ShawandPartners
an EFG company

SRG Global (SRG)

Rating: Buy | Risk: High | Price Target: $0.45

Initiation: Record WIH, Significant Recurring Revenues, Attractive Valuation, Strong Liquidity

Key Information

Current Price ($ps)	0.26
12m Target Price ($ps)	0.45
52 Week Range ($ps)	0.18 - 2.52
Target Price Upside (%)	73.1%
TSR (%)	75.0%
Reporting Currency	AUD
Market Cap ($m)	115.2
Sector	Industrials
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0.01%

Fundamentals

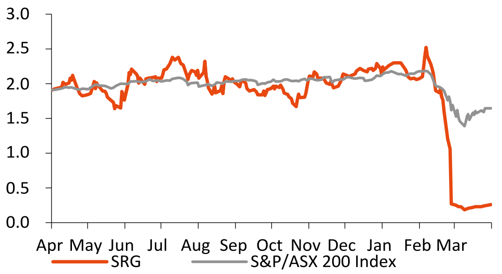
YE 30 Jun (AUD)	FY19A	FY20E	FY21E	FY22E
Sales ($m)	506.4	546.0	595.5	663.6
NPAT ($m)	20.7	7.5	14.5	20.2
EPS (cps)	4.7	1.7	3.3	4.6
EPS Growth (%)	(65.4%)	(64.2%)	94.9%	38.6%
DPS (cps) (AUD)	1.5	0.5	1.0	2.0
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY19A	FY20E	FY21E	FY22E
P/E (x)	43.9	15.4	7.9	5.7
EV/EBITDA (x)	28.1	3.8	1.3	0.3
Div Yield (%)	0.7%	1.9%	3.8%	7.7%
Payout Ratio (%)	31.8%	29.7%	30.4%	43.9%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	6.7%	(63.0%)	(65.3%)	(72.6%)
Absolute (%)	4.0%	(87.4%)	(87.9%)	(86.4%)
Benchmark (%)	(2.7%)	(24.4%)	(22.6%)	(13.8%)



Price performance indexed to 100 *Source:*

Major Shareholders

Perennial Value Managemen	14.7%
First Sentier Investors	9.7%

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Event

Shaw and Partners initiate coverage on SRG with a BUY recommendation and HIGH risk rating. Our composite valuation (DCF/SOTP/PE) derives a PT of $0.45, yielding a 12-month TSR of 75%.

Highlights

- **Between March and September 2018 three companies came together to create SRG Global** – in March 2018 SRG acquired the TBS Group, a specialist industrial contractor in asset and infrastructure services. Six months later, SRG and Global Construction Services implemented a merger of equals between the two ASX listed companies. The combined group, being SRG, GCS and TBS are now all SRG Global.
- **Last two years has seen SRG transition to become an end-to-end provider to global clients (e.g. Lendlease, Multiplex, FMG, Alcoa, John Holland, RIO, BGC) and experienced Board** – and the company continues to make significant progress on several fronts, notably earnings momentum (and margin improvements), improving utilisation of assets, balance sheet optimisation, reviewing non-core operations, enhancing operational scale and capability, implementation of proprietary technology (e.g. SureLok, post-tensioning cabling, dam anchoring and remediation) and providing guidance for future earnings growth to continue.
- **Record order book / work in hand (WIH) improvement in past 12 months of +42% to $737m** – augmented by an opportunity pipeline of $5.7b across diverse and high growth sectors.
- **Recurring revenue stream from WIH improved significantly over the past 12 months by $215m to ~70%**– pivots SRG with a sustainable growth trajectory in FY21+.
- **Initially provided FY20 guidance of an underlying EBITDA of between $30m to $34m but now withdrawn owing to COVID-19 as of 31 March 2020** – vs. Shaw's $21m conservative / cautious below market estimate. 1H20 EBITDA was $12.1m, and original guidance pointing to strong 2H performance from recent and multiple contract wins.
- **Macro backdrop very favourable across resources, energy, maintenance and infrastructure, with capex forecast to rise from FY20 to FY23** – to levels surpassing the historical peaks. This is very favourable to SRG.
- **Several channels earmarked for continued and future growth** – notably Asset Services (maintenance), building (facades, civil), infrastructure construction (dams, bridges, windfarms and LNG/cryogenic tanks), mining services (drill and blast with >90% utilisation, geotech services).
- **Robust financial position underpins the foundation of future growth** – covenant headroom, no banking facility up for review until early FY22, ample liquidity of $67m (cash on hand plus undrawn working cap facility as part of $292m in various funding facilities), net debt $11m (low gearing of 6%) and backed by tangible assets of $121m.
- **Risks** – project delays and cost over-runs, weaker commodity prices, higher steel prices, lower utilisation, renewed pricing pressure, contract terminations.

Recommendation

In short, SRG's business model is relatively simple: with earnings driven by a rigorous approach to maintenance capex, a conservative balance sheet, and improving metrics (margins, returns, utilisation, tender win rates, and recurring revenues) – all of which will drive future earnings. Despite some initial challenges with the GCS merger relating to the timing of award of GCS construction projects in WA (which the market was fully cognisant of and which are now eradicated), the combined SRG is now a stronger, lower cost and a far more competitive company with broader reach and diverse mix of clients and work. SRG trades on an attractive PE+1 of just 8x and EV/EBITDA of 1x – a 46% and 23% discount respectively to its small cap mining services peers.

SRG Global
Industrials
Capital Goods
FactSet: SRG-AU / Bloomberg: SRG AU

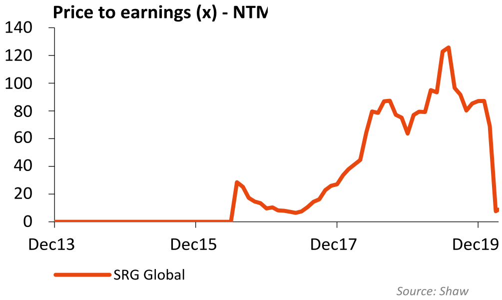
Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.26
Target Price ($ps)	0.45
52 Week Range ($ps)	0.18 - 2.52
Shares on Issue (m)	443.0
Market Cap ($m)	115.2
Enterprise Value ($m)	79.1
TSR (%)	75.0%

Valuation NPV	Data
Beta	1.30
Cost of Equity (%)	87.5%
Cost of Debt (net) (%)	12.5%
Risk Free Rate (%)	3.0%
Terminal Growth (%)	3.0%
WACC (%)	10.0%

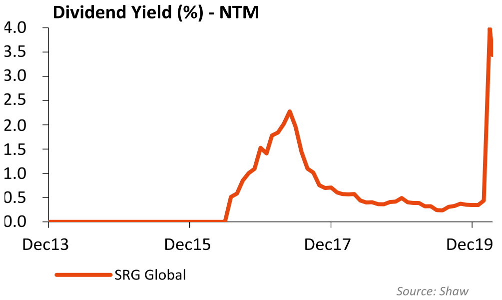
Company Description

SRG Global Ltd. is a construction and maintenance services company, which engages in the provision of a diverse range of integrated products, services and solutions covering the infrastructure, energy, oil and gas, resources and industrial, commercial, and residential sectors. It operates through the following business segments: Construction, Asset Services and Mining. The Construction segment consists of supplying integrated products and services to customers involved in the construction of complex infrastructure which includes bridges, dams, office towers, high rise apartments, shopping centres, hotels, car parks, recreational buildings, and hospitals. The Asset Services segment consists of supplying integrated services to customers across the entire asset life cycle. The Mining segment serves mining clients and provides comprehensive ground solutions including production drilling, ground and slope stabilization, design engineering and monitoring services. Contracts vary in length from short to long term. The company is headquartered in Subiaco, Australia.

Price to earnings (x) - NTM



Dividend Yield (%) - NTM



Financial Year End: 30 June

Investment Summary (AUD)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS (Reported) (cps)	**4.2**	**0.3**	**1.7**	**3.3**	**4.6**
EPS (Underlying) (cps)	**13.6**	**4.7**	**1.7**	**3.3**	**4.6**
EPS (Underlying) Growth (%)	n/a	(65.4%)	(64.2%)	94.9%	38.6%
PE (Underlying) (x)	**27.5**	**43.9**	**15.4**	**7.9**	**5.7**
EV / EBIT (x)	**29.5**	**40.0**	**9.4**	**1.9**	**0.5**
EV / EBITDA (x)	**21.3**	**28.1**	**3.8**	**1.3**	**0.3**
DPS (cps) (AUD)	2.0	1.5	0.5	1.0	2.0
Dividend Yield (%)	0.5%	0.7%	1.9%	3.8%	7.7%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	14.7%	31.8%	29.7%	30.4%	43.9%
Free Cash Flow Yield (%)	0.2%	(1.7%)	(14.4%)	(4.9%)	(0.8%)

Profit and Loss (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	431.6	506.4	546.0	595.5	663.6
Sales Growth (%)	*n/a*	*17.3%*	*7.8%*	*9.1%*	*11.4%*
Other Operating Income	0.0	0.0	0.0	0.0	0.0
EBITDA	**39.1**	**32.0**	**20.9**	**35.7**	**43.8**
EBITDA Margin (%)	*9.1%*	*6.3%*	*3.8%*	*6.0%*	*6.6%*
Depreciation & Amortisation	(10.9)	(9.5)	(12.5)	(12.6)	(12.7)
EBIT	**28.2**	**22.5**	**8.4**	**23.2**	**31.1**
EBIT Margin (%)	*6.5%*	*4.4%*	*1.5%*	*3.9%*	*4.7%*
Net Interest	(0.6)	(1.3)	(2.5)	(2.4)	(2.2)
Pretax Profit	27.6	21.2	5.9	20.8	28.8
Tax	2.7	(0.4)	1.6	(6.2)	(8.6)
Tax Rate (%)	*9.7%*	*(1.9%)*	*26.9%*	*(30.0%)*	*(30.0%)*
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	**30.2**	**20.7**	**7.5**	**14.5**	**20.2**
Significant Items	(20.8)	(19.6)	0.0	0.0	0.0
NPAT Reported	**9.4**	**1.2**	**7.5**	**14.5**	**20.2**

Cashflow (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	28.2	22.5	8.4	23.2	31.1
Tax Paid	(2.8)	(1.0)	(1.2)	(6.2)	(8.6)
Net Interest	(0.6)	(1.3)	(2.5)	(2.4)	(2.2)
Change in Working Capital	40.0	(8.6)	19.9	3.1	3.3
Depreciation & Amortisation	10.9	9.5	12.5	12.6	12.7
Other	(71.0)	(17.3)	(43.2)	(24.0)	(23.9)
Operating Cashflow	**4.6**	**3.7**	**(6.1)**	**6.3**	**12.3**
Capex	(2.6)	(19.4)	(10.4)	(11.9)	(13.3)
Acquisitions and Investments	(32.8)	(2.0)	(0.2)	0.0	0.0
Disposal of Fixed Assets/Investments	0.0	39.2	0.0	0.0	0.0
Other	0.3	1.4	3.4	(2.0)	(2.0)
Investing Cashflow	**(35.1)**	**19.3**	**(7.3)**	**(13.9)**	**(15.3)**
Free Cashflow	**2.0**	**(15.7)**	**(16.6)**	**(5.6)**	**(0.9)**
Equity Raised / Bought Back	24.5	0.8	0.0	0.0	0.0
Dividends Paid	(3.9)	(8.1)	(4.4)	0.0	(8.9)
Change in Debt	29.7	16.5	(1.7)	(2.6)	(2.5)
Other	(14.5)	(3.9)	41.7	41.7	41.7
Financing Cashflow	**35.7**	**5.3**	**35.6**	**39.1**	**30.4**
Exchange Rate Effect	0.1	0.3	0.0	0.0	0.0
Net Change in Cash	**5.3**	**28.6**	**22.2**	**31.4**	**27.4**

Balance Sheet (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	29.7	58.3	80.5	111.9	139.4
Accounts Receivable	73.0	118.0	123.3	130.8	138.7
Inventory	11.8	13.0	14.7	15.5	16.5
Other Current Assets	2.4	5.1	11.9	11.9	11.9
PPE	38.3	71.5	75.0	77.3	79.6
Goodwill & Intangibles	40.8	137.6	135.0	135.0	135.0
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	4.8	27.2	48.8	48.8	48.8
Total Assets	**200.8**	**430.6**	**489.1**	**531.2**	**569.8**
Accounts Payable	44.8	99.7	86.6	91.9	97.5
Short Term Debt	19.9	21.2	21.5	20.2	19.0
Long Term Debt	9.7	24.9	22.9	21.5	20.3
Income Taxes Payable	0.0	1.7	0.0	0.0	0.0
Other	12.7	30.4	46.2	46.2	46.2
Total Liabilities	**87.1**	**177.9**	**177.2**	**179.9**	**183.0**
Total Shareholder Equity	**113.7**	**252.7**	**311.9**	**351.3**	**386.8**

Ratios	FY18A	FY19A	FY20E	FY21E	FY22E
ROE (%)	53.2%	11.3%	2.6%	4.4%	5.5%
ROIC (%)	30.1%	11.4%	3.8%	4.1%	7.5%
Gearing (%)	(0.1%)	(5.1%)	(13.1%)	(25.0%)	(34.9%)
Net Debt / EBITDA (x)	(0.0)	(0.4)	(1.7)	(2.0)	(2.3)
Price to Book (x)	nm	nm	nm	nm	nm

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Section 1: Company Overview

Introduction

SRG Global is an engineering-led construction, maintenance and mining services group operating across the entire asset lifecycle of engineer, construct and sustain. The Company operates three segments of Construction, Asset Services and Mining Services.

SRG Global was born out of Australia's greatest ever engineering and construction challenge, the Snowy Mountains Hydro-electric Scheme, in 1961. The company offers specialist technical capabilities, diversified services and global experience working on buildings, bridges, dams, transport infrastructure, mining and oil and gas projects.

Between March and September 2018 three companies came together to create SRG Global. In March 2018 SRG acquired the TBS Group, a specialist industrial contractor in asset and infrastructure services. Six months later, SRG and Global Construction Services implemented a merger of equals between the two ASX listed companies. The combined group, being SRG, GCS and TBS are now all SRG Global.

As of 27 March, SRG employs ~1,950 employees.

Product and Service Capability

Figure 1: SRG Global Product & Service Capability

SECTOR	SPECIALTY	SCOPE OF ACHIEVEMENTS TO DATE
Building		
	- Design engineering - Post-tensioning - Form reo pour - Structure packages - Scaffold & access solutions - Façade design & construction - Rope access	- Ritz-Carlton Hotel (Perth) - Barangaroo (Sydney) - 300 George St Brisbane - Skytower (Brisbane) - Emirates Tower (Dubai) - Conservatorium of Music (Melbourne) - Capital Square (Perth) - Optus Stadium (Perth)
Civil		
	- Bridge construction - Dam strengthening - Silo and tank construction - Ground and slope stabilisation - Slipform construction - Windfarm foundations - Stay cable systems - Ground anchoring - Heavy lifting and shifting - Design engineering	- Elizabeth Quay Bridge (Perth) - Seaford Rail Extension (Adelaide) - Doha Metro (Doha) - Stockyard Hill Windfarm Anchors (Victoria) - Sydney Tower (Sydney) - Stadium Australia (Sydney) - Etihad Stadium (Melbourne) - Hazelmere Dam (Durban) - Al Zour Terminal (Kuwait) - Great Ocean Rd Slope Remediation (Victoria)
Asset Services		
	- Bridge maintenance - Transmission tower maintenance - Refractory services - Windfarm maintenance - Fixed plant maintenance - Facade refurbishment - Surface protection and remediation - Protective coatings - Structural strengthening - Blast and paint - Concrete repair and protection - Industrial services - Construction services - Marine structure maintenance - Building remediation - Penstock maintenance - Non destructive testing - Electrical contracting	- Auckland Harbour Bride (Auckland) - Transpower Term Maintenance (NZ) - NZ Steel Refractory (Auckland) - Te Uku Wind Turbine Maintenance (Raglan, NZ) - Gorgon Project (Pilbara, WA) - North West Shelf (Pilbara, WA) - Loy Yang Power Station (Victoria) - Sino Iron Ore Project (Pilbara, WA) - Flinders Street Station (Melbourne)
Mining Services		
	- Drill and Blast - Geotechnical Services and Applications - Mine infrastructure - Industrial services - Specialist Drilling Services	
Products		
	- Ground support products - Post-tensioning products - Reinforcing products - Structural products - Architectural and facade products - Monitoring products	

Source: Shaw and Partners, SRG

Contracts Won Summary

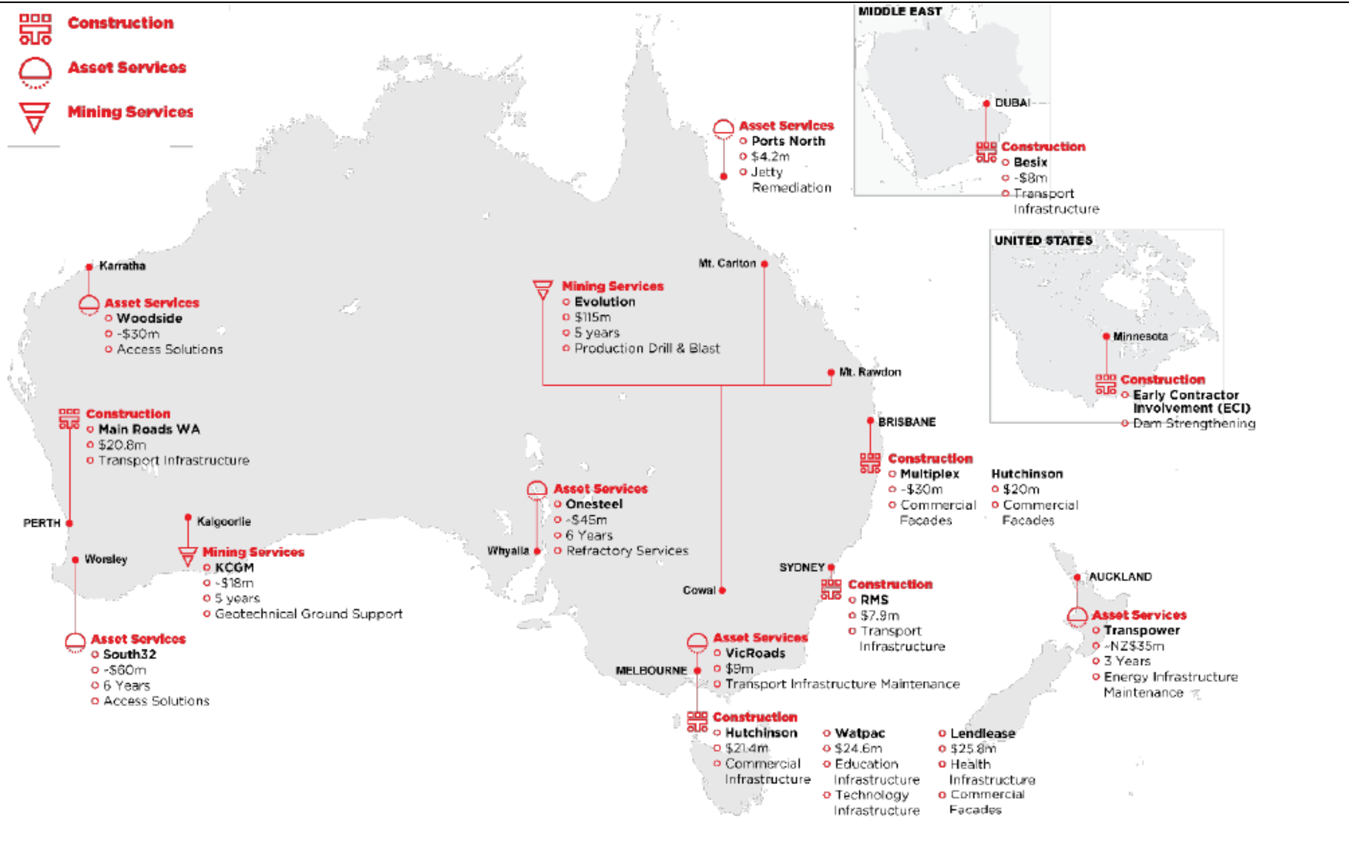
Figure 2: Summary of Contracts Awarded Last 18 Months (Post GCS Merger)

DATE	CLIENT	TERM	CONTRACT VALUE	CAPABILITY	LOCATION
16-Mar-20	Saracen Mineral Holdings	5 years	$70m	Drill & Blast at Thunderbox / Carosue Dams	WA
27-Feb-20	Multiplex Constructions	2 years	$72m	Construction (complete concrete structure + curtain wall façade of Elizabeth Quays)	Perth
29-Jan-20	Alcoa	5 years	$90m	Asset services (mec/electrical maintenance of Kwinana refinery)	WA
23-Sep-19	Sunwater	1 year	$12m	Dam remediation & anchoring (Fairbairn Dam Project)	Emerald, Qld.
3-Sep-19	Built Obayashi JV	1.5 years	$44m	Design, supply & install of curtain wall façade (Parramatta Square)	Sydney
27-Jun-19	J Hutchinson	1.5 years	$20m	Design, supply & install of curtain wall façade (Midtown Centre)	Brisbane
4-Jun-19	Transpower New Zealand	3 years	NZ$35m	Asset services (blasting, coatings removal & steel replacement)	NZ
30-May-19	OneSteel	4 years + 2	$45m	Asset services (refractory install, gunning / casting of steelworks materials)	Whyalla, SA
27-May-19	South32	3 years + 3	$32m	Asset services (engineering, scaffolding, rope access at Worsley Alumina operation)	South West WA
23-May-19	VicRoads	31 weeks	$9m	Asset services (bridge strengthening)	Melbourne
23-May-19	Besix	~2-3 years	$8m	Post-tensioning, formwork, construction of main bridge deck at Infinity Bridge	Dubai
11-Apr-19	J Hutchinson	n/a	$12m	Supply/erection of all concrete structures, post tensioning at Lincoln Square Project	Uni of Melbourne
9-Apr-19	Kalgoorlie Consolidated Gold Mines (KCGM)	5 years	$18m	Geotech (ground support, rock fall mitigation & rock face remediation)	Kalgoorlie, WA
5-Apr-19	Evolution Mining	3 years + 2	$115m	Drill & Blast at Mt Rawdon, Cowal and Mt Carlton mines	NSW & Qld.
31-Jan-19	Main Roads WA	18 months	$21m (50% JV)	Construction on/off ramps, drainage enhancements, pedestrian upgrades, engineering	Perth
12-Nov-18	University of Melbourne	18 months	$14m	Design, engineer, prefab & transport curtain wall façade + install works	Melbourne
18-Oct-18	BHP Billiton Mitsubishi Alliance (BMA)	2.5 years	$20m	Drilling works for Downer's Blackwater coal mine	Qld.
15-Oct-18	Multiplex Constructions	2 years	$30m	Curtain wall façade + on-site install at 300 George St Brisbane project	Brisbane
3-Oct-18	Woodside Energy	4 years	n/a	Scaffold & access to Pluto Gas Plant + King Bay Supply Facility	WA
1-Oct-18	Lendlease	1 year	$12m	Concrete structure works for Goulburn Valley Health	Shepparton, Vic.

Source: Shaw and Partners, SRG

Geographic Spread – Australia

Figure 3: SRG Geographic Footprint (as of FY19)



Source: SRG

Revenue Model

Construction

SRG supplies integrated products and services to customers involved in the construction of infrastructure projects. These typically include bridges, dams, office towers, high rise apartments, shopping centres, hotels, car parks, recreational buildings and hospitals. Contracts are typically short to medium term in nature.

SRG derives revenue from construction of buildings and civil projects globally. The construction of each project is generally taken as one performance obligation. Where contracts are entered with several performance obligations, the total transaction price is allocated to each performance obligation based on stand-alone selling prices.

As per normal practice, the transaction price of a project is fixed at the start containing bonus and penalty elements based on performance construction criteria known as variable consideration.

The performance obligation is fulfilled over time and as such revenue is recognised over time. As work is performed on the assets being constructed, they are controlled by the customer and have no alternative use for SRG. Revenue earned is recognised on the measured input of each process based on resources consumed per appraisals that are agreed with the customer on a regular basis.

Services

Maintenance and other services are performed by SRG for a variety of industries. Contracts entered into can cover services which may involve various different processes or servicing of related assets. Where these processes and activities are highly interrelated, and SRG provides a significant service of integration for these activities, they are taken as one performance obligation.

The transaction price is allocated across each performance obligation based on contracted prices. Variable consideration may be included in the transaction price.

The performance obligation is fulfilled over time as SRG enhances the assets which the customer controls, for which SRG has no alternative use and has a right to payment for performance to date.

Revenue is recognised in the accounting period in which services are rendered. Customers are in general invoiced for an amount that is calculated based on agreed contract terms in accordance with stand-alone selling prices for each performance obligation.

Services are split into two segments:

1. Asset Services – SRG supplies integrated services to customers across the entire asset life cycle. Services provided span multiple sectors including oil and gas, energy, transport infrastructure, steel, marine, mining, power generation, commissioning, de-commissioning, shutdowns and minor civil works. Contracts vary in length with the majority being long-term.

2. Mining Services – SRG services mining clients and provides comprehensive ground solutions including production drilling, ground and specialist geotechnical services. Contracts vary in length with the majority being long-term.

Products

SRG manufactures and supplies advanced construction and ground support products across various industries and geographical locations. Revenue is recognised when control of the good has transferred, being when the products are received by the customer.

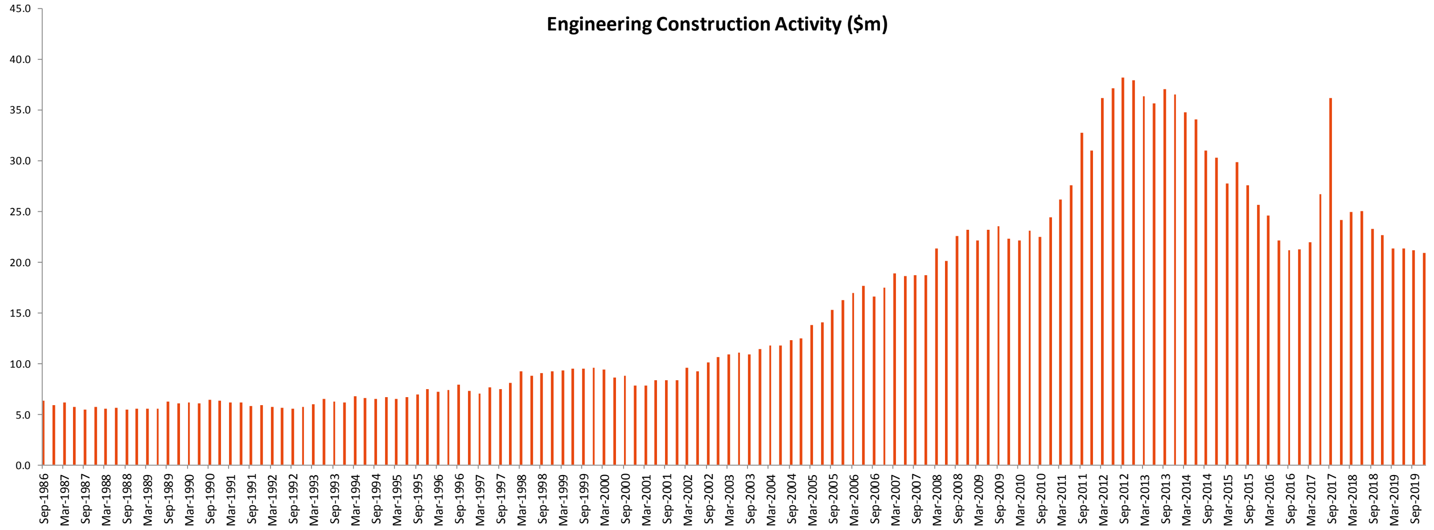
Work-in-Progress (WIP) or Contract Assets

Contract assets are balances due from customers as work is performed and therefore a contract asset is recognised over the period in which the performance obligation is fulfilled. This represents SRG's right to consideration for the goods and services transferred to date. Amounts are generally reclassified to trade receivables when these have been certified or invoiced to a customer. Contract liabilities arise when payment is received prior to work being performed.

Section 2: Industry Overview

According to the latest ABS data (released 25 March 2020), the seasonally adjusted estimate for the value of total engineering construction work done in Australia fell 1.5% in the December quarter to $20.9m.

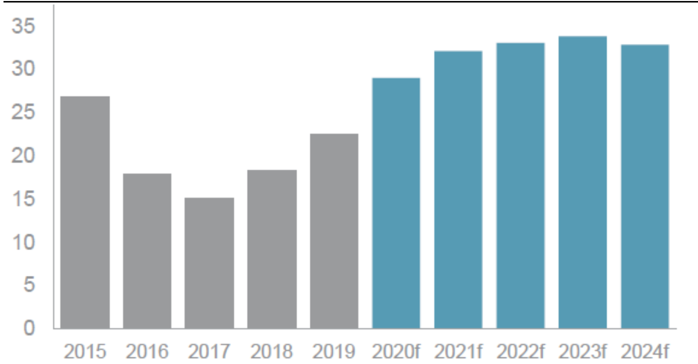
Figure 4: Engineering Construction Activity – Value of Work Done



Source: ABS 8762.0 (Dec-19)

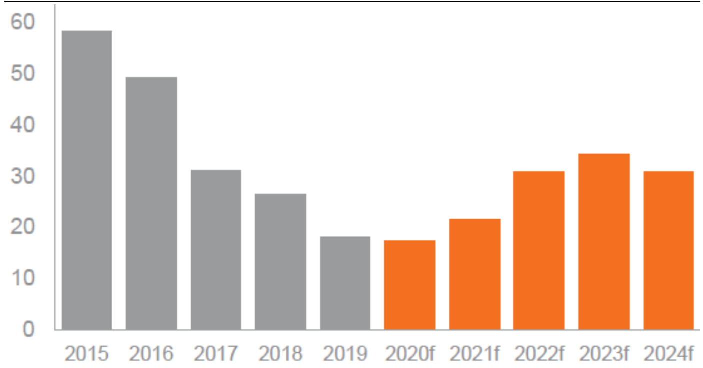
The following charts highlight that across resources, energy, maintenance and infrastructure, capex is forecast to rise from FY20 to FY23 – to levels surpassing the historical peaks. This is very favourable to SRG.

Figure 5: Total Resources Capex – Australia (A$b)



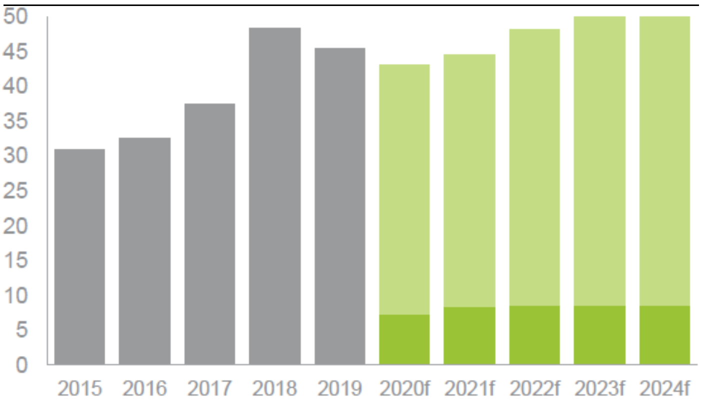
Source: BIS Oxford Economics, ABS (December 2019)

Figure 6: Total Energy Capex – Australia (A$b)



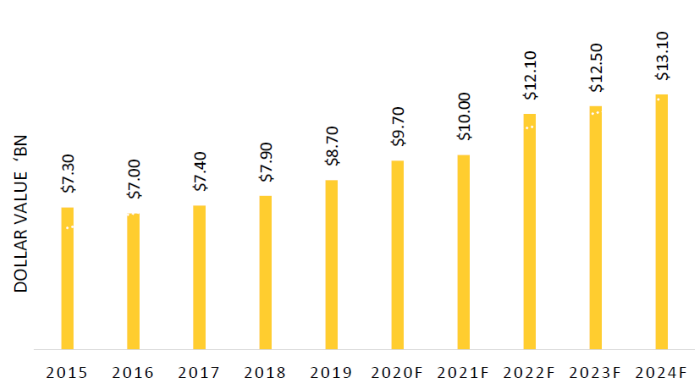
Source: BIS Oxford Economics, ABS (December 2019)

Figure 7: Total Infrastructure Capex - Australia (A$b)



Source: BIS Oxford Economics, ABS (December 2019)

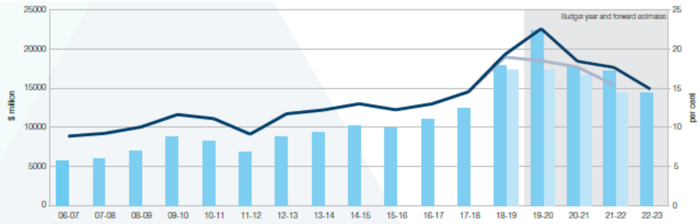
Figure 8: Total Maintenance Capex - Australia (A$b)



Source: BIS Oxford Economics, ABS (December 2019)

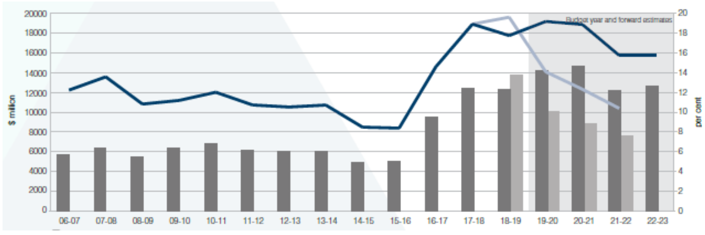
By State, Infrastructure funding by various state governments is also expected to remain strong.

Figure 9: NSW Government Infrastructure Funding



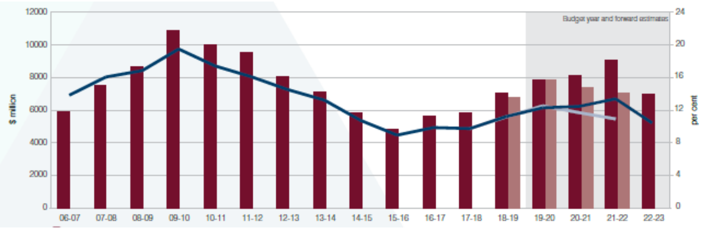
Source: FY2019-20 Budget Infrastructure Funding Paper

Figure 10: Victoria Government Infrastructure Funding



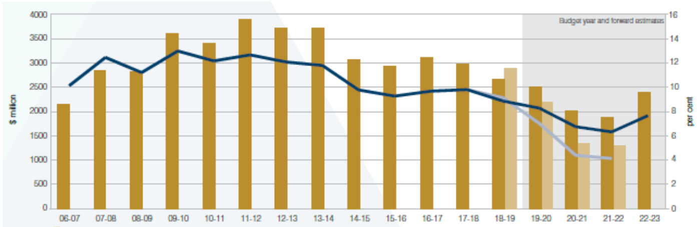
Source: FY2019-20 Budget Infrastructure Funding Paper

Figure 11: Queensland Government Infrastructure Funding



Source: FY2019-20 Budget Infrastructure Funding Paper

Figure 12: WA Government Infrastructure Funding



Source: FY2019-20 Budget Infrastructure Funding Paper

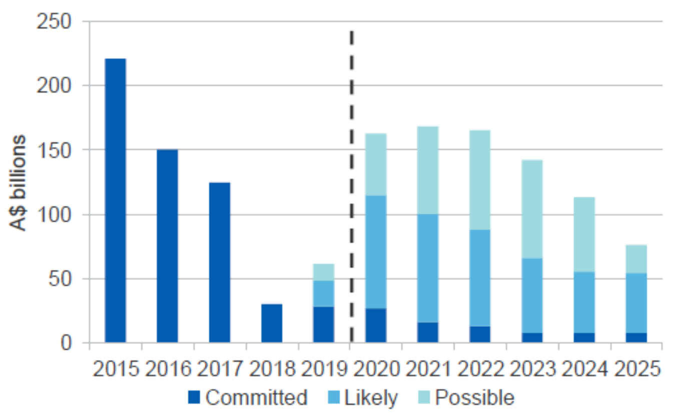
Resources and Energy Projects

After six years of decline, the value of 'committed' resource and energy projects — those where a final investment decision (FID) has been taken and construction activity is likely underway — appears to have stabilised across 2018 and 2019.

However, there has been an increase in both the number of new and expansion projects on the list (Figures 13-14). However, this current quarter there is a greater distribution of projects likely to be ranked as 'unlikely' or 'possible', rather than 'likely' given COVID-19, and recent low prices in some markets or uncertainty around market expectations.

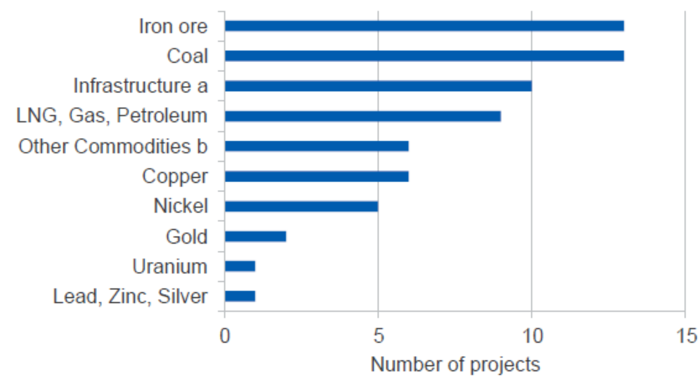
While some projects have progressed, the flow of projects from the feasibility to the committed stage remains slow in some areas, particularly coal. Refer below to an explanation as to why.

Figure 13: Outlook for Project Investment



Source: Department of Industry, Innovation and Science (2019)

Figure 14: Number of Projects at the Publicly Announced Stage



Source: Department of Industry, Innovation and Science (2019)

Overall, the outlook for mining investment suggests that, while it is likely we will not see a return to the levels seen during the last investment phase (which peaked in 2012 with $268b in committed projects), there still remains some significant opportunities for Australia's resources and energy sector.

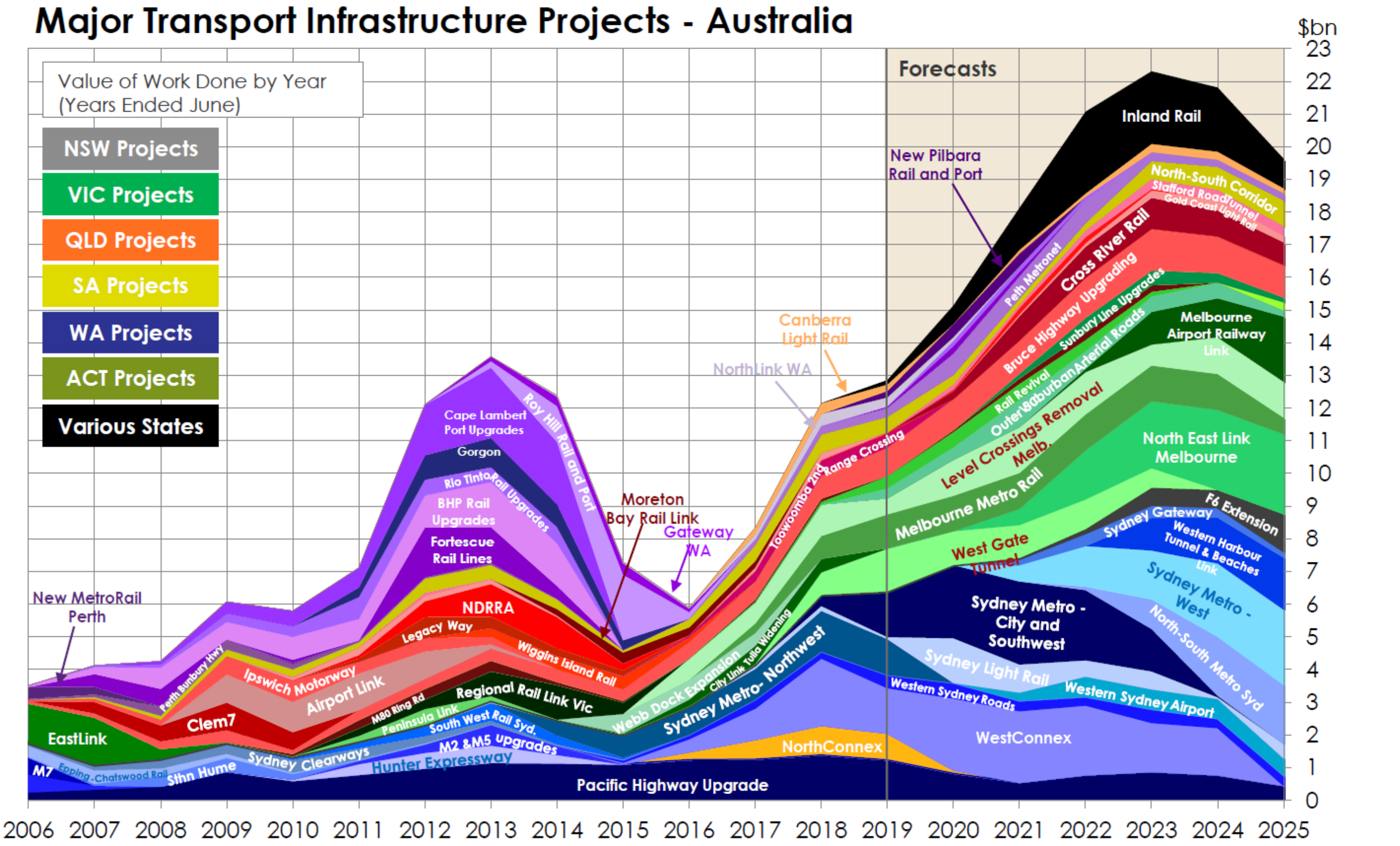
The pipeline shows us we are currently at an elevated level compared with 3 years ago, with engineering construction only expected to increase more over the coming years.

Construction and Infrastructure

Infrastructure spending (both public and private) expected to remain at historically high levels, underpinned by over $100b investment from the Federal Government over the next 10 years from FY20 and $235b investment budgeted over the next four years from state government programs.

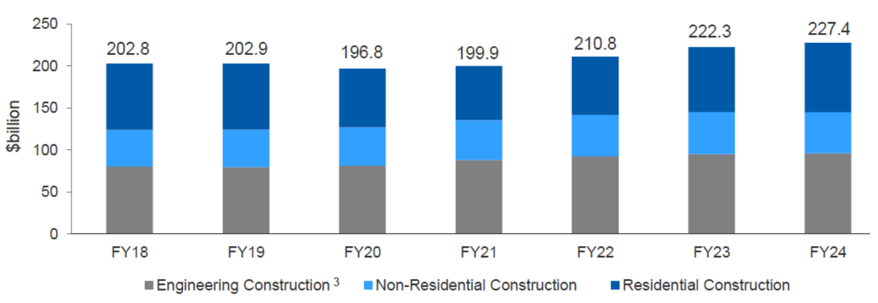
The key driver of this significant infrastructure spend is the substantial forecast population growth (projected to increase by 23.7% to reach 31.4m by 2034), and need to provide the necessary infrastructure to meet the demands of such growth. Recent natural disasters including the 2019-20 bushfires and subsequent flooding is expected to result in further increases on infrastructure spend. Additionally, it is possible that government stimulus packages following the COVID-19 pandemic will have a component that is targeted at further infrastructure investment. Transport infrastructure remains a robust channel for investment with the pipeline expected to rise from $13b in 2019 to a peak of $22b in 2024 – refer Figure 15.

Figure 15: Australian Transport Infrastructure Projects – Market Opportunities



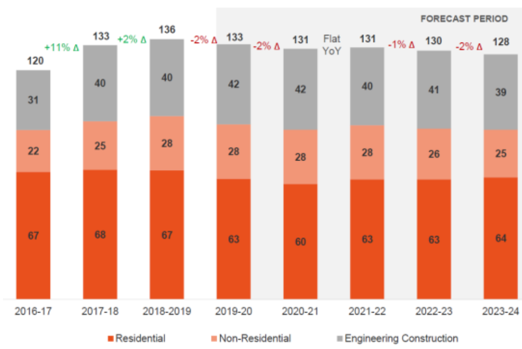
Source: Macromonitor (December 2019)

Figure 16: Total Australian Construction Work Done



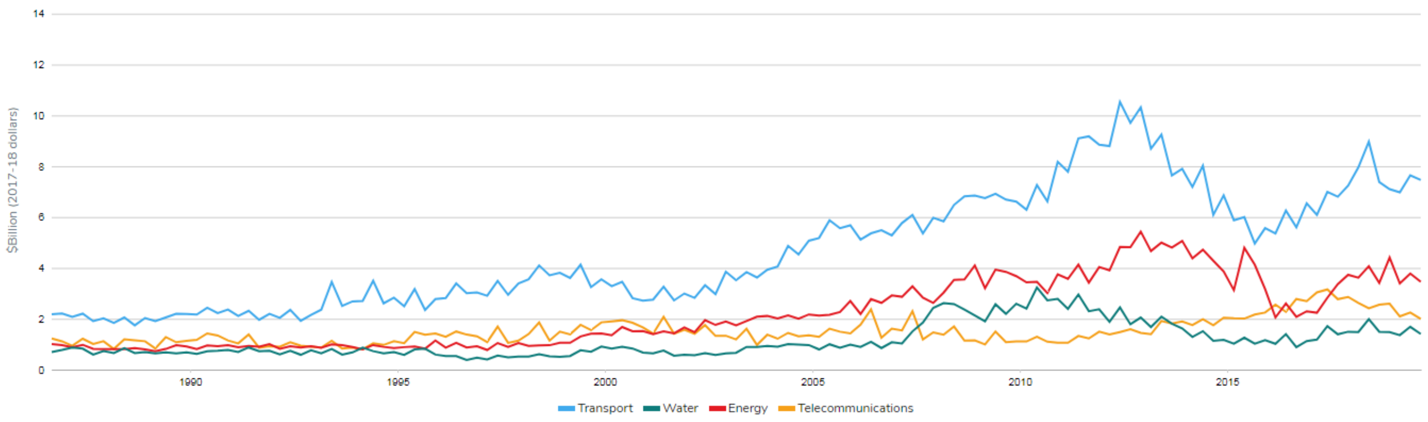
Source: BIS Oxford Economics, ABS

Figure 17: Value of Work Done in NSW and VIC (A$b)



Source: Australian Construction Industry Forum (ACIF) November 2019

Figure 18: Value of Engineering Construction Work Done in all Sectors in Australia - by Quarter



Source: ABS Engineering Construction Activity (8762.0)

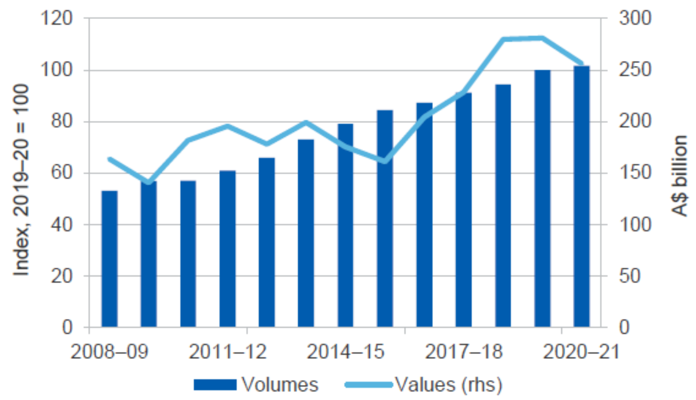
Iron Ore and Coal

The global industrial production slowdown and rising supply has seen the prices of Australia's major resource commodity exports fall from the 7-year highs set in the September quarter 2019. Prices are likely to drift down further over the outlook period, due to rising supply.

Iron ore prices are drifting down from high levels, as supply steadily recovers. Coal prices have fallen as supply rises and demand drops. Base and precious metal prices have wavered (in opposite directions), on the changing likelihood of a resolution of US-China trade tensions.

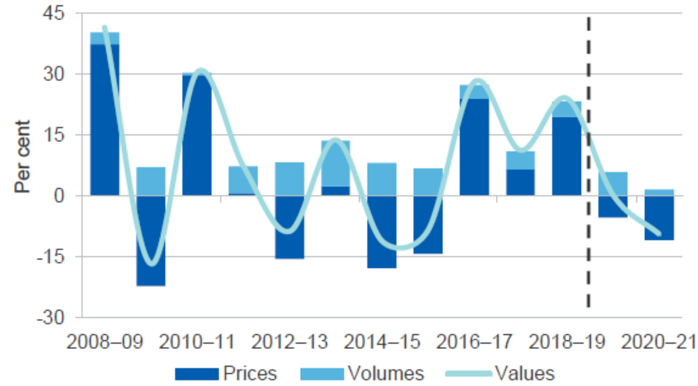
Offsetting the impact of weaker prices, both higher export volumes and a lower-than-expected Australian dollar are likely to see Australia's resource and energy export earnings down to ~$256b in 2020–21.

Figure 19: Australia's resource and energy export values/volumes



Source: ABS (2019) International Trade in Goods and Services, 5368.0; Department of Industry, Innovation and Science (2019)

Figure 20: Annual growth in resources and energy export values

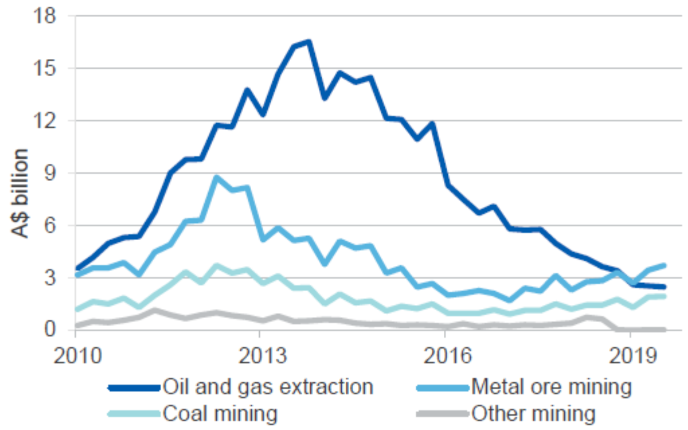


Source: ABS (2019) International Trade in Goods and Services, 5368.0; Department of Industry, Innovation and Science (2019)

Higher commodity prices in the past two years appear to have encouraged miners in Australia to replace ageing plant and equipment and to expand their fleets. Increased (capex) in the September quarter 2019 (latest data from ABS) was driven by higher investment in metal ores and coal mining (Figure below).

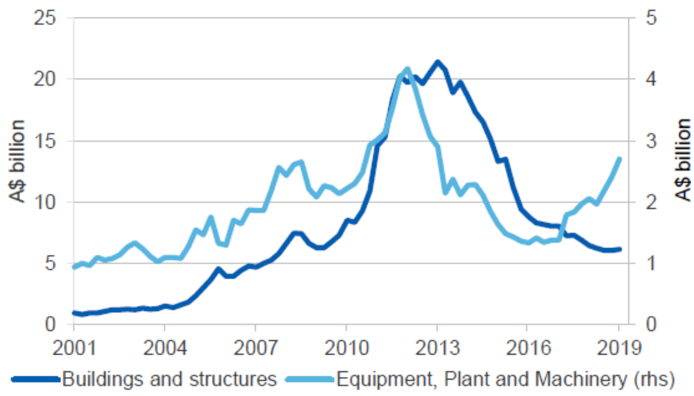
Buildings and structures edged up in the September quarter, while plant and equipment spending continues to recover strongly, with capex at a 5-year high in the September quarter 2019 (Figures below).

Figure 21: Mining industry capital expenditure by commodity



Source: ABS (2019) Private New Capital Expenditure and Expected Expenditure, 5625.0

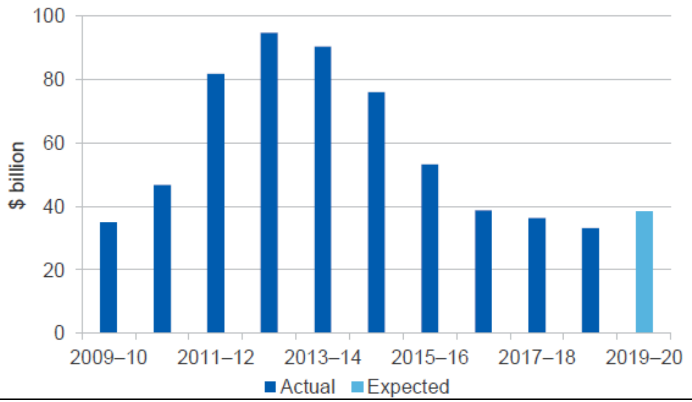
Figure 22: Mining industry capital expenditure by type,



Source: ABS (2019) Private New Capital Expenditure and Expected Expenditure, 5625.0

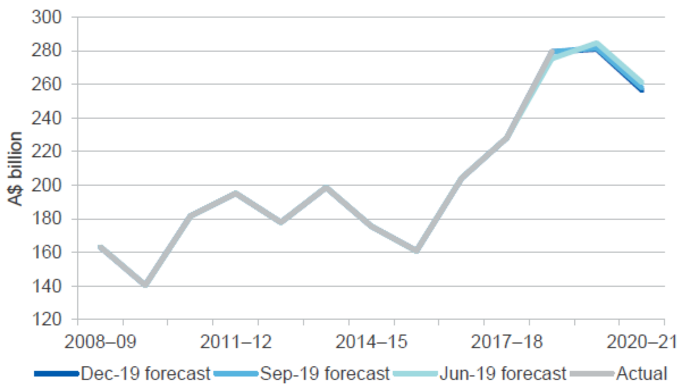
Data on exploration spending (adjusted for inflation) suggests that a recovery in mining capex is underway. However, investment in new greenfield projects remains well below the levels of early this decade.

Figure 23: Mining Industry Capital Expenditure



Source: ABS (2019) Private New Capital Expenditure and Expected Expenditure, 5625.0

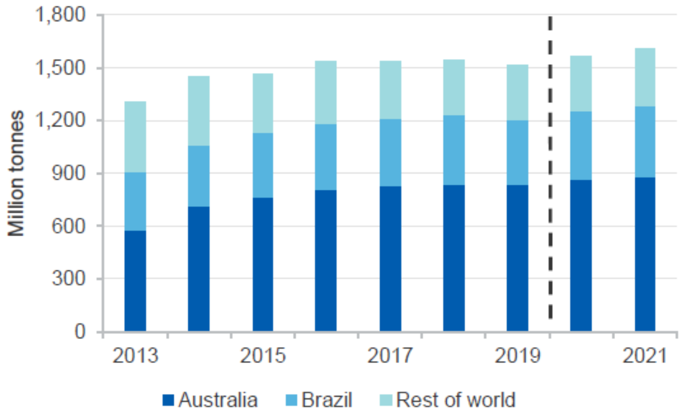
Figure 24: Resource and energy exports



Source: Department of Industry, Innovation and Science (2019)

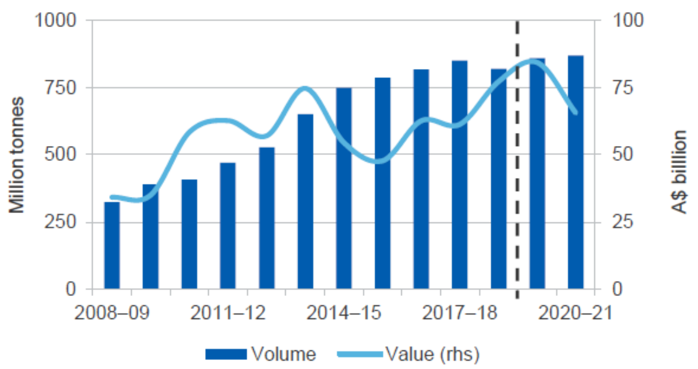
In 2020–21, weaker prices — virtually across the board — and a rising exchange rate, will drive a noticeable fall in export earnings. Export earnings are now forecast to be ~$256b.

Figure 25: Outlook for global iron ore exports



Source: World Steel Association (2019); Department of Industry, Innovation and Science (2019)

Figure 26: Australia's iron ore export volumes and values

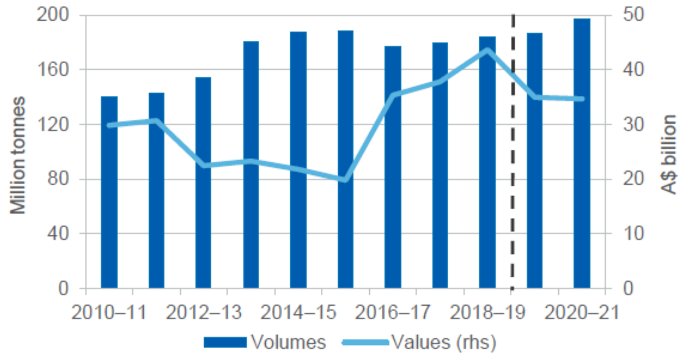


Source: ABS (2019) International Trade, Australia, 5368.0; Department of Industry, Innovation and Science (2019)

The outlook for Chinese imports remains subject to substantial uncertainty, with the extent of any economic slowdown, stimulatory macroeconomic policies and environmental and import measures representing key (opposing) risks.

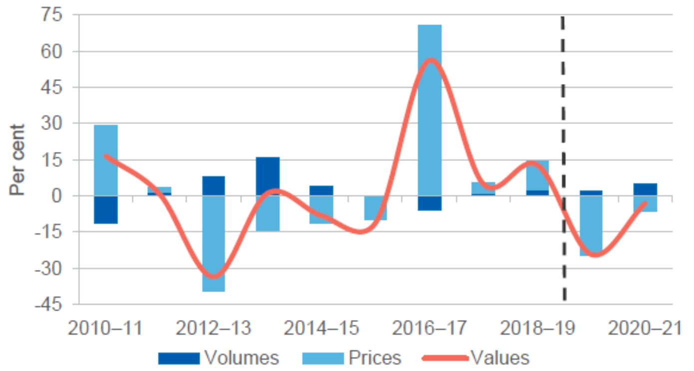
The seaborne market is forecast to see supply remain firm, as the low Australian dollar allows Australian producers to remain profitable, and as Canada steadily brings on new capacity. Given Australia's dominance of the seaborne market, weather, logistics and other disruptions in Queensland have the potential to drive intermittent spikes in the metallurgical coal price.

Figure 27: Australia's Metallurgical Coal Exports



Source: ABS (2019) International Trade, Australia 5368.0; Department of Industry, Innovation and Science (2019)

Figure 28: Growth in Australia's Metallurgical Coal Export Values



Source: ABS (2019) International Trade, Australia 5368.0; Department of Industry, Innovation and Science (2019)

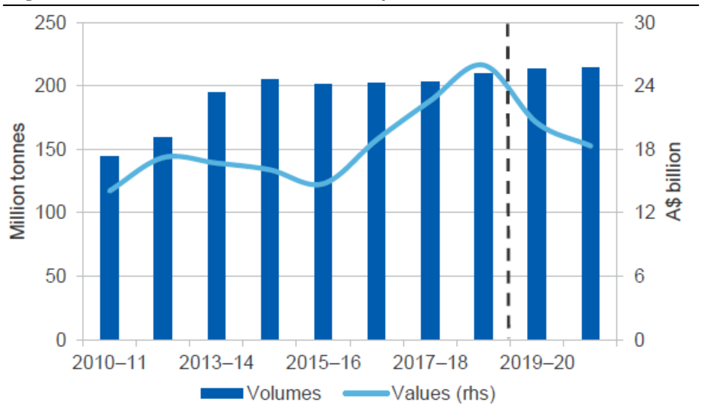
Despite coal demand remaining essentially flat over the next two decades, coal's share of the global energy mix declines from 27% in 2018 to 21% in 2040, falling behind natural gas.

Coal use in the power sector declines due to improvements in the efficiency of coal-fired power plants and competitive pressure from renewables and gas. Industrial coal use (in the iron and steel, cement and chemical sectors) expands due to the limited availability of substitutes.

There are 46 coal projects at the feasibility stage — a combined total of more than 390mt of new capacity — many of which have long been delayed.

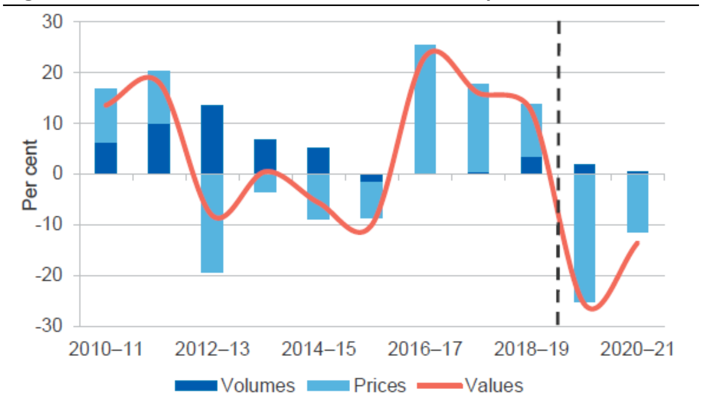
Australia is one of the few major producers projected to increase coal production in 2040. However, the outlook is sensitive to the extent of import demand in Asia and the financing environment for greenfield coal projects. Coal projects in Australia and around the world are facing a number of headwinds, including financing restrictions from a growing number of lenders. Pension and equity funds are also divesting from coal, community opposition to coal mining is growing, and strict regulatory conditions are also impacting on investment decisions. The recent downturn in both metallurgical and thermal coal prices may weigh further on future investment decisions. The outlook for coal production is mixed elsewhere. Production and exports are also projected to rise from Russia, competing with Australia in the Asian market.

Figure 29: Australia's Thermal Coal Exports



Source: ABS (2019) International Trade, Australia 5368.0; Department of Industry, Innovation and Science (2019)

Figure 30: Growth in Australia's Thermal Coal Export Values

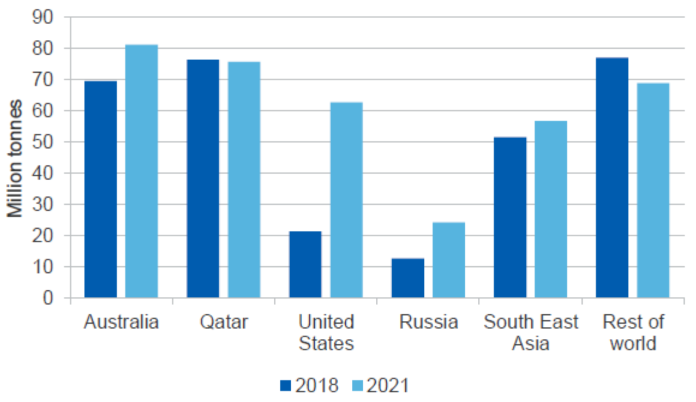


Source: ABS (2019) International Trade, Australia 5368.0; Department of Industry, Innovation and Science (2019)

LNG

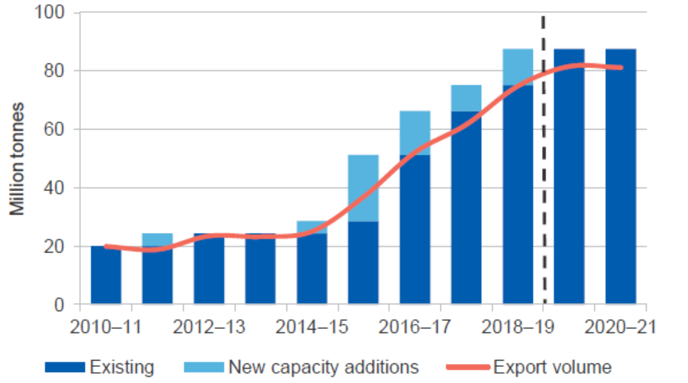
Over the course of 2019, Australia and Qatar have competed for the title of the world's largest LNG exporter. Australia's LNG exports are expected to be surpassed by both Qatar and the US during the mid-2020s.

Figure 31: LNG Export Forecasts



Source: Department of Industry, Innovation and Science (2019); Nexant (2019)

Figure 32: Australia's LNG Exports and Export Capacity



Source: ABS (2019); Department of Industry, Innovation and Science (2019)

The value of Australia's LNG exports is forecast to decline to $47b in 2020–21, driven by declining oil-linked contract prices (at which most Australian LNG is sold) and an appreciating exchange rate.

COVID-19 Impact – Withdrawal off SRG FY20 Earnings Guidance

COVID 19 makes the current situation uncertain and beyond control of the company. Since the COVID-19 pandemic, there has been a significant escalation of measures taken by both governments across the world, as well contractors, to prevent further spread of the virus. These measures have precipitated a slowdown in economic activity, and as a consequence many mining services companies have either withdrawn or amended previously published guidance, and / or/ deferred or cancelled interim dividend payments.

Due to the significant level of uncertainty relating to the extent and duration of this slowdown, many companies are rightly unable at this time to provide revenue guidance for FY20 period (encompassing 2H20).

As with other industries, many companies – including SRG – have established dedicated resources to monitor, assess and provide guidance to their businesses daily, taking advice from government agencies and the WHO, and working in partnership with its customers globally.

SRG has a solid financial position (cash of $34m at 31-Dec-19, low debt of $45m, ample covenant headroom, good liquidity with no banking facility up for review until early FY22) that best enables it to navigate this challenging period. SRG has taken decisive – and prudent – action to proactively manage the business through this unprecedented and uncertain period, to keep its personnel safe, sustain business continuity and ensure it remains well positioned for when conditions stabilize – and they surely will. The question is when?

In NZ, PM Jacinda Ardern announced NZ was now at Covid-19 level 4, rising to level 4 on 25 March 2020 and lasting at least four weeks. Therefore all schools and non-essential services across NZ will be closed as part of the measures as the Government today put the country in lockdown to try to stop the spread of coronavirus. Level 4 means people are instructed to stay at home, schools and universities closed, as well as non-essential businesses, major re-prioritisation of health services, and severely limited travel.

Given SRG generates around 10% of its revenues from NZ, this has had an impact. SRG has therefore withdrawn the previously provided earnings guidance of $30m to $34m EBITDA and has also made the prudent decision to defer the payment of the interim dividend from 29 April 2020 until 29 October 2020.

Given these government-imposed level-4 shutdowns, SRG are delivering essential services only on a reduced scale.

Figure 33: Impact of COVID-19 Pandemic on Earnings Guidance on Mining Services Co's

DATE	COMPANY	COMMENTARY
6-Apr-20	AJ Lucas (AJL)	"… Lucas Drilling division continues to operate with revenues largely unaffected and in line with expectations. Currently AJL has no indications from its key LDS customers that demand for drilling services is likely to materially change from the current strong levels."
23-Mar-20	Alliance Aviation (AQZ)	"… suspension of services will be to reduce block hours by 4,500 on an annualised basis for the period of the suspension" [from 24 March 2020].
27-Mar-20	ALS (ALQ)	"“While the uncertainty of the situation makes it difficult to foresee the exact financial impact from COVID-19, we have a strong management team who are experienced at managing the business through cycles caused by different global forces and we have acted quickly to align our cost base with demand from our clients. We are prudent with capital to ensure strong liquidity during this uncertain time and that we are well positioned for a recovery."
26-Mar-20	Austin Engineering (ANG)	"With the virus expected to peak in Australia and the USA during the next three months and a rapidly escalating state of emergency in Indonesia, due to the high degree of global volatility and unpredictability, Austin is withdrawing its FY2020 earnings guidance of $24-$28 million Normalised EBITDA."
26-Mar-20	Boom Logistics (BOL)	"… due to the increasing level of uncertainty about the ongoing impact and duration of the COVID-19 pandemic, the company considers it appropriate to withdraw the FY20 EBITDA guidance previously announced to the market on 26 February, 2020"
24-Mar-20	Cardno (CDD)	"Withdrawing its earnings guidance for FY2020 due to the level of uncertainty resulting from the COVID-19 pandemic. After 8.5 months, Cardno's trading results are consistent with the earnings guidance previously provided, however as client sites, client staff and our own staff self-isolate or are quarantined around the world, there is potential for Cardno's project delivery schedule to be impacted in the short to medium term."
27-Mar-20	Decmil (DCG)	"While the order book is strong, there are now inherent uncertainties over the timing of project completion due to the impact of coronavirus, with high potential for further movement restrictions from the Federal Government and the states in which we operate. Decmil has contracted revenue of ~$500 million for the full 2020 financial year, but coronavirus restrictions have the potential to impact timing."
19-Mar-20	Downer (DOW)	"Given the uncertainty around the impact of the COVID-19 virus, it had decided to withdraw its earnings guidance for the 2020 financial year."
30-Mar-20	Fleetwood (FWD)	"Due to the current exceptional circumstances and growing uncertainty surrounding the potential duration and impact of COVID-19, Fleetwood is withdrawing FY20 earnings guidance."
23-Mar-20	LogiCamms (LCM)	"Given theuncertainty in market conditions,LogiCamms is focused on reducing overheadspendand continuing toprioritise cash balances to ensure we remain in a strong positionto deal withemerging conditions."
25-Mar-20	Lycopodium (LYL)	"Withdraws its previously published guidance, noting the extent and duration of this economic slowdown remains highly uncertain as the COVID-19 situation continues to rapidly evolve. On this basis, the Company is unable at this time to provide guidance for the financial year ended 30 June 2020."
4-Apr-20	Macmahon (MAH)	"At this stage, there has not been a material impact on the Company's overall financial performance or on the assumptions which underpin its FY20 guidance. As a result, the Company does not currently see a need to change its guidance for this financial year. If this position changes, Macmahon will update the market in line with its continuous disclosure obligations."
1-Apr-20	Mader (MAD)	"At this stage, the only material impact on FY20 earnings is the recent suspension of the International division (excluding USA) which represents ~5% of annual revenue. However, due to the fluid and uncertain nature of this situation, there is potential future impact on Mader's other operations during the balance of FY20. As a result of the above, the Company withdraws its FY20 guidance of $19.3 million of adjusted NPAT. "
23-Mar-20	MMA Offshore (MRM)	"The rapidly deteriorating macroeconomic conditions, increasing operational restrictions onpersonnel movements, logistics chain disruptions and resultant market uncertainty caused by COVID-19, together with the recent oilprice decline, mean that accurately projecting full year performance in the current environment is extremely difficult. As such, MMA considers that it would be inappropriate for the Company to maintain earnings guidance for the current financial year and advises that it has withdrawn its FY2020 earnings guidance."
18-Mar-20	Monadelphous (MND)	"Company advises that it has withdrawn its previously published guidance. Due to the significant level of uncertainty relating to the extent and duration of this slowdown, the Company is unable at this time to provide revenue guidance for the financial year ended 30 June 2020. "
26-Mar-20	NRW (NWH)	"Since making that announcement a number of federal and state directives including changes to the operations of essential services and interstate travel restrictions have had potential impacts on the operations of NRW and the clients it supports … while NRW remains confident in its ability to operate within its current cash and working capital facilities, it makes sense in the current environment to ensure the company retains access to the maximum liquidity available. Consequently, while again stressing that the Company is operating in line with its internal forecasts, the interim dividend which was due to be paid on the 15th April 2020 will be deferred ."
24-Mar-20	Perenti (PRN)	"To date COVID-19 has had no impact on Perenti's financial performance. However, given the ongoing spread of the virus, the speed at which matters are developing, and the significant preventative measures being undertaken globally, there is significant uncertainty as to the potential impact on Perenti's operations during the balance of the 2020 financial year. As a result, the Company is not in a position at this time to provide earnings guidance and withdraws its FY20 guidance of $115-$120 million underlying NPAT(A)."
30-Mar-20	Primero (PGX)	"Given the accelerating spread of COVID-19 and the significant preventative measures being undertaken globally, there is a high level of uncertainty with respect to any potential future impact on Primero's operations and financial position … The Company will regularly review its FY20 order book guidance (along with the $170 million contracted orders guidance previously provided for FY21) given the current environment and update the market."
31-Mar-20	SRG Global (SRG)	"Due to the ever-changing nature and escalation of measures taken by both governments and customers in response to COVID-19, and the uncertainty this has created, SRG Global has decided to withdraw the previously provided earnings guidance and has also made the prudent decision to defer the payment of the interim dividend from 29 April 2020 until 29 October 2020."
24-Mar-20	Swick (SWK)	"Like most businesses we do not know what the remainderof FY20 will bring but we are confident that – with the vast majority of our work focused on production at underground mines and heavily skewed towards gold clients–demand for our services will remain robust."

Source: Shaw and Partners, Company Reports

Section 3: Financials

Figure 34: Consensus Forecasts vs. Shaw and Partners Summary

	Consensus			Shaw and Partners			CONSENSUS vs. SHAW AND PARTNERS		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Revenue ($m)	535.7	587.2	663.2	546.0	595.5	663.6	*-1.9%*	*-1.4%*	*-0.1%*
EBITDA ($m)	30.3	38.0	45.9	20.9	35.7	43.8	*45.2%*	*6.3%*	*4.8%*
EBITDA margin	*5.7%*	*6.5%*	*6.9%*	*3.8%*	*6.0%*	*6.6%*	*184bp*	*47bp*	*32bp*
NPAT ($m)	12.0	16.1	14.3	7.5	14.5	20.2	*61.2%*	*10.9%*	*-29.1%*

Source: Shaw and Partners, FactSet

Shaw and Partners Earnings Summary

Figure 35: SRG Earnings Summary – by FY

Profit & Loss ($m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	431.6	506.4	546.0	595.5	663.6	739.8
EBITDA	**39.1**	**32.0**	**20.9**	**35.7**	**43.8**	**56.3**
EBITDA Margin	*9.1%*	*6.3%*	*3.8%*	*6.0%*	*6.6%*	*7.6%*
Depreciation	(10.8)	(2.9)	(5.2)	(5.3)	(5.5)	(5.7)
EBITA	**28.3**	**29.1**	**15.7**	**30.4**	**38.3**	**50.7**
EBITA Margin	*6.6%*	*5.8%*	*2.9%*	*5.1%*	*5.8%*	*6.8%*
Amortisation	(0.1)	(6.6)	(7.3)	(7.2)	(7.2)	(7.2)
EBIT	**28.2**	**22.5**	**8.4**	**23.2**	**31.1**	**43.4**
EBIT Margin	0.1	0.0	0.0	0.0	0.0	0.1
Net interest	(0.6)	(1.3)	(2.5)	(2.4)	(2.2)	(2.1)
Pretax Profit	27.6	21.2	5.9	20.8	28.8	41.3
Tax	2.7	(0.4)	1.6	(6.2)	(8.6)	(12.4)
Tax Rate	*-9.7%*	*1.9%*	*-26.9%*	*30.0%*	*30.0%*	*30.0%*
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	**30.2**	**20.7**	**7.5**	**14.5**	**20.2**	**28.9**
NPAT Margin	*7.0%*	*4.1%*	*1.4%*	*2.4%*	*3.0%*	*3.9%*
Significant Items	(20.8)	(19.6)	0.0	0.0	0.0	0.0
Reported NPAT	**9.4**	**1.2**	**7.5**	**14.5**	**20.2**	**28.9**

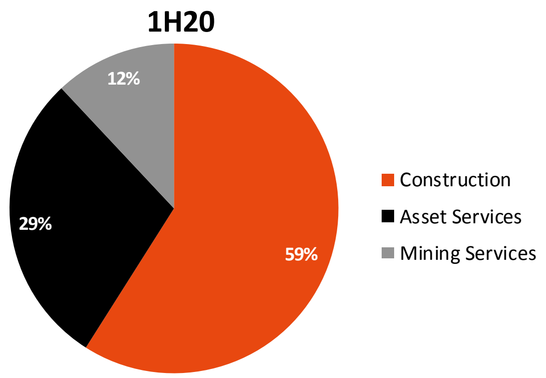
Source: Shaw and Partners

Figure 36: SRG Earnings Summary – by HY

Half Yearly P&L ($m)	1H18A	2H18A	1H19A	2H19A	1H20A	2H20E
Revenue	159.5	272.1	238.5	267.9	267.1	278.9
EBITDA	**13.6**	**25.5**	**16.4**	**15.6**	**12.1**	**8.8**
EBITDA Margin	*8.5%*	*9.4%*	*6.9%*	*5.8%*	*4.5%*	*3.2%*
Dep & Amort	(4.3)	(6.5)	(1.2)	(1.7)	(2.6)	(2.6)
EBITA	**9.3**	**19.0**	**15.2**	**13.9**	**9.5**	**6.2**
EBITA Margin	*5.8%*	*7.0%*	*6.4%*	*5.2%*	*3.6%*	*2.2%*
Amortisation	0.0	(0.1)	(3.2)	(3.4)	(2.5)	(4.7)
EBIT	**9.3**	**18.9**	**12.0**	**10.5**	**7.0**	**1.4**
EBIT Margin	*5.8%*	*6.9%*	*5.0%*	*3.9%*	*2.6%*	*0.5%*
Net interest	(0.2)	(0.4)	(0.8)	(0.6)	(1.2)	(1.3)
Pretax Profit	9.1	18.5	11.2	9.9	5.8	0.1
Tax	(0.6)	3.3	1.8	(2.2)	1.6	(0.0)
Tax Rate	*7.1%*	*-17.9%*	*-16.0%*	*22.3%*	*-27.9%*	*30.0%*
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	**8.4**	**21.8**	**13.0**	**7.7**	**7.4**	**0.1**
NPAT Margin	*5.3%*	*8.0%*	*5.5%*	*2.9%*	*2.8%*	*0.0%*
Significant Items	(6.2)	(14.6)	(5.3)	(14.3)	(3.9)	3.9
Reported NPAT	**2.2**	**7.2**	**7.8**	**(6.6)**	**3.5**	**4.0**

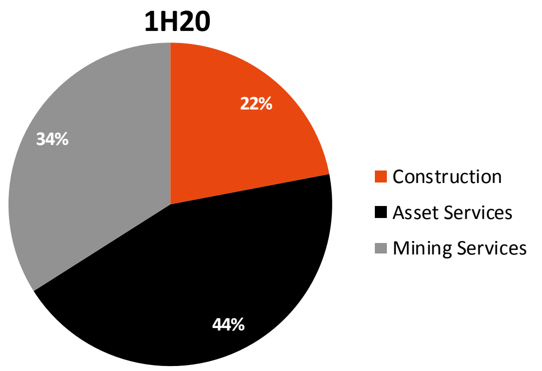
Source: Shaw and Partners

Figure 37: SRG Revenues – by Segment



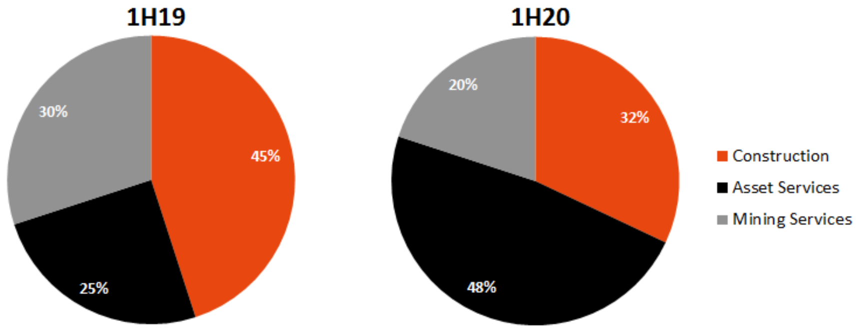
Source: Shaw and Partners, SRG

Figure 38: SRG EBITDA – by Segment



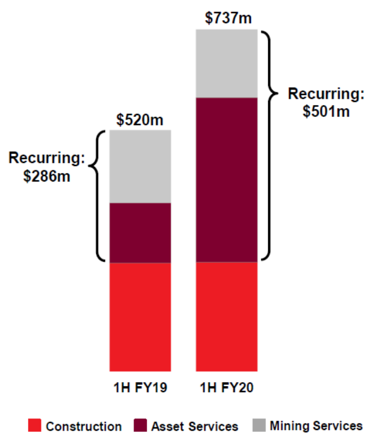
Source: Shaw and Partners, SRG

Figure 39: SRG WIH Summary from 1H19 to 1H20 – by Division



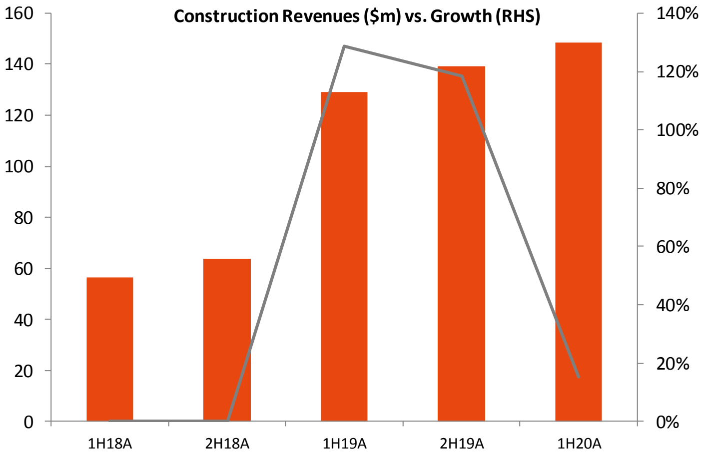
Source: Shaw and Partners, SRG

Figure 40: SRG Recurring Revenue Profile



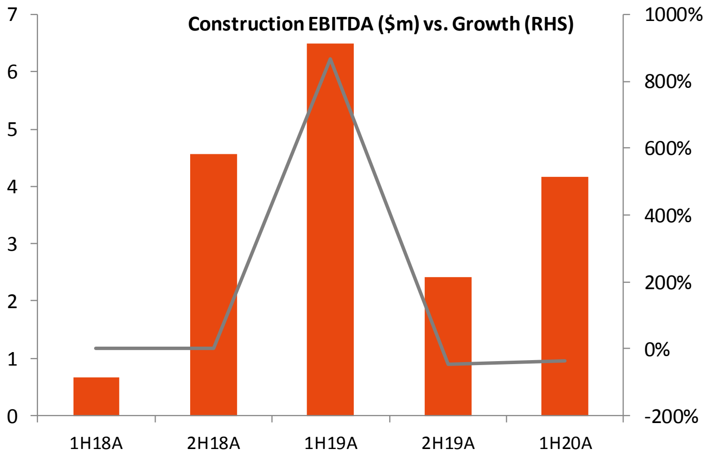
Source: SRG

Figure 41: SRG Construction Revenue Summary



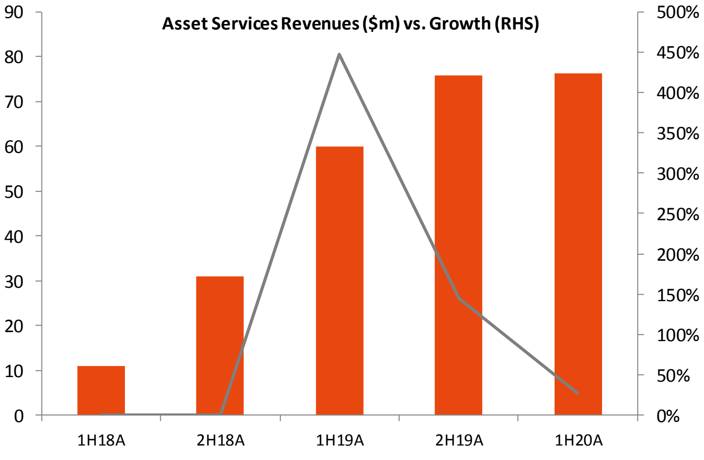
Source: Shaw and Partners, SRG

Figure 42: SRG Construction Earnings Summary



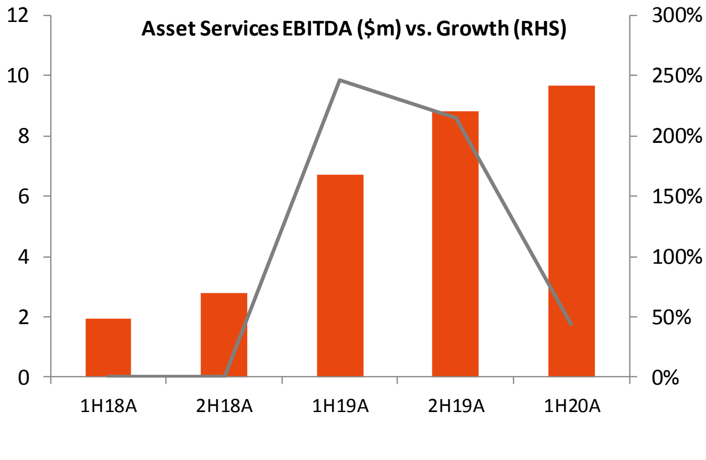
Source: Shaw and Partners, SRG

Figure 43: SRG Asset Services Revenue Summary



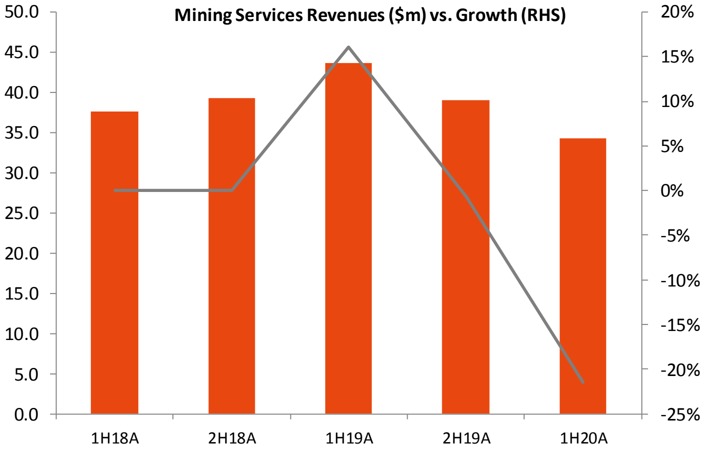
Source: Shaw and Partners, SRG

Figure 44: SRG Asset Services Earnings Summary



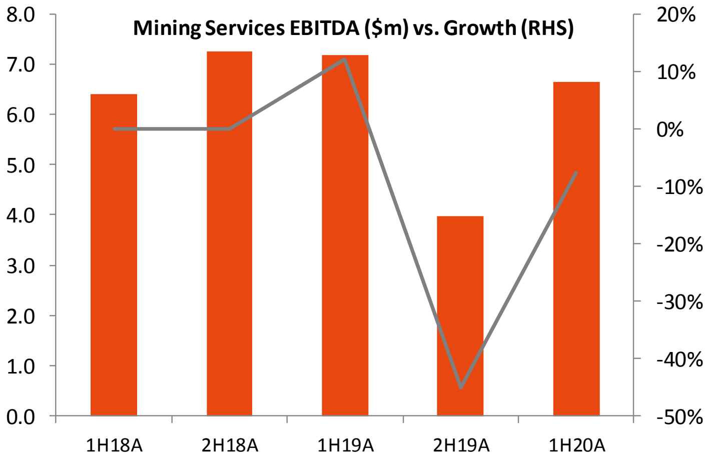
Source: Shaw and Partners, SRG

Figure 45: SRG Mining Services Revenue Summary



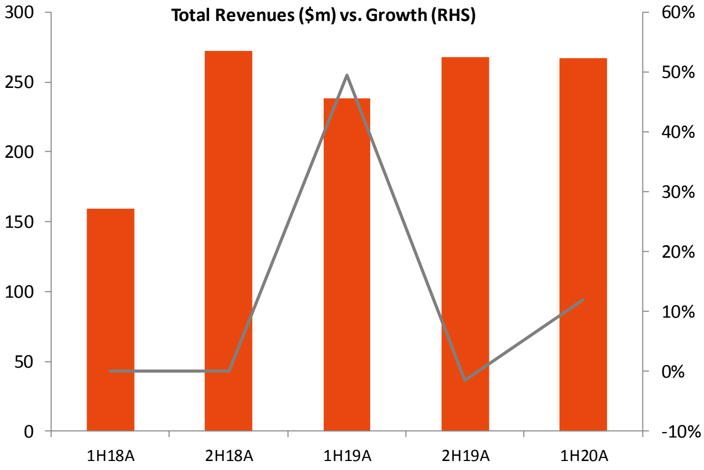
Source: Shaw and Partners, SRG

Figure 46: SRG Mining Services Earnings Summary



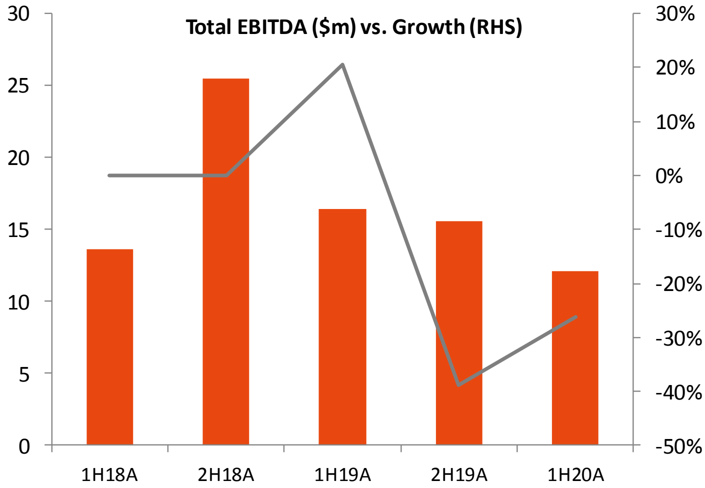
Source: Shaw and Partners, SRG

Figure 47: SRG Group Revenue Summary



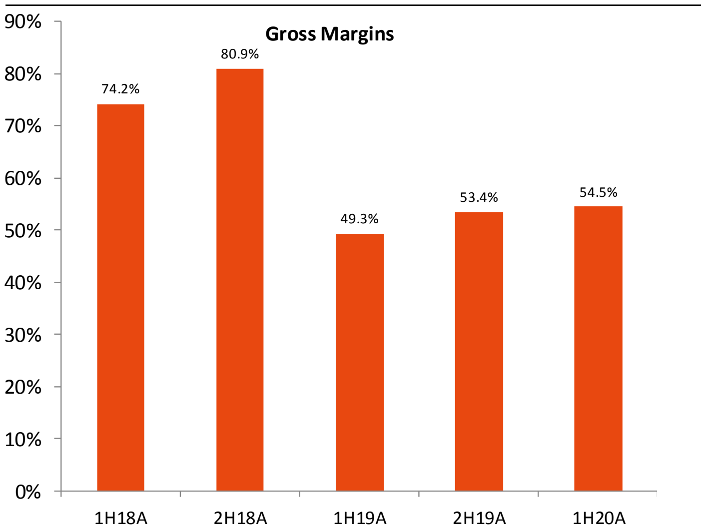
Source: Shaw and Partners, SRG

Figure 48: SRG Group Earnings Summary



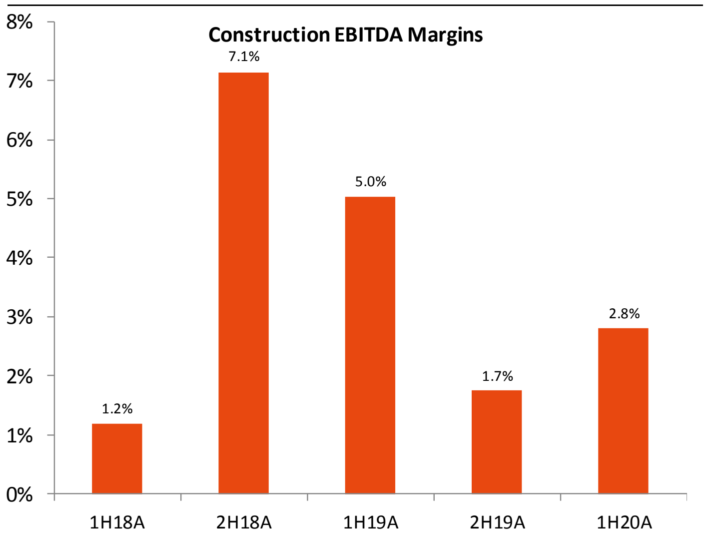
Source: Shaw and Partners, SRG

Figure 49: SRG Group GM Summary



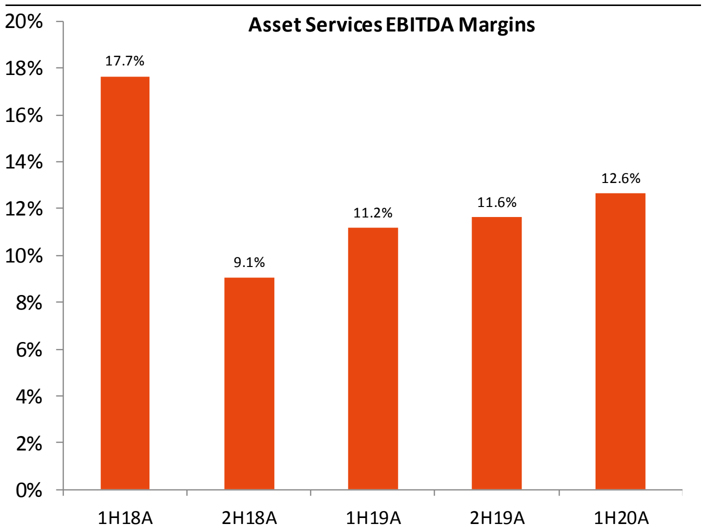
Source: Shaw and Partners, SRG

Figure 50: SRG Construction Margin Summary



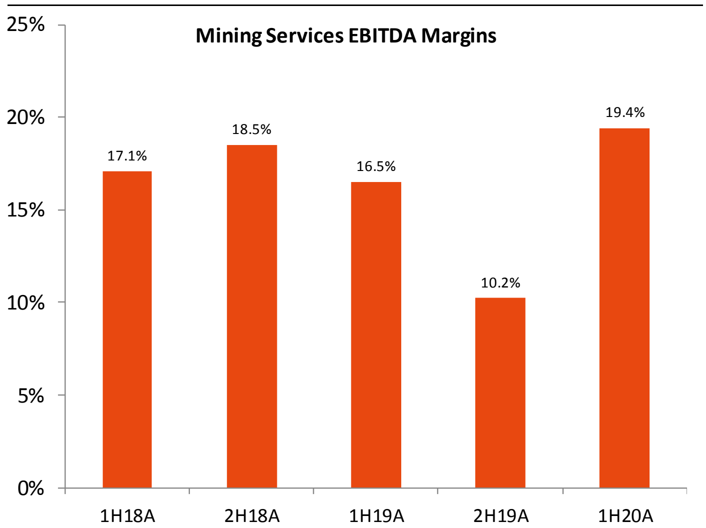
Source: Shaw and Partners, SRG

Figure 51: SRG Asset Services Margin Summary



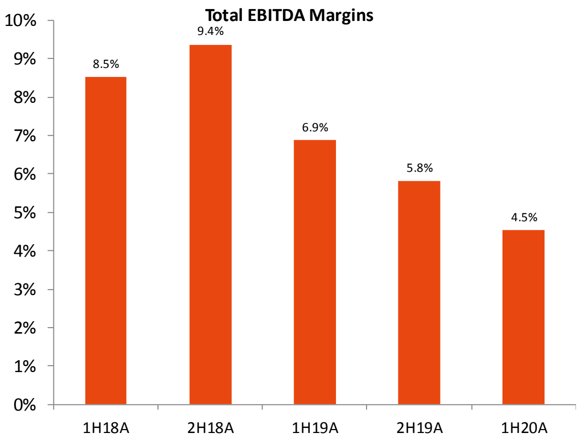
Source: Shaw and Partners, SRG

Figure 52: SRG Mining Services Margin Summary



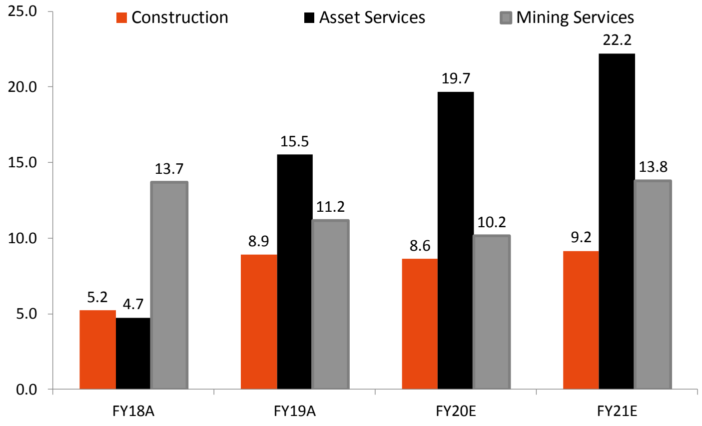
Source: Shaw and Partners, SRG

Figure 53: SRG Group Margin Summary



Source: Shaw and Partners, SRG

Figure 54: SRG EBITDA Summary – by Division ($m)



Source: Shaw and Partners

1H20 Result

Revenues +29% to $267m with EBITDA -4% to $12.1m. EBITDA and EBIT margins were impacted by two main issues:

1. Continued carrying costs vs timing of the commencement of project awards in Structures (WA) – this is being addressed through the imminent award of scale projects in WA; and
2. Challenging operating environment for Structures (Victoria) – we believe this business to be non-core and under strategic review, given the highly competitive environment in Victoria where Tier 1 players dominate.

Construction

Revenues +15% to $149m, with EBITDA +36% to $4m.

Asset Services

Revenues +27% to $76m, with EBITDA +44% to $10m.

This is the highest growth division in SRG with multiple contract wins over the past 12 months. We expect this continue.

Mining Services

Revenues -22% to $34m, with EBITDA -8% to $7m.

Mining services has a strong pipeline of specialist geotech services, and this augments the strong drill and blast business (~40 rigs with utilisation rates >90%).

Section 4: Valuation

DCF Valuation

We have used a composite valuation comprising DCF (50%), Sum-of-the-Parts (SOTP; 25%) and PE Rel. (25%). This yields a PT of $0.45.

Based on our conservative DCF assumptions (e.g. Beta of 1.3), we value SRG at $0.47 per share on our 12-month forward DCF vs. $0.34 on our current NPV.

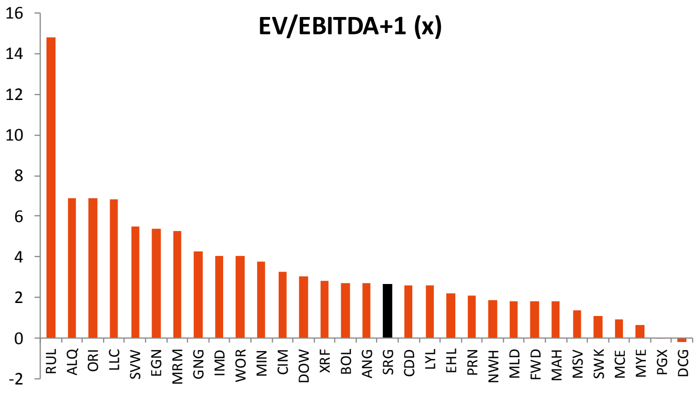
Figure 55: SRG DCF Valuation Assumptions

Rf	=	3.0%
Rm - Rf	=	6.0%
Beta	=	1.30
CAPM (Ke)	=	10.8%
Equity (Equity/ Total Debt + Equity)	=	87.5%
Debt (Total Debt/ Total Debt + Equity)	=	12.5%
Kd	=	6.0%
Tax rate	=	30.0%
WACC	=	10.0%
Terminal value (g)	=	3.0%

Source: Shaw and Partners

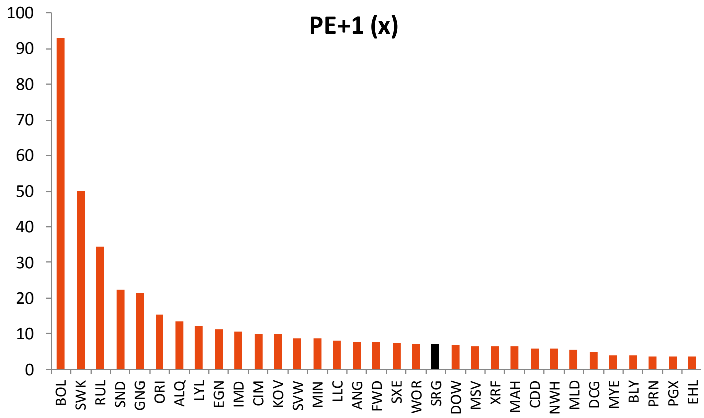
Peer Group CompCos Summary

Figure 56: Mining Services EV/Sales +1 (x)



Source: Shaw and Partners, FactSet

Figure 57: Mining Services PE +1 (x)



Source: Shaw and Partners, FactSet

All numbers are sourced from FactSet consensus data (as of 14 April 2020).

Figure 58: Domestic Large Cap Mining Services CompCos

Domestic - Large Cap Mining Services / Contractors				PE (x)			EV/Sales (x)			EV/EBITDA (x)			EV/EBIT (x)		
	Security Name	Last Price	Mkt Cap	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
ALQ	ALS Ltd.	$5.30	$2,557	11.9	13.4	11.9	1.7	1.6	-	7.6	6.9	-	9.8	8.9	-
CIM	CIMIC Group Limited	$23.78	$7,698	9.9	9.9	9.3	0.5	0.4	0.4	3.5	3.2	3.1	6.2	5.6	5.3
DOW	Downer EDI Limited	$2.94	$1,745	6.8	6.8	5.6	0.2	0.2	0.2	3.5	3.0	2.8	7.5	5.9	5.3
LLC	Lendlease Group	$10.01	$5,654	8.0	8.0	7.8	0.6	0.6	0.6	6.8	6.8	6.1	7.6	7.6	6.7
MND	Monadelphous Group Limited	$9.70	$916	15.0	15.0	12.2	0.5	0.4	0.4	6.6	5.5	5.0	8.6	7.0	6.1
ORI	Orica Limited	$15.93	$6,462	15.4	15.4	13.9	1.3	1.2	1.1	7.6	6.9	6.3	11.1	9.8	8.9
WOR	Worley Limited	$6.12	$3,185	7.1	7.1	6.3	0.4	0.4	0.3	4.6	4.0	3.4	6.9	5.9	4.9
Average				**10.6**	**10.8**	**9.6**	**0.7**	**0.7**	**0.5**	**5.7**	**5.2**	**4.4**	**8.3**	**7.2**	**6.2**
SRG	***SRG Global Limited***	***$0.23***	***102.5***	***7.1***	***7.1***	***5.5***	***0.2***	***0.2***	***-***	***3.5***	***2.6***	***-***	***6.1***	***4.1***	***-***
	SRG vs. Average			*-33%*	*-34%*	*-43%*	*-71%*	*-74%*	*-*	*-39%*	*-49%*	*-*	*-26%*	*-43%*	*-*
Median				**9.9**	**9.9**	**9.3**	**0.5**	**0.4**	**0.4**	**6.6**	**5.5**	**4.2**	**7.6**	**7.0**	**5.7**
High				**15.4**	**15.4**	**13.9**	**1.7**	**1.6**	**1.1**	**7.6**	**6.9**	**6.3**	**11.1**	**9.8**	**8.9**
Low				**6.8**	**6.8**	**5.6**	**0.2**	**0.2**	**0.2**	**3.5**	**3.0**	**2.8**	**6.2**	**5.6**	**4.9**

Source: FactSet, Shaw and Partners

Figure 59: SRG Domestic Mining Services CompCos

Domestic - Mining Services / Contractors				PE (x)			EV/Sales (x)			EV/EBITDA (x)			EV/EBIT (x)		
	Security Name	Last Price	Mkt Cap	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
ALQ	ALS Ltd.	$5.30	$2,557	11.9	13.4	11.9	1.7	1.6	-	7.6	6.9	-	9.8	8.9	-
ANG	Austin Engineering Limited	$0.12	$69	7.9	7.9	6.2	0.3	0.3	0.3	3.2	2.7	2.5	4.7	3.7	3.4
BLY	Boart Longyear Limited	$0.50	$44	3.9	3.9	1.2	-	-	-	-	-	-	-	-	-
BOL	Boom Logistics Ltd	$0.09	$40	93.0	93.0	31.0	-	-	-	3.1	2.7	2.5	19.4	12.0	10.5
CDD	Cardno Limited	$0.23	$103	5.8	5.8	4.6	0.2	0.1	0.1	3.8	2.6	1.6	5.6	3.6	2.1
CIM	CIMIC Group Limited	$23.78	$7,698	9.9	9.9	9.3	0.5	0.4	0.4	3.5	3.2	3.1	6.2	5.6	5.3
CVL	Civmec Ltd. Shs Chess Deposit Interes	$0.43	$139	-	-	-	-	-	-	-	-	-	-	-	-
DCG	Decmil Group Limited	$0.41	$98	4.7	4.7	4.1	0.0 -	0.0	0.0	0.3 -	0.2	-0.6	0.4 -	0.2	-0.7
DOW	Downer EDI Limited	$2.94	$1,745	6.8	6.8	5.6	0.2	0.2	0.2	3.5	3.0	2.8	7.5	5.9	5.3
EGN	Engenco Limited	$0.39	$121	11.3	11.3	9.4	0.5	0.5	-	6.5	5.4	-	8.7	6.9	-
EHL	Emeco Holdings Limited	$0.82	$300	3.4	3.4	3.5	1.3	1.0	0.9	2.7	2.2	1.9	5.1	4.0	3.3
FWD	Fleetwood Corporation Limited	$1.20	$114	7.7	7.7	5.6	0.3	0.2	-	2.3	1.8	-	4.4	3.2	-
GNG	GR Engineering Services Ltd	$0.75	$115	21.4	21.4	8.7	0.4	0.3	0.3	9.2	4.2	3.3	11.5	4.7	3.4
IMD	Imdex Ltd	$0.82	$316	10.6	10.6	9.9	1.1	1.0	0.8	4.6	4.0	3.3	6.7	5.8	4.7
KOV	Korvest Ltd.	$3.20	$36	9.8	9.8	9.0	-	-	-	-	-	-	-	-	-
LCM	Logicamms Limited	$0.13	$26	-	-	-	-	-	-	-	-	-	-	-	-
LLC	Lendlease Group	$10.01	$5,654	8.0	8.0	7.8	0.6	0.6	0.6	6.8	6.8	6.1	7.6	7.6	6.7
LYL	Lycopodium Limited	$4.08	$162	12.2	12.2	9.4	0.3	0.3	0.4	3.0	2.6	2.9	4.5	3.8	4.5
MAH	Macmahon Holdings Limited	$0.19	$399	6.5	6.5	6.0	0.4	0.3	0.2	2.2	1.8	1.4	5.7	4.6	4.0
MAD	Mader Group Ltd	$0.75	$150	-	-	-	-	-	-	-	-	-	-	-	-
MCE	Matrix Composites & Engineering Ltd	$0.19	$19	-	-	-	0.1	0.1	-	5.5	0.9	0.0	-	-	0.0
MRM	MMA Offshore Limited	$0.08	$69	-	-	-	0.9	0.7	0.7	6.5	5.3	4.3	-	54.0	28.5
MIN	Mineral Resources Limited	$14.72	$2,773	8.5	8.5	8.3	1.3	1.2	1.3	3.8	3.8	4.7	5.0	5.0	6.7
MLD	MACA Limited	$0.60	$161	5.4	5.4	5.3	0.3	0.3	0.2	2.2	1.8	1.5	5.6	4.6	3.6
MSV	Mitchell Services Limited	$0.33	$66	6.6	6.6	5.0	0.4	0.3	0.3	1.8	1.4	1.3	3.9	2.9	2.4
MYE	Mastermyne Group Limited	$0.50	$51	3.9	3.9	3.0	0.1	0.1	0.0	1.2	0.6	0.1	1.9	0.9	0.1
NWH	NRW Holdings Limited	$1.29	$550	5.7	5.7	4.8	0.3	0.2	0.2	2.5	1.8	1.6	4.7	3.5	3.1
ORI	Orica Limited	$15.93	$6,462	15.4	15.4	13.9	1.3	1.2	1.1	7.6	6.9	6.3	11.1	9.8	8.9
PRN	Perenti Global Limited	$0.58	$400	3.6	3.6	3.4	0.5	0.4	0.4	2.3	2.1	1.8	5.2	4.6	3.6
PPK	PPK Group Limited	$2.00	$171	-	-	-	-	-	-	-	-	-	-	-	-
PGX	Primero Group Ltd.	$0.15	$25	3.5	3.5	2.9	0.1 -	0.0	0.0	2.5 -	0.0	-0.2	2.9 -	0.0	-0.3
RUL	RPMGlobal Holdings Ltd	$0.79	$177	34.3	34.3	25.5	2.5	2.4	-	16.6	14.8	-	33.7	26.5	-
SND	Saunders International Limited	$0.38	$40	22.4	22.4	13.1	-	-	-	-	-	-	-	-	-
SVW	Seven Group Holdings Limited	$12.13	$4,116	8.7	8.7	7.9	1.4	1.2	1.1	6.0	5.5	5.0	8.0	7.3	6.5
SXE	Southern Cross Electrical Engineering	$0.41	$100	7.4	7.4	6.4	-	-	-	-	-	-	-	-	-
SWK	Swick Mining Services Ltd	$0.10	$30	50.0	50.0	7.7	0.2	0.2	-	1.5	1.1	-	19.4	5.3	-
WOR	Worley Limited	$6.12	$3,185	7.1	7.1	6.3	0.4	0.4	0.3	4.6	4.0	3.4	6.9	5.9	4.9
XRF	XRF Scientific Limited	$0.15	$20	6.5	6.5	5.9	0.6	0.5	0.5	3.1	2.8	2.5	4.0	3.5	3.1
Average				**13.2**	**13.3**	**8.2**	**0.6**	**0.6**	**0.4**	**4.3**	**3.4**	**2.5**	**7.9**	**7.4**	**4.9**
SRG	***SRG Global Limited***	***$0.23***	***102.5***	***7.1***	***7.1***	***5.5***	***0.2***	***0.2***	***-***	***3.5***	***2.6***	***-***	***6.1***	***4.1***	***-***
	SRG vs. Average			*-46%*	*-46%*	*-33%*	*-67%*	*-68%*	*-*	*-20%*	*-23%*	*-*	*-23%*	*-44%*	*-*
Median				**7.8**	**7.8**	**6.4**	**0.4**	**0.3**	**0.3**	**3.4**	**2.7**	**2.5**		**4.7**	**3.6**
High				**93.0**	**93.0**	**31.0**	**2.5**	**2.4**	**1.3**	**16.6**	**14.8**	**6.3**		**54.0**	**28.5**
Low				**3.4**	**3.4**	**1.2**	**0.0**	**0.0**	**0.0**	**0.3**	**-0.2**	**-0.6**		**-0.2**	**-0.7**

Source: FactSet, Shaw and Partners

Section 5: Key Risks

Project Cost Over-Runs and Under-Performance

One of the key risks in the mining services space is the potential for complex projects to not only being mispriced but suffering from cost over-runs (procurement, sub-contractor issues, weather, accidents, etc.) but extensive delays. Such a risk is hard to mitigate given unforeseen events but are integral to any contractor – and their intrinsic protocols. SRG has exemplary protocols and its safety and execution history is strong.

Steel Commodity Price

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 endeavors to lock in agreed prices on a project by project basis prior to formalising bid prices wherever possible.

Liquidity

Liquidity risk is the risk that SRG will not be able to meet its financial obligations as they fall due. SRG manages liquidity risk by maintaining adequate reserves, banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. SRG's bankers are CBA and NAB and its facilities are summarised below.

Figure 60: SRG Financing Summary

Facilities	Size
Bank overdraft	$1.5m
Hire Purchase	$70.0m
Other - WorkingCap, Term, etc	$29.9m
Bank Guarantee	$20.6m
Surety Bond	$176.4m
	$298.2m

Source: SRG

Foreign Exchange

SRG is exposed to foreign exchange risk in abroad 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.

The major exchange rates relevant to SRG are USD, ZAR, AED, HKD and NZD. Based on the carrying amounts exposed to foreign currencies for FY19, had the Australian dollar weakened by 5% / strengthened by 5% (2018: weakened by 5% / strengthened by 5%) against these foreign currencies with all other variables held constant, SRG's profit or loss would have been $90.7m lower / $0.7m higher (2018: $1.2m lower / $1.1m higher).

Credit

Credit risk is the risk of financial loss to SRG if a customer or counterparty to a financial instrument fails to meet its contractual obligations. SRG is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The maximum credit risk exposed by SRG is in relation to cash, trade receivables and contract assets amounting to $176.3m as at the end of FY19.

As a result of the diverse range of services and geographical spread covered by SRG, it does not have a concentration of credit risk to any one customer. Whilst SRG does have a broad risk to lead contractors in the construction industry generally, this is managed on a 'customer by customer' basis, taking into account ratings from credit agencies, trade references and payment history where there is a pre-existing relationship with that entity. The credit risk exposure on the trade receivables in FY19 for which lifetime expected credit losses (ECL) are recognised are low at 0.25% for <31 days, 1.00% for 31-60 days and 2.43% for 61-90 days.

Section 6: Board & Directors

Peter MacMorrow
Chairman

Prior to joining SRG, Peter was Managing Director of Leighton Contractor from 2004 to 2010. Under his guidance, Leighton Contractors expanded considerably with turnover increasing to over $5 billion and the workforce increasing fourfold to ~10,000 employees.

Peter is an advocate for health and safety and brings a strong zero harm vision to both SRG and the industry in which it operates.

Peter Brecht
Director

Peter has more than 35 years' experience in the construction industry, previously serving as the Managing Director - Construction Australia for Lendlease, CEO of Bilfinger Berger Australia and Managing Director of Abigroup. Peter is a Board member of Fulton Hogan Limited.

Michael Atkins
Director

Since February 2009 Michael has been a Director – Corporate Finance at Paterson Securities Limited and is currently Non-Executive Chairman of Australian listed companies Legend Mining Limited, Azumah Resources Limited and Castle Minerals Ltd.

David Macgeorge
Managing Director

David has extensive senior executive experience in contracting, logistics, infrastructure and mining service industries and has a strong record of leading business transformations, driving value creation and growth through a unique understanding of strategy, customer focus and shareholder returns.

Prior to joining SRG, David held senior executive roles with BIS Industries, Cleanaway and CHEP (a subsidiary of Brambles). He also provided consultancy to Leighton Contractors.

Roger Lee
Chief Financial Officer / Company Secretary

Prior to joining SRG, Roger played an integral role in the establishment of Broad Group Holdings (now part of the Leighton Contractors Group), in various executive roles including Director/CFO, and subsequently Managing Director of Broad. He has also held other Executive Finance roles at Leighton Contractors (now part of CPB), both at corporate level and within the Infrastructure Division.

Key risks

Refer Section 3.

Core drivers and catalyst

Commodity prices, infrastructure and maintenance investment by both governments and private sector, acquisitions / M&A, margin improvement, higher recurring revenues, improving order book / WIH / pipeline, completion / exit of problematic work / contracts (Structures WA and Victoria), and cost and opex prudency in times of macro pressure (e.g. COVID-19 pandemic currently).

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.

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