Research as a Service

Stealth Global Holdings Ltd

FY21 result & outlook

Result & guidance come from a position of confidence

Distribution – Wholesale

7th September 2021

Stealth Global Limited (ASX:SGI) has reported FY21 results in-line with RaaS forecasts while providing FY22 revenue & EBITDA guidance also in-line with RaaS forecasts. This demonstrates a "maturing" of the business and business model following a period of COVID disruptions (both domestically and in the UK), people and eCommerce investment and acquisitions. From an acquisition viewpoint, C&L Tools has delivered on promised acquisition metrics for the first 7-months with a solid 2H21 contribution. C&L will now deliver a further 5-months for the first time in FY22, while the highly synergistic Skipper Transport Parts (STP) acquisition will contribute for the first time for ~10-months in FY22. Domestically the core Australian business delivered ~+11% sales growth in 2H21 and will cycle weak conditions for much of FY22. This is key to the $95m-$100m revenue and $5.7m-$6.3m EBITDA guidance management has provided for FY22, which is also in-line with current RaaS estimates. Delivery of these numbers implies a PER of 6.0x FY22 and EV/EBITDA of 4.8x against larger peer EV/EBITDA's in FY21 of 6.1x (PGC) and 11.2x (CYG). An EV/EBITDA multiple of 6.0x FY22 would translate to a share price of $0.20/share. Our DCF is closer to $0.32/share, capturing upside from domestic cost base leverage and BSA.

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 eCommerce 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, Industrial Supply Group and BSA Brands (UK) a joint venture with Bisley Workwear. ~95% of revenue is driven from repeat customers.

2HFY21 underlying momentum should continue into FY22

SGI saw a solid recovery in core Australian sales over 2H21 while C&L Tool Centre delivered numbers in-line with acquisition metrics. SGI will again cycle relatively easy sales trading conditions in its core Australian base over the next 6-months and be aided by a first-time contribution from the Skipper Transport Parts acquisition and full 1H contribution from C&L Tool Centre (1-month in the PCP). BSA should also get a clearer run in the UK as lockdown eases. Company guidance implies an air of confidence around the above.

Base case valuation remains A$0.32/share fully diluted

Our base case DCF valuation for SGI remains $0.32/share, recently upgraded following the acquisition of Skipper Transport Parts. The FY21 result was in-line with expectations as was FY22 guidance, which suggests our key drivers and assumptions are on-track. Our numbers incorporate 6%-8% sales growth over the forecast period, and stable to improving gross margins driven by both scale, private label and business mix.

Historical earnings and RaaS Advisory estimates

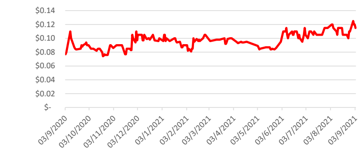
Year end	Revenue(A$m)	Adj EBITDA (A$m)	Adj NPAT (A$m)	EPS Adj (c)	PER adj (x)	EV/REV (x)
Jun-20a	68.1	3.0	0.4	0.01	19.5	0.21
Jun-21a	69.7	3.0	0.6	0.02	6.4	0.26
Jun-22e	99.3	4.4	1.7	0.02	6.0	0.21
Jun-23e	110.0	6.1	3.0	0.03	4.0	0.19

Source: Company Data, RaaS Advisory Estimates

Share details

ASX Code	SGI
Share price	$0.12
Market Capitalisation	$12.0M
Shares on issue	99.7M
Enterprise value	$16.0M
Net Debt Jun 2021	$4.0M
Free float	43.11%

Share performance (12 months)



Upside Case

- Service based model takes market share from incumbent players in the large, fragmented MRO industry
- 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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RaaS Research as a Service

FY21 sales summary

- **Australian sales** increased 17% over FY20 predominantly due to a first-time contribution from the C&L Tool Centre ($9.1m, split $1.0m, $8.1m and in-line with acquisition metrics). Though 1H21 sales declined ~4% due the impacts of COVID-19, the core Australian business rebounded strongly over the 2H21, increasing ~11% in 2H21 as the group cycled COVID disruptions in a much-improved market.

  C&L Tools and company eCommerce investments combined to boost on-line sales, which increased from $0.3m to $2.3m over the year, representing 3.3% of sales and expected to grow.

- **Africa** sales were $1.2m against $10.4m in the PCP as the company deliberately exited this low margin region and replacing it with core Australian sales at higher margin.
- **BSA** sales improved significantly over both halves albeit off a low base as UK lockdowns eased and more stockists were signed (82 as at June 30).

Exhibit 1: SGI sales by half year by region – FY21

Variable	1H20	1H21	% Chg	2H20	2H21	% Chg
Revenue - Statutory	39.7	30.4	-23%	28.3	39.3	39%
Australia	30.0	28.8	-4%	26.6	37.7	42%
Africa	9.0	0.5	-94%	1.4	0.7	-50%
BSA	0.7	1.1	51%	0.3	0.9	187%

Source: Company financials and RaaS Analysis

Adjusted EBITDA

As a growing business the group continued to incur 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. These one-off items have focused on M&A activity (C&L and STP purchases), capital structure (re-finance with CBA) and investment in resources and capability, all of which are focused on building a stronger business. The exhibit below presents FY21 EBITDA at a number of levels.

What is clear is that while this significant investment in people, new business development and acquisition due diligence have impacted reported numbers over the last 24-months they have seen SGI execute on two solid acquisitions with revenue and synergy upside supporting FY22 guidance.

Exhibit 2: FY21 EBITDA reconciliation

Line item	FY20	FY21	Comment
Reported EBITDA	**3.19**	**4.50**	**Non-IFRS, includes job keeper in 2H20 and 1H21**
LESS			
Actual Rent paid	1.16	1.20	Now a charge in Depreciation as per AASB16
Investment in Staff	0.83	0.66	Not present in the prior year
Adjusted EBITDA	**1.20**	**2.64**	
LESS			
Transaction costs	0.46	0.71	Acquisition costs/Due diligence costs
BSA JV investment	0.49	0.00	NA in FY21
Other	0.01	0.00	
REPORTED EBITDA	**0.25**	**1.93**	**On an Ex-AASB16 basis**
ADD Rent Paid	1.16	1.20	
Statutory EBITDA	**1.41**	**3.13**	**Under AASB16 and as reported**

Sources: Company financials & RaaS estimates

Outlook

- **RaaS numbers in-line with guidance**. SGI has guided to an “annualised revenue run rate” of $95m-$100m (RaaS $99m) and “annualised underlying EBITDA” of $5.7m-$6.3m (RaaS is ~$6.0m when grossed up for rent paid).
- **Australia**. From a sales perspective the core business will cycle “easy” comparatives in 1H22 where sales were down ~4% on the back of COVID disruptions. Significant investment in on-line capabilities, improved commodity prices and continued benefits from B2B and B2C investment should support growth.

  With an overhead cost base built for growth we expect minimal investment in operating costs, other than those related to the recent STP acquisition and the removal of Job Keeper to deliver this forecast sales growth, offering strong operating leverage.

  The **C&L Tool Centre acquisition** will contribute for a full 6-months in 1H22 (1-month 1H21) and is on-track to achieve both sales and EBITDA targets with $0.6m after tax delivered in FY21. This implies annualised sales of ~$15m and EBITDA of ~$1.4m.

  Skipper Transport will also contribute for the first time in FY22 (from August), promising ~$16m revenue and ~$1.3m-$1.4m EBITDA over the 12-months to September 2022. Medium-term revenue synergy benefits between Skipper and Heatleys are estimated at $20m (~20% of pro-forma group revenue) by having new stock at existing locations and an estimated 90% cross sell opportunity with customers.

- **BSA** should get a clearer run at UK market penetration as lockdowns ease but numbers remain difficult to forecast.

Exhibit 3: SGI sales history & forecast by region

	2019A	2020A	2021A	2022F	2023F
Sales	**74.5**	**68.1**	**69.7**	**99.3**	**110.0**
Australia	53.5	56.6	66.5	94.8	103.0
- Stealth/Heatleys	53.5	56.6	57.4	60.8	64.5
- C&L Tool Centre			9.1	17.5	19.2
- Skipper Parts			0.0	16.5	19.3
Africa	19.7	10.4	1.2	1.5	1.5
BSA (100%)	1.4	1.1	2.0	3.0	5.6

Source: Company financials & RaaS estimates

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.

Based on actual adjusted FY21 numbers SGI is trading at a 17% PER discount to the peer group (ex SNL). The group has lower average working capital to sales, mid-range gross margins and debt/EBITDA in-line with CYG.

Exhibit 3: Peer financial comparison

Company Name	Ticker	Share price (cps)	Mkt Cap ($m)	FY21 sales ($m)	FY21 NPAT adj ($m)	Jun-30 Net debt ($m)	FY21 PER (x)	FY21 GP%	FY21 WC/sales	Debt/EBITDA (x)
Supply Networks	SNL	7.95	324	163	13.8	3.1	34.6	41.9%	29%	0.1x
Coventry Group	CYG	1.50	134	289	7.2	16.3	13.8	38.2%	20%	1.2x
Paragon Healthcare	PGC	0.29	93	236	8.3	69.1	6.2	38.3%	18%	2.6x
Cellnet	CLT	0.06	14	96	3.8	1.3	3.8	24.6%	22%	0.3x
Stealth Global	SGI	0.12	12	70	1.8	4.0	6.5	29.0%	11%	1.3x

Sources: Company financials, Thomson Reuters

DCF Valuation

Our DCF valuation remains $0.32/share, which was recently upgraded following the acquisition of Skipper Parts. Our numbers incorporate 6%-8% sales growth over the forecast period, and stable to improving gross margins driven by both scale, private label and business mix.

Exhibit 4: Base case DCF valuation

Parameters	
Discount Rate / WACC	10.7%
Terminal growth rate assumption (inflation adjusted)	2.2%
In A$m	
Present value of cashflows	$18.2
Present value of terminal value	$20.3
PV of enterprise	$38.5
Net debt (June-2022)	$6.8m
Net value ($m)	$31.8
Net value per share	**$0.32**

Source: RaaS estimates

Exhibit 5: Financial Summary

Stealth Global (SGI.AX)					
Profit and Loss (A$m)					
Y/E 30 June	**FY19**	**FY20**	**FY21**	**FY22F**	**FY23F**
Revenue	62.8	68.1	69.7	99.3	110.2
Gross profit	15.3	18.1	20.2	30.0	33.6
GP margin %	24.4%	26.6%	29.0%	30.2%	30.5%
Underlying EBITDA	2.1	0.6	3.0	4.4	5.9
Depn (ex AASB16)	(0.2)	(0.2)	(0.4)	(0.7)	(0.8)
Amort	0.0	0.0	0.0	0.0	0.0
EBIT	1.9	0.4	2.6	3.7	5.1
Interest	(0.1)	(0.4)	(0.4)	(0.8)	(0.7)
Tax	(0.2)	0.2	(0.4)	(0.9)	(1.2)
Minorities	0.1	0.4	0.0	(0.0)	(0.3)
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre significant items	**1.7**	**0.6**	**1.8**	**2.0**	**2.8**
Significant items	(1.2)	(0.2)	(1.2)	(0.3)	0.0
NPAT (reported)	**0.5**	**0.4**	**0.6**	**1.7**	**2.8**
Cash flow (A$m)					
Y/E 30 June	**FY19**	**FY20**	**FY21**	**FY22F**	**FY23F**
EBITDA (inc minority adj)	1.0	1.0	3.0	4.3	5.5
Interest	(0.1)	(0.4)	(0.4)	(0.8)	(0.7)
Tax	(0.6)	0.2	(0.6)	(0.7)	(1.0)
Working capital changes	(0.6)	(1.8)	(0.7)	(0.1)	(2.3)
Operating cash flow	(0.3)	(1.0)	1.4	2.9	1.5
Mtce capex	(0.3)	(0.3)	(0.6)	(0.7)	(0.8)
Free cash flow	(0.6)	(1.3)	0.8	2.2	0.8
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/Disposals	(7.8)	(0.5)	(2.9)	(4.9)	0.0
Other	0.1	(0.0)	0.0	0.0	0.0
Cash flow pre financing	(8.4)	(1.8)	(2.2)	(2.7)	0.8
Equity	11.4	0.0	0.0	0.0	0.0
Debt	(1.3)	(0.4)	3.5	3.0	(2.0)
Net Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	1.7	(2.2)	1.4	0.3	(1.2)
Balance sheet (A$m)					
Y/E 30 June	**FY19**	**FY20**	**FY21**	**FY22F**	**FY23F**
Cash	2.0	1.1	3.1	3.4	2.1
Accounts receivable	15.9	7.9	11.4	15.2	16.8
Inventory	6.3	7.9	10.7	15.0	17.4
Other current assets	0.6	0.7	1.0	0.2	0.3
Total current assets	*24.7*	*17.6*	*26.3*	*33.7*	*36.7*
PPE	0.6	0.7	1.2	1.6	1.6
Goodwill	6.9	7.1	9.6	9.6	9.6
Investments	0.0	0.0	0.0	0.0	0.0
Deferred tax asset	1.1	1.5	1.6	1.6	1.6
Right of use asset	0.0	3.5	5.1	5.1	5.1
Total non current assets	*8.6*	*12.8*	*17.5*	*18.0*	*17.9*
Total Assets	33.3	30.4	43.8	51.7	54.7
Accounts payable	16.3	8.2	12.8	17.0	18.9
Short term debt	1.8	2.7	5.9	5.9	5.9
Lease liabilities	0.0	3.5	5.3	5.3	5.3
Other	1.0	(1.0)	(1.3)	(2.3)	(2.3)
Total current liabilities	*19.2*	*13.4*	*22.7*	*25.9*	*27.7*
Long term debt	0.3	0.0	1.3	4.3	2.3
Other non current liabs	0.9	4.3	6.0	6.0	6.0
Total long term liabilities	*1.2*	*4.3*	*7.2*	*10.2*	*8.2*
Total Liabilities	20.4	17.7	29.9	36.1	36.0
Net Assets	**12.9**	**12.7**	**13.8**	**15.6**	**18.7**
Share capital	13.0	13.0	13.5	13.5	13.5
Accumulated profits/losses	(0.2)	(0.1)	0.5	2.2	5.0
Reserves	0.3	0.3	0.4	0.4	0.4
Minorities	(0.1)	(0.6)	(0.6)	(0.5)	(0.2)
Total Shareholder funds	**12.9**	**12.7**	**13.8**	**15.6**	**18.7**

Share price (1 September 2021)					A$	0.120
Interim (A$m)	**H120**	**H220**	**H121**	**H221**	**H122F**	**H222F**
Revenue	39.7	28.3	30.4	39.3	46.6	52.7
EBITDA	0.8	(0.2)	1.3	1.7	1.7	2.7
EBIT	0.7	(0.3)	1.1	1.5	1.4	2.2
NPAT (normalised)	0.2	(0.5)	0.9	0.8	0.7	1.4
Minorities	0.2	0.3	0.0	0.0	0.0	(0.1)
NPAT (reported)	(0.0)	(0.5)	0.2	0.3	0.7	1.4
EPS (normalised)	(0.000)	(0.005)	0.002	0.003	0.007	0.014
EPS (reported)	(0.000)	(0.005)	0.002	0.003	0.007	0.014
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	30.0
Operating cash flow	na	na	na	na	na	na
Free Cash flow	na	na	na	na	na	na
Divisionals	**H120**	**H220**	**H121**	**H221**	**H221F**	**H221F**
Australian Revenue	30.0	26.6	28.8	37.7	44.6	50.2
African Revenue	9.0	1.4	0.5	0.7	0.8	0.8
BSA	0.7	0.3	1.1	0.9	1.2	1.8
Total Revenue	**39.7**	**28.3**	**30.4**	**39.3**	**46.6**	**52.7**
Gross profit	10.1	8.0	8.5	11.7	14.0	15.9
Gross Profit Margin %	25.5%	28.3%	28.1%	29.7%	30.1%	30.2%
Employment (net of jobkeeper)	6.4	5.7	5.0	7.0	8.0	8.1
Admin	2.3	1.8	1.6	2.0	3.0	3.3
Occupancy (inc rent paid)	0.7	0.6	0.7	1.0	1.3	1.4
Total costs (ex transaction)	**9.3**	**8.2**	**7.3**	**9.9**	**12.3**	**12.9**
EBITDA	**0.8**	**(0.2)**	**1.3**	**1.7**	**1.7**	**3.1**
EBITDA margin %	1.9%	(0.6%)	4.1%	4.4%	3.7%	5.8%
Margins, Leverage, Returns		**FY19**	**FY20**	**FY21**	**FY22F**	**FY23F**
EBITDA margin %		3.3%	0.9%	4.3%	4.4%	5.3%
EBIT margin %		3.0%	0.6%	3.8%	3.7%	4.6%
NPAT margin (pre significant items)		2.7%	0.9%	2.6%	2.0%	2.6%
Net Debt (Cash)		0.14	1.58	4.02	6.77	6.00
Net debt/EBITDA (x)	(x)	nm	nm	1.34	1.54	1.02
ND/ND+Equity (%)	(%)	(1.1%)	(14.2%)	(41.1%)	(76.7%)	(47.0%)
EBIT interest cover (x)	(x)	0.1x	1.2x	0.1x	0.2x	0.1x
ROA		nm	1.2%	7.1%	7.7%	9.5%
ROE		nm	2.9%	4.4%	11.7%	16.5%
ROIC		nm	14.2%	89.4%	116.7%	162.7%
NTA (per share)		0.06	0.06	0.04	0.06	0.09
Working capital		5.8	7.6	9.3	13.1	15.4
WC/Sales (%)		**9.3%**	**11.2%**	**13.4%**	**13.2%**	**13.9%**
Revenue growth			8.4%	2.3%	42.5%	11.0%
EBIT growth pa		nm	(80.2%)	600.5%	39.5%	38.4%
Pricing		**FY19**	**FY20**	**FY21**	**FY22F**	**FY23F**
No of shares (y/e)	(m)	77	95	98	100	100
Weighted Av Dil Shares	(m)	77	95	98	100	100
EPS Reported	cps	0.006	0.006	0.019	0.020	0.028
EPS Normalised/Diluted	cps	0.006	0.006	0.019	0.020	0.028
EPS growth (norm/dil)		nm	0%	204%	8%	41%
DPS	cps	0.000	0.000	0.000	0.000	0.000
DPS Growth		na	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	19.5	6.4	6.0	4.2
PE market		18	18	18	18	18
Premium/(discount)		nm	8.4%	(64.4%)	(66.9%)	(76.6%)
EV/EBITDA		nm	11.9	5.3	4.3	3.3
FCF/Share	cps	nm	(0.003)	(0.015)	(0.028)	0.008
Price/FCF share		nm	(46.4)	(7.8)	(4.4)	15.5
Free Cash flow Yield		nm	(2.2%)	(12.9%)	(23.0%)	6.4%

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

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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.

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