	11%	11%	12%
- Capital Expenditure	-27.5	-25.0	-30.0	ROA	6%	7%	8%
- Change in Working Capital	17.6	16.7	-11.4	ROE	13%	15%	15%
Operating Free Cashflow	54.0	71.2	49.0	SHARE DATA/VALUATION	24A	25F	26F
- Dividends Paid	-20.9	-25.1	-33.2	Share Data			
- 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	7.5	9.0
+ Vendor Finance	0.0	0.0	0.0	YoY change (%)	35%	13%	20%
+/- Other	-0.5	0.0	0.0	Fully diluted EPS (A\$)	6.6	7.5	9.0
Net Cashflow	34.8	1.1	15.8	YoY change (%)	35%	13%	20%
BoP Net Cash / (Debt)	-44.2	-14.3	-13.3	Fully diluted normalised EPS (A\$)	7.7	9.4	10.4
(+/-) Net Cashflow	34.8	1.1	15.8	YoY change (%)	12%	22%	10%
(+/-) AASB16 Adj.	-5.0	-0.1	-0.1	Dividend/share (A\$)	4.5	5.0	6.0
Net Cash / (Debt) inc leases	-14.3	-13.3	2.4	Franking (%)	100%	100%	100%
Balance Sheet	24A	25F	26F	Gross cashflow/share (A\$)	12.3	13.2	15.0
Cash	73.4	109.4	125.1	NBV/share (A\$)	58.5	64.7	68.2
Receivables	213.2	224.4	244.8	NTA/Share (A\$)	26.3	22.4	27.8
Inventory	26.0	32.0	35.0	Valuation			
Other	5.1	5.1	5.1	PER (Basic) (x)	20.0	17.7	14.7
Total current assets	317.6	370.9	410.0	PER (Fully diluted) (x)	20.0	17.7	14.7
Property, plant and equipment	122.8	136.4	142.2	PER (Fully diluted, normalized) (x)	17.1	14.0	12.7
Intangibles	167.8	255.8	243.8	P/CFPS (x)	10.8	10.0	8.8
ROUA	30.7	30.7	30.7	Price/NBV (x)	2.3	2.0	1.9
Deferred tax assets	0.3	0.3	0.3	Price/NTA (x)	5.0	5.9	4.7
Other	1.3	1.3	1.3	Dividend Yield (%)	3.4%	3.8%	4.5%
Total non current assets	322.9	424.5	418.3	EV/EBITDA (x)	8.5	6.5	5.9
Total assets	640.5	795.5	828.3	EV/EBITA (x)	12.8	8.9	8.0
Payables	233.7	267.8	279.7	EV/Revenue (x)	0.8	0.6	0.6
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				
Total current liabilities	263.7	297.8	309.7				
Interest bearing liabilities	38.0	73.0	73.0				
Lease Liability	22.0	22.0	22.0				
Provisions	11.8	11.8	11.8				
Deferred tax	0.0	0.0	0.0				
Total non current liabilities	71.7	106.7	106.7				
Total liabilities	335.4	404.5	416.4				
Net Assets	305.1	391.0	411.9				
Contributed equity	267.3	333.3	333.3				
Reserves	9.1	9.1	9.1				
Retained Earnings	28.6	48.5	69.4				
Total equity	305.1	391.0	411.9				

^Excl. tran. costs & amort

We build earnings as follows:

Figure 1: Earnings Build

	1H 2024	2H 2024	2024	1H 2025	2H 2025	FY 2025	FY 2026
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Revenue							
Engineering and Construction	185	222	407	232	268	500	550
Maintenance and Industrial	325	337	662	388	432	820	890
	510	559	1069	620	700	1320	1440
EBITDA							
Engineering and Construction	10.8	18.6	29.4	16.5	20	36.0	39.6
Maintenance and Industrial	45.5	47.2	92.7	56.8	63	119.7	129.1
	56.3	65.8	122.1	73.3	82.4	155.7	168.7
Corporate	-11.3	-13.7	-25	-19.3	-14.7	-34.0	-30.0
EBITDA	45.0	52.1	97.1	54.0	67.7	121.7	138.7
Transaction, redundancy cost:	0	1.4	1.4	5.0	0.0	5.0	0.0
Underlying EBITDA	45.0	53.5	98.5	59.0	67.7	126.7	138.7
Depreciation	-16.7	-16.2	-32.9	-16.9	-18.5	-35.4	-37.2
Amortisation	-3.4	-3.5	-6.9	-6.0	-6.0	-12.0	-12.0
EBIT	24.9	32.4	57.3	31.1	43.2	74.3	89.5
Interest	-4	-3.2	-7.2	-4.0	-6.0	-10.0	-12.1
EBT	20.9	29.2	50.1	27.1	37.2	64.3	77.4
Income tax	-5.7	-10	-15.7	-8.1	-11.2	-19.3	-23.2
NPAT	15.2	19.2	34.4	19.0	26.0	45.0	54.1
EBITA (underlying)	28.3	37.3	65.6	42.1	49.2	91.3	101.5
NPAT (underlying)	17.0	23.87	40.9	26.7	30.3	56.9	62.5
Margin							
Engineering and Construction	5.8%	8.4%	7.2%	7.1%	7.3%	7.2%	7.2%
Maintenance and Industrial	14.0%	14.0%	14.0%	14.6%	14.6%	14.6%	14.5%

Source: EH

We provide our Price Target methodology below:

Price target

We derive our 12 month PT as follows:

Figure 2: Price Target

	2026
	(\$m)
EBITDA	138.7
Target Multiple	7.0
Enterprise value	970.6
Less net debt (proforma inc of Leases)	- 22.9
Market capitalisation	947.7
Issued shares	603.9
implied value per share	\$ 1.61
EBITA	101.5
Target multiple	10.0
Enterprise value	1,014.7
Less net debt (proforma exc leases)	9.0
Market capitalisation	1,023.7
Issued shares	603.9
Implied value per share	\$ 1.69
NPATA	62.5
Target multiple	14.0
Market value	875.7
Issued shares	603.9
implied value per share	\$ 1.45
DCF	\$ 2.10
Average	\$ 1.70

Source: EH

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SRG Global Limited (SRG.ASX) | Price A\$1.32 | Target price A\$1.70 | Recommendation Buy;

Price, target price and rating as at 23 February 2025 (not covered)*

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