

17th April 2019

Stealth Global Holdings

Expanding its footprint

Stealth Global Holdings Ltd (ASX:SGI) is an international supplier and distributor of everyday workplace consumable products to business customers. It listed on the ASX in October 2018 after raising \$12.5m at \$0.20/share and acquiring a major Western Australian competitor, Heatleys. The company operates under the banners, Stealth Global, Heatleys Safety & Industrial, and BSA Brands UK (the recently announced 50/50 JV with Bisley Workwear), distributing almost 500,000 products to 3,000 customers that operate in diversified industries across 17 countries. SGI has also announced it will acquire for \$1m cash Industrial Supply Group, an independent 35 member buying group that will expand Stealth's footprint nationally and increase its overall buying power. As a result of the acquisition and BSA JV, Stealth has forecast it will deliver FY19 proforma revenue (adjusted for IPO costs and Heatleys) in the range of \$73-76m (previously \$76.7m) and EBIT of \$1.8-2.0m (previously \$3.4m). The adjustment reflects the upfront costs and investment in securing the BSA Brands JV and acquiring Industrial Supply Group from 1 May. The revised guidance suggests an increase of 11-15% in revenue and 29-43% in EBIT on the prior corresponding proforma year's revenues and EBIT. SGI's current share price implies a 10-year CAGR in free cashflows to FY28 of negative 2.2%, in contrast to the growth delivered and forecast by the company.

Business model

Stealth Global provides a wide range of safety, industrial, workplace and healthcare consumable products and supply chain solutions to its ~3,000 business customers across Australia, Africa, Europe, United Kingdom and Asia. The Stealth vertically integrated business model comprises sales and distribution, wholesale distribution, industrial buying group and online distribution. It has developed preferred product distribution arrangements with several leading brands including the Bisley Workwear UK 50/50 joint venture. It also extends its product range through private label development with reputable manufacturers and provides customers with integrated contract supply and logistics services and onsite solutions.

H119 result and Outlook

Stealth Global reported H1FY19 proforma revenue of \$36.0m, up 13% on pcp and an 8% increase in proforma EBIT to \$1.0m. Stealth noted that the scale delivered by the Heatleys acquisition had resulted in improving cost metrics as a percentage of sales, and a stronger gross margin for the Australian operations, which currently account for ~68% of revenues. Stealth anticipates it will experience further rationalisation and improved commercial arrangements in suppliers in H2FY19. SGI noted that the outlook for H2FY19 remains positive for both existing customer demand and a strong pipeline of new customer prospects. Longer term, SGI anticipates double digit growth in FY20 revenues.

Reverse DCF

We have undertaken a reverse DCF of Stealth using the FY18 proforma operating cashflows after capex and taxation (\$1.6M) as a base and applying a 15% discount rate and 2.2% terminal rate. At \$0.115, this implies a CAGR in free cashflows to FY28 of -2.2%.

Proforma Earnings history (A\$m)

Y/E	Revenue	EBITDA adjusted	EBITDA	EBIT	NPAT	EPS(c)	PE (x)	EV/EBITDA adjusted
06/17	56.0	1.7	1.3	1.0	0.5	0.5	21.8	6.0
06/18	65.9	2.7	1.6	1.4	0.8	0.8	13.6	3.7

Source: Company data inc FY19 prospectus forecast *EBITDA adj for transaction costs associated with IPO in FY18

Share details

ASX Code	SGI
Share Price	\$0.11
Market Capitalisation	\$10.4M
Number of shares	94.9M
Enterprise Value	\$9.6M
Sector	Wholesaling
Free Float	78.8%

Share price performance (since listing Oct '18)



RaaS RAP 5-point score* = 3/5

Revenue increasing (1); EPS increasing (1), Return on Capital Employed [ROCE] (0); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(0)

Upside Case

- Growing across markets, customers and strategic ventures
- Able to offer customers significant buying power across multiple markets
- Exposed to a diverse range of industries, customers and geographies, adding to its ability to provide consistency of revenues

Downside Case

- Competing with significantly larger companies in specific markets/product lines but company mitigating against this with acquisitions like Industrial Supply Group
- Capital Drilling, a major shareholder (9.55%) is also the biggest customer (24% of revenues)
- Exchange rate risk

Catalysts

- Meeting or exceeding prospectus forecasts at FY19
- Expansion of partners and acquisitions

Comparative companies (Australia & NZ)

CYG, WES

Substantial Institutional Shareholders

Challenger 8.10%, Perennial Value 6.972%

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FINANCIAL SERVICES GUIDE

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Effective Date: 26th November 2018

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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