

SRG Global (SRG)

Rating: Buy | Risk: High | Price Target: \$1.60

18 February 2025

Solid. Reassuring. Great!

Key Information

Current Price (\$ps)	1.40
12m Target Price (\$ps)	1.60
52 Week Range (\$ps)	0.73 - 1.47
Target Price Upside (%)	14.7%
TSR (%)	18.4%
Reporting Currency	AUD
Market Cap (\$m)	842.5
Sector	Industrials
Avg Daily Volume (m)	2.9
ASX 200 Weight (%)	0.03%

Fundamentals

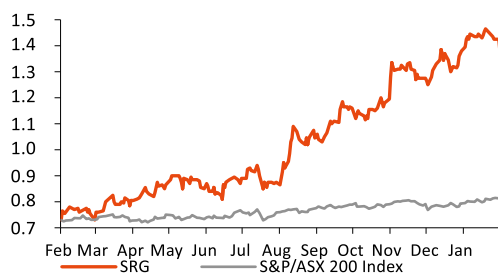
YE 30 Jun (AUD)	FY24A	FY25E	FY26E	FY27E
Sales (\$m)	1,069.3	1,319.3	1,407.5	1,477.9
NPAT (\$m)	35.9	50.0	54.0	58.1
EPS (cps)	6.9	8.5	8.9	9.6
EPS Growth (%)	20.3%	22.5%	5.8%	7.5%
DPS (cps) (AUD)	4.5	5.2	5.4	5.7
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY24A	FY25E	FY26E	FY27E
P/E (x)	12.1	16.5	15.6	14.5
EV/EBITDA (x)	8.4	6.7	6.1	5.5
Div Yield (%)	5.4%	3.7%	3.9%	4.1%
Payout Ratio (%)	65.3%	61.5%	60.4%	59.3%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(3.1%)	5.1%	12.2%	76.9%
Absolute (%)	(0.4%)	7.8%	15.1%	88.4%
Benchmark (%)	2.7%	2.7%	2.9%	11.5%



Major Shareholders

Perennial Value Management	4.9%
Kohlberg Kravis Roberts & Co.	4.3%
Norges Bank Investment Management	2.6%

Event

The SRG share price had rallied circa 95% over the 12 months leading into its 1H25 financial results. The share price reaction on 1H25 results day suggested a combination of profit taking and some investors perhaps feeling underwhelmed by a circa 1.2% FY25 EBITDA guidance upgrade. SRG's comments regarding its FY25 EBITDA and EBIT(A) were broadly in line with our prior forecasts and we have made minor changes to these forecasts. And with an opportunity pipeline of circa \$8.5b we remain confident that SRG can continue to growth its EBITDA over time. We have increased our NPAT(A) forecasts for FY25/FY26/FY27 by 7.0%/5.3%/4.9%. Our DCF valuation has increased from \$1.40/s to \$1.60/s as the net result of our forecast changes and model roll forward. Given the potential TSR of circa 18%, we retain our BUY rating.

Highlights

- 1H25 Financial Results:** Revenue of \$619.7m was up 21.4% versus PCP though 3.3% below Shaw. **Record underlying EBITDA** of \$59.0m was up 31.0% versus PCP though 3.9% below Shaw. **EBITDA margin increased 70bps to 9.5%**. EBIT(A) of \$28.4m was up 48.5% versus PCP though 7.1% below Shaw. **EBIT(A) margin of 6.8% was up 124bp versus PCP**. NPAT(A) of \$26.6m was 50.6% ahead of PCP though 3.7% below Shaw. Reported NPAT of \$18.9m was up 24.1% versus PCP and included \$3.5m (net) acquisition costs. Dividends totalled 2.5 cps (FF) (+25% vs PCP) versus the Shaw forecast of 2.6 cps. **EBITDA cash conversion was 120%**. Transitioned to **net cash** of \$9.1m from pro forma net debt of \$38.2m post Diona acquisition. Diona fully integrated into SRG Global with a number of excellent early wins. **Diona contributed** \$65.9m revenue and \$6.9m PBT. **Record Work in Hand of \$3.4b** (incl \$1b from Diona) and **Opportunity Pipeline of \$8.5b**.
- Maintenance & Industrial Services** saw revenue increase 19.4% to \$388.0m (-10.9% vs Shaw). EBITDA increased 24.7% to \$56.8m (-8.5% vs Shaw). EBITDA margin increased 62bps to 14.6% (+39bp vs Shaw). Segment continues to deliver step change growth combined with consistent margin delivery.
- Engineering & Construction** revenue increased 24.8% to \$231.7m (+12.7% vs Shaw). EBITDA increased 53.1% to \$16.5m (+11.7% vs Shaw). EBITDA margin increased 132bps to 7.1% (-7bp vs Shaw). Segment continued to deliver solid results with financials in line with historical results.
- Corporate costs** increased 26.7% to \$14.3m (-7.5% vs Shaw). Corporate overheads equated to 2.3% of revenue, in line with previous years.
- Outlook: FY25 EBITDA guidance upgraded to \$125m - \$128m** (from ~ \$125m). Prior Shaw forecast was \$125.8m. Factset consensus was \$126.3m. **FY25 EBIT(A) to be in the range \$91m - \$94m**. Prior Shaw forecast was \$90.0m. Factset consensus was \$84.4m. **\$3.4b WIH and \$8.5b Opportunity Pipeline** provides platform for long-term sustainable growth. Positive exposure to growth sectors including water, defence, resources, transport and energy. **Earning profile of circa 80% annuity / recurring earnings** in FY25 and beyond. Strategic transformation to a diversified infrastructure services business will continue to deliver consistent growth and high-quality returns.
- Shaw Forecasts:** We have updated our forecasts to reflect the run-rates in the 1H25 financial results and upgraded FY25 guidance. For FY25/FY26/FY27 our EBITDA forecasts have changed by less than 1% and our EPS forecasts have changed by 1.2% or less. **Our NPAT(A) forecasts have increased by 7.0%/5.3%/4.9%**. For FY25, we forecast EBITDA of \$126.6m and EBIT(A) of \$91.7m, consistent with the revised company guidance. See Figure 2. **Our DCF valuation has increased from \$1.40 per share to \$1.60 per share** as the net result of our forecast changes and model roll forward.

Recommendation

SRG is a high-quality company who's share price is trading well below our revised price target of \$1.60 per share. Accordingly, we rate the stock a BUY.

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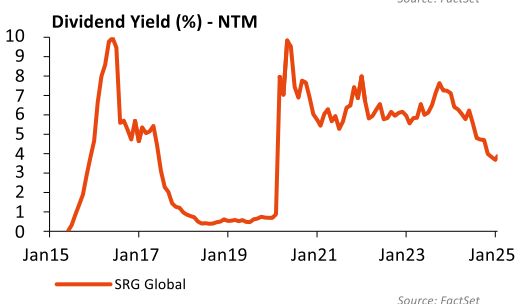
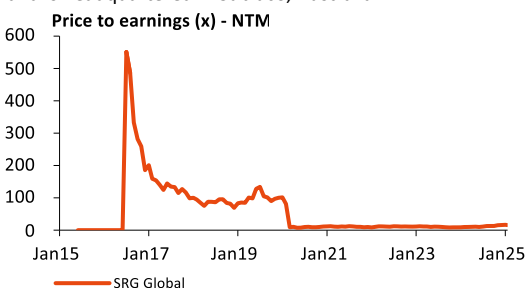
**SRG Global
Industrials
Capital Goods**

FactSet: SRG-AU / Bloomberg: SRG AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	1.40
Target Price (\$ps)	1.60
52 Week Range (\$ps)	0.73 - 1.47
Shares on Issue (m)	603.9
Market Cap (\$m)	842.5
Enterprise Value (\$m)	849.4
TSR (%)	18.4%

Valuation NPV	Data
Beta	1.20
Cost of Equity (%)	11.2%
Cost of Debt (net) (%)	4.2%
Risk Free Rate (%)	4.0%
Terminal Growth (%)	2.5%
WACC (%)	9.5%

SRG Global Ltd. is an engineering-led global specialist asset services, mining services and construction group operating across the entire asset lifecycle of engineer, construct and sustain. It operates through the following segments: Asset Services, Mining Services and Construction. The Asset Services segment supplies integrated services to customers across the entire asset life cycle. The Mining Services segment provides services to mining clients and ground solutions including production drilling, ground and slope stabilization, design engineering and monitoring services. The Construction segment supplies integrated products and services to customers involved in the construction of complex infrastructure. The company was founded in 1961 and is headquartered in Subiaco, Australia.



Financial Year End: 30 June

Investment Summary (AUD)	FY23A	FY24A	FY25E	FY26E	FY27E
EPS (Reported) (cps)	4.8	6.6	7.8	8.9	9.6
EPS (Underlying) (cps)	5.7	6.9	8.5	8.9	9.6
EPS (Underlying) Growth (%)	22.7%	20.3%	22.5%	5.8%	7.5%
PE (Underlying) (x)	13.1	12.1	16.5	15.6	14.5
EV / EBIT (x)	18.4	14.0	10.6	9.5	8.6
EV / EBITDA (x)	10.7	8.4	6.7	6.1	5.5
DPS (cps) (AUD)	4.0	4.5	5.2	5.4	5.7
Dividend Yield (%)	5.3%	5.4%	3.7%	3.9%	4.1%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	69.8%	65.3%	61.5%	60.4%	59.3%
Profit and Loss (AUD) (m)	FY23A	FY24A	FY25E	FY26E	FY27E
Sales	809.0	1,069.3	1,319.3	1,407.5	1,477.9
Sales Growth (%)	25.6%	32.2%	23.4%	6.7%	5.0%
EBITDA	80.1	98.5	126.6	134.1	141.7
EBITDA Margin (%)	9.9%	9.2%	9.6%	9.5%	9.6%
Depreciation & Amortisation	(33.4)	(39.7)	(46.8)	(48.5)	(50.4)
EBIT	46.7	58.8	79.8	85.5	91.3
EBIT Margin (%)	5.8%	5.5%	6.1%	6.1%	6.2%
Net Interest	(4.3)	(7.2)	(8.4)	(8.4)	(8.4)
Pretax Profit	42.3	51.6	71.5	77.2	83.0
Tax	(15.3)	(15.7)	(21.5)	(23.2)	(24.9)
Tax Rate (%)	(36.0%)	(30.3%)	(30.0%)	(30.0%)	(30.0%)
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	27.1	35.9	50.0	54.0	58.1
Significant Items	(4.5)	(1.5)	(3.5)	0.0	0.0
NPAT Reported	22.6	34.4	46.5	54.0	58.1
Cashflow (AUD) (m)	FY23A	FY24A	FY25E	FY26E	FY27E
EBIT	46.7	58.8	79.8	85.5	91.3
Tax Paid	(2.5)	(13.2)	(17.3)	(17.2)	(18.9)
Net Interest	(4.3)	(7.2)	(8.4)	(8.4)	(8.4)
Change in Working Capital	(21.4)	12.4	(0.8)	(0.3)	(0.2)
Depreciation & Amortisation	33.4	39.7	46.8	48.5	50.4
Other	(8.7)	3.2	(23.6)	0.0	0.0
Operating Cashflow	43.1	93.8	76.6	108.3	114.2
Capex	(30.3)	(25.5)	(39.6)	(42.2)	(44.3)
Acquisitions and Investments	(75.3)	0.0	(99.0)	0.0	0.0
Disposal of Fixed Assets/Investments	4.4	2.2	7.6	0.0	0.0
Other	(1.4)	(1.9)	(0.5)	0.0	0.0
Investing Cashflow	(102.5)	(25.3)	(131.4)	(42.2)	(44.3)
Equity Raised / Bought Back	48.8	0.0	62.9	0.0	0.0
Dividends Paid	(17.1)	(20.9)	(26.1)	(32.6)	(35.0)
Change in Debt	16.2	(22.1)	40.5	0.0	0.0
Other	0.0	0.0	(6.6)	0.0	0.0
Financing Cashflow	47.9	(42.9)	70.6	(32.6)	(35.0)
Exchange Rate Effect	(0.1)	0.1	0.0	0.0	0.0
Net Change in Cash	(11.6)	25.6	15.8	33.4	34.8
Balance Sheet (AUD) (m)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash	47.7	73.4	89.1	122.5	157.4
Accounts Receivable	110.3	120.9	149.2	159.2	167.1
Inventory	21.5	26.0	32.0	34.2	35.9
Other Current Assets	92.4	97.3	113.5	113.5	113.5
PPE	119.0	122.8	132.9	155.0	172.6
Goodwill & Intangibles	170.4	167.8	279.4	267.5	255.7
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	29.9	32.3	30.0	7.5	(10.2)
Total Assets	591.2	640.5	826.2	859.4	891.9
Accounts Payable	116.1	143.7	177.3	189.1	198.6
Short Term Debt	20.3	17.6	26.3	26.3	26.3
Long Term Debt	44.4	38.0	69.7	69.7	69.7
Income Taxes Payable	0.5	1.2	0.0	0.0	0.0
Other	119.4	135.0	163.4	163.4	163.4
Total Liabilities	300.7	335.4	436.7	448.6	458.0
Total Shareholder Equity	290.5	305.1	389.5	410.9	433.9
Ratios	FY23A	FY24A	FY25E	FY26E	FY27E
ROE (%)	10.3%	12.1%	14.4%	13.5%	13.7%
ROIC (%)	12.4%	13.9%	16.0%	15.8%	17.4%
Gearing (%)	5.5%	(6.2%)	1.7%	(6.9%)	(16.5%)
Net Debt / EBITDA (x)	0.2	(0.2)	0.1	(0.2)	(0.4)

Financial Results Analysis & Earnings Forecast Changes

Figure 1: Financial Results Analysis

SRG Global Limited	1H24A \$m	1H25A \$m	Growth %	1H25F \$m	Beat / Miss %
Revenue	510.7	619.7	21.4%	641.2	-3.3%
Maintenance & Industrial Services	324.9	388.0	19.4%	435.7	-10.9%
Engineering & Construction	185.7	231.7	24.8%	205.5	12.7%
Other Revenue	2.0	1.0	-48.2%	0.0	na
EBITDA	45.1	59.0	31.0%	61.4	-3.9%
Maintenance & Industrial Services	45.5	56.8	24.7%	62.0	-8.5%
Engineering & Construction	10.8	16.5	53.1%	14.8	11.7%
Corporate	-11.3	-14.3	26.7%	-15.4	-7.5%
Depreciation & Amortisation	-20.1	-22.8	13.5%	-19.3	18.3%
EBIT(A)	28.4	42.1	48.5%	45.4	-7.1%
EBIT	24.9	36.2	45.0%	42.1	-14.1%
EBITDA margin	8.8%	9.5%	70bp	9.6%	-5bp
EBIT(A) margin	5.6%	6.8%	124bp	7.1%	-28bp
EBIT margin	4.9%	5.8%	95bp	6.6%	-73bp
Interest expense	-4.0	-4.1	2.4%	-5.9	-30.8%
Income tax	-5.7	-9.6	69.7%	-10.9	-11.2%
Net profit after tax (underlying)	15.3	22.4	47.0%	25.3	-11.4%
NPAT(A)	17.7	26.6	50.6%	27.6	-3.7%
Net profit after tax	15.3	18.9	24.1%	25.3	-25.2%
Basic EPS (cents)	2.9	3.9	32.5%	4.4	-11.9%
Diluted EPS (cents)	2.9	3.8	32.9%	4.4	-12.2%
DPS (cents)	2.0	2.5	25.0%	2.6	-3.8%
Net operating cashflow (including leases)	49.8	52.2	4.8%	46.1	13.3%
Net investing cashflow	-9.4	-104.1	1010.4%	-135.2	-23.0%
EBITDA margins	1H24A	1H25A	Growth	1H25F	Beat / Miss
Maintenance & Industrial Services	14.0%	14.6%	62bp	14.2%	39bp
Engineering & Construction	5.8%	7.1%	132bp	7.2%	-7bp
Corporate	-2.2%	-2.3%	-10bp	-2.4%	10bp

Source: Shaw and Partners; SRG; New reporting segments from FY24

Figure 2: Earnings Forecast Changes

SRG Global Limited	FY23A \$m	FY24A \$m	FY25F \$m	Prev \$m	Change %	FY26F \$m	Prev \$m	Change %	FY27F \$m	Prev \$m	Change %
Revenue	809.0	1069.3	1319.3	1335.8	-1.2%	1407.5	1425.3	-1.2%	1477.9	1496.5	-1.2%
Maintenance & Industrial Services	542.1	661.5	891.1	907.6	-1.8%	957.9	975.7	-1.8%	1005.8	1024.5	-1.8%
Engineering & Construction	266.9	407.8	428.2	428.2	0.0%	449.6	449.6	0.0%	472.1	472.1	0.0%
Other Revenue	2.8	3.3	1.0	0.0	na	0.0	0.0	na	0.0	0.0	na
EBITDA	80.1	98.5	126.6	125.8	0.7%	134.1	134.3	-0.1%	141.7	141.9	-0.1%
Maintenance & Industrial Services	76.1	94.2	128.9	129.3	-0.3%	138.5	138.9	-0.3%	145.4	145.9	-0.3%
Engineering & Construction	21.1	29.4	30.5	30.8	-0.9%	32.1	32.4	-0.9%	33.7	34.0	-0.9%
Corporate	-21.5	-25.0	-33.8	-34.3	-1.5%	-36.5	-37.1	-1.5%	-37.4	-38.0	-1.5%
Depreciation & Amortisation	-33.4	-39.7	-46.8	-42.6	9.8%	-48.5	-44.4	9.3%	-50.4	-46.3	8.9%
EBIT(A)	50.6	65.6	91.7	90.0	1.8%	97.4	96.7	0.7%	103.2	102.5	0.7%
EBIT	46.7	58.8	79.8	83.2	-4.0%	85.5	89.9	-4.8%	91.3	95.6	-4.5%
EBITDA margin	9.9%	9.2%	9.6%	9.4%	18bp	9.5%	9.4%	11bp	9.6%	9.5%	11bp
EBIT(A) margin	6.3%	6.1%	6.9%	6.7%	21bp	6.9%	6.8%	13bp	7.0%	6.8%	13bp
EBIT margin	5.8%	5.5%	6.1%	6.2%	-18bp	6.1%	6.3%	-23bp	6.2%	6.4%	-21bp
Interest expense	-4.3	-7.2	-8.4	-12.2	-31.4%	-8.4	-12.2	-31.4%	-8.4	-12.2	-31.4%
Income tax	-15.3	-15.7	-21.5	-21.3	0.8%	-23.2	-23.3	-0.5%	-24.9	-25.0	-0.5%
Net profit after tax (underlying)	27.1	35.9	50.0	49.7	0.6%	54.0	54.4	-0.7%	58.1	58.4	-0.6%
NPAT(A)	29.9	40.7	58.3	54.5	7.0%	62.3	59.2	5.3%	66.3	63.2	4.9%
Net profit after tax	22.6	34.4	46.5	49.7	-6.4%	54.0	54.4	-0.7%	58.1	58.4	-0.6%
Basic EPS (cents)	5.7	6.9	8.5	8.5	-0.2%	8.9	9.1	-1.2%	9.6	9.7	-1.1%
Diluted EPS (cents)	5.7	6.8	8.3	8.4	-0.5%	9.0	9.2	-1.8%	9.7	9.8	-1.7%
DPS (cents)	4.0	4.5	5.2	5.0	4.0%	5.4	5.5	-1.8%	5.7	5.9	-3.4%
Net operating cashflow (including leases)	43.1	93.8	76.6	97.5	-21.5%	108.3	104.5	3.6%	114.2	110.5	3.4%
Net investing cashflow	-102.5	-25.3	-131.4	-156.1	-15.8%	-42.2	-42.8	-1.2%	-44.3	-44.9	-1.2%
EBITDA margins	FY23A	FY24A	FY25F	Prev	Change	FY26F	Prev	Change	FY27F	Prev	Change
Maintenance & Industrial Services	14.0%	14.2%	14.5%	14.2%	22bp	14.5%	14.2%	22bp	14.5%	14.2%	22bp
Engineering & Construction	7.9%	7.2%	7.1%	7.2%	-7bp	7.1%	7.2%	-7bp	7.1%	7.2%	-7bp
Corporate	-2.7%	-2.3%	-2.6%	-2.6%	1bp	-2.6%	-2.6%	1bp	-2.5%	-2.5%	1bp

Source: Shaw and Partners; SRG; New reporting segments from FY24

Valuation

DCF Valuation

Our DCF valuation has increased from \$1.40 per share to \$1.60 per share as the net result of our forecast changes and model roll forward.

The key assumptions underlying our valuation are a Beta of 1.2, WACC of 9.5%, and terminal growth rate of 2.5%.

Key risks

- **Project delays:** Construction and mining service operations in Australia are sometimes subject to delays in the award of new projects and maintenance work. Project delays may result in lower earnings than we forecast.
- **Industry risk:** S&P categorize the global construction sector as having above-average risks. However, SRG's focus on Asset and Mining Services and annuity (and alliance) style contracts have helped manage this risk.
- **Customer risk:** SRG has a broad range of customers across its three business units. No revenue from transactions with a single external customer amount to 10% or more of the Group's revenue. Key Government (good relationships with State and Federal NZ and Australia) and blue-chip corporate clients including Rio Tinto, Woodside, South 32, Yara, Multiplex, CPB etc.
- **Employee risk:** SRG has roughly 4,300 employees (technical, engineering, operational, management). Key personnel departure represents a business risk.
- **Commodity Prices:** SRG is exposed to commodity price risk through its consumption of steel its operations use for post-tensioning, and to a lesser degree in the mining services business. SRG monitors forward steel prices and endeavours to lock in agreed prices on a project-by-project basis prior to formalizing bid prices wherever possible.
- **Foreign Exchange:** SRG is exposed to foreign exchange risk in overseas projects executed by local subsidiaries. SRG does not hedge this risk however continues to monitor exchange rates so that currency exposure is maintained at an acceptable level. There is a natural hedge in place to the extent project costs are materially of the same foreign currency.
- **Acquisitions Integration Risk:** Any transaction comes with some integration risk.

Core drivers and catalyst

- Infrastructure investment by both governments and private sector.
- Maintenance expenditure continues to increase, driven by number of assets and outsourcing trend.
- Rising commodity prices boosting Mining investment.
- All the above, resulting in improving order book / WIH / pipeline.
- Higher recurring revenues.
- Lower risk alliance style contracts.
- Acquisitions / M&A potential.
- Margin improvement at the divisional level.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

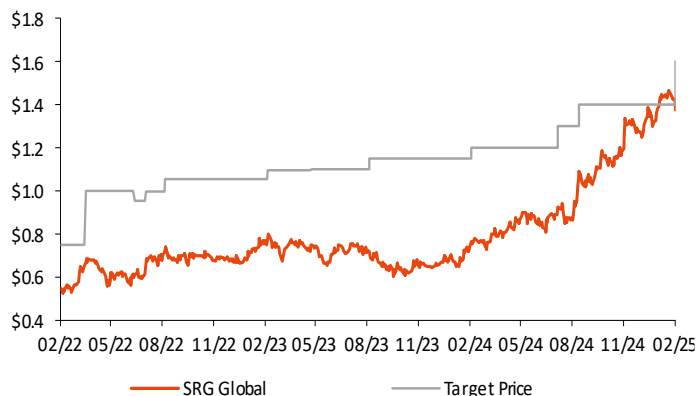
RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	74	90%
Hold	8	10%
Sell	0	0%

History of Investment Rating and Target Price - SRG Global

Date	Closing Price (\$)	Target Price (\$)	Rating
18-Feb-25	1.38	1.60	Buy
30-Aug-24	1.09	1.40	Buy
23-Jul-24	0.93	1.30	Buy
20-Feb-24	0.77	1.20	Buy
22-Aug-23	0.72	1.15	Buy
10-May-23	0.75	1.10	Buy
22-Feb-23	0.76	1.10	Buy
23-Aug-22	0.71	1.05	Buy
20-Jul-22	0.67	1.00	Buy
30-Jun-22	0.61	0.95	Buy
4-Apr-22	0.67	1.00	Buy



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