

Covid-19 update – so far so good

Stealth Global Holdings Limited (ASX:SGI) has provided an update on recent trading conditions with regard to the impacts of Covid-19. Heatley's Australia (~80% of revenue) has recorded "strong" sales over recent weeks as customers look to shore-up supply lines with Heatley's which remains well stocked in over 80k key SKU's. We have 11% growth over 2H20 (following +~15% in 1H) which looks achievable but clearly with some risk. Africa (~16% of sales) and BSA (~4% of sales) have not been as strong, but we are already forecasting a 60% decline in 2H20 Africa sales while BSA is forecast to be modestly loss making in UK launch mode. Management have reiterated no change to the long-term strategy of 1) Growing the Australian business through service and penetration into new states, 2) Exiting low margin African sales and 3) Growing the BSA JV with Bisley in the UK. This update is consistent with our current numbers and as a result there is no change to estimates or valuation. SGI customers (mining/infrastructure/trade) remain relatively unaffected by Covid-19 and SGI have a supportive model.

Business model

Stealth Global Holdings is an Australian multinational distribution group providing a wide range of safety, PPE, industrial, and workplace consumable products and supply chain solutions to business customers. As a supplier and distributor, Stealth offer a comprehensive assortment of essential products to support customers with purchasing options and solutions that are critical in the operation of their business.

Trading update

SGI only recently reported 1H20 results which were more or less in-line with forecasts, the highlight being ~15% pro-forma Australian sales growth. Significant investment in the core and start-up businesses continue to hide the true earnings potential of the group. Heatley's Australia (80% of revenue) has an "in-stock" essential services mantra and anticipated early potential supply disruptions resulting from Covid-19, resulting in "strong" recent sales for its essential everyday products, albeit a little volatile month to month. Our 11% 2H20 sales growth is achievable.

Low margin (GP% of 8%-10%) African sales are in the process of being exited and we already have a 60% decline forecast for 2H20 as a result. BSA is in start-up/launch mode in the UK, and as a result we are already forecasting losses from this business. The current UK lock-down will not help sales near-term, but the long-term potential and management commitment remains in an addressable \$1b Workwear and Safetywear market.

Base case valuation A\$0.27/share unchanged

While our valuation of \$0.27/share may look lofty relative to the current share price, it is important to note the stock has fallen 50% from \$0.097c to \$0.05c over the last month on 1.2m shares or \$90k in trades. Inventory holdings alone are greater than the EV currently. Australian operations continue to take share from incumbents while the BSA JV has strong long-term potential and is well structured. Current EV/revenue is 9% and an EBIT margin of 6% on FY20 sales would equal the current market cap. Management's early positioning in the current COVID-19 crisis should only cement the group's service offering/reputation for the future.

Historical earnings and RaaS Advisory estimates

Year end	Revenue(A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS (c)	PER (x)	EV/REV (x)
Jun-19a #	62.8	2.1	0.5	0.01	nm	0.06
Jun-20e #	75.4	1.2	(0.2)	0.01	7.3	0.09
Jun-21e	85.5	4.0	2.3	0.02	2.1	0.05
Jun-22e	96.1	7.0	4.0	0.04	1.2	0.02

Source: Company Data, RaaS Advisory Estimates #reported

Distribution – Wholesale

26th March 2020

Share details

ASX Code	SGI
Share price	\$0.05
Market Capitalisation	\$4.7M
Shares on issue	94.9M
Enterprise value	\$6.8M
Net Debt 31 Dec 2019	\$2.1M
Free float	~60%

Share performance (12 months)



Upside Case

- Service based model takes market share from incumbent players
- With size comes improved gross margins from buying and mix opportunities.
- The opportunity to participate in national supply contracts for the first time

Downside Case

- Acquisitions fail to deliver expected revenues and/or synergies/efficiencies
- Larger competitors react with sharper price offerings
- Largest customer and/or supplier go direct

Board of Directors

Christopher Wharton	Non-Executive Chair
Michael Arnold	Managing Director
Giovanni Groppoli	Non-Executive Director

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Exhibit 1: Financial Summary

Stealth Global (SGL:AX)						Share price (25 March 2020)						A\$	0.050				
Profit and Loss (A\$m)						Interim (A\$m)						H118	H218	H119	H219	H120	H220F
Y/E 30 June	FY18A	FY19	FY20F	FY21F	FY22F	Revenue	na	na	24.3	38.5	39.7	35.7					
Revenue	23.1	62.8	75.4	85.5	96.1	EBITDA	na	na	0.9	1.2	0.5	0.7					
Gross profit	4.3	15.3	20.0	24.3	27.8	EBIT	na	na	0.8	1.1	0.4	0.6					
GP margin %	18.8%	24.4%	26.5%	28.4%	29.0%	NPAT (normalised)	na	na	0.6	1.1	(0.1)	0.3					
Underlying EBITDA	(0.4)	2.1	1.2	4.0	7.0	Minorities	na	na	(0.1)	0.2	0.2	0.0					
Depn	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	NPAT (reported)	na	na	0.4	0.1	(0.9)	0.3					
Amort	0.0	0.0	0.0	0.0	0.0	EPS (normalised)	na	na	na	0.002	(0.010)	0.003					
EBIT	(0.5)	1.9	1.0	3.7	6.7	EPS (reported)	na	na	na	0.002	(0.010)	0.003					
Interest	(0.0)	(0.1)	(0.3)	(0.2)	(0.1)	Dividend (cps)	na	na	0.000	0.000	0.000	0.000					
Tax	0.0	(0.2)	(0.2)	(1.0)	(1.7)	Imputation				30.0	30.0	30.0					
Minorities	0.0	0.1	0.2	(0.3)	(0.9)	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	(0.5)	1.7	0.6	2.3	4.0	Divisionals	H118	H218	H119	H219	H120	H220F					
Significant items	0.0	(1.2)	(0.9)	0.0	0.0	Australian Revenue	na	na	15.3	26.5	30.9	29.4					
NPAT (reported)	(0.5)	0.5	(0.2)	2.3	4.0	African Revenue	na	na	9.0	10.7	7.9	4.3					
Cash flow (A\$m)						BSA			0.0	1.4	0.8	2.0					
Y/E 30 June	FY18A	FY19	FY20F	FY21F	FY22F	Total Revenue	na	na	24.3	38.5	39.7	35.7					
EBITDA (inc minority adj)	(0.4)	1.0	1.4	3.7	6.1												
Interest	(0.0)	(0.1)	(0.3)	(0.2)	(0.1)	Gross profit	na	na	7.7	7.6	10.1	9.9					
Tax	(0.2)	(0.6)	(0.3)	(0.6)	(1.3)	Gross Profit Margin %	na	na	31.7%	19.8%	25.4%	27.8%					
Working capital changes	1.6	(0.6)	(1.1)	(0.4)	(0.9)	Employment	na	na	3.0	6.4	6.4	6.2					
Operating cash flow	1.0	(0.3)	(0.3)	2.5	3.8	Admin	na	na	1.4	2.1	2.3	2.3					
Mtce capex	(0.1)	(0.3)	(0.4)	(0.4)	(0.5)	Occupancy/Other	na	na	0.7	0.8	0.9	0.8					
Free cash flow	0.9	(0.6)	(0.7)	2.0	3.3	Total costs	na	na	5.1	9.3	9.6	9.3					
Growth capex	0.0	0.0	0.0	0.0	0.0	EBITDA	na	na	2.6	(1.7)	0.5	0.7					
Acquisitions/Disposals	(0.3)	(7.8)	(0.8)	(0.3)	0.0	EBITDA margin %	na	na	10.7%	(4.4%)	1.3%	1.9%					
Other	0.0	0.1	(0.4)	0.0	0.0	Margins, Leverage, Returns			FY18A	FY19	FY20F	FY21F	FY22F				
Cash flow pre financing	0.6	(8.4)	(1.8)	1.8	3.3	EBITDA margin %			(1.7%)	3.3%	1.6%	4.7%	7.3%				
Equity	(0.1)	11.4	0.0	0.0	0.0	EBIT margin %			(2.1%)	3.0%	1.3%	4.4%	7.0%				
Debt	(0.4)	(1.3)	0.0	0.0	0.0	NPAT margin (pre significant items)			(2.2%)	2.7%	0.9%	2.7%	4.2%				
Net Dividends paid	0.0	0.0	0.0	0.0	(1.1)	Net Debt (Cash)			0.29	0.14	1.67	(0.38)	(2.51)				
Net cash flow for year	0.1	1.7	(1.8)	1.8	2.1	Net debt/EBITDA (x)	(x)	nm	nm	nm	nm	nm	nm				
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	32.8%	(1.1%)	(15.4%)	2.4%	11.7%					
Y/E 30 June	FY18A	FY19	FY20F	FY21F	FY22F	EBIT interest cover (x)	(x)	n/a	0.1x	0.3x	0.0x	0.0x					
Cash	0.3	2.0	0.2	2.0	4.1	ROA	nm	9.7%	3.0%	10.4%	16.3%						
Accounts receivable	3.8	15.9	16.1	18.2	20.5	ROE	nm	7.7%	(1.7%)	16.4%	23.4%						
Inventory	0.3	6.3	7.3	7.8	8.8	ROIC	nm	30.0%	19.6%	55.2%	47.8%						
Other current assets	0.1	0.6	0.6	0.6	0.6	NTA (per share)		0.07	0.06	0.06	0.08	0.12					
Total current assets	4.5	24.7	24.1	28.6	33.9	Working capital		-1.5	5.8	6.9	7.3	8.2					
PPE	0.2	0.6	0.8	0.9	1.1	WC/Sales (%)		(6.3%)	9.3%	9.1%	8.6%	8.6%					
Goodwill	0.5	6.9	7.1	7.1	7.1	Revenue growth		nm	172.2%	20.0%	13.4%	12.4%					
Investments	0.0	0.0	0.4	0.4	0.4	EBIT growth pa		nm	nm	(47.5%)	277.2%	79.0%					
Deferred tax asset	0.3	1.1	1.1	1.1	1.1	Pricing			FY18A	FY19	FY20F	FY21F	FY22F				
Other non current assets	0.3	0.0	0.3	0.3	0.0	No of shares (y/e)	(m)	nm	77	95	95	95					
Total non current assets	1.2	8.6	9.7	9.9	9.8	Weighted Av Dil Shares	(m)	nm	77	95	95	95					
Total Assets	5.7	33.3	33.9	38.5	43.7	EPS Reported	cps	nm	0.006	0.007	0.024	0.042					
Accounts payable	5.6	16.3	16.5	18.7	21.0	EPS Normalised/Diluted	cps	nm	0.006	0.007	0.024	0.042					
Short term debt	0.6	1.8	1.8	1.6	1.6	EPS growth (norm/dil)		nm	nm	10%	252%	75%					
Tax payable	0.0	0.0	0.0	0.0	0.0	DPS	cps	0.000	0.000	0.000	0.007	0.010					
Other	0.1	1.0	1.0	1.0	1.0	DPS Growth		n/a	n/a	n/a	n/a	43%					
Total current liabilities	6.2	19.2	19.3	21.3	23.6	Dividend yield		0.0%	0.0%	0.0%	14.0%	20.0%					
Long term debt	0.0	0.3	0.0	0.0	0.0	Dividend imputation		30	30	30	30	30					
Other non current liab	0.0	0.9	2.0	2.0	1.2	PE (x)			nm	7.3	2.1	1.2					
Total long term liabilities	0.0	1.2	2.0	2.0	1.2	PE market		18	18	18	18	18					
Total Liabilities	6.2	20.4	21.3	23.4	24.8	Premium/(discount)		nm	nm	(59.2%)	(88.4%)	(93.4%)					
Net Assets	(0.6)	12.9	12.5	15.2	18.9	EV/EBITDA		nm	nm	4.4	1.2	0.4					
Share capital	0.1	13.0	13.0	13.0	13.0	FCF/Share	cps	nm	nm	(0.019)	0.019	0.034					
Accumulated profits/losses	(0.7)	(0.2)	(0.4)	1.8	4.7	Price/FCF share		nm	nm	(2.6)	2.6	1.5					
Reserves	0.1	0.3	0.3	0.3	0.3	Free Cash flow Yield		nm	nm	(38.5%)	37.9%	69.0%					
Minorities	0.0	(0.1)	(0.3)	0.0	0.9												
Total Shareholder funds	(0.6)	12.9	12.5	15.2	18.9												

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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Effective Date: 26th November 2018



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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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