

Contract wins and synergies drive >FY23 upgrades

Stealth Global Limited (ASX:SGL) has provided a trading update at its AGM which we reconcile with our current forecasts below. Near-term, H1FY22 revenues are forecast at \$45m +/- 5%, in-line with estimates (\$46.6m). Abnormal (integration) costs have been quantified at \$0.76m for the half and have been added to our adjustments in the P&L and cash flow statements. Capex of \$0.8m for the half is above estimates and >FY22 estimates have been adjusted accordingly. Medium-term, such investment is paying dividends with new customer contracts representing \$18m in “combined annual value” awarded or being finalised and expected to be fully contributing by CY23. This represents ~22% of our current Heatleys/Skipper sales assumptions and well above our current forecasts. We have upgraded our FY23 and FY24 sales estimates by ~5% as a result, which may still prove conservative given expected Skipper revenue synergies. BSA (UK) continues to secure new stockists above current estimates which is a key driver of revenue growth. Given the recent investments in people and infrastructure we expect the majority of these sales to drop to the bottom line, and as a result increase earnings estimates for FY23 by 20-30%. Incorporating higher capex, our DCF valuation increases to \$0.40/share (from \$0.32/share).

Business model

Stealth Global Holdings is a broad-line distributor of industrial, maintenance/repair/operating (MRO), safety, workplace supplies and other related products and services. Stealth looks to differentiate with its broad in-stock product offer, supply chain infrastructure, deep supplier relationships and e-commerce channels, serving customers of all sizes. Stealth provides supplies and solutions for every industry through a portfolio of five distribution businesses covering business, trade, retail, service and specialist wholesale. The subsidiary brands are Heatleys Safety & Industrial, C&L Tool Centre, Skipper Transport Parts (STP), Industrial Supply Group and BSA Brands (UK), a joint venture with Bisley Workwear. ~95% of revenue is driven from repeat customers.

H2FY21 underlying momentum should continue into FY22

Our FY22 forecasts (pre-abnormals) remain on-track with H1FY22 sales guidance in-line with forecast. The securing of \$18m in new customer contracts (~22% of our combined Heatleys/Skipper sales estimates) is well above our ~6% sales growth estimates, and as a result we have upgraded these estimates by ~5% in FY23 and FY24. Assuming a stable cost base, the result is a 20-30% increase in EPS estimates over the forecast period, which may yet prove conservative given revenue synergy expectations for STP (some but not all of which are likely to be included in new contract wins).

Base-case valuation now A\$0.40/share fully diluted

Our base-case DCF valuation for SGL has increased to \$0.40/share (up from \$0.32/share) as a result of sales leverage to a cost base built for growth. Our numbers now incorporate 11-12% sales growth in FY23 and FY24, stable to improving gross margins driven by both scale, private label and business mix, and a relatively stable cost base. Our DCF only implies 12x forecast FY23 EPS and 7.5x EV/EBITDA.

Historical earnings and RaaS estimates (In \$A unless otherwise stated)						
Year end	Revenue	Adj. EBITDA	Adj. NPAT	EPS adj. (c)	PER adj. (x)	EV/REV (x)
Jun-20a	68.1	3.0	0.4	0.01	25.2	0.24
Jun-21a	69.7	3.0	0.6	0.02	8.3	0.27
Jun-22e	99.4	4.4	1.7	0.02	6.9	0.24
Jun-23e	113.4	6.8	3.4	0.03	4.6	0.20

Source: Company data, RaaS estimates

Distribution – Wholesale

2nd December 2021

Share Details

ASX code	SGL
Share price	\$0.155
Market capitalisation	\$15.5M
Shares on issue	99.7M
Enterprise value	\$19.5M
Net debt Jun-2021	\$4.0M
Free float	43.1%

Share Performance (12 months)



Upside Case

- Service-based model takes market share from incumbent players
- Traction in on-line sales in both Australia and 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 Gropoli	Non-Executive Director
Simon Poidevin	Non-Executive Director

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Key AGM Commentary In More Detail

- **\$18m in new customer contract wins** have been secured or in final negotiation and expected to kick-in between March 2022 and November 2022. At their peak they are expected to total at least \$18m, which is ~22% of our current Heatleys/STP sales assumptions.

With underlying growth of only 6% forecast previously in each of FY23 and FY24, our numbers look too conservative and as a result we have increased sales growth assumptions in each of these years by 5%, resulting in significant earnings upgrades (see below).

- **BSA stockists have increased 32%** (from 86 to 113) following the addition of 27 stores (out of 90) from a new merchant. This is above our near-term forecasts (albeit toned down due to COVID) and a key driver of future sales. The addition of a womenswear range should also support sales.
- **\$45m +/- 5% revenue guidance for H1FY22** is in-line with RaaS forecasts (\$46.6m) and further proof of increased revenue visibility of the group.
- **Higher H1FY22 capex spend** expected as new acquisitions are bedded down. We have adjusted our numbers accordingly and increased longer-term capex assumptions from 0.7% of sales to 0.8%.
- **One-off costs of \$0.76m identified** relating to acquisition integration and investment at the P&L line. As with prior period we treat this spend as an adjustment below the NPAT line.

Earnings adjustments

Significant investment in people over the past 12-18 months has SGI positioned to grow sales without adding significant costs, setting the group up for operating leverage. Our assumptions on new contract wins demonstrate this leverage, with a 5% increase in sales equating to ~\$1.8m gross profit, dropping straight to the bottom line. Our revised earnings estimates out to FY24 are detailed below.

Exhibit 1: SGI earnings revisions				
Line item	FY22	FY23	FY24	Comment
Sales - prior (A\$m)	99.3	110.2	117.3	
Sales - revised (A\$m)	99.4	113.4	123.5	\$13m increase over two years vs \$18m in new contracts
% CHG	0%	3%	5%	
EBIT - prior (A\$m)	3.7	5.1	6.4	
EBIT - revised (A\$m)	3.7	6.0	8.2	Gross margin leverage at the EBIT line
% CHG	1%	18%	29%	
EPS - prior (cps)	0.020	0.028	0.037	
EPS - revised (cps)	0.022	0.034	0.049	
% CHG	11%	19%	33%	EBIT leverage flowing to NPAT

Sources: Company financials and RaaS estimates

DCF Valuation

Our DCF valuation has increased from \$0.32/share to \$0.40/share, on the back of ~5% sales growth increases across the forecast period, offset slightly by higher capex assumptions. This valuation implies ~12x FY23 EPS estimates and 7.5x EV/EBITDA (including rental expense).

Exhibit 2: Financial Summary

Stealth Global (SGI.AX)						Share price (1 December 2021)						A\$	0.155				
Profit and Loss (A\$m)						Interim (A\$m)						H120	H220	H121	H221	H122F	H222F
Y/E 30 June	FY19	FY20	FY21	FY22F	FY23F	Revenue	39.7	28.3	30.4	39.3	46.6	52.8					
Revenue	62.8	68.1	69.7	99.4	113.4	EBITDA	0.8	(0.2)	1.3	1.7	1.7	2.7					
Gross profit	15.3	18.1	20.2	30.0	34.6	EBIT	0.7	(0.3)	1.1	1.5	1.4	2.3					
GP margin %	24.4%	26.6%	29.0%	30.2%	30.5%	NPAT (normalised)	0.2	(0.5)	0.9	0.8	1.0	1.4					
Underlying EBITDA	2.1	0.6	3.0	4.4	6.8	Minorities	0.2	0.3	0.0	0.0	0.0	(0.1)					
Depn (ex AASB16)	(0.2)	(0.2)	(0.4)	(0.7)	(0.8)	NPAT (reported)	(0.0)	(0.5)	0.2	0.3	0.4	1.4					
Amort	0.0	0.0	0.0	0.0	0.0	EPS (normalised)	(0.000)	(0.005)	0.002	0.003	0.004	0.014					
EBIT	1.9	0.4	2.6	3.7	6.0	EPS (reported)	(0.000)	(0.005)	0.002	0.003	0.004	0.014					
Interest	(0.1)	(0.4)	(0.4)	(0.8)	(0.8)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	(0.2)	0.2	(0.4)	(0.7)	(1.5)	Imputation	30.0	30.0	30.0	30.0	30.0	30.0					
Minorities	0.1	0.4	0.0	(0.1)	(0.4)	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 iter	1.7	0.6	1.8	2.2	3.4	Divisionals	H120	H220	H121	H221	H221F	H221F					
Significant items (AT)	(1.2)	(0.2)	(1.2)	(0.5)	0.0	Australian Revenue	30.0	26.6	28.8	37.7	44.6	50.2					
NPAT (reported)	0.5	0.4	0.6	1.7	3.4	African Revenue	9.0	1.4	0.5	0.7	0.8	0.8					
Cash flow (A\$m)						BSA	0.7	0.3	1.1	0.9	1.2	1.9					
Y/E 30 June	FY19	FY20	FY21	FY22F	FY23F	Total Revenue	39.7	28.3	30.4	39.3	46.6	52.8					
EBITDA (inc minority adj)	1.0	1.0	3.0	4.4	6.4	Gross profit	10.1	8.0	8.5	11.7	14.0	16.0					
Interest	(0.1)	(0.4)	(0.4)	(0.8)	(0.8)	Gross Profit Margin %	25.5%	28.3%	28.1%	29.7%	30.1%	30.2%					
Tax	(0.6)	0.2	(0.6)	(0.5)	(1.1)	Employment (net of jobkeeper)	6.4	5.7	5.0	7.0	8.0	8.1					
Working capital changes	(0.6)	(1.8)	(0.7)	(0.1)	(2.7)	Admin	2.3	1.8	1.6	2.0	3.0	3.3					
Operating cash flow	(0.3)	(1.0)	1.4	3.0	1.9	Occupancy (inc rent paid)	0.7	0.6	0.7	1.0	1.3	1.4					
Mtce capex	(0.3)	(0.3)	(0.6)	(1.3)	(0.9)	Total costs (ex transaction)	9.3	8.2	7.3	9.9	12.3	12.9					
Free cash flow	(0.6)	(1.3)	0.8	1.7	1.0	EBITDA	0.8	(0.2)	1.3	1.7	1.7	3.1					
Growth capex	0.0	0.0	0.0	0.0	0.0	EBITDA margin %	1.9%	(0.6%)	4.1%	4.4%	3.7%	5.9%					
Acquisitions/Disposals	(7.8)	(0.5)	(2.9)	(4.9)	0.0	Margins, Leverage, Returns		FY19	FY20	FY21	FY22F	FY23F					
Other	0.1	(0.0)	0.0	0.0	0.0	EBITDA margin %		3.3%	0.9%	4.3%	4.4%	6.0%					
Cash flow pre financing	(8.4)	(1.8)	(2.2)	(3.2)	1.0	EBIT margin %		3.0%	0.6%	3.8%	3.7%	5.3%					
Equity	11.4	0.0	0.0	0.0	0.0	NPAT margin (pre significant items)		2.7%	0.9%	2.6%	2.2%	3.0%					
Debt	(1.3)	(0.4)	3.5	3.0	(2.0)	Net Debt (Cash)		0.14	1.58	4.02	8.03	7.06					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	nm	1.34	1.82	1.82	1.04					
Net cash flow for year	1.7	(2.2)	1.4	(0.2)	(1.0)	ND/ND+Equity (%)	(%)	1.1%	14.2%	41.1%	106.5%	57.5%					
Balance sheet (A\$m)						EBIT interest cover (x)	(x)	0.1x	1.2x	0.1x	0.2x	0.1x					
Y/E 30 June	FY19	FY20	FY21	FY22F	FY23F	ROA		nm	1.2%	7.1%	7.7%	11.1%					
Cash	2.0	1.1	3.1	2.1	1.1	ROE		nm	2.9%	4.4%	11.5%	19.3%					
Accounts receivable	15.9	7.9	11.4	15.2	17.3	ROIC		nm	5.9%	87.7%	150.6%	298.5%					
Inventory	6.3	7.9	10.7	15.0	17.9	NTA (per share)		0.06	0.06	0.04	0.06	0.10					
Other current assets	0.6	0.7	1.0	0.7	0.8	Working capital		5.8	7.6	9.3	13.1	15.8					
Total current assets	24.7	17.6	26.3	32.9	37.1	WC/Sales (%)		9.3%	11.2%	13.4%	13.2%	13.9%					
PPE	0.6	0.7	1.2	2.3	2.4	Revenue growth			8.4%	2.3%	42.7%	14.0%					
Goodwill	6.9	7.1	9.6	9.6	9.6	EBIT growth pa		nm	(80.2%)	600.5%	40.4%	62.0%					
Investments	0.0	0.0	0.0	0.0	0.0	Pricing		FY19	FY20	FY21	FY22F	FY23F					
Deferred tax asset	1.1	1.5	1.6	1.6	1.6	No of shares (y/e)	(m)	77	95	98	100	100					
Right of use asset	0.0	3.5	5.1	5.1	5.1	Weighted Av Dil Shares	(m)	77	95	98	100	100					
Total non current assets	8.6	12.8	17.5	18.6	18.7	EPS Reported	cps	0.006	0.006	0.019	0.022	0.034					
Total Assets	33.3	30.4	43.8	51.5	55.8	EPS Normalised/Diluted	cps	0.006	0.006	0.019	0.022	0.034					
Accounts payable	16.3	8.2	12.8	17.0	19.4	EPS growth (norm/dil)		nm	0%	204%	19%	52%					
Short term debt	1.8	2.7	5.9	5.9	5.9	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Lease liabilities	0.0	3.5	5.3	5.3	5.3	DPS Growth		na	n/a	n/a	n/a	n/a					
Other	1.0	(1.0)	(1.3)	(2.3)	(2.3)	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Total current liabilities	19.2	13.4	22.7	25.9	28.3	Dividend imputation		30	30	30	30	30					
Long term debt	0.3	0.0	1.3	4.3	2.3	PE (x)		nm	25.2	8.3	6.9	4.6					
Other non current liabs	0.9	4.3	6.0	5.9	5.9	PE market		18	18	18	18	18					
Total long term liabilities	1.2	4.3	7.2	10.2	8.2	Premium/(discount)		nm	40.0%	(54.0%)	(61.4%)	(74.6%)					
Total Liabilities	20.4	17.7	29.9	36.0	36.4	EV/EBITDA		nm	15.0	6.4	5.4	3.6					
Net Assets	12.9	12.7	13.8	15.5	19.3	FCF/Share	cps	nm	(0.003)	(0.015)	(0.040)	0.010					
Share capital	13.0	13.0	13.5	13.5	13.5	Price/FCF share		nm	(60.0)	(10.0)	(3.9)	16.0					
Accumulated profits/losses	(0.2)	(0.1)	0.5	2.2	5.5	Free Cash flow Yield		nm	(1.7%)	(10.0%)	(25.9%)	6.2%					
Reserves	0.3	0.3	0.4	0.4	0.4												
Minorities	(0.1)	(0.6)	(0.6)	(0.5)	(0.1)												
Total Shareholder funds	12.9	12.7	13.8	15.6	19.3												

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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