Research as a Service

Stealth Global Holdings Ltd

1H21 result release

Acquisition & improving outlook offer operating leverage

Distribution – Wholesale

24th March 2021

Stealth Global Limited (ASX:SGI) has reported statutory results following their trading update mid-February, and we have fine-tuned our numbers from our update (Underlying sales momentum set to accelerate, February 18 2021) accordingly, with changes at the margin. The key message continues to be the group is well placed to grow revenue and earnings over the next 12-months, driven by 1) easy comparable period sales beginning Q421 (neutral Africa impact, and when Australian sales declined ~20% early in the quarter) and into 1H22 (underlying 1HFY21 Australian sales were down ~7%), 2) a full 12-month contribution from the C&L Tool Centre acquisition, which should contribute ~$14m in revenue (and represent ~20% of group sales) and ~$1.4m EBITDA (>50% of underlying earnings), 3) the BSA potential beyond the UK lockdown, supported by the launch of a new on-line portal, 4) a cost structure which has been built for growth and should not require additional resources to accommodate our forecast medium-term sales growth (promising operating leverage), and 5) the cycling of the exit from Africa, which has been a drag on group margins and comparable sales growth. Subsequent to the 1H21 result release selected peers have reported generally solid numbers (SNL, CYG and CLT), and as a result we have seen a widening in the FY21 EV/sales discount of SGI to the peer group, with SGI trading at a 35% discount to the nearest peer.

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 easy 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.

Base case valuation down to A$0.27/share fully diluted

Our base case DCF valuation for SGI has reduced to $0.27/share (from $0.29/share) on the back of a higher 10-year bond yield assumption (2% from 1%). Most of this value is attributed the leverage of Australian sales growth to a cost base built for medium-term growth. Our numbers incorporate 6%-8% sales growth over the forecast period, and stable to improving gross margins driven by both scale and private label/mix.

Historical earnings and RaaS Advisory estimates

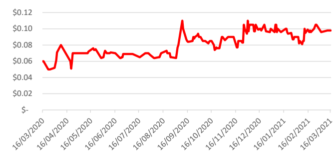
Year end	Revenue(A$m)	Adj EBIT (A$m)	NPAT reported (A$m)	EPS Adj (c)	PER adj (x)	EV/REV (x)
Jun-19a	62.8	2.1	0.5	0.01	nm	0.12
Jun-20a	68.1	0.6	0.4	0.01	16.3	0.18
Jun-21e	68.3	1.8	0.4	0.01	8.9	0.19
Jun-22e	83.1	3.3	1.7	0.02	5.9	0.17

Source: Company Data, RaaS Advisory Estimates

Share details

ASX Code	SGI
Share price (22 Mar)	$0.10
Market Capitalisation	$10.0M
Shares on issue	99.7M
Enterprise value	$13.5M
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

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1H21 sales summary

- **Australian** sales declined 4% over 1H20, and 7% underlying adjusted for the C&L Tool Centre acquisition ($1.02m contribution), however they were up 7% over 2H20 and 5% underlying adjusted for C&L Tool Centre.
- **Africa** sales were almost non-existent in 1H21 at $0.5m against $9.0m in the PCP as the company deliberately exited this low margin region.
- **BSA** sales improved significantly, delivering sales from the ~$1.5m order book highlighted at the AGM in November 2020, and despite UK lockdowns.

Exhibit 1: SGI sales by half year by region

Variable	1H20	1H21	% Chg	2H20	2H21F	% Chg
Revenue - Statutory	39.7	30.4	-23%	28.3	38.0	34%
Australia	30.0	28.8	-4%	26.6	37.0	39%
Africa	9.0	0.5	-94%	1.4	0.6	-57%
BSA	0.7	1.1	51%	0.3	0.4	30%

Source: Company financials and RaaS Analysis

Adjusted EBITDA

There remains a number of one-off items impacting reported group EBITDA which can and do have a significant impact on earnings numbers off a relatively low base. The exhibit below presents 1H21 EBITDA at a number of levels.

What is clear is that there has been significant investment in people, new business development and acquisition due diligence that have impacted reported numbers over the last 12-months.

Exhibit 2: 1H21 EBITDA reconciliation

Line item	1H20	1H21	Comment
Reported EBITDA	**1.75**	**2.10**	**Non-IFRS, includes ~$1.4m job keeper in 1H21**
LESS			
Actual Rent paid	0.58	0.56	Now a charge in Depreciation as per AASB16
Investment in Staff	0.37	0.60	Not present in the prior year
Adjusted EBITDA	**0.80**	**0.94**	
LESS			
Transaction costs	0.21	0.35	Acquisition costs/Due diligence costs
BSA JV investment	0.37	0.00	
Other	0.08	0.00	
REPORTED EBITDA	**0.15**	**0.60**	**On an Ex-AASB16 basis**
ADD Rent Paid	0.58	0.56	
Statutory EBITDA	**0.73**	**1.15**	**Under AASB16 and as reported**

Sources: Company financials & RaaS estimates

RAAS Research as a Service

Outlook

We hold the view that it is only a matter of time before we see operating leverage in this business as the core Australian business grows off a cost base built for growth, and BSA gains traction in the UK under a "normalised" trading environment. Key drivers behind our existing assumptions are listed below:

- **Australia**. From a sales perspective the group is cycling "easy" comparatives from Q4FY21 on the back of COVID disruptions. Significant investment in on-line capabilities, both B2B and B2C should also begin to yield benefits.

  With an overhead cost base built for growth we expect minimal investment in operating costs to deliver this forecast sales growth, offering strong operating leverage.

  Having contributed $1.0m revenue and a breakeven contribution in December 2020, the **C&L Tool Centre acquisition** is expected to contribute $14m revenue and ~$1.3m-$1.4m EBITDA over the next 12-months, which represents half our FY22 EBITDA assumptions.

- **BSA.** Delivered $1.1m of an order book of $1.5m in 1H21, implying at least $0.4m in sales over 2H21. Any further orders will depend on UK lockdowns and the speed of UK economic recovery. Our FY21 numbers reflect conservatism.
- **Financing.** A larger $10.4m financing facility (up from $7.4m) offers further accretive acquisition opportunities.

Peer comparison

We consider listed peers for SGI to be:

- Distribution businesses with a mix of brands and private label;
- Small/micro-cap in size;
- Gross margins in the 20%-40% range;
- Dealing with much larger companies as a rule in a competitive environment.

Our selected ASX listed peers are:

Paragon Care Limited (ASX:PGC), is a supplier of a wide range of healthcare equipment and consumables to hospitals and aged care facilities. The group has grown by acquisition and is currently consolidating this position.

Cellnet (ASX:CLT), is a distributor of a range of branded accessories for mobile phones and gaming across Australia and New Zealand.

Coventry Group (ASX:CYG), supplies a range of fastening systems, cabinet hardware systems, fluid hydraulics, lubrications, refuelling systems and other products across a range of channels. The group has three distinct businesses, Cooper Fluid Systems, Nubco and Trade Distribution.

Supply Networks (ASX:SNL) operates under the Multispares brand, and supplies truck and bus parts across Australia (~90% of revenue) and New Zealand, with a focus on "quality" components and service.

SGI is trading at a 35% EV/sales discount to their nearest peer (CLT) on forecast FY21 numbers but a premium on a PER basis as the group prepares for sales leverage and a full 12-months of C&L Tools.

Exhibit 3: Peer financial comparison

Company Name	Ticker	Share price (cps)	Mkt Cap ($m)	FY21 sales ($m)	FY21 NPAT adj ($m)	Dec-31 Net debt ($m)	FY21 PER (x)	1H21 GP%	1H21 WC/sales	EV/sales
Supply Networks	SNL	6.50	265	157	12.0	5	28.3	41.0%	28%	172%
Coventry Group	CYG	1.13	101	260	3.5	11	10.4	37.5%	21%	43%
Paragon Healthcare	PGC	0.23	74	219	3.5	75	4.9	38.7%	19%	68%
Cellnet	CLT	0.08	19	96	2.9	8.1	6.6	24.1%	28%	28%
Stealth Global	SGI	0.10	10	68	1.1	3	9.1	28.9%	11%	20%

Sources: Company financials, Thomson Reuters

DCF Valuation

Our DCF valuation has reduced to $0.27/share from $0.29/share solely attributed to an increase in 10-year bond yields.

Exhibit 4: Base case DCF valuation

Parameters	
Discount Rate / WACC	9.7%
Terminal growth rate assumption (inflation adjusted)	2.2%
In A$m	
Present value of cashflows	13.5
Present value of terminal value	17.2
PV of enterprise	30.7
Net value ($m)	26.7
Net value per share	$0.27

Source: RaaS estimates

Exhibit 2: Financial Summary

Stealth Global (SGI.AX)					
Profit and Loss (A$m)					
Y/E 30 June	**FY18A**	**FY19**	**FY20**	**FY21F**	**FY22F**
Revenue	23.1	62.8	68.1	68.3	83.1
Gross profit	4.3	15.3	18.1	19.7	24.3
GP margin %	18.8%	24.4%	26.6%	28.9%	29.3%
Underlying EBITDA	(0.4)	2.1	0.6	1.8	3.3
Depn (ex AASB16)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)
Amort	0.0	0.0	0.0	0.0	0.0
EBIT	(0.5)	1.9	0.4	1.5	3.0
Interest	(0.0)	(0.1)	(0.4)	(0.4)	(0.6)
Tax	0.0	(0.2)	0.2	(0.1)	(0.7)
Minorities	0.0	0.1	0.4	0.1	(0.1)
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre significant items	(0.5)	1.7	0.6	1.1	1.7
Significant items	0.0	(1.2)	(0.2)	(0.7)	0.0
NPAT (reported)	**(0.5)**	**0.5**	**0.4**	**0.4**	**1.7**
Cash flow (A$m)					
Y/E 30 June	**FY18A**	**FY19**	**FY20**	**FY21F**	**FY22F**
EBITDA (inc minority adj)	(0.4)	1.0	1.0	1.8	3.2
Interest	(0.0)	(0.1)	(0.4)	(0.4)	(0.6)
Tax	(0.2)	(0.6)	0.2	0.3	(0.4)
Working capital changes	1.6	(0.6)	(1.8)	1.0	(1.4)
Operating cash flow	1.0	(0.3)	(1.0)	2.7	0.9
Mtce capex	(0.1)	(0.3)	(0.3)	(0.3)	(0.4)
Free cash flow	0.9	(0.6)	(1.3)	2.4	0.4
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/Disposals	(0.3)	(7.8)	(0.5)	(2.7)	(0.9)
Other	0.0	0.1	(0.0)	0.0	0.0
Cash flow pre financing	0.6	(8.4)	(1.8)	(0.3)	(0.5)
Equity	(0.1)	11.4	0.0	0.0	0.0
Debt	(0.4)	(1.3)	(0.4)	2.0	0.0
Net Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	0.1	1.7	(2.2)	1.7	(0.5)
Balance sheet (A$m)					
Y/E 30 June	**FY18A**	**FY19**	**FY20**	**FY21F**	**FY22F**
Cash	0.3	2.0	1.1	2.4	2.0
Accounts receivable	3.8	15.9	7.9	7.5	9.1
Inventory	0.3	6.3	7.9	7.4	9.0
Other current assets	0.1	0.6	0.7	0.5	0.1
Total current assets	*4.5*	*24.7*	*17.6*	*17.8*	*20.2*
PPE	0.2	0.6	0.7	0.8	0.9
Goodwill	0.5	6.9	7.1	9.1	10.0
Investments	0.0	0.0	0.0	0.0	0.0
Deferred tax asset	0.5	1.1	1.5	1.5	1.5
Right of use asset	0.0	0.0	3.5	3.5	3.5
Total non current assets	*1.2*	*8.6*	*12.8*	*14.9*	*16.0*
Total Assets	5.7	33.3	30.4	32.8	36.2
Accounts payable	5.6	16.3	8.2	8.2	10.0
Short term debt	0.6	1.8	2.7	4.4	4.4
Lease liabilities	0.0	0.0	3.5	3.5	3.5
Other	0.1	1.0	(1.0)	(1.0)	(1.1)
Total current liabilities	*6.2*	*19.2*	*13.4*	*15.1*	*16.8*
Long term debt	0.0	0.3	1.5	1.5	1.5
Other non current liabs	0.0	0.9	2.8	2.6	2.6
Total long term liabilities	*0.0*	*1.2*	*4.3*	*4.1*	*4.1*
Total Liabilities	6.2	20.4	17.7	19.2	20.8
Net Assets	**(0.6)**	**12.9**	**12.7**	**13.6**	**15.3**
Share capital	0.1	13.0	13.0	13.5	13.5
Accumulated profits/losses	(0.7)	(0.2)	(0.1)	0.3	2.0
Reserves	0.1	0.3	0.3	0.3	0.3
Minorities	0.0	(0.1)	(0.6)	(0.6)	(0.5)
Total Shareholder funds	**(0.6)**	**12.9**	**12.7**	**13.6**	**15.3**

Share price (22 March 2021)					A$	0.100
Interim (A$m)	**H119**	**H219**	**H120**	**H220**	**H121**	**H221F**
Revenue	24.3	38.5	39.7	28.3	30.4	38.0
EBITDA	0.9	1.2	0.8	(0.2)	1.3	0.5
EBIT	0.8	1.1	0.7	(0.3)	1.1	0.4
NPAT (normalised)	0.6	1.1	0.2	(0.5)	0.9	0.1
Minorities	(0.1)	0.2	0.2	0.3	0.0	0.0
NPAT (reported)	0.4	0.1	(0.0)	(0.5)	0.2	0.1
EPS (normalised)	na	0.002	(0.000)	(0.005)	0.002	0.001
EPS (reported)	na	0.002	(0.000)	(0.005)	0.002	0.001
Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000
Imputation		30.0	30.0	30.0	30.0	30.0
Operating cash flow	na	na	na	na	na	na
Free Cash flow	na	na	na	na	na	na
Divisionals	**H119**	**H219**	**H120**	**H220**	**H121**	**H221F**
Australian Revenue	15.3	26.5	30.0	26.6	28.8	37.0
African Revenue	9.0	10.7	9.0	1.4	0.5	0.6
BSA	0.0	1.4	0.7	0.3	1.1	0.4
Total Revenue	**24.3**	**38.5**	**39.7**	**28.3**	**30.4**	**38.0**
Gross profit	7.7	7.6	10.1	8.0	8.5	11.2
Gross Profit Margin %	31.7%	19.8%	25.5%	28.3%	28.1%	29.5%
Employment (net of jobkeeper)	3.0	6.4	6.4	5.7	5.0	7.1
Admin	1.4	2.1	2.3	1.8	1.6	2.5
Occupancy	0.4	0.8	0.7	0.6	0.7	1.0
Total costs (ex transaction)	**4.9**	**9.3**	**9.3**	**8.2**	**7.3**	**10.7**
EBITDA	**2.8**	**(1.7)**	**0.8**	**(0.2)**	**1.3**	**0.5**
EBITDA margin %	11.6%	(4.4%)	1.9%	(0.6%)	4.1%	1.4%
Margins, Leverage, Returns		**FY18A**	**FY19**	**FY20**	**FY21F**	**FY22F**
EBITDA margin %		(1.7%)	3.3%	0.9%	2.6%	4.0%
EBIT margin %		(2.1%)	3.0%	0.6%	2.2%	3.7%
NPAT margin (pre significant items)		(2.2%)	2.7%	0.9%	1.6%	2.0%
Net Debt (Cash)		0.29	0.14	3.06	3.44	3.90
Net debt/EBITDA (x)	(x)	nm	nm	nm	nm	nm
ND/ND+Equity (%)	(%)	32.8%	(1.1%)	(31.6%)	(34.0%)	(34.2%)
EBIT interest cover (x)	(x)	n/a	0.1x	1.2x	0.3x	0.2x
ROA		nm	9.7%	1.2%	4.8%	8.8%
ROE		nm	7.7%	2.9%	3.1%	11.7%
ROIC		nm	30.0%	16.0%	66.2%	61.3%
NTA (per share)		0.07	0.06	0.06	0.05	0.05
Working capital		-1.5	5.8	7.6	6.6	8.1
WC/Sales (%)		**(6.3%)**	**9.3%**	**11.2%**	**9.7%**	**9.7%**
Revenue growth		nm	172.2%	8.4%	0.3%	21.7%
EBIT growth pa		nm	nm	(80.2%)	307.6%	98.6%
Pricing		**FY18A**	**FY19**	**FY20**	**FY21F**	**FY22F**
No of shares (y/e)	(m)	nm	77	95	98	100
Weighted Av Dil Shares	(m)	nm	77	95	98	100
EPS Reported	cps	nm	0.006	0.006	0.011	0.017
EPS Normalised/Diluted	cps	nm	0.006	0.006	0.011	0.017
EPS growth (norm/dil)		nm	nm	0%	83%	51%
DPS	cps	0.000	0.000	0.000	0.000	0.000
DPS Growth		n/a	n/a	n/a	n/a	n/a
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Dividend imputation		30	30	30	30	30
PE (x)			nm	16.3	8.9	5.9
PE market		18	18	18	18	18
Premium/(discount)			nm	(9.7%)	(50.6%)	(67.3%)
EV/EBITDA		nm	nm	11.4	7.3	4.3
FCF/Share	cps	nm	nm	(0.003)	(0.006)	(0.005)
Price/FCF share		nm	nm	(38.7)	(15.4)	(21.6)
Free Cash flow Yield		nm	nm	(2.6%)	(6.5%)	(4.6%)

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

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