

SRG GLOBAL LIMITED

December 13, 2022



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SRG Global Limited
Equity Analysis

Kapitales Research Rating ★★★★★
Recommendation Speculative Buy
Current Market Price \$0.690
Risk High

52 Week Range (AUD)



Average volume	397.317 K	52 Week Range (AUD)	0.420 - 0.745
Shares outstanding	445.80 M	Dividend amount (AUD)	0.015
Free float	360.27 M	Dividend Yield	4.31%
P/E (TTM)	15.58x	Ex-date	08-Sep-22
Market cap (AUD)	311.45 M	Record date	09-Sep-22
EPS (TTM)	0.044	Pay date	13-Sep-22
ROE	8.73%	Franking	100%

Source: (ASX and Refinitiv), Analysis by Kapitales Research

SRG Global Limited (ASX: SRG) is an engineering-led specialist asset maintenance, mining and construction services. It operates through three segments: Asset Maintenance, Mining Services and Engineering & Construction. The Asset Maintenance segment consists of supplying integrated services to customers across the entire asset life cycle. It serves various sectors, including oil and gas, energy, infrastructure, offshore, mining, power generation, water treatment plants, commissioning, decommissioning, shutdowns, and civil works. The Mining Services segment services mining clients and provides ground solutions including production drilling, ground and slope stabilization, design engineering and monitoring services.

SWOT Analysis
Strength

1. The company's revenue stood at AUD 644.20 million in FY22, compared to AUD 247.80 million in FY18, reflecting a CAGR of ~26.98% from FY18 to FY22.
2. Net profit for the year period stood at AUD 20.10 million, higher than AUD 12.10 million in FY21.

Weakness

1. The group reported higher construction, servicing and contract costs, along with an increase in employee benefits expenses and higher other expenses.
2. The company's reported an ROE of 8.7% in FY22, slightly lower than the industry median of 9.4%, which indicates that the company has a lower return ratio.

SWOT Analysis
Opportunity

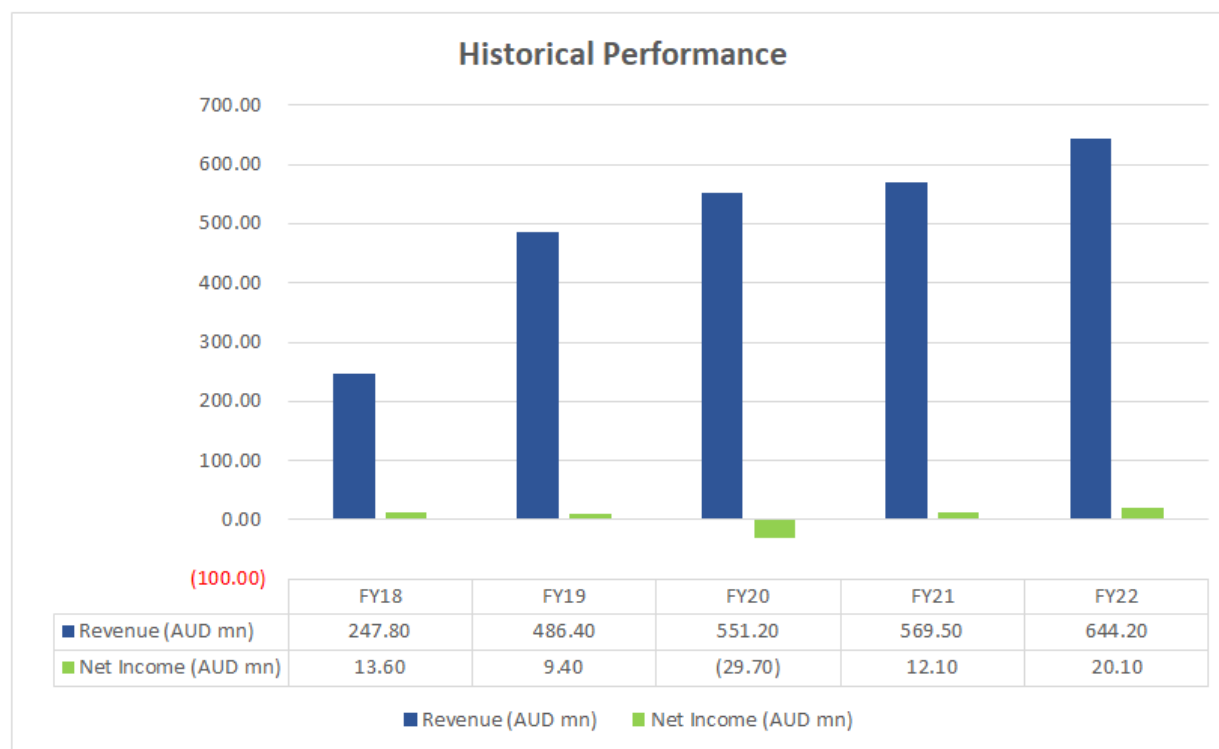
The group expects its momentum to continue in FY23 supported new order wins along with positive exposure to broader macro-economic growth drivers. The Group expects its FY23 EBITDA at ~25%, which is higher than FY22 EBITDA. Moreover, as per the management, the company is well positioned for long-term sustainable growth, positive exposure to broader macro-economic growth drivers.

Threat

The company's margin can be impacted due to slower economic growth, which might lead to a decline in order book due to lower capital allocation across industrials and mining segments. Moreover, the company's market share might be impacted due to the arrival of new players within the industry, which might also lead to price competition.

Historical Performance

The company's revenue stood at AUD 644.20 million in FY22, compared to AUD 247.80 million in FY18, reflecting a CAGR of ~26.98% from FY18 to FY22. The company's net income stood at AUD 20.10 million in FY22 versus a net income of AUD 13.60 million in FY18, which indicates a 10.26% CAGR.

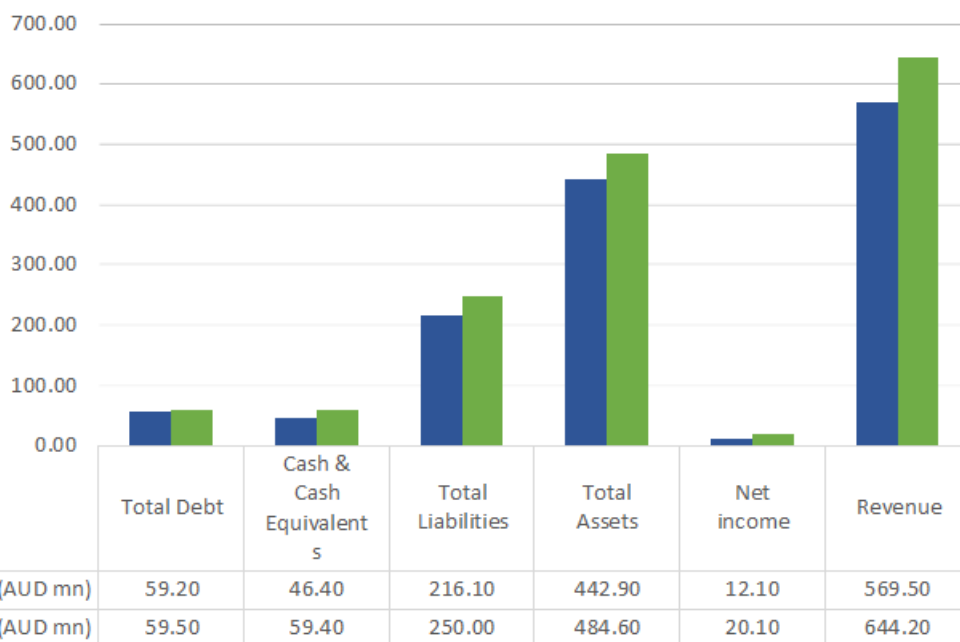


Source: Refinitiv, Analysis by Kapitales Research

FY22 Performance (Ended 30 June 2022)

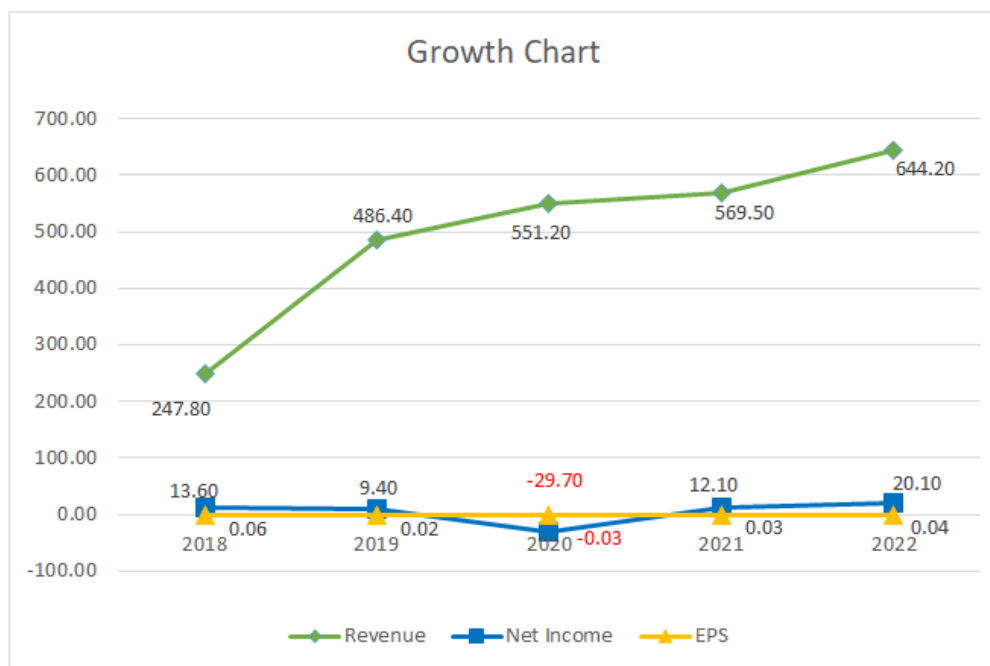
- In FY22, the company reported its revenue of AUD 644.20 million, significantly higher than AUD 569.50 million in FY21. This was primarily due to higher income from all its two operating segments.
- The group reported higher construction, servicing and contract costs, along with an increase in employee benefits expenses and higher other expenses. Profit before income tax surged AUD 26.99 million in FY22, significantly higher than AUD 18.61 million in FY21.
- Net profit for the year period stood at AUD 20.10 million, higher than AUD 12.10 million in FY21.
- The company ended the period with a cash balance of AUD 59.40 million, while its total assets were recorded at AUD 484.60 million.

FINANCIAL STATISTICS






Source: Refinitiv, Analysis by Kapitales Research

Revenue, Net Income and EPS growth History



Source: Refinitiv, Analysis by Kapitales Research

Year	2018	2019	2020	2021	2022	Growth Trend
Revenue	247.80	486.40	551.20	569.50	644.20	
Net Income	13.60	9.40	-29.70	12.10	20.10	
EPS	0.06	0.02	-0.03	0.03	0.04	

Source: Refinitiv, Analysis by Kapitales Research

Ratio Analysis

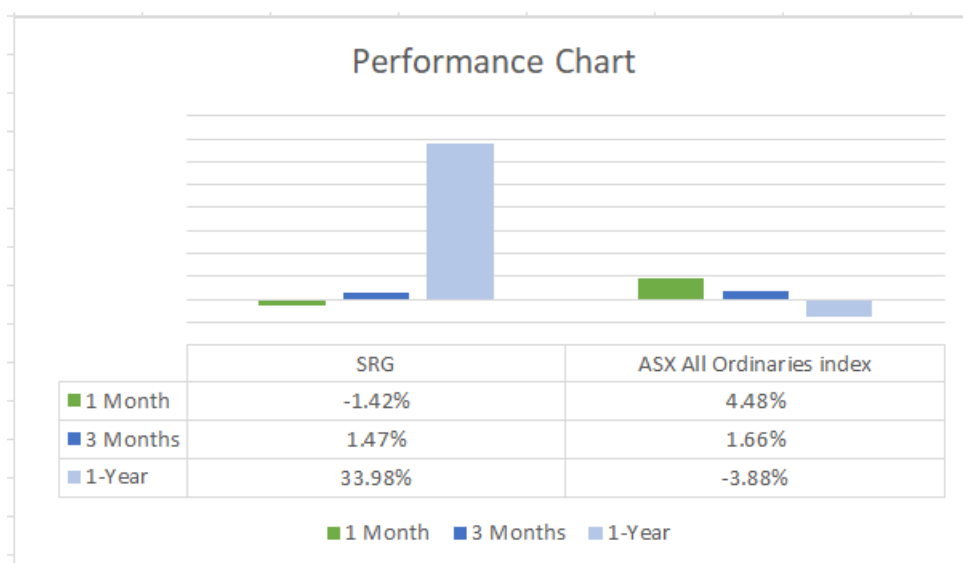
- The company's EBITDA margin and operating margin stood at 8.4% and 4.2%, respectively in FY22, as compared to the industry median of 5.4% and 4.0%, respectively. This indicates that the company has a strong cost structure.
- Net margin stood at 3.1% in FY22, as compared to the industry median of 2.7%, which shows that the group has an excellent profitability margin.
- The company's reported an ROE of 8.7% in FY22, slightly lower than the industry median of 9.4%, which indicates that the company has a lower return ratio.
- The group reported its D/E ratio of 0.25x in FY22, versus the industry median of 0.55x, which indicates higher financial flexibility.

	Industry Median	2022	2021	2020	2019	2018
Gross Margin	12.6%	52.7%	51.3%	46.7%	49.5%	41.7%
EBITDA Margin	5.4%	8.4%	8.1%	2.7%	3.5%	9.2%
Operating Margin	4.0%	4.2%	3.5%	(6.2%)	0.2%	7.6%
Net Margin	2.7%	3.1%	2.1%	(5.4%)	1.9%	5.7%
Asset Turnover	0.64	1.39	1.32	1.29	1.46	1.08
ROE	9.4%	8.7%	5.4%	(12.5%)	4.6%	8.3%
Quick Ratio	1.01	1.07	1.08	1.06	1.26	1.94
Current Ratio	1.23	1.16	1.17	1.16	1.35	2.20
Times Interest Earned	6.1	33.6	25.7	(9.7)	-	37.8
Cash Cycle (Days)	105.3	20.0	28.0	36.0	26.2	93.2
Assets/Equity	3.41	2.07	1.95	1.91	1.70	1.50
Debt/Equity	0.55	0.25	0.26	0.31	0.18	0.03
% LT Debt to Total Capital	14.7%	12.4%	11.9%	15.7%	8.3%	0.4%
(Total Debt - Cash) / EBITDA	2.32	0.12	0.53	0.78	-	-
ROIC	-	7.4%	4.5%	(10.7%)	4.0%	7.6%

Source: Refinitiv, Analysis by Kapitales Research

Price Performance

The stock of SRG reported mixed returns of 1.47% and 33.98%, respectively, in the last three months and one year, respectively, higher than the index return of 1.66% and -3.68%, respectively.



Source: Refinitiv, Analysis by Kapitales Research

Shareholding Pattern

The Company's top 10 shareholders constitute around 38.58% of the total interest in the company. Colonial First State Investments Limited and First Sentier Investors hold major stakes of 6.77% each, respectively.

Number	Investor Name	% Outstanding	Position (mn)	Position Change (mn)	Value (\$mn)	Filing Date
1	Colonial First State Investments Limited	6.77%	30.35	-7.82	12.78	02-Jun-2022
2	First Sentier Investors	6.77%	30.35	0	14.53	19-Aug-2022
3	Perennial Value Management Ltd.	5.93%	26.56	0	12.71	19-Aug-2022
4	Ryder Investment Management Pty. Ltd.	5.12%	22.92	0	10.97	19-Aug-2022
5	Norges Bank Investment Management (NBIM)	2.91%	13.02	+13.02	4.82	31-Dec-2021
6	Wentworth Williamson Management Pty Limited	2.90%	12.99	-0.62	6.22	19-Aug-2022
7	McMorrow (Peter John)	2.79%	12.50	0	5.26	30-Jun-2022
8	Certane Ct Pty. Ltd.	1.96%	8.78	0	4.21	19-Aug-2022
9	Macgeorge (David William)	1.77%	7.94	+1.31	3.80	31-Aug-2022
10	Deakin Place Pty. Ltd.	1.66%	7.44	0	3.56	19-Aug-2022

Source: Refinitiv, Analysis by Kapitales Research

Important Update

- Recently, the company reported the acquisition of Bartek, an Engineered Products Business at a price consideration of AUD 2.6 million. Bartek has more than twenty years' experience in the Engineered Products Segment with significant expertise in the supply of engineered couplers, precast ferrules, starter bars, threaded anchors and rebar threading services.
- The Group reported that it has secured a specialist facades contract with Lendlease Building Contractors Pty Ltd valued at ~AUD 30 million. The contract is for the design, supply, and installation of specialist-engineered curtain wall facades at the 51 Flinders Lane development located in the Melbourne CBD. The contract will start immediately and is expected to be complete in 2025.

Outlook

The group expects its momentum to continue in FY23 supported new order wins along with positive exposure to broader macro-economic growth drivers. The Group expects its FY23 EBITDA at ~25%, which is higher than FY22 EBITDA. Moreover, as per the management, the company is well positioned for long-term sustainable growth, positive exposure to broader macro-economic growth drivers across the asset services, industrial, and mining sectors, as well as significant investment in the infrastructure and construction sectors.

Key Risks

The company's margin can be impacted due slower economic growth, which might lead to a decline in order book due to lower capital allocation across industrials and mining segments. Moreover, the company's market share might be impacted due to the arrival of new players within the industry, which might also lead to price competition.

Valuation

Relative Valuation Based on Price/Earnings Per Share	
SRG Global Limited	SRG
Earnings Per Share (FY23E AUD)	0.060
Price/EPS Multiple (NTM) (Peer Mean) (approx)	14.59x
Target Share Price (AUD)	0.875
Current Market Price (AUD) (13 December 2022)	0.690
Recommendation	Speculative Buy

Source: Refinitiv, Analysis by Kapitaless Research

Technical Analysis



Source: Refinitiv, Analysis by Kapitaless Research

Company Name	Ticker	Sector	CMP (\$)	Advisory date	Rating	Target 1 (\$)	Target 2 (\$)	Stop Loss (\$)
SRG Global Limited	SRG	Industrials	\$0.690	13 December 2022	Speculative Buy	\$0.780	\$0.875	\$0.598

On a weekly price chart, the SRG's stock closed above its 200-weeks, 50-weeks and 20-weeks EMAs, respectively, which indicates strong buying interest. Moreover, the stock has been in uptrend since April 2020, which indicates strong investor's participation. The volume of the stock has remained at the same level since the beginning of CY21, which further suggests decent buying interest.

Investors can enter at the current price level of AU\$ 0.690 with a target price of pivot resistance level R3 of AU\$ 0.780 and pivot resistance level R4 of AU\$ 0.875, respectively. Investors can either book full or partial profits at target and wait for the stock to achieve target 2 (depending on their risk appetite).

Investors are advised to keep a strict stop loss at or below AU\$ 0.598 (pivot resistance level R1) to protect their investments, in case of an unfavourable movement in the stock due to any uncertain event.

Please Note: It would be in the best interest of investors to trail their stop-loss upward if the stock is moving in our favourable direction.

Investment Summary

The company recently bagged ~AUD 45 million of contracts from multiple clients across the energy and health sectors in New Zealand. This marks the company's presence across New Zealand. Moreover, the business would sell its engineered products across the region related to the building and infrastructure industry in New Zealand. This looks impressive and would support the upcoming operations. The company has a robust balance sheet position to support growth working capital requirements and has a positive exposure towards the broader macro-economic growth drivers related to the asset services, industrial, and mining sectors. Hence, after considering the facts mentioned above facts, investors are advised to have a "Speculative Buy" rating on the stock of SRG at the closing price of AUD 0.690 on 13 December, 2022, with a target price of AUD 0.875.

Note: Kapitaless Research Rating Star has been decided over the quantitative analysis of the stock. Maximum number of stars can be 5, with 5 for the top rating and 1 for the lowest rating.

Technical Indicators Defined:

EMA: Exponential Moving Average is the moving average that puts more weight on the most recent data points. $EMA = \text{Closing price} * \text{multiplier} + EMA(\text{previous day}) * (1 - \text{multiplier})$. For a 200-day exponential moving average, the multiplier can be calculated with the formulae i.e. $[2/(200+1)] = 0.0095$.

RSI: Momentum indicator, Relative Strength Index is used to evaluate the overbought or oversold nature of an asset by measuring the magnitude of its recent price changes.

Bollinger Band: A technical analysis tool that uses two parameters i.e. period (default is 20) and standard deviations, forming a kind of price envelope depicting a range of upper price band and lower price band. This price band shifts according to the volatility swings, and it helps in identifying whether the underlying asset is in the overbought zone or oversold zone.

Support: This is a level or zone where the stock finds good demand indicating the buyer's strength.

Resistance: This is a level or zone where the stock finds a good supply indicating the seller's strength.

Stop-loss: This is the level from where the investors should exit their positions to prevent any further losses in case of unfavorable movement in the stock prices.

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Disclosure: The information mentioned above has been sourced from the company reports and a third-party database, i.e., Refinitiv. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.

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