

Underlying sales momentum set to accelerate

Stealth Global Holdings Limited (ASX:SGI) has provided a trading update for 1H21, with group sales of \$30.4m, down \$9.3m or 23% on H1 FY20 but up 7.0% on 2H FY20. Stealth Global noted that underlying EBITDA for H1 FY21 was \$2.1m compared with \$1.7m in the previous corresponding period (pcp). Statutory EBITDA was \$1.15m, up from \$0.73m in the pcp. Acquisition and investment costs of \$0.9m in H1 FY21 (\$1.0m in H1 FY20) account for the difference between statutory and underlying. At the sales line, the bulk of the decline was due to the well flagged exit from Africa (\$8.2m). Australia's H1 FY21 sales were \$28.5m, down 5.0% on pcp but up ~11% on H2 FY20. We estimate \$1.4m in government economic stimulus including Jobkeeper supported sales in the half, similar to H2 FY20. The UK-based BSA Brands delivered \$1.09m in sales, an increase of 56% on pcp and well ahead of the H2 FY20 sales of \$0.4m, despite ongoing COVID disruptions in the UK. COVID has materially impacted the expansion of the BSA JV in the UK, and the full potential of this business is yet to be realised. Looking forward SGI should benefit from weak 2H20 sales base, with a full 6-month contribution from the C&L Tool Centre acquisition (~\$8.0m revenue in 2H21). At the EBITDA line sales leverage to an Australian sales recovery and the C&L Tool Centre acquisition should see solid growth in underlying earnings.

Business model

Stealth Global Holdings is a business to business distributor of a wide range of industrial, safety and workplace consumable products. In addition to traditional wholesale supply and wide range distribution, Stealth seeks to establish preferred and/or exclusive sales arrangements with suppliers and/or customers, establishing a key point of differentiation with peers. Such arrangements target new markets (such as the Bisley Workwear JV in the UK) or own label (such as the Protect a Load acquisition). Resulting volumes offer a virtuous circle of scale, operational efficiency, margin growth and profit growth.

Underlying momentum to accelerate over the next 12-months

SGI will now cycle relatively weak trading conditions in its core Australian base over the next 12-months, beginning Q421, and will be aided a full 12-months contribution from the C&L Tool Centre acquisition in which we are forecasting ~\$14m in sales and ~\$1.4m EBITDA). Recent investment in on-line capability customised for business and the trade should also begin to yield sales, while BSA remains well positioned post UK lockdown. We believe recent tendering activity supports improved trading conditions in Australia.

Base case valuation remains A\$0.29/share fully diluted

Our base case DCF valuation for SGI remains at \$0.29/share despite some near-term earnings revisions, as most of this value is attributed to an Australian cost base leveraged to improved sales over the medium-term. We have lowered our WACC from 10% to 9% however to reflect the low risk underlying earnings base. Our selected small cap distribution peer group has rallied between n 50%-150% over the last quarter, widening the EV/sales gap, with SGI now trading at a third of the nearest peer.

Historical earnings and RaaS Advisory estimates

Year end	Revenue(A\$m)	Adj EBIT (A\$m)	NPAT reported (A\$m)	EPS Adj (c)	PER adj (x)	EV/REV (x)
Jun-19a	62.8	2.1	0.5	0.01	nm	0.12
Jun-20a	68.1	0.6	0.4	0.01	15.6	0.18
Jun-21e	69.6	1.2	0.3	0.00	29.7	0.20
Jun-22e	83.9	3.5	1.7	0.02	5.7	0.17

Source: Company Data, RaaS Advisory Estimates

Distribution – Wholesale

18th February 2021

Share details

ASX Code	SGI
Share price	\$0.096
Market Capitalisation	\$9.6M
Shares on issue	99.7M
Enterprise value	\$13.1M
Net Debt Dec 2020	\$3.5M
Free float	43.11%

Share performance (12 months)



Upside Case

- Service based model takes market share from incumbent players
- Traction in on-line sales in both Australia & the UK following recent investment.
- Extracting opportunities and synergies from recent acquisitions

Downside Case

- Acquisitions fail to deliver expected revenues and/or synergies/efficiencies
- Larger competitors react with sharper price offerings
- Mining downturn

Board of Directors

Christopher Wharton	Non-Executive Chair
Michael Arnold	Managing Director
John Groppoli	Non-Executive Director
Alan Cransberg	Non-Executive Director

Company Contact

Michael Arnold MD/CEO	+61 408 003 425 marnold@stealthgi.com
John Boland Group CFO	+61 467 728 612 jboland@stealthgi.com

RaaS Advisory contact details

John Burgess	+61 410 437 723 john.burgess@raasgroup.com
Finola Burke	+61 414 354 712 finola.burke@raasgroup.com

Exhibit 1: Financial Summary

Stealth Global (SGL:AX)						Share price (17 February 2021)						A\$	0.096				
Profit and Loss (A\$m)						Interim (A\$m)						H119	H219	H120	H220	H121F	H221F
Y/E 30 June	FY18A	FY19	FY20	FY21F	FY22F	Revenue	24.3	38.5	39.7	28.3	30.4	39.4					
Revenue	23.1	62.8	68.1	69.6	83.9	EBITDA	0.9	1.2	0.8	(0.2)	0.9	0.7					
Gross profit	4.3	15.3	18.1	20.1	24.6	EBIT	0.8	1.1	0.7	(0.3)	0.7	0.5					
GP margin %	18.8%	24.4%	26.6%	28.9%	29.3%	NPAT (normalised)	0.6	1.1	0.2	(0.5)	0.5	0.3					
Underlying EBITDA	(0.4)	2.1	0.6	1.2	3.5	Minorities	(0.1)	0.2	0.2	0.3	0.0	(0.1)					
Depn (ex AASB16)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	NPAT (reported)	0.4	0.1	(0.0)	(0.5)	0.2	0.3					
Amort	0.0	0.0	0.0	0.0	0.0	EPS (normalised)	na	0.002	(0.000)	(0.005)	0.002	0.003					
EBIT	(0.5)	1.9	0.4	1.0	3.1	EPS (reported)	na	0.002	(0.000)	(0.005)	0.002	0.003					
Interest	(0.0)	(0.1)	(0.4)	(0.5)	(0.6)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	0.0	(0.2)	0.2	(0.1)	(0.7)	Imputation		30.0	30.0	30.0	30.0	30.0					
Minorities	0.0	0.1	0.4	(0.1)	(0.2)	Operating cash flow	na	na	na	na	na	na					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	na	na	na	na	na	na					
NPAT pre significant items	(0.5)	1.7	0.6	0.3	1.7	Divisionals	H119	H219	H120	H220	H121F	H221F					
Significant items	0.0	(1.2)	(0.2)	0.0	0.0	Australian Revenue	15.3	26.5	30.0	26.6	28.5	37.3					
NPAT (reported)	(0.5)	0.5	0.4	0.3	1.7	African Revenue	9.0	10.7	9.0	1.4	0.8	0.6					
Cash flow (A\$m)						BSA	0.0	1.4	0.7	0.3	1.1	1.5					
Y/E 30 June	FY18A	FY19	FY20	FY21F	FY22F	Total Revenue	24.3	38.5	39.7	28.3	30.4	39.4					
EBITDA (inc minority adj)	(0.4)	1.0	1.0	1.2	3.3	Gross profit	7.7	7.6	10.1	8.0	8.6	11.6					
Interest	(0.0)	(0.1)	(0.4)	(0.5)	(0.6)	Gross Profit Margin %	31.7%	19.8%	25.5%	28.3%	28.1%	29.4%					
Tax	(0.2)	(0.6)	0.2	0.3	(0.4)	Employment (net of jobkeeper)	3.0	6.4	6.4	5.7	5.2	7.5					
Working capital changes	1.6	(0.6)	(1.8)	0.8	(1.4)	Admin	1.4	2.1	2.3	1.8	1.8	2.4					
Operating cash flow	1.0	(0.3)	(1.0)	1.9	0.9	Occupancy/Other	0.7	0.8	0.9	0.7	1.0	1.0					
Mice capex	(0.1)	(0.3)	(0.3)	(0.3)	(0.4)	Total costs	5.1	9.3	9.6	8.3	8.0	10.9					
Free cash flow	0.9	(0.6)	(1.3)	1.5	0.5	EBITDA	2.6	(1.7)	0.6	(0.3)	0.5	0.7					
Growth capex	0.0	0.0	0.0	0.0	0.0	EBITDA margin %	10.7%	(4.4%)	1.4%	(0.9%)	1.8%	1.8%					
Acquisitions/Disposals	(0.3)	(7.8)	(0.5)	(2.7)	(0.9)	Margins, Leverage, Returns		FY18A	FY19	FY20	FY21F	FY22F					
Other	0.0	0.1	(0.0)	0.0	0.0	EBITDA margin %		(1.7%)	3.3%	0.9%	1.8%	4.1%					
Cash flow pre financing	0.6	(8.4)	(1.8)	(1.2)	(0.4)	EBIT margin %		(2.1%)	3.0%	0.6%	1.4%	3.7%					
Equity	(0.1)	11.4	0.0	0.0	0.0	NPAT margin (pre significant items)		(2.2%)	2.7%	0.9%	0.5%	2.0%					
Debt	(0.4)	(1.3)	(0.4)	2.0	0.0	Net Debt (Cash)		0.29	0.14	3.06	4.29	4.71					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	nm	nm	nm	nm	nm					
Net cash flow for year	0.1	1.7	(2.2)	0.8	(0.4)	ND/ND+Equity (%)	(%)	32.8%	(1.1%)	(31.6%)	(46.2%)	(43.9%)					
Balance sheet (A\$m)						EBIT interest cover (x)	(x)	n/a	0.1x	1.2x	0.5x	0.2x					
Y/E 30 June	FY18A	FY19	FY20	FY21F	FY22F	ROA		nm	9.7%	1.2%	3.0%	9.1%					
Cash	0.3	2.0	1.1	1.6	1.2	ROE		nm	7.7%	2.9%	2.4%	11.6%					
Accounts receivable	3.8	15.9	7.9	7.6	9.2	ROIC		nm	30.0%	16.0%	44.5%	80.5%					
Inventory	0.3	6.3	7.9	7.6	9.1	NTA (per share)		0.07	0.06	0.06	0.05	0.05					
Other current assets	0.1	0.6	0.7	1.8	0.2	Working capital		-1.5	5.8	7.6	6.8	8.2					
Total current assets	4.5	24.7	17.6	18.6	19.7	WC/Sales (%)		(6.3%)	9.3%	11.2%	9.7%	9.7%					
PPE	0.2	0.6	0.7	0.8	0.9	Revenue growth		nm	172.2%	8.4%	2.2%	20.5%					
Goodwill	0.5	6.9	7.1	9.1	10.0	EBIT growth pa		nm	nm	(80.2%)	154.4%	229.5%					
Investments	0.0	0.0	0.0	0.0	0.0	Pricing		FY18A	FY19	FY20	FY21F	FY22F					
Deferred tax asset	0.5	1.1	1.5	1.5	1.5	No of shares (y/e)	(m)	nm	77	95	98	100					
Right of use asset	0.0	0.0	3.5	3.5	3.5	Weighted Av Dil Shares	(m)	nm	77	95	98	100					
Total non current assets	1.2	8.6	12.8	14.9	15.9	EPS Reported	cps	nm	0.006	0.006	0.003	0.017					
Total Assets	5.7	33.3	30.4	33.5	35.6	EPS Normalised/Diluted	cps	nm	0.006	0.006	0.003	0.017					
Accounts payable	5.6	16.3	8.2	8.4	10.1	EPS growth (norm/dil)		nm	nm	0%	-47%	423%					
Short term debt	0.6	1.8	2.7	4.4	4.4	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Lease liabilities	0.0	0.0	3.5	3.5	3.5	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Other	0.1	1.0	(1.0)	(1.0)	(1.1)	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Total current liabilities	6.2	19.2	13.4	15.3	16.9	Dividend imputation		30	30	30	30	30					
Long term debt	0.0	0.3	1.5	1.5	1.5	PE (x)		nm	15.6	29.7	5.7						
Other non current liab	0.0	0.9	2.8	3.1	1.8	PE market		18	18	18	18						
Total long term liabilities	0.0	1.2	4.3	4.6	3.3	Premium/(discount)		nm	(13.3%)	64.8%	(68.5%)						
Total Liabilities	6.2	20.4	17.7	19.9	20.1	EV/EBITDA		nm	nm	11.1	11.9	4.4					
Net Assets	(0.6)	12.9	12.7	13.6	15.5	FCF/Share	cps	nm	nm	(0.003)	(0.015)	(0.004)					
Share capital	0.1	13.0	13.0	13.5	13.5	Price/FCF share		nm	nm	(37.1)	(6.3)	(22.9)					
Accumulated profits/losses	(0.7)	(0.2)	(0.1)	0.2	1.9	Free Cash flow Yield		nm	nm	(2.7%)	(15.9%)	(4.4%)					
Reserves	0.1	0.3	0.3	0.3	0.3												
Minorities	0.0	(0.1)	(0.6)	(0.5)	(0.3)												
Total Shareholder funds	(0.6)	12.9	12.7	13.6	15.5												

Source: RaaS Advisory



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: 26th November 2018



About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License (“AFSL”) number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS’s services and includes such things as

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

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

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS’s representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR’s internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren’t satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMERS and DISCLOSURES

This report has been commissioned by Stealth Global Holdings Ltd prepared and issued by RaaS Advisory Pty Ltd. RaaS Advisory has been paid a fee to prepare this report. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise.

The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2021 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.