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Authorisation

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Seven Group Holdings (SVW)

Rounding out the portfolio

Recommendation

Buy (unchanged)

Price

\$39.56

Target (12 months)

\$45.00 (previously \$44.30)

Sector

Commercial Services and Suppliers

Expected Return

Capital growth	13.8%
Dividend yield	1.8%
Total expected return	15.6%

Company Data & Ratios

Enterprise value	\$21,245m*
Market cap	\$16,088m*
Issued capital	407m*
Free float	48.7%
Avg. daily val. (52wk)	\$30.4m
12 month price range	\$23.37-42.28

*Pro forma market cap., EV and share count

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	39.94	41.67	24.41
Absolute (%)	-1.0	-5.1	62.1
Rel market (%)	-0.8	-3.7	53.4

Absolute Price



SOURCE: IRESS

Updating model for Boral acquisition

With the Boral (BLD) acquisition nearing completion, we revisit our SVW model forecasts, updating our attributable SVW financials, BLD valuation and SVW's capital structure post-acquisition. Key points:

Dividend payouts: We incorporate the 26cps fully franked special dividend paid by BLD in late April 2024 and a 30cps fully franked special dividend to be paid by SVW to all new and existing shareholders in FY25.

Leverage & subsequent de-leveraging: We estimate pro forma net leverage to be 2.7x FY24 EBITDA (including leases). Rapid de-leveraging should follow in FY25-26 with FCF generation of \$612m in FY25 and \$805m in FY26 expected. As result, we anticipate net leverage to trend below 2.0x by FY26.

FY24 guidance outperformance: We continue to believe SVW's guidance to be conservative, forecasting 29% YoY growth in EBIT across the Industrial Services business (vs 20-25% guidance). The outperformance would be driven by robust pricing by BLD and strong growth in WesTrac new equipment and product support sales.

EPS changes: Reflect an updated SVW capital structure post-acquisition including a higher share count and debt raised, partially offset by an increase in attributable BLD earnings going forward: -2% FY24; -5% FY25; and -5% FY26.

Valuation changes: We now apply 100% ownership to our BLD valuation, with an upgraded valuation allowance for BLD's surplus property portfolio, which is consistent with the Independent Expert Report published in March 2024.

Investment thesis: Buy; TP\$45.00/sh (prev. \$44.30/sh)

SVW's businesses and investments are market leaders in their respective industries, with scale, brand and industry expertise underpinning commercial advantages that are hard to replicate by competitors. We are positive on the near-term outlook for mining production, engineering construction and transitional energy markets; critical minerals mining, renewable project construction and expected domestic and international gas supply shortfalls represent longer-term tailwinds.

Earnings Forecast

Year ending 30 June	2023a	2024e	2025e	2026e
Sales (\$m)	9,627	10,741	11,395	11,891
EBITDA (\$m)	1,689	1,964	2,198	2,321
NPAT (reported) (\$m)	647	648	1,088	1,188
NPAT (adjusted) (\$m)	703	897	1,088	1,188
EPS (adjusted) (eps)	180.0	222.7	266.9	291.6
EPS growth (%)	3.9%	23.7%	19.9%	9.2%
PER (x)	22.0x	17.8x	14.8x	13.6x
FCF Yield (%)	4.6%	-0.1%	3.8%	5.0%
EV/EBITDA (x)	12.6x	10.8x	9.7x	9.2x
Dividend (eps)	46.0	46.0	73.0	46.0
Yield (%)	1.2%	1.2%	1.8%	1.2%
Franking (%)	100%	100%	100%	100%
ROE (%)	16%	20%	23%	21%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Earnings & valuation changes

Earnings changes

We have updated our SVW financial model for the acquisition of Boral (BLD). Table 1 outlines the impact to our financial estimates. We note the following key model changes:

- Reduced our BLD non-controlling interest to 0%, affecting SVW's attributable NPAT and EPS, and total equity.
- Included the share issue relating to the scrip component of the total BLD acquisition consideration.
- Increased funds borrowed and reduced cash reserves to account for the cash component of the total BLD acquisition consideration.
- Incorporated the 26cps fully franked dividend paid by BLD in late April 2024 and a 30cps fully franked special dividend to be paid by SVW to new and existing shareholders in FY25.
- Assumed \$400m in debt paydown over the next 2 years.

Table 1 - Changes to earnings estimates

Year ending 30 June	Previous			New			Change		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Revenue \$m	10,741	11,395	11,891	10,741	11,395	11,891	0%	0%	0%
EBITDA (underlying) \$m	1,965	2,202	2,326	1,964	2,198	2,321	0%	0%	0%
NPAT (underlying) \$m	900	1,115	1,218	897	1,088	1,188	0%	-2%	-3%
NPAT (underlying; attributable to SVW shareholders) \$m	826	1,021	1,115	822	1,086	1,186	-1%	6%	6%
EPS (underlying; attributable to SVW shareholders) cps	227.4	281.1	306.9	222.7	266.9	291.6	-2%	-5%	-5%
DPS cps	46.0	46.0	46.0	46.0	73.0	46.0	0%	59%	0%
Valuation \$/sh	44.32			44.81			1%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Sum of the parts valuation summary

In this report, we have upgraded our valuation to \$45.00/sh (previously \$44.30/sh) reflecting the model changes mentioned above.

Table 2 - SVW valuation summary

12-month valuation		
Valuation method	Weight (%)	Valuation (\$m)
DCF	50%	22.83
ROIC	50%	21.98
Blended equity valuation	100%	44.81
Current share price		39.56
Upside to current share price (%)		13%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Seven Group Holdings (SVW)

Company description

Seven Group Holdings (SVW) is a leading Australian diversified operating and investment Group with market leading businesses and investments in Industrial Services, Energy and Media sectors. These businesses and investments include: (1) WesTrac (100% interest), the sole authorised Caterpillar dealer in WA, NSW and ACT; (2) Coates (100%), the largest provider of equipment solutions in Australia, with leading market share among top-tier customers; (3) Boral (100%), Australia's largest, integrated construction materials supplier; (4) Beach Energy (30%; BPT; Buy, TP\$1.80/sh), a mid-tier energy exploration and production company; and (5) Seven West Media (~40%; SWM; not rated), one of Australia's largest multi-platform media companies, including Seven Network, 7plus and The West Australian.

Investment thesis: Buy; TP\$45.00/sh (prev. \$44.30/sh)

SVW's businesses and investments are market leaders in their respective industries, with scale, brand and industry expertise underpinning commercial advantages that are hard to replicate by competitors. We are positive on the near-term outlook for mining production, engineering construction and transitional energy markets; critical minerals mining, renewable project construction and expected domestic and international gas supply shortfalls represent longer-term tailwinds.

Valuation methodology

Our SVW valuation is based on a 50% DCF / 50% ROIC blend. Our discounted cash flow models evaluate the company's core industrial services businesses. We include allowances for other assets and corporate costs. Other assets comprise a 30% interest in BPT, valued using Bell Potter Securities' latest published equity valuation, a 40% interest in SWM, valued using sector comparable valuation multiples, and the wholly owned SGH Energy business, with a Crux project valuation considered only. We also make allowances for SVW-level corporate costs. A nominal WACC of 8.6% and terminal growth rate of 3.5% have been applied to our asset DCF models.

Investment risks

Risks include, but are not limited to, for SVW are:

Australian mining activity: WesTrac is exposed to mining production of major Australian miners. Weakening production can negatively impact WesTrac revenues.

Slowdown in Asian markets: Asian markets, particularly China, are traditional importers of Australian mining products. A slowdown in Asian economic activity can negatively impact exports from Australian mining producers therefore slowing the sale and hire of equipment from WesTrac and Coates, respectively.

Australian construction activity: A slowdown in construction activity in Australia in the residential, non-residential and commercial segments can result in decreased demand for Boral's products and Coates' services.

Australian infrastructure policy: WesTrac, Boral and Coates are exposed to changes in infrastructure activity. A softening of Commonwealth Government infrastructure spending could be impact demand for product and services offered by these businesses.

Labour shortages & wage pressures: A continuation of skilled labour shortages across the Australian mining and construction sectors could impact WesTrac, Boral and Coates' ability to satisfy customer requirements and result in higher labour costs.

Commodity price and exchange rate fluctuations: The future earnings and valuation of SVW's energy assets are subject to fluctuations in underlying commodity energy prices and foreign currency exchange rates. Boral and Coates are impacted by fluctuations in oil prices that impact transport and energy costs.

Geopolitical risk: Increased political tensions between Australia and other foreign Governments could negatively impact export volumes for WesTrac's customers or SVW's energy assets, resulting in lower revenues for SVW.

Funding and capital management risks. Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.

CAT-WesTrac dealer model: WesTrac's brand, supply chain and growth strategy are intertwined with CAT's business. A termination of WesTrac's dealer agreement could result in adverse financial consequences for SVW, though this scenario is highly unlikely.

Investment risk: SVW's financial performance is driven by recognising suitable investment opportunities. Failures in identifying and successfully implementing investment/divestment opportunities will impact negatively on SVW's share price.

TV viewer fragmentation and declines in newspaper readership: The media industry has seen TV viewership fragment and newspaper readership decline in recent years. Continuation in these trends would adversely impact advertising revenue for Seven West Media.

Equity market risk: SVW has listed investments that are subject to price and liquidity risks.

Competition risk: SVW's Industrial Services businesses operate in competitive markets. An escalation in competition or new entrants to the market may result in lower rates, margins and / or market share, negatively impacting SVW's financial performance.

Operational risks: SVW's businesses operate in a variety of different environments and locations, some of which are harsh and remote, exposing the company to a range of operational risks (e.g. isolation and weather events).

Seven Group Holdings

as at 13 June 2024

Recommendation

Buy

Price

\$39.56

Target (12 months)

\$45.00

Table 3 - Financial summary

Date		13/06/24					Bell Potter Securities											
Price	\$/sh	39.56					Joseph House (jhouse@bellpotter.com.au, +61 3 9235 1624)											
Target price	\$/sh	45.00																
PROFIT AND LOSS												FINANCIAL RATIOS						
Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e	Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e					
Revenue	\$m	8,013	9,627	10,741	11,395	11,891	VALUATION											
Other income	\$m	59	39	44	44	44	EPS (adjusted)	c/sh	173.2	180.0	222.7	266.9	291.6					
Expenses	\$m	(6,861)	(8,172)	(8,967)	(9,455)	(9,841)	EPS growth	%	18.7%	3.9%	23.7%	19.9%	9.2%					
Equity share of accounted investee profits	\$m	253	195	146	214	227	PER	x	22.8x	22.0x	17.8x	14.8x	13.6x					
Underlying EBITDA	\$m	1,465	1,689	1,964	2,198	2,321	DPS	c/sh	46.0	46.0	46.0	73.0	46.0					
Depreciation & amortisation	\$m	(478)	(502)	(517)	(547)	(572)	Franking	%	100%	100%	100%	100%	100%					
Underlying EBIT	\$m	987	1,187	1,447	1,651	1,749	Yield	%	1.2%	1.2%	1.2%	1.8%	1.2%					
Net interest expense	\$m	(254)	(283)	(294)	(302)	(274)	FCF/share	c/sh	327.7	183.0	(5.2)	150.6	198.1					
Underlying profit before tax	\$m	734	903	1,153	1,349	1,475	FCF yield	%	8.3%	4.6%	-0.1%	3.8%	5.0%					
Tax expense	\$m	(156)	(200)	(255)	(261)	(287)	EV/EBITDA	x	14.5x	12.6x	10.8x	9.7x	9.2x					
Underlying NPAT	\$m	686	703	897	1,088	1,188	NTA	\$/sh	5.66	6.59	5.83	7.16	9.62					
Adjustments (post-tax)	\$m	(79)	(56)	(250)	-	-	P/NTA	x	7.0x	6.0x	6.8x	5.5x	4.1x					
Reported NPAT	\$m	607	647	648	1,088	1,188	LIQUIDITY & LEVERAGE											
Non-controlling interest	\$m	49	50	70	2	2	Net debt / (cash)	\$m	5,372	5,001	5,288	5,051	4,512					
Reported NPAT attributable to owners	\$m	558	597	577	1,086	1,186	Net debt / Equity	%	125.4%	108.4%	121.0%	98.4%	73.6%					
Non-controlling interest (underlying)	\$m	57	49	76	2	2	Net debt / Net debt + Equity	%	55.6%	52.0%	54.7%	49.6%	42.4%					
Underlying NPAT attributable to owners	\$m	629	654	822	1,086	1,186	Net debt / EBITDA	x	3.7x	3.0x	2.7x	2.3x	1.9x					
CASH FLOW STATEMENT												PROFITABILITY RATIOS						
Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e	EBITDA margin	%	18.3%	17.5%	18.3%	19.3%	19.5%					
OPERATING CASH FLOW							EBIT margin	%	12.3%	12.3%	13.5%	14.5%	14.7%					
Receipts from customers	\$m	9,738	10,664	11,192	11,153	11,821	Return on assets	%	6.1%	5.2%	6.6%	7.8%	8.0%					
Payments to suppliers and employees	\$m	(8,753)	(9,142)	(9,596)	(9,375)	(9,797)	Return on equity	%	16.4%	15.8%	20.0%	22.9%	21.1%					
Tax paid	\$m	(196)	(84)	(174)	(261)	(287)	Return on capital employed	%	9.4%	10.7%	13.0%	14.1%	13.9%					
Net interest	\$m	(251)	(258)	(272)	(283)	(255)	Return on invested capital	%	10.6%	12.2%	15.1%	16.6%	16.8%					
Other	\$m	(25)	14	57	87	90	HALF YEARLY ASSUMPTIONS											
Operating cash flow	\$m	512	1,194	1,208	1,321	1,571	Year ending 30 June	Unit	1H 2022a	1H 2023a	1H 2024a	1H 2025e	1H 2026e					
INVESTING CASH FLOW							Revenue	\$m	3,956	4,607	5,386	5,619	5,897					
Capital expenditures	\$m	(637)	(602)	(619)	(699)	(755)	Other income	\$m	25	20	22	22	22					
Acquisition of non-controlling interests	\$m	(2,160)	-	(758)	-	-	Expenses	\$m	(3,359)	(3,899)	(4,477)	(4,656)	(4,875)					
Payments for investment in associates	\$m	(1,218)	(45)	-	-	-	Equity share of accounted investee profits	\$m	127	114	86	109	113					
Disposal of assets	\$m	28	38	18	-	-	Underlying EBITDA	\$m	749	842	1,017	1,094	1,157					
Other	\$m	4,665	80	131	(10)	(10)	Depreciation & amortisation	\$m	(238)	(247)	(253)	(271)	(280)					
Investing cash flow	\$m	678	(529)	(1,227)	(709)	(765)	Underlying EBIT	\$m	511	595	764	823	876					
Free cash flow	\$m	1,191	665	(19)	612	805	Net interest expense	\$m	(128)	(128)	(142)	(155)	(140)					
FINANCING CASH FLOW							Underlying profit before tax	\$m	383	466	621	668	737					
Proceeds from share issues (net)	\$m	-	-	-	-	-	Tax expense	\$m	(81)	(105)	(147)	(129)	(143)					
Debt proceeds / (repayments)	\$m	1,257	(813)	357	(200)	(200)	Underlying NPAT	\$m	302	361	474	539	593					
Dividends paid	\$m	(167)	(167)	(177)	(297)	(187)	Adjustments (post-tax)	\$m	788	(12)	(250)	-	-					
Other	\$m	(1,210)	(99)	(157)	(79)	(79)	Reported NPAT	\$m	1,091	349	225	539	593					
Financing cash flow	\$m	(120)	(1,079)	23	(576)	(466)	Non-controlling interest	\$m	7	30	36	1	1					
Change in cash	\$m	1,070	(414)	4	37	339	Reported NPAT attributable to owners	\$m	1,084	320	189	538	592					
BALANCE SHEET												INDUSTRIAL SERVICES SEGMENT ASSUMPTIONS						
Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e	Year ending 30 June	Unit	2022a	2023a	2024e	2025e	2026e					
ASSETS							WesTrac											
Cash	\$m	1,255	877	876	913	1,252	Revenue	\$m	3,955	4,905	5,784	6,257	6,539					
Receivables	\$m	1,499	1,629	1,606	1,848	1,918	Underlying EBIT	\$m	426	500	635	704	729					
Inventories	\$m	1,348	1,501	1,717	1,717	1,717	Underlying EBIT margin	%	10.8%	10.2%	11.0%	11.2%	11.1%					
Capital assets	\$m	3,790	3,974	4,176	4,433	4,718	Coates											
Intangibles	\$m	2,229	2,222	2,221	2,221	2,221	Revenue	\$m	1,009	1,143	1,184	1,233	1,282					
Other assets	\$m	3,473	3,427	3,092	3,221	3,391	Underlying EBIT	\$m	246	300	332	351	372					
Total assets	\$m	13,593	13,630	13,688	14,353	15,218	Underlying EBIT margin	%	24.4%	26.3%	28.0%	28.5%	29.0%					
LIABILITIES							Boral (100%)											
Payables	\$m	1,007	1,125	1,167	1,248	1,291	Revenue	\$m	2,956	3,461	3,717	3,901	4,066					
Borrowings	\$m	5,663	4,893	5,175	4,975	4,775	Underlying EBIT	\$m	112	232	361	395	436					
Provisions	\$m	591	572	546	553	560	Underlying EBIT margin	%	3.8%	6.7%	9.7%	10.1%	10.7%					
Leases	\$m	964	985	989	989	989	SHAREHOLDER EQUITY											
Other liabilities	\$m	1,084	1,440	1,440	1,458	1,470	Share capital	\$m	3,411	3,375	5,018	5,018	5,018					
Total liabilities	\$m	9,310	9,015	9,317	9,222	9,085	Reserves	\$m	(1,496)	(1,527)	(3,144)	(3,144)	(3,144)					
NET ASSETS							Retained earnings	\$m	1,635	2,062	2,459	3,248	4,247					
Share capital	\$m	3,411	3,375	5,018	5,018	5,018	Attributable equity to company share holders	\$m	3,550	3,910	4,333	5,122	6,120					
Reserves	\$m	(1,496)	(1,527)	(3,144)	(3,144)	(3,144)	Non-controlling interests	\$m	734	705	39	9	12					
Retained earnings	\$m	1,635	2,062	2,459	3,248	4,247	SHAREHOLDER EQUITY	\$m	4,284	4,615	4,371	5,131	6,133					
Attributable equity to company share holders	\$m	3,550	3,910	4,333	5,122	6,120	Weighted average shares	m	363	363	369	407	407					
Non-controlling interests	\$m	734	705	39	9	12	SOURCE: BELL POTTER SECURITIES ESTIMATES											

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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