

Restructured and poised to deliver

SSH Group (ASX:SSH) is a labour and equipment hire business operating predominantly in Western Australia with a focus on the key growth sectors of construction, resources, and energy. SSH listed in September 2021, issuing 31.25m shares at \$0.20/share to raise \$6.25m, along with the issue of 20.5m shares to the vendors of a labour-hire group of companies, Site Services. In May 2022, SSH acquired equipment hire group KMH for \$15m or 3.9x FY21 EBITDA. This acquisition has since been complemented by the start-up of fleet hire business Tru-Fleet. In FY23, SSH delivered revenue of \$41.1m, adjusted EBITDA of \$4.2m (revenue/adj EBITDA: +10%), Gross Margin of 26%, and an adjusted NPAT loss of \$0.7m, including restructuring costs of \$0.84m. In FY24, the focus for the recruitment business is to grow following a period of restructure which was required following the, as-planned, natural completion of a large (~\$60m) workforce-management contract. The equipment hire business is focused on maximising sustainable free cash-flow, reducing debt to EBITDA, and optimising return on capital. FY24 is off to a good start with Q1 FY24 EBITDA of \$1.2m against the pcp of ~\$0.2m. A further \$5.3m in equipment has been purchased to satisfy new contracts, bringing total equipment value to \$28m, equal to net debt including equipment finance. Based on actual FY23 earnings SSH is trading at a premium relative to its peer group comprising BSA, EHL, MIL, MYE and MSV. The broad equipment hire/mining services sector is trading at a significant EV/EBITDA and PER discount to the All Ords, offering the prospect of a sector rerate.

Business model

SSH operates two complementary divisions that rely on the efficient allocation of labour and equipment respectively, under contracts typically six-to-12 months in duration. The recruitment division comprises Bridge Resources and SSH Safety and relies on the sourcing and retention of labour that is hired out at cost-plus-a-margin over the contract period. The equipment division comprises KMH and Tru Fleet and relies on the utilisation of the company's >300-piece equipment fleet, valued at ~\$28m and predominantly funded by hire purchase from OEMs such as Toyota and Caterpillar for three-to-five-year terms at a fixed rate. The group services a range of industries including construction, resources, and energy. SSH's strategy is to maximise asset utilisation while balancing debt reduction with accretive acquisitions include new equipment.

Looking to leverage off a restructured cost/asset base

FY23 saw significant restructuring in the recruitment division following the natural completion of a large contract, together with the business rebranding, investment in equipment, and a partnership with Aboriginal investment company Four Hills Group. The benefits are beginning to flow, with first quarter FY24 EBITDA of \$1.2m against \$0.2m in the pcp. A further \$5.3m has been invested in equipment to satisfy new contracts, promising increased returns at full utilisation. Commodity prices, the AUD, and production/exploration activity remain broadly supportive of the Australian energy and resources sectors, particularly in WA, and therefore the need for labour and equipment to service such activity.

Peers a mix of human services and equipment hire

We look to other companies of similar market capitalisation that rely on the utilisation of people and/or company-owned equipment for SSH's peers. On the people side, we include BSA, Millennium Services, Ashley Services and larger cap PeopleIn Ltd; and on the equipment side we include Babylon Pump & Power, Aquirian, Metarock, Mitchell Services, and larger cap Emeco. Using FY23 actual adjusted earnings, the average EV/EBITDA multiple of this group is currently ~4.3x, a discount to the SSH FY23 multiple. The sector, as a whole, is trading at a significant EV/EBITDA and PER discount to the ASX All Ordinaries, offering the prospect of a sector rerate. It is important to note equipment hire companies have much higher debt/EBITDA than people-hire businesses, supported by equipment assets.

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue	Gross profit	EBITDA adj.*	NPAT adj.*	NPAT rep.	EPS adj.* (c)	EPS rep. (c)	EV/EBITDA (x)
06/21a	70.5	8.2	1.5	0.97	0.82	0.055	0.047	3.4
06/22a	96.1	11.7	2.3	(0.49)	(2.59)	(0.010)	(0.051)	9.2
06/23a	41.2	10.9	4.2	(0.73)	(1.30)	(0.011)	(0.020)	7.3

Source: Company data; Refinitiv; *EBITDA, NPAT and EPS adjusted for one-time, non-cash items and discontinued operations; ^At year-end prices

Equipment Hire & Human Services

16 November 2023

Share Details

ASX code	SSH
Share price (15-Nov)	\$0.16
Market capitalisation	\$10.5M
Shares on issue	65.9M
Gross cash at 30-Sep-23	\$1.46M
Net debt at 30-Sep-23 (inc \$27.1m in asset finance)	\$28.5M
Free float	~52%

Share Performance (12 months)



Upside Case

- Improved asset utilisation & margins
- Cross-sell opportunities
- EPS accretive acquisitions/purchases

Downside Case

- Higher cost of debt
- Large contract culmination (although this helped improve margins significantly)
- Depressed sector multiples

Catalysts

- New contract wins
- Broader sector rerate
- Further acquisition & investments in high-margin growth opportunities?

Comparable Companies (Aust/NZ)

AQN, BPP, BSA, EHL, MIL, MSV, MYE, PPE

Board and Management

Bruce Lane	Non-Executive Chair
Daniel Cowley-Cooper	MD and CEO
Stefan Finney	Executive Director
Anna Lane	Interim CFO
Sonu Cheema	Company Secretary

Company Contact

Daniel Cowley-Cooper (MD/CEO)	+1300 748 373
	investors@sshgroup.com.au

RaaS Contact

John Burgess	+61 410 439 723
	john.burgess@raasgroup.com

SSH Group InvestorHub Address

<https://investorhub.sshgroup.com.au>



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: 6th May 2021

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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

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