RaaS
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Stealth Global Holdings Ltd

C&L Tool Centre acquisition

Complementary acquisition at a complementary price

Distribution – Wholesale

3rd December 2020

Stealth Global Limited (ASX:SGI) has announced the acquisition of the C&L Tool Centre Pty Ltd, a market leading distributor of Industrial, Safety and Tooling supplies with a one-stop mega store located in Brisbane. The business has been established since 1969 and stocks leading national and international brands, not dissimilar to Total Tools (now owned by Metcash) or Blackwood's (owned by Wesfarmers). An investment in online capability is also evident and has been a key driver of recent sales growth. From a financial perspective using the metrics provided we estimate EPS accretion of 65%, 45% and 30% between FY21 and FY23 respectively. We have taken the opportunity to tone-down our BSA estimates given UK lockdown, resulting in a net 39%, 13% and 9% EPS upgrade medium-term. Our DCF valuation as a result has increased to $0.29/share from $0.23/share. Since our last note (22nd September) our assessed small cap distribution peers have rallied between 25% (CYG) and 50% (CLT and FUN), widening the EV/sale discount SGI trades to this peer group before the C&L Tool Centre acquisition is considered.

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.

C&L Tool Centre acquisition & trading update

The C&L Tool Centre acquisition looks very complementary to the core Stealth business, provides a key Brisbane base for Queensland expansion, and most importantly for near-term financials, is strongly EPS accretive. Using an FY21 sales base of $16.4m and EBITDA of $1.4m (10% growth on reported FY20 numbers, below the 25% growth rate for the first 4-months of FY21), we estimate EPS accretion of 65%, 45% and 30% between FY21 and FY23 on a standalone basis. Recent AGM trading update comments for FY21 regarding African sales (down $8m), BSA (much improved) and Group sales (1H21 to be below 1H20, but 2H21 to be above 1H21) are in-line with our current forecasts, but we have taken the opportunity to cut our medium-term BSA sales estimates given recent UK lockdowns.

Base case valuation upgraded to A$0.29/share fully diluted

Our base case DCF valuation for SGI has increased to $0.29/share (previously $0.23/share) on the back of the C&L Tool Centre acquisition. The near-term accretive nature of the acquisition off a low earnings base drives this increase. We would note since out last note in September all selected small cap peers have rallied between 25%-50% and SGI continues to trade at a significant discount to this peer group before adjusting for the sales uplift that comes with the C&L Tool Centre acquisition.

Historical earnings and RaaS Advisory estimates

Year end	Revenue(A$m)	EBIT (A$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	0.3	0.0	0.00	33.6	0.18
Jun-21e	71.0	1.8	0.9	0.01	10.1	0.18
Jun-22e	87.1	4.0	2.3	0.02	4.2	0.15

Source: Company Data, RaaS Advisory Estimates

Share details

ASX Code	SGI
Share price	$0.097
Market Capitalisation *	$9.7M
Shares on issue *	99.7M
Enterprise value *	$14.5M
Net Debt Dec 2020 *	$4.8M
Free float	~43.11%

*Post C&L Tool Centre acquisition

Share performance (12 months)

Upside Case

- Service based model takes market share from incumbent players
- With size comes improved gross margins and NPAT 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 suppliers go direct

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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C&L Tool Centre acquisition

Numbers

C&L Tool Centre achieved sales of $14.3m and EBITDA (post rent) of $1.26m (EBITDA margin 8.8%) in FY20. Sales growth for the first four months of FY21 is said to be +25% on the prior period, driven by strong on-line sales.

SGI has acquired C&L Tool Centre for $3.83m, $2.45m in cash up front, $0.48m in shares issued at $0.10/share (4.8m shares or 5% of issued capital) and $0.9m in deferred cash premised on C&L achieving $1m in EBITDA over the next 12-months and management tenure over the next 12-months. This represents an acquisition multiple of 3.0x FY20 earnings. Based on the information provided we have incorporated the following assumptions into our numbers, with the acquisition assumed to be effective 1 December 2020:

- **Sales**. From the $14.3m FY20 base we have assumed 15% growth in FY21 and 10% between FY22-FY25. This is below the current run-rate and should be aided by SGI ownership and access to more national distribution contracts.
- **EBITDA** We have assumed a gross margin of 30% and a sustainable EBITDA margin around 8.5%. Given the recent investment in senior resources by SGI we see upside in our cost assumptions.
- **Goodwill** We have assumed $2.0m in goodwill.

In EPS terms we estimate EPS accretion in isolation of 65%, 45% and 30% between FY21 and FY23 respectively. Near-term downgrades to our BSA forecasts have reduced overall group EPS revisions to between 9%-39%. A summary in the changes to key financial metrics are highlighted in Exhibit 1 below.

Strategy

SGI's subsidiary, Heatley's is very much a WA/SA based business and as such struggles to compete/bid for national contracts and/or contracts outside of WA. Strategically C&L Tools ticks the following boxes:

- **Established Brisbane base** Established in 1969 the business has a meaningful revenue base and is based in Brisbane, providing a genuine Queensland presence.
- **State expansion opportunities** The balance sheet support of a listed company provides expansion opportunities to regions where major customers have a presence.
- **Synergies** While there may be some cost out opportunity we see more revenue and on-line synergies for the two groups.

Exhibit 1: SGI earnings revisions post C&L Tool Centre acquisition & BSA revisions

Line item	FY21	FY22	FY23	Comment
Sales - Prior (A$m)	61.9	69.5	77.0	
Sales - Revised (A$m)	71.0	87.1	96.4	Working off a $14.3m FY20 base
% CHG	15%	25%	25%	
EBIT - Prior (A$m)	1.2	3.3	5.7	
EBIT - Revised (A$m)	1.5	3.7	5.9	Assumes the 8.8% EBITDA margin holds
% CHG	26%	11%	4%	
EPS - Prior (cps)	0.007	0.021	0.035	
EPS - Revised (cps)	0.010	0.023	0.038	Incorporates the issue of 4.8m shares to vendors
% CHG	39%	13%	8%	

Sources: Company financials & RaaS estimates

AGM Trading update

By and large the key points relating to the 1H21 outlook provided at the recent AGM are already incorporated in our numbers, namely:

- **Africa sales down ~$8m**. The exit of this low margin business will see African sales down ~$8.0m 1H21 on 1H20, with limited impact on profit expected given low margins and a reduction in the cost base.

  RaaS have African sales down $8.0m and EBITDA down $0.4m for 1H21.

- **1H21 group sales lower than 1H20**. Despite an expected recovery in BSA the African sales decline mentioned above is expected to see group sales lower in 1H21 relative to 1H20.

  RaaS have 1H21 sales of $35.0m (including $1.4m from C&L Tool Centre) compared to $39.7m in 1H20.

- **BSA FY21 sales and profit well ahead of FY20.** Orders to September 2020 had already exceeded A$1.5m and as a result AGM comments suggest sales in 1H21 are well ahead of FY20. FY20 was severely impacted by the COVID induced UK shutdown.

  RaaS have revised consolidated sales to $2.1m in 1H21 against $0.8m in 1H20 and $1.1m in FY20, and taken the opportunity to tone-down medium term numbers which were on the bullish side, and not reflective of the continued disruptions caused by another UK lockdown.

- **Group sales expected to grow in 2H21 relative to 1H21.** A 6-month contribution from C&L Tool Centre, solid growth with limited COVID impacts for both Australia & BSA, and the washing out of the African exit should all combine to see improved sales in 2H21 relative to 1H21.

  RaaS has 2H21 sales at $36.1m against $35.1m in 1H21.

Peer comparison update

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 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.

Funtastic (ASX:FUN) is a distributor of Outdoor Lifestyle, Family Safety & Education, Fun Lifestyle and Confectionery products. The group recently acquired Hobby Warehouse Group, an e-commerce focused business for $32m, more than doubling their revenue base.

Most of the peers selected have seen significant share price rallies since our last update note on 22 September, with CYG +25%, PGC +41% and both FUN and CLY +50%. Post September FUN have essentially doubled their sales base with the Hobby Warehouse Group acquisition and Cellent have reported strong sales growth on the back of new mobile phone releases.

Using FY20 actuals SGI is currently trading at half the FY20 EV/sales of the nearest peer (CLT 29% and CYG 34%). Metrics for SGI will improve significantly in FY21 with the acquisition of C&L Tool Centre.

Exhibit 2: Peer financial comparison – FY20 actuals

Company Name	Ticker	Share price (cps)	Mkt Cap ($m)	FY20 sales ($m)	FY20 NPAT adj ($m)	Net debt ($m)	FY20 PER (x)	FY20 GP%	FY20 WC/sales	EV/sales
Supply Networks	SNL	5.10	208	137	9.5	8	22.2	41.8%	31%	158%
Paragon Healthcare	PGC	0.24	77	231	5.6	74	5.1	37.6%	22%	65%
Coventry Group	CYG	0.90	81	247	0.8	3	8.3	37.6%	19%	34%
Cellnet	CLT	0.06	14	96	-1.9	14	-7.3	18.8%	19%	29%
Funtastic	FUN	0.09	76	25	-3.2	9	nm	14.3%	8%	345%
Stealth Global	SGI	0.094	9	68	0.3	1	36.4	26.6%	11%	16%

Sources: Company financials, Thomson Reuters Price as at 30/11/20

DCF Valuation

Our base case DCF valuation for SGI has increased from $0.23/share to $0.29/share on the back of the C&L Tool Centre acquisition. The near-term accretive nature of the acquisition off a low earnings base drives this increase.

$0.20/share implies a PER on our FY22 EPS (the first forecast year of a positive BSA contribution and first full year of C&L Tool Centre) of 12.4x and EV/Sales of 35%, which feels about right relative to current peer comparison, forecast risk and market cap.

Exhibit 3: Base case DCF valuation

Parameters	
Discount Rate / WACC	10.0%
Terminal growth rate assumption (inflation adjusted)	2.2%
In A$m	
Present value of cashflows	11.1
Present value of terminal value	20.7
PV of enterprise	32.1
Net value ($m)	28.5
Net value per share	$0.29

Source: RaaS estimates

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Exhibit 4: Financial Summary

Stealth Global (SGI.AX)					
Profit and Loss (A$m)					
Y/E 30 June	**FY18A**	**FY19**	**FY20**	**FY21F**	**FY22F**
Revenue	23.1	62.8	68.1	71.0	87.1
Gross profit	4.3	15.3	18.1	21.3	26.4
GP margin %	18.8%	24.4%	26.6%	30.0%	30.3%
Underlying EBITDA	(0.4)	2.1	0.3	1.8	4.0
Depn	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)
Amort	0.0	0.0	0.0	0.0	0.0
EBIT	(0.5)	1.9	0.1	1.5	3.7
Interest	(0.0)	(0.1)	(0.4)	(0.5)	(0.6)
Tax	0.0	(0.2)	0.2	(0.4)	(1.0)
Minorities	0.0	0.1	0.4	0.3	0.2
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre significant items	(0.5)	1.7	0.3	0.9	2.3
Significant items	0.0	(1.2)	(0.3)	0.0	0.0
NPAT (reported)	**(0.5)**	**0.5**	**0.0**	**0.9**	**2.3**
Cash flow (A$m)					
Y/E 30 June	**FY18A**	**FY19**	**FY20**	**FY21F**	**FY22F**
EBITDA (inc minority adj)	(0.4)	1.0	0.7	2.1	4.2
Interest	(0.0)	(0.1)	(0.4)	(0.5)	(0.6)
Tax	(0.2)	(0.6)	0.2	0.3	(0.7)
Working capital changes	1.6	(0.6)	(1.8)	0.7	(1.6)
Operating cash flow	1.0	(0.3)	(1.3)	2.6	1.4
Mtce capex	(0.1)	(0.3)	(0.3)	(0.4)	(0.4)
Free cash flow	0.9	(0.6)	(1.6)	2.2	0.9
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)	(2.2)	(0.5)	0.0
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	(2.5)	1.5	0.0
Balance sheet (A$m)					
Y/E 30 June	**FY18A**	**FY19**	**FY20**	**FY21F**	**FY22F**
Cash	0.3	2.0	1.1	2.3	2.3
Accounts receivable	3.8	15.9	7.9	7.8	9.5
Inventory	0.3	6.3	7.9	7.7	9.5
Other current assets	0.1	0.6	0.7	1.8	0.1
Total current assets	*4.5*	*24.7*	*17.6*	*19.6*	*21.4*
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*	*15.9*
Total Assets	5.7	33.3	30.4	34.5	37.4
Accounts payable	5.6	16.3	8.2	8.6	10.5
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*	*15.5*	*17.2*
Long term debt	0.0	0.3	1.5	1.5	1.5
Other non current liabs	0.0	0.9	2.8	3.7	2.6
Total long term liabilities	*0.0*	*1.2*	*4.3*	*5.2*	*4.1*
Total Liabilities	6.2	20.4	17.7	20.7	21.3
Net Assets	**(0.6)**	**12.9**	**12.7**	**13.9**	**16.0**
Share capital	0.1	13.0	13.0	13.5	13.5
Accumulated profits/losses	(0.7)	(0.2)	(0.1)	0.9	3.2
Reserves	0.1	0.3	0.3	0.3	0.3
Minorities	0.0	(0.1)	(0.6)	(0.8)	(1.0)
Total Shareholder funds	**(0.6)**	**12.9**	**12.7**	**13.9**	**16.0**

Share price (2 December 2020)					**A$**	**0.097**
Interim (A$m)	**H118**	**H218**	**H119**	**H219**	**H120**	**H220**
Revenue	na	na	24.3	38.5	39.7	28.4
EBITDA	na	na	0.9	1.2	0.5	(0.2)
EBIT	na	na	0.8	1.1	0.4	(0.4)
NPAT (normalised)	na	na	0.6	1.1	(0.1)	(0.5)
Minorities	na	na	(0.1)	0.2	0.2	0.3
NPAT (reported)	na	na	0.4	0.1	(0.3)	(0.5)
EPS (normalised)	na	na	na	0.002	(0.003)	(0.006)
EPS (reported)	na	na	na	0.002	(0.003)	(0.006)
Dividend (cps)	na	na	0.000	0.000	0.000	0.000
Imputation				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	**H118**	**H218**	**H119**	**H219**	**H120**	**H220**
Australian Revenue	na	na	15.3	26.5	30.9	25.7
African Revenue	na	na	9.0	10.7	7.9	2.5
BSA			0.0	1.4	0.8	0.3
Total Revenue	**na**	**na**	**24.3**	**38.5**	**39.7**	**28.4**
Gross profit	na	na	7.7	7.6	10.1	8.1
Gross Profit Margin %	na	na	31.7%	19.8%	25.4%	28.3%
Employment	na	na	3.0	6.4	6.4	5.7
Admin	na	na	1.4	2.1	2.3	1.8
Occupancy/Other	na	na	0.7	0.8	0.9	0.7
Total costs	**na**	**na**	**5.1**	**9.3**	**9.6**	**8.3**
EBITDA	**na**	**na**	**2.6**	**(1.7)**	**0.5**	**(0.2)**
EBITDA margin %	na	na	10.7%	(4.4%)	1.3%	(0.7%)

Margins, Leverage, Returns		**FY18A**	**FY19**	**FY20**	**FY21F**	**FY22F**
EBITDA margin %		(1.7%)	3.3%	0.4%	2.5%	4.6%
EBIT margin %		(2.1%)	3.0%	0.1%	2.1%	4.3%
NPAT margin (pre significant items)		(2.2%)	2.7%	0.4%	1.3%	2.7%
Net Debt (Cash)		0.29	0.14	3.06	3.58	3.54
Net debt/EBITDA (x)	(x)	nm	nm	nm	nm	nm
ND/ND+Equity (%)	(%)	32.8%	(1.1%)	(31.6%)	(34.7%)	(28.3%)
EBIT interest cover (x)	(x)	n/a	0.1x	6.8x	0.3x	0.1x
ROA		nm	9.7%	0.2%	4.6%	10.3%
ROE		nm	7.7%	0.1%	7.1%	15.5%
ROIC		nm	30.0%	10.5%	78.5%	74.7%
NTA (per share)		0.07	0.06	0.06	0.05	0.06
Working capital		-1.5	5.8	7.6	6.9	8.5
WC/Sales (%)		**(6.3%)**	**9.3%**	**11.2%**	**9.8%**	**9.8%**
Revenue growth		nm	172.2%	8.4%	4.3%	22.6%
EBIT growth pa		nm	nm	(96.6%)	2221.0%	146.4%
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	0.003	0.010	0.023
EPS Normalised/Diluted	cps	nm	0.006	0.003	0.010	0.023
EPS growth (norm/dil)		nm	nm	-53%	233%	143%
DPS	cps	0.000	0.000	0.000	0.000	0.005
DPS Growth		n/a	n/a	n/a	n/a	n/a
Dividend yield		0.0%	0.0%	0.0%	0.0%	5.2%
Dividend imputation		30	30	30	30	30
PE (x)			nm	33.6	10.1	4.2
PE market		18	18	18	18	18
Premium/(discount)			nm	86.9%	(43.9%)	(76.9%)
EV/EBITDA		nm	nm	15.4	6.2	3.1
FCF/Share	cps	nm	nm	(0.006)	(0.008)	0.000
Price/FCF share		nm	nm	(16.6)	(12.3)	290.9
Free Cash flow Yield		nm	nm	(6.0%)	(8.1%)	0.3%

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

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of

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