

# SRG Global Limited

## Steady as She Goes

SRG Global’s (‘SRG’) 1H25 result was broadly in-line with our estimates, with EBITDA +1% ahead vs OMLe. The company upgraded its FY25 guidance by ~1% at the mid-point, driven by the recently acquired Diona business. In our view, momentum remains strong with SRG’s Work-in-Hand (‘WIH’) rising to \$3.4bn (+13% vs FY24). Whilst we continue to believe SRG retains a strong forward outlook supported a high-quality management team, we retain our Accumulate rating based upon valuation grounds. Our PT increases to \$1.41 (from \$1.32).

### Result in-line, upgraded FY25 guidance

- SRG’s 1H25 result was broadly in-line with our estimates. Whilst revenue came in -4% below our estimate, EBITDA was +0.7% above our forecast. This was driven by a stronger margin outcome in Maintenance & Industrial Services (‘M&IS’) vs our prior forecasts.
- SRG increased its FY25 EBITDA guidance by 1% at the mid-point to \$125-128m (previously ~\$125m). The company’s prior guidance assumed no growth for Diona in FY25. However, we note that SRG now expects Diona to grow “...in the sort of 10% plus range.” We believe this implies the upgraded guidance is driven by Diona, with guidance for SRG base business (i.e. ex-Diona) remaining the same (~10%).

### Earnings and Valuation Impact

- We have increased our FY25e-27e EBITDA estimates by an average of 0.6% and raised our PT to \$1.41 (from \$1.32).

### Investment View

- Whilst we continue believe SRG retains strong momentum supported by a high-quality management team, our forecasts imply limited near-term valuation upside. Thus, we retain our Accumulate rating based on valuation grounds.

### Key Financials

Year-end June (\$)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (\$m)	809.0	1,069.3	1,357.5	1,492.3	1,600.7
EBITDA (\$m)	80.1	98.5	126.9	139.0	150.5
EBIT (\$m)	40.2	57.5	75.1	90.3	100.5
Reported NPAT (\$m)	22.6	34.6	46.7	57.6	64.8
Reported EPS (c)	4.8	6.5	8.2	9.4	10.6
Normalised NPAT (\$m)	29.5	35.7	50.2	57.6	64.8
Normalised EPS (c)	4.7	6.6	8.2	9.4	10.6
EPS Growth (%)	5.8	39.1	25.0	14.9	12.5
Dividend (c)	4.0	4.5	5.8	6.5	7.4
Net Yield (%)	2.9	3.2	4.2	4.7	5.3
Franking (%)	100	100	100	100	100
EV/EBITDA (X)	8.4	7.2	6.2	6.0	5.6
Normalised P/E (x)	29.5	21.2	17.0	14.8	13.1
Normalised ROE (%)	11.2	12.0	14.5	14.6	15.5

Source: OML, Iress, SRG Global Limited

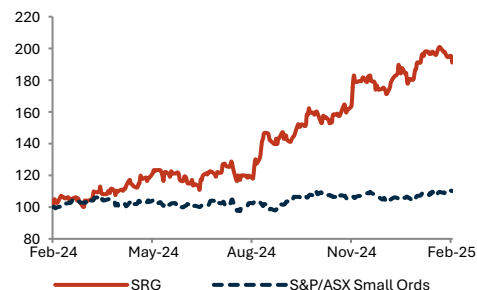
18 February 2025

Last Price  
**A\$1.40**  
 Target Price  
**A\$1.41 (Previously A\$1.32)**  
 Recommendation  
**Accumulate**  
 Risk  
**Higher**

### Construction and Engineering

ASX Code	SRG
52 Week Range (\$)	0.73 - 1.47
Market Cap (\$m)	727.3
Shares Outstanding (m)	521.3
Av Daily Turnover (\$m)	16.3
3 Month Total Return (%)	16.7
12 Month Total Return (%)	91.1
Benchmark 12 Mth Return (%)	10.0
NTA FY25E (¢ per share)	26.6
Net Cash FY25E (\$m)	3.6

### Price performance



Source: FactSet

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## Earnings and Valuation Changes

Our earnings and valuation changes reflect trends in SRG's recent 1H25 result. The key changes are as follows:

- **Revenue:** We have moderated our FY25e-27e revenue estimates by an average of -1.7%, driven by lowered top-line assumptions in SRG's M&IS division, partially offset by upgraded estimates in the Engineering & Construction ('E&C') division.
- **EBITDA:** Our FY25e-27e EBITDA estimates rise by an average of +0.6%, driven by stronger divisional margin assumptions.
- **NPAT(A):** We note that our FY25e-27e NPAT(A) estimates increase by an average of +8.1%, which is significantly higher than our revisions to EBITDA. This is reflective of the materially higher amortisation of acquired intangibles vs our prior estimates.
- **Valuation:** Whilst changes to our FY25e-27e revenue and EBITDA estimates were relatively modest, our valuation rises 7% to \$1.41 (from \$1.32). In addition to the modest EBITDA upgrades, we note SRG's 1H25 cash conversion was significantly stronger than our prior forecasts, resulting in the company finishing 1H25 in a net cash position of \$9.1m. We now forecast SRG finishes FY25 in a net cash position of \$3.6m (previously assumed a net debt position of \$37.0m). This change along with movements associated with the passage of time are the key drivers behind our increased valuation.

Taking these factors into consideration, we increase our PT to \$1.41 (from \$1.32) and retain our Accumulate rating, based on limited near-term valuation upside.

**Figure 1: Key Earnings and Valuation Changes Summary**

	Group Revenue			Group Underlying EBITDA			Underlying NPAT(A)			DPS		
	New	Old	Chg	New	Old	Chg	New	Old	Chg	New	Old	Chg
<b>FY25e</b>	<b>1,357.5</b>	1,378.0	-1.5%	<b>126.9</b>	126.4	0.4%	<b>58.1</b>	54.6	6.4%	<b>5.8</b>	5.5	5.5%
<b>FY26e</b>	<b>1,492.3</b>	1,519.7	-1.8%	<b>139.0</b>	138.0	0.8%	<b>64.7</b>	59.0	9.8%	<b>6.5</b>	6.0	8.3%
<b>FY27e</b>	<b>1,600.7</b>	1,630.0	-1.8%	<b>150.5</b>	149.8	0.5%	<b>71.6</b>	66.2	8.2%	<b>7.4</b>	6.9	7.2%

Valuation	DCF	Multiples	Blended
<b>New</b>	<b>1.36</b>	<b>1.46</b>	<b>1.41</b>
<b>Old</b>	1.28	1.36	1.32
<b>Chg.</b>	6.4%	7.8%	7.1%

Source: Ord Minnett Limited Research

Figure 2: SRG 1H25 Result Summary

		1H24A	1H25A	OMLe 1H25e	1H25A vs OMLe
<b>External Sales</b>					
Maintenance & Industrial Services	\$Am	324.9	388.0	426.9	-9.1%
Change (yoy)	%		19.4%	83.0%	
Engineering & Construction	\$Am	185.7	231.7	217.3	6.7%
Change (yoy)	%		24.8%		
<b>Total External Revenue</b>	<b>\$Am</b>	<b>510.7</b>	<b>619.7</b>	<b>644.1</b>	<b>-3.8%</b>
Change (yoy)	%	34.4%	21.4%	26.1%	
<b>Total EBITDA</b>					
Maintenance & Industrial Services	\$Am	45.5	56.8	57.5	-1.3%
...margin	%	14.0%	14.6%	13.5%	1.2ppt
Engineering & Construction	\$Am	10.8	16.5	15.9	4.2%
...margin	%	5.8%	7.1%	7.3%	-0.2ppt
Corporate/Other	\$Am	(11.3)	(14.3)	(14.8)	-3.5%
...as a % of Rev	%	-2.2%	-2.3%	2.3%	-4.6ppt
<b>Total Underlying EBITDA</b>	<b>A\$m</b>	<b>45.1</b>	<b>59.0</b>	<b>58.6</b>	<b>0.7%</b>
Margin	%	8.8%	9.5%	9.1%	0.4ppt
...change (YoY)	%	32.4%	30.9%	30.0%	
One-off Costs		0.0	(5.0)	(3.5)	42.3%
<b>Total EBITDA (Stat)</b>	<b>A\$m</b>	<b>45.1</b>	<b>54.0</b>	<b>55.1</b>	
Margin	%	8.8%	8.7%	8.6%	0.2ppt
...change (YoY)	%	32.4%	19.9%	22.2%	
<b>Total D&amp;A</b>	<b>\$Am</b>	<b>(20.1)</b>	<b>(22.8)</b>	<b>(20.5)</b>	<b>11.7%</b>
D&A as a % of Rev.	%	3.9%	3.7%	3.2%	0.5ppt
<b>Total EBIT</b>	<b>\$Am</b>	<b>24.9</b>	<b>31.16</b>	<b>34.6</b>	<b>-10.0%</b>
Margin	%	4.9%	5.0%	5.4%	-0.3ppt
Change (yoy)	%	26.4%	25.0%	38.8%	
<b>EBIT(A)</b>	<b>\$Am</b>	<b>27.8</b>	<b>42.1</b>	<b>40.8</b>	<b>3.3%</b>
Margin	%	5.4%	6.8%	6.3%	0.5ppt
Change (yoy)	%	33.0%	51.5%	47.1%	
<b>Net Financial Result</b>	<b>\$Am</b>	<b>(4.0)</b>	<b>(4.1)</b>	<b>(4.5)</b>	<b>-8.9%</b>
Equity-Accounted Results	\$Am	0.0	0.0	0.0	
<b>Profit Before Tax</b>	<b>\$Am</b>	<b>21.0</b>	<b>27.1</b>	<b>30.1</b>	<b>-10.1%</b>
Margin	%	4.1%	4.4%	4.7%	-0.3ppt
Change (yoy)	%	16.6%	29.3%	43.8%	
Corporate Income Tax	\$Am	(5.7)	(8.1)	(9.0)	-9.9%
Effective Operational Tax Rate	%	27.1%	30.1%	30.0%	0.1ppt
<b>Net Profit After Tax (Reported)</b>	<b>\$Am</b>	<b>15.3</b>	<b>18.9</b>	<b>21.1</b>	<b>-10.2%</b>
Margin	%	3.0%	3.1%	3.3%	-0.2ppt
Change (yoy)	%	22.9%	24.1%	38.2%	
Amortisation of acquired intangibles	\$Am	2.4	4.2	1.9	126.5%
One-off costs	\$Am	0.0	0.0	0.0	
Acquisition, integration & restructuring costs	\$Am	0.0	3.5	2.5	42.9%
Tax impact from prior year	\$Am	0.0	0.0	0.0	
<b>Underlying NPAT (A)</b>	<b>\$Am</b>	<b>17.7</b>	<b>26.6</b>	<b>25.4</b>	<b>4.9%</b>
Underlying EPS	c	2.93	3.30	3.78	-12.8%
Underlying EPS (A)	c	3.39	4.60	4.56	1.0%
Dividend per share	c	2.00	2.50	2.50	0.0%

Source: Company Data, Ord Minnett Limited estimates

## SRG Global Limited

PROFIT & LOSS (A\$m)	2023A	2024A	2025E	2026E	2027E
Revenue	809.0	1,069.3	1,357.5	1,492.3	1,600.7
Other income	-	-	-	-	-
Operating costs	(728.8)	(970.7)	(1,230.6)	(1,353.3)	(1,450.2)
<b>Operating EBITDA</b>	<b>80.1</b>	<b>98.5</b>	<b>126.9</b>	<b>139.0</b>	<b>150.5</b>
D&A	(33.4)	(39.7)	(46.8)	(48.7)	(50.1)
Non-operating items	(6.5)	(1.5)	(5.0)	-	-
<b>EBIT</b>	<b>40.2</b>	<b>57.5</b>	<b>75.1</b>	<b>90.3</b>	<b>100.5</b>
Net interest	(4.3)	(7.2)	(8.4)	(8.0)	(8.0)
<b>Pre-tax profit</b>	<b>35.9</b>	<b>50.3</b>	<b>66.8</b>	<b>82.2</b>	<b>92.5</b>
Net tax (expense) / benefit	(13.3)	(15.7)	(20.1)	(24.7)	(27.8)
Significant items/Adj.	6.9	1.1	3.5	-	-
Associate NPAT	-	-	-	-	-
<b>Normalised NPAT</b>	<b>29.5</b>	<b>35.7</b>	<b>50.2</b>	<b>57.6</b>	<b>64.8</b>
<b>Reported NPAT</b>	<b>22.6</b>	<b>34.6</b>	<b>46.7</b>	<b>57.6</b>	<b>64.8</b>
Normalised dil. EPS (cps)	4.7	6.6	8.2	9.4	10.6
Reported EPS (cps)	4.8	6.5	8.2	9.4	10.6
Effective tax rate (%)	37.1	31.1	30.0	30.0	30.0
DPS (cps)	4.0	4.5	5.8	6.5	7.4
DPS (cps)	-	-	-	-	-
Dividend yield (%)	2.9	3.2	4.2	4.7	5.3
Payout ratio (%)	84.7	68.5	70.6	68.9	69.8
Franking (%)	100.0	100.0	100.0	100.0	100.0
Diluted # of shares (m)	477.7	527.5	569.1	610.4	610.4

CASH FLOW (A\$m)	2023A	2024A	2025E	2026E	2027E
EBITDA incl. adjustments	80.1	98.5	126.9	139.0	150.5
Change in working capital	(30.2)	15.6	(13.0)	(22.5)	(25.5)
Net Interest (paid)/received	(4.3)	(7.2)	(8.4)	(8.0)	(8.0)
Income tax paid	(2.5)	(13.2)	(20.4)	(24.7)	(27.8)
Other operating items	-	-	-	-	-
<b>Operating Cash Flow</b>	<b>43.1</b>	<b>93.8</b>	<b>85.2</b>	<b>83.8</b>	<b>89.3</b>
Capex	(30.3)	(25.5)	(26.6)	(30.2)	(31.0)
Acquisitions	(76.6)	(1.9)	(99.4)	-	-
Other investing items	-	-	(2.5)	-	-
<b>Investing Cash Flow</b>	<b>(102.5)</b>	<b>(25.3)</b>	<b>(121.0)</b>	<b>(30.2)</b>	<b>(31.0)</b>
Inc/(Dec) in equity	48.8	-	62.9	-	-
Inc/(Dec) in borrowings	25.9	(9.2)	37.5	(6.0)	-
Dividends paid	(17.1)	(20.9)	(27.5)	(38.0)	(41.7)
Other financing items	(9.7)	(12.9)	(13.9)	(14.9)	(15.3)
<b>Financing Cash Flow</b>	<b>47.9</b>	<b>(42.9)</b>	<b>59.0</b>	<b>(59.0)</b>	<b>(57.0)</b>
FX adjustment	(0.1)	(0.1)	-	-	-
Net Inc/(Dec) in Cash	(11.6)	25.5	23.2	(5.4)	1.2

BALANCE SHEET (A\$m)	2023A	2024A	2025E	2026E	2027E
Cash	47.7	73.4	96.6	91.2	92.5
Receivables	110.3	120.9	129.0	145.5	163.3
Inventory	88.0	92.2	139.1	164.1	184.1
Other current assets	25.9	31.1	40.2	44.7	50.4
PP & E	119.0	122.8	118.7	115.1	111.4
Investments	-	-	-	-	-
Financial Assets	-	-	-	-	-
Intangibles	170.4	167.8	285.2	285.2	285.2
Other non-current assets	29.9	32.3	39.7	51.4	66.3
<b>Total Assets</b>	<b>591.2</b>	<b>640.5</b>	<b>848.5</b>	<b>897.3</b>	<b>953.2</b>
Short term debt	20.3	17.6	23.3	20.3	20.3
Payables	116.1	143.7	183.3	211.9	225.7
Other current liabilities	46.2	48.8	70.9	65.8	69.8
Long term debt	44.4	38.0	69.7	66.7	66.7
Other non-current liabilities	15.7	22.0	26.2	37.9	52.9
<b>Total Liabilities</b>	<b>300.7</b>	<b>335.4</b>	<b>462.7</b>	<b>492.0</b>	<b>524.8</b>
<b>Total Equity</b>	<b>290.5</b>	<b>305.1</b>	<b>385.8</b>	<b>405.3</b>	<b>428.4</b>
Net debt (cash)	17.0	(17.8)	(3.6)	(4.2)	(5.4)

## Accumulate

DIVISIONS	2023A	2024A	2025E	2026E	2027E
<b>Revenue (A\$m)</b>					
Maintenance & Industrial Ser	542.1	661.5	877.1	963.8	1,024.7
Engineering & Construction	266.9	407.8	480.4	528.5	576.0
<b>EBITDA (A\$m)</b>					
Maintenance & Industrial Ser	76.1	94.2	123.7	133.6	141.1
Engineering & Construction	19.1	29.4	34.4	38.3	43.0
Corporate/Other	(15.0)	(25.0)	(31.3)	(32.8)	(33.6)

KEY METRICS (%)	2023A	2024A	2025E	2026E	2027E
Revenue growth	25.6	32.2	27.0	9.9	7.3
EBITDA growth	40.0	23.0	28.8	9.5	8.3
EBIT growth	36.1	42.9	30.7	20.2	11.3
Normalised EPS growth	5.8	39.1	25.0	14.9	12.5
EBITDA margin	9.9	9.2	9.3	9.3	9.4
OCF / EBITDA	62.3	115.8	89.8	83.8	83.0
EBIT margin	5.0	5.4	5.5	6.1	6.3
Return on assets	4.7	6.4	7.1	7.2	7.6
Return on equity	11.2	12.0	14.5	14.6	15.5

VALUATION RATIOS (x)	2023A	2024A	2025E	2026E	2027E
Reported P/E	29.2	21.3	17.0	14.8	13.1
Normalised P/E	29.5	21.2	17.0	14.8	13.1
Price To Free Cash Flow	51.3	10.7	13.4	15.7	14.5
Price To NTA	4.0	4.1	5.3	5.0	4.4
EV / EBITDA	8.4	7.2	6.2	6.0	5.6
EV / EBIT	16.8	12.3	10.4	9.3	8.3

LEVERAGE	2023A	2024A	2025E	2026E	2027E
ND / (ND + Equity) (%)	5.5	(6.2)	(0.9)	(1.0)	(1.3)
Net Debt / EBITDA (%)	21.2	(18.1)	(2.8)	(3.0)	(3.6)
EBIT Interest Cover (x)	9.3	8.0	9.0	11.2	12.6
EBITDA Interest Cover (x)	18.4	13.7	15.2	17.3	18.9

SUBSTANTIAL HOLDERS	m	%
Perennial Value Management Limited	25.8	7.0%
First Sentier Investors (Australia) IM L	18.7	5.8%
Dimensional Advisors	17.5	3.8%

VALUATION	
<b>WACC (%)</b>	<b>10.7</b>
<b>Equity NPV Per Share (\$)</b>	<b>1.36</b>
Multiples valuation	1.46
Target Price Method	Blended (DCF/SOTP)
Target Price (\$)	1.41
Valuation disc. / (prem.) to share price (%)	1.3

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## Guide to Ord Minnett Recommendations

**Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.**

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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