

Skipper adds another lever for operating leverage

Stealth Global Holdings Limited (ASX:SGL) has announced the acquisition of Skipper Transport Parts (STP) for A\$4.2m, 100% debt funded. Based on initial expectations for revenue of \$18m and EBITDA of \$1.1m in the first 12-months of ownership, the acquisition is EPS accretive by between 16% and 20% over FY22 to FY24. STP is a national provider of a complete range of maintenance, repairs and operations (MOR) parts for all makes across all brands of truck, trailer, automotive and agricultural parts. Based in WA the group has (5) branches and also operates (12) onsite stores. The acquisition has significant synergies and overlap with the existing SGL business when you consider customers (mostly mining related), location (WA), inventory management (significant in-stock SKUs) and service (numerous touch points). STP adds to the acquisition by SGL in recent years including C&L Tool Centre in December 2020 utilising the group's balance sheet to build a business of significant scale.

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), own labels and complementary acquisitions (such as C&L Tools and STP). Resulting volume growth offers a virtuous circle of scale, operational efficiency, margin growth and profit growth.

Skipper Transport Parts a good strategic fit & EPS accretive

From location (WA) to customer overlap (mining based with cross-sell estimated at 75%) and an underlying service focus of both businesses (including being in-stock across hundreds of thousands of SKUs), the fit between SGL and STP looks a good one. Being a small business sold out of a large business (Automotive giant AP Eagers with a market valuation of A\$4.1bn) there are likely opportunities to invest and further energise the STP brand. To this point management have identified \$10m in revenue synergies with the current customer overlap estimated at 3% against the 75% cross-sell estimate. From an EPS perspective we estimate accretion of 16%-20% in the forecast period FY22-FY24.

Base case valuation A\$0.32/share fully diluted

Our base case DCF valuation for SGL has increased to \$0.32/share (from \$0.27/share) after incorporating the STP acquisition into our numbers. We have factored in some revenue & earnings synergies but not to the levels identified, offering earnings and EPS upside. Since our last update note key SGL peers have rallied between 9% (SNL:ASX) and 30% (PGC:ASX and CYG:ASX) to be trading at multiples well in excess of SGL, particularly if FY22 is considered.

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-20a	68.1	1.8	0.4	0.01	17.1	0.19
Jun-21e	68.3	1.8	0.4	0.01	9.3	0.20
Jun-22e	99.6	4.3	2.0	0.02	5.1	0.17
Jun-23e	110.3	6.1	3.0	0.03	3.4	0.16

Source: Company Data, RaaS Advisory Estimates for FY21, FY22 and FY23

Distribution – Wholesale

10th June 2021

Share details

ASX Code	SGL
Share price @ 9 June	\$0.105
Market Capitalisation	\$10.5M
Shares on issue	99.7M
Enterprise value	\$13.8M
Net Debt Jun 2021	\$3.0M
Free float	43.11%

Share performance (12 months)



Upside Case

- Service based model takes market share from incumbent players
- Traction in online 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 Gropoli	Non-Executive Director
Alan Cransberg	Non-Executive Director

Company Contact

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

Skipper Transport Parts acquisition

Industrial, safety and workplace consumable distributor SGI has announced the acquisition of Skipper Transport Parts (STP), with key details listed below:

- **Acquisition details.** SGI will acquire STP for \$4.2m from AMCAP, an operating division of automotive retail giant AP Eagers (ASX:APE). The transaction will be 100% debt funded and includes \$3.7m in inventory and \$0.5m PPE. Sales for the first 12-months of ownership are expected to be \$18m and EBITDA \$1.1m, with (11) months contribution expected in FY22.
- **Acquisition logic.** SGI itself is a business built around customer service and being in-stock all the time. STP is a similarly focused business. Both businesses service mining and infrastructure related businesses with a bespoke branch network predominantly in WA, and as a result while there is said to be 3% customer overlap between the businesses currently, it is estimated up to 75% of customers can shop from the portfolio of products.

It is this potential that has management confident of \$10m in revenue synergies within 18-months of ownership and a goal to double the STP business within 5-years (implying \$32m revenue).

The earnings uplift and resulting EPS leverage is also a key driver of the acquisition.

- **EPS changes.** Exhibit 1 below summarises changes to our earnings estimates post STP integration, with accretion of 16%-20% between FY22 and FY24.

Exhibit 1: SGI financial forecast changes

Variable	FY21	FY22	FY23	FY24
Sales - Prior (A\$m)	68.3	83.1	91.1	98.2
Sales - Revised (A\$m)	68.3	99.6	110.3	118.8
% CHG	0%	20%	21%	21%
EBIT - Prior (A\$m)	1.5	3.0	4.5	5.2
EBIT - Revised (A\$m)	1.5	3.7	5.4	6.2
% CHG	0%	23%	20%	21%
EPS - Prior (cps)	0.011	0.017	0.026	0.031
EPS - Revised (cps)	0.011	0.020	0.031	0.036
% CHG	0%	20%	16%	16%

Source: RaaS estimates

Recent acquisition history

STP follows on the heels of several acquisitions and Joint Ventures in the groups quest to grow revenue to \$200m by FY25, which includes:

- **C&L Tool Centre** was acquired in December 2020 for a consideration of \$3.83 and contributed \$1.0m revenue and a breakeven contribution in 1H20. C&L Tool Centre is a Brisbane based tool store established in 1969 and expected to contribute \$14m revenue and ~\$1.3m-\$1.4m EBITDA in the 12-months to December 2021.
- **Protect a Load** was acquired in November 2019 for \$258k or 2.5x EBIT, with the product intended as an addition to the groups private label offering
- **Industrial Supply Group (ISG)** was acquired in May 2019 for a consideration of \$1m, giving SGI access to 35 trade locations around Australia, and importantly (23) locations outside of WA.
- The **BSA Brands (UK) joint venture** was established in March 2019 with Bisley Workwear, focusing on the UK and African markets.
- **Heatley's Safety & Industrial** was acquired in October 2018 for \$6.6m.

1H22 will see a full 6-months contribution from C&L Tools and 5-months from STP, implying at least \$1.2m EBITDA from these two businesses alone against reported statutory EBITDA in 1H21 of \$1.2m.

DCF Valuation

Our DCF valuation has increased from \$0.27/share from \$0.32/share following the integration of the STP acquisition, with key assumptions below.

Exhibit 2: Base case DCF valuation	
Parameters	
Discount Rate / WACC	10.4%
Terminal growth rate assumption (inflation adjusted)	2.2%
In A\$m	
Present value of cashflows	19.3
Present value of terminal value	19.6
PV of enterprise	38.9
Net value (\$m)	32.0
Net value per share	\$0.32
Source: RaaS estimates	

While SGI FY21 numbers do not paint a full earnings picture for the group, SGI is trading at an estimated 30% EV/EBITDA discount on FY21 metrics and 80% EV/revenue discount. Key selected peers of Supply Networks (SNL:ASX), Coventry Group (CYG:ASX) and Paragon Care (PGC:ASX) have rallied considerably over the last 6-months.

Exhibit 3: Financial Summary

Stealth Global (SGL:AX)						Share price (9 June 2021)							A\$	0.105
Profit and Loss (A\$m)						Interim (A\$m)		H119	H219	H120	H220	H121	H221F	
Y/E 30 June	FY19	FY20	FY21F	FY22F	FY23F	Revenue		24.3	38.5	39.7	28.3	30.4	38.0	
Revenue	62.8	68.1	68.3	99.6	110.3	EBITDA		0.9	1.2	0.8	(0.2)	1.3	0.5	
Gross profit	15.3	18.1	19.7	30.1	33.7	EBIT		0.8	1.1	0.7	(0.3)	1.1	0.4	
GP margin %	24.4%	26.6%	28.9%	30.2%	30.6%	NPAT (normalised)		0.6	1.1	0.2	(0.5)	0.9	0.1	
Underlying EBITDA	2.1	0.6	1.8	4.3	6.1	Minorities		(0.1)	0.2	0.2	0.3	0.0	0.0	
Depn (ex AASB16)	(0.2)	(0.2)	(0.2)	(0.6)	(0.7)	NPAT (reported)		0.4	0.1	(0.0)	(0.5)	0.2	0.1	
Amort	0.0	0.0	0.0	0.0	0.0	EPS (normalised)		na	0.002	(0.000)	(0.005)	0.002	0.001	
EBIT	1.9	0.4	1.5	3.7	5.4	EPS (reported)		na	0.002	(0.000)	(0.005)	0.002	0.001	
Interest	(0.1)	(0.4)	(0.4)	(0.8)	(0.7)	Dividend (cps)		0.000	0.000	0.000	0.000	0.000	0.000	
Tax	(0.2)	0.2	(0.1)	(0.9)	(1.3)	Imputation			30.0	30.0	30.0	30.0	30.0	
Minorities	0.1	0.4	0.1	(0.1)	(0.3)	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	1.7	0.6	1.1	2.0	3.0	Divisionals		H119	H219	H120	H220	H121	H221F	
Significant items	(1.2)	(0.2)	(0.7)	0.0	0.0	Australian Revenue		15.3	26.5	30.0	26.6	28.8	37.0	
NPAT (reported)	0.5	0.4	0.4	2.0	3.0	African Revenue		9.0	10.7	9.0	1.4	0.5	0.6	
Cash flow (A\$m)						BSA		0.0	1.4	0.7	0.3	1.1	0.4	
Y/E 30 June	FY19	FY20	FY21F	FY22F	FY23F	Total Revenue		24.3	38.5	39.7	28.3	30.4	38.0	
EBITDA (inc minority adj)	1.0	1.0	1.8	4.3	5.7	Gross profit		7.7	7.6	10.1	8.0	8.5	11.2	
Interest	(0.1)	(0.4)	(0.4)	(0.8)	(0.7)	Gross Profit Margin %		31.7%	19.8%	25.5%	28.3%	28.1%	29.5%	
Tax	(0.6)	0.2	0.3	(0.5)	(1.1)	Employment (net of jobkeeper)		3.0	6.4	6.4	5.7	5.0	7.1	
Working capital changes	(0.6)	(1.8)	1.0	(0.8)	(1.2)	Admin		1.4	2.1	2.3	1.8	1.6	2.5	
Operating cash flow	(0.3)	(1.0)	2.7	2.2	2.7	Occupancy		0.4	0.8	0.7	0.6	0.7	1.0	
Mtce capex	(0.3)	(0.3)	(0.3)	(0.5)	(0.6)	Total costs (ex transaction)		4.9	9.3	9.3	8.2	7.3	10.7	
Free cash flow	(0.6)	(1.3)	2.4	1.7	2.2	EBITDA		2.8	(1.7)	0.8	(0.2)	1.3	0.5	
Growth capex	0.0	0.0	0.0	0.0	1.0	EBITDA margin %		11.6%	(4.4%)	1.9%	(0.6%)	4.1%	1.4%	
Acquisitions/Disposals	(7.8)	(0.5)	(2.7)	(5.1)	0.0	Margins, Leverage, Returns			FY19	FY20	FY21F	FY22F	FY23F	
Other	0.1	(0.0)	0.0	0.0	0.0	EBITDA margin %			3.3%	0.9%	2.6%	4.3%	5.5%	
Cash flow pre financing	(8.4)	(1.8)	(0.3)	(3.4)	3.2	EBIT margin %			3.0%	0.6%	2.2%	3.7%	4.9%	
Equity	11.4	0.0	0.0	0.0	0.0	NPAT margin (pre significant items)			2.7%	0.9%	1.6%	2.0%	2.8%	
Debt	(1.3)	(0.4)	2.0	5.0	0.0	Net Debt (Cash)			0.14	3.06	3.44	6.85	4.68	
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)		(x)	nm	nm	1.94	1.58	0.77	
Net cash flow for year	1.7	(2.2)	1.7	1.6	3.2	ND/ND+Equity (%)		(%)	(1.1%)	(31.6%)	(34.0%)	(77.8%)	(32.5%)	
Balance sheet (A\$m)						EBIT interest cover (x) <td>(x)</td> <td>0.1x</td> <td>1.2x</td> <td>0.3x</td> <td>0.2x</td> <td colspan="2">0.1x</td>		(x)	0.1x	1.2x	0.3x	0.2x	0.1x	
Y/E 30 June	FY19	FY20	FY21F	FY22F	FY23F	ROA <td></td> <td>nm</td> <td>1.2%</td> <td>4.8%</td> <td>9.8%</td> <td colspan="2">11.8%</td>			nm	1.2%	4.8%	9.8%	11.8%	
Cash	2.0	1.1	2.4	4.0	6.2	ROE			nm	2.9%	3.1%	13.9%	17.6%	
Accounts receivable	15.9	7.9	7.5	10.9	12.0	ROIC			nm	16.0%	66.2%	103.5%	118.5%	
Inventory	6.3	7.9	7.4	12.3	13.6	NTA (per share)			0.06	0.06	0.05	0.07	0.10	
Other current assets	0.6	0.7	0.5	1.0	1.1	Working capital			5.8	7.6	6.6	11.2	12.4	
Total current assets	24.7	17.6	17.8	28.2	33.0	WC/Sales (%)			9.3%	11.2%	9.7%	11.2%	11.2%	
PPE	0.6	0.7	0.8	1.2	1.1	Revenue growth				8.4%	0.3%	45.8%	10.8%	
Goodwill	6.9	7.1	9.1	9.1	9.1	EBIT growth pa			nm	(80.2%)	307.6%	143.6%	44.9%	
Investments	0.0	0.0	0.0	0.0	0.0	Pricing			FY19	FY20	FY21F	FY22F	FY23F	
Deferred tax asset	1.1	1.5	1.5	1.5	1.5	No of shares (y/e)		(m)	77	95	98	100	100	
Right of use asset	0.0	3.5	3.5	3.5	3.5	Weighted Av Dil Shares		(m)	77	95	98	100	100	
Total non current assets	8.6	12.8	14.9	15.3	15.2	EPS Reported		cps	0.006	0.006	0.011	0.020	0.031	
Total Assets	33.3	30.4	32.8	43.5	48.2	EPS Normalised/Diluted		cps	0.006	0.006	0.011	0.020	0.031	
Accounts payable	16.3	8.2	8.2	12.0	13.3	EPS growth (norm/dil)			nm	0%	83%	81%	50%	
Short term debt	1.8	2.7	4.4	4.4	4.4	DPS		cps	0.000	0.000	0.000	0.000	0.000	
Lease liabilities	0.0	3.5	3.5	3.5	3.5	DPS Growth			na	n/a	n/a	n/a	n/a	
Other	1.0	(1.0)	(1.0)	(1.1)	(1.1)	Dividend yield			0.0%	0.0%	0.0%	0.0%	0.0%	
Total current liabilities	19.2	13.4	15.1	18.8	20.0	Dividend imputation			30	30	30	30	31	
Long term debt	0.3	1.5	1.5	6.5	6.5	PE (x)			nm	17.1	9.3	5.1	3.4	
Other non current liabs	0.9	2.8	2.6	2.6	2.6	PE market			16	16	16	16	16	
Total long term liabilities	1.2	4.3	4.1	9.1	9.1	Premium/(discount)			nm	6.7%	(41.7%)	(67.8%)	(78.5%)	
Total Liabilities	20.4	17.7	19.2	27.8	29.1	EV/EBITDA			nm	11.9	7.6	4.1	2.7	
Net Assets	12.9	12.7	13.6	15.7	19.0	FCF/Share		cps	nm	(0.003)	(0.006)	(0.034)	0.022	
Share capital	13.0	13.0	13.5	13.5	13.5	Price/FCF share			nm	(40.6)	(16.2)	(3.1)	4.8	
Accumulated profits/losses	(0.2)	(0.1)	0.3	2.4	5.4	Free Cash flow Yield			nm	(2.5%)	(6.2%)	(32.6%)	20.8%	
Reserves	0.3	0.3	0.3	0.3	0.3									
Minorities	(0.1)	(0.6)	(0.6)	(0.5)	(0.2)									
Total Shareholder funds	12.9	12.7	13.6	15.7	19.0									

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: 6th May 2021



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: Suite 5GB, Level 5, 33 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.