

# Stealth Global Holdings Ltd

Update note

Liked the product so much they bought it

**Stealth Global Holdings Limited (ASX:SGI) has announced the acquisition of the “Protect a Load” brand and inventory for \$500k. At a reported 2.5x EBIT this implies annualised EBIT of \$200k, and in isolation would be ~7% EPS accretive on a full-year basis. While small in nature the acquisition continues the group’s quest to improve the quality and differentiation of their product offering and in turn gross margin. Given the moving parts associated with a re-setting of the African Business (see our previous note of 8 October) and push into the UK via the BSA JV (Bisley Workwear), we have elected not to increase our existing earnings forecasts at this point, providing some buffer going forward. Protect a Load could almost be considered a private label for Stealth with rollout now expected through the group’s enhanced distribution base. At current prices, SGI is still trading at a significant EV/sales discount to our assessed distribution peers, the smallest of which are loss making (FUN and CLT – SGI a 35% discount despite being profitable).**

## Business model

Stealth Global Holdings is an Australian multinational distribution group providing a wide range of industrial, safety and workplace consumable products and supply solutions to business customers. As a supplier and distributor, Stealth offer a comprehensive assortment of products to support customers with purchasing options and solutions that are essential in the operation of their business. Resulting volumes offer a virtuous circle of scale, operational efficiency and margin growth.

## Investment summary

Through the acquisition of ISG Stealth now has a National offering and can quote for national contracts which was not possible before (Heatley’s is 100% WA). Heatley’s in WA continues to gain market share from incumbents through their service standards and improving gross margins as they grow, and we expect this trend to continue with the addition of private label and scale in general.

The BSA JV is in its infancy but is showing positive early signs with penetration into quality retail partners. While we expect this business to be modestly loss making in FY20, we are forecasting profits from FY21.

The recent revelation of <10% gross margins in the African business will see a reset in this business from January 2020. This business will move to a transactional arrangement from January 2020 and from an FY19 revenue base of ~\$20m we are expecting a ~20% revenue decline but slightly higher gross margins.

## Base case valuation A\$0.34/share unchanged

Our base case DCF valuation for SGI is unchanged at \$0.34/share. As a sense check this implies an FY21 PER of 10.7x incorporating the African restructure and some early profitability from the BSA JV. It would also imply an EV/sales of 43%, equal to peer CYG.

### Historical earnings and RaaS Advisory estimates

Year end	Revenue(A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS (c)	PER (x)	EV/REV (x)
Jun-19a #	62.8	2.1	0.5	0.01	nm	0.14
Jun-20e	78.1	2.9	1.5	0.02	6.1	0.14
Jun-21e	89.5	5.1	3.0	0.03	3.6	0.11
Jun-22e	97.7	6.9	4.0	0.04	2.7	0.08

Source: Company Data, RaaS Advisory Estimates #reported

Distribution – Wholesale

21<sup>th</sup> November 2019

### Share details

ASX Code	SGI
Share price	\$0.115
Market Capitalisation	\$11M
Shares on issue	94.9M
Enterprise value	\$10.4M
Net Debt 30 Jun 2019	\$0.14M
Free float	~60%

### Share performance (12 months)



### Upside Case

- Service based model takes market share from incumbent players
- With size comes improved gross margins from buying and mix opportunities.
- The opportunity to participate in national supply contracts for the first time

### Downside Case

- Acquisitions fail to deliver expected revenues and/or synergies/efficiencies
- Larger competitors react with sharper price offerings
- Largest customer and/or supplier go direct

### Board of Directors

Christopher Wharton	Non-Executive Chair
Michael Arnold	Managing Director
Giovanni Groppoli	Non-Executive Director

### Company Contact

Michael Arnold	+61 408 003 425
MD/CEO	marnold@stealthgi.com
www.stealthgi.com	

### RaaS Advisory contact details

John Burgess	+61 410 439 723
	john.burgess@raasgroup.com
Finola Burke	+61 414 354 712
	finola.burke@raasgroup.com

# FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26<sup>th</sup> November 2018



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- our services
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- how we are paid, and
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Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: [finola.burke@raasgroup.com](mailto:finola.burke@raasgroup.com)

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