EDISON

WYG

H118 results

Looking forward

Industrial support services

H118 results quantified the adverse effects of the slower development of revenues highlighted in earlier updates, but also provided more clarity on near-term trading visibility. Converting improved order positions to rebuild earnings and meet market expectations is necessary to underpin valuation metrics, which, in turn, will help to regain investor attention over time. In the short term, a 4.7% dividend yield offers income attraction.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	133.5	7.0	10.6	1.5	3.6	3.9
03/17	151.8	8.2	11.9	1.8	3.2	4.7
03/18e	154.0	2.8	3.8	1.8	10.1	4.7
03/19e	164.0	4.5	5.5	1.9	7.0	4.9

Note: *PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Lower H1 outturn, increasing activity at period end

Previous updates had flagged a difficult H1 trading period. While revenues were similar to the prior year, operating profit was almost two-thirds lower with an uneven and ultimately disappointing level of UK Consultancy Services workflow. More positively, the smaller International Development division delivered a good step forward in both revenue and profit. Increased work-in-progress (contributing to an uplift in net debt to c £10m) and order book development indicated that activity levels were increasing towards the period end and the H1 dividend was maintained at 0.6p. A £3.2m exceptional charge was taken in H1 for a legacy contract provision and some reorganisation and refinancing costs.

UK Consultancy Services performance key

Improving order books in both divisions point to a stronger trading period in H2, with a reasonably robust view into FY19 also. UK Consultancy Services' performance is key to the near-term earnings recovery and activity on public sector programmes is likely to be an important determinant of the full-year outcome, in our view. Steps are also being taken by management to improve employee engagement and enhance business efficiency across its offices. There are no material changes to our underlying profit expectations from the revised levels at the end of November, but lower expected tax charges – due to reduced UK profitability and tax losses – in all three forecast years increase our EPS estimates. Our expected year-end net debt is c £7m, in line with management guidance.

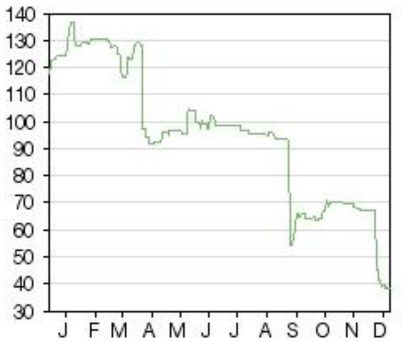
Valuation: Single-digit multiples, attractive yield

WYG's share price was marked down following the 28 November trading update and has drifted somewhat since. On our slightly higher earnings estimates – and noting a zero FY18e tax charge – the current year P/E is now 10.1x, while EV/EBITDA is 6.3x and both multiples reduce over our forecast horizon. At the same, time the prospective FY18 dividend yield is 4.7%, which provides income attractions ahead of returning investor confidence in the profit recovery profile presented.

12 December 2017

Price	**38.00p**
Market cap	**£28m**
	€1.15/£
Net debt (£m) at end September 2017	10.1
Shares in issue	69.9m
Free float	86%
Code	WYG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(43.3)	(42.4)	(66.5)
Rel (local)	(42.3)	(42.7)	(69.0)
52-week high/low		136.5p	38.0p

Business description

WYG is a multidiscipline, international project management and management service consultancy, which now reports divisionally as Consultancy Services (76% of FY17 revenue: development, creation and management of assets) and International Development (24%: supporting less developed regions and fragile/conflict-affected states).

Next events

H118 DPS 0.60p ex dividend	1 March 2018
H118 DPS to be paid	4 April 2018

Analyst

Toby Thorrington +44 (0)20 3077 5721

industrials@edisongroup.com

Edison profile page

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H118 results overview

Earlier trading updates (25 August and 24 November) had forewarned of a weak H1 trading period and we had revised estimates accordingly; a y-o-y improvement in International Development operating profit was not sufficient to offset a sharp reduction from Consultancy Services. This had some impact on cash flow, which is expected to partly flow back by year end. We made no material changes to estimates at this stage.

Exhibit 1: WYG divisional and interim splits

Year end March (£m)	H117	H217	FY17	H118	% change y-o-y
Group turnover – external gross revenue	**73.5**	**78.4**	**151.8**	**76.2**	**3.8**
Consultancy Services	57.3	58.5	**115.8**	56.9	(0.7)
International Development	16.1	19.9	**36.1**	19.3	19.5
Group EBIT (including JV)	**2.8**	**5.9**	**8.8**	**1.0**	**(63.9)**
Consultancy Services	4.1	4.3	**8.4**	1.6	(60.3)
International Development	0.9	3.8	**4.7**	1.3	41.9
Central	-2.2	-2.1	**-4.3**	-1.9	

Source: Company. Note: Revised divisional format.

Consultancy Services: Tough half year, encouraging order book

Development, creation and management of assets (ranging from infrastructure to property) in relatively advanced European economies and across public and private sector clients

WYG has successfully secured new framework agreements and orders over the last 12 months, although the rate at which they have translated into revenues has been somewhat frustrating. This occurred to some extent in H217 and a combination of effects led to a similar impact in H118. A slower build-up of workflow under framework agreements, some staff turnover in certain planning segments and a weak local Cumbrian planning market all contributed to constrain top-line progress in the UK. Although revenue was broadly in line with the previous two six-month periods, profit was sharply lower. Given a direct delivery service model, this probably reflects a combination of project phasing/profit recognition, an uneven revenue pattern and resourcing in advance of contracts that started later or ramped up more slowly. Despite this, management comments referenced a number of good segment positions and associated market opportunities (eg in defence, infrastructure and energy), so the tone was far from downbeat. Outside the UK, slimmed-down Polish office operations appear to have stabilised the local performance (although still delivering a small loss), while the Russian joint venture chipped in a modestly positive share of PAT (slightly below the H117 level). The divisional order book has risen well over the last year (ie from c £80m in September 2016 to c £86m at the end of FY17 and to c £96m in September 2017), so we can understand management's frustration with recent revenue patterns. That said, it does suggest that there is scope for better financial performance over the remainder of this year and into the next.

International Development: Busy on a number of fronts

Supporting long-term projects in less-developed countries/regions or fragile and conflict-affected states (FCAS) regarding complex governance, institutional and societal issues

Revenue, operating profit and margin all improved y-o-y. While sustaining the higher revenue levels seen in H217, the mix did not include some of the higher margin project work concluding in Turkey in that period. Activity remained good here – especially in water/waste water projects – and the mix/profit recognition may improve as the year progresses. Contracts in South Africa (in agriculture and water) are providing a firm business baseload in the region. The divisional order book at the end of September improved from the beginning of the year (ie +c £15m to c £74m) but was below the level reported a year earlier (ie c £83m).

Interim net debt increase, lower year end outturn expected

Net debt stood at £10.1m at the end of September, an increase of £7.6m from the beginning of the financial year and operating cash outflow was the primary contributor to this outturn. (Allowing for seasonal trading patterns, the comparable net debt figure a year earlier was £4.9m.)

WYG typically sees a first-half operating cash outflow and H118 was consistent with this, being £5.7m overall in the period. A lower EBITDA outturn was one contributing factor; the £1.8m generated was partly absorbed by payments under legacy provisions (relating to vacant property leases and PII) the run-down of which has been seen in previous periods. There was also c £1m cash costs relating to the P&L separately disclosed items charge (including business reorganisation and refinancing) and other provision movements.

The H118 working capital outflow of £4.4m was in line with the prior year, albeit with a different composition. The primary feature in H118 was a £7m absorption into work in progress, which contrasted with the £6m debtor increase as the central item in H117. We believe that the difference reflects the slower start/stronger end to trading revenue this year, implicitly with more project completions slipping beyond the period end. (There was actually a debtor inflow in H118, which is consistent with a dip in activity levels during the period.)

There were no other major features further down the cash flow statement; net interest, tax and deferred consideration cash outflows were all very modest in H1, while capex of £1.2m was similar to the prior year. Otherwise, cash payment of the H117 dividend (at just over £0.4m) was the only other notable item.

Cash outlook: in line with previous years, management expects a H2 cash inflow and to end FY18 with £6-7m balance sheet net debt. There is obviously some way to go before we get to this point, but confidence in this scenario is supported by a significant build up in International Development debtors, especially in Turkey (partly arising in H2) expected to be substantially received before the end of calendar 2017. So, increased EBITDA and a working capital inflow are expected to be the main drivers towards management's stated year-end net debt target. Beyond this, we currently only see a gradual further reduction by the end of FY20. Management has stated a target of returning to profitable growth backed by cash generation, so this will be a key metric to monitor going forwards. We note that WYG has elected to put in place revised banking arrangements, replacing a £25m facility with a larger £35m one and the term extended to September 2022 (previously 2019). In the near term, we take this as an indicator of a likely increase in bonded EU work (where advance payments require bank-backed security). In the medium and longer terms, it also provides headroom for potential acquisitions; we do not anticipate activity until management has demonstrated a period of more stable trading performance.

Improving order book to benefit trading

Earlier, we noted an improving order book position for both divisions. After a disappointing period of flow-through, translating orders to revenues and into profits is a key focus. In Consultancy Services, the c £36m orders scheduled for the current year is in line with the position a year earlier, so an expectation of a better H2 result should be well founded. The y-o-y increase in orders beyond FY18 (and £60m in total) suggests improving visibility of contracted work. In International Development, the order book portion for current year delivery is lower in value compared to a year earlier (ie £17m vs £25m, respectively) but is showing stability beyond this at just below £60m. With funding instrument awards (eg IPA II) now being made, further potential orders are possible.

We have not made any changes to our expected divisional contributions from our last published note. However, based on interim management guidance, we have now reduced tax rates (to zero in FY18, 10% FY19 and 12.5% in FY20) and, factoring in an increased number of shares in issue, this gives a c 17% EPS uplift this year followed by smaller increases in the following two.

Exhibit 2: Financial summary

£m	2013	2014	2015	2016	2017	2018e	2019e	2020e
March	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS	**IAS19R**	**IAS19R**	**IAS19R**	**IAS19R**	**IAS19R**	**IAS19R**	**IAS19R**	**IAS19R**
Revenue	125.7	126.9	130.5	133.5	151.8	154.0	164.0	172.0
EBITDA	3.3	6.4	7.2	9.0	10.6	5.2	7.0	7.7
Operating Profit (before GW and except.)	1.5	4.8	5.4	7.2	8.6	3.6	5.2	5.7
Net Interest	(0.8)	(0.6)	(0.1)	(0.2)	(0.6)	(0.8)	(0.7)	(0.6)
JV / Associates	0.0	0.0	0.4	(0.0)	0.2	0.0	0.0	0.0
Intangible Amortisation	(1.0)	(1.2)	(1.3)	(1.5)	(1.9)	(1.5)	(1.5)	(1.5)
Other	(2.5)	(3.7)	(2.9)	(1.5)	(0.7)	0.4	(0.8)	(0.8)
Exceptionals	(0.6)	2.4	0.0	(1.8)	(4.0)	(3.2)	0.0	0.0
Profit Before Tax (norm)	0.7	4.3	5.7	7.0	8.2	2.8	4.5	5.1
Profit Before Tax (FRS 3)	(3.3)	1.8	1.4	2.2	1.6	(1.5)	2.3	2.9
Tax	(0.1)	0.3	0.5	0.6	0.8	0.0	(0.5)	(0.6)
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax (norm)	0.7	4.5	6.2	7.6	9.0	2.8	4.1	4.5
Profit After Tax (FRS 3)	(3.4)	2.1	1.9	2.8	2.4	(1.5)	1.8	2.2
Average Number of Shares Outstanding (m)	64.5	64.6	65.8	70.6	71.1	73.3	72.7	72.7
EPS - normalised fully diluted (p)	0.8	6.4	8.6	10.6	11.9	3.8	5.5	6.0
EPS - FRS 3 (p)	(5.2)	3.2	2.9	4.0	3.3	(2.0)	2.5	3.0
Dividend per share (p)	0.0	0.5	1.0	1.5	1.8	1.8	1.9	1.9
EBITDA Margin (%)	2.6	5.1	5.5	6.8	7.0	3.4	4.2	4.5
Operating Margin (before GW and except.) (%)	1.2	3.8	4.1	5.4	5.6	2.3	3.1	3.3
BALANCE SHEET								
Fixed Assets	18.6	19.8	22.0	32.3	30.5	30.0	29.4	28.5
Intangible Assets	16.3	17.6	18.7	27.5	25.5	24.0	22.5	21.0
Tangible Assets	2.4	2.2	2.3	3.2	3.2	4.2	5.0	5.7
Investments	0.0	0.0	0.9	1.6	1.8	1.8	1.8	1.8
Current Assets	66.8	60.0	54.6	62.5	67.2	66.2	67.9	70.5
Stocks	20.2	21.6	21.1	30.4	30.0	30.5	30.6	31.9
Debtors	23.0	18.5	18.5	19.7	26.5	25.5	27.1	28.5
Cash	19.597	15.9	12.3	8.2	6.5	5.9	5.9	5.9
Current Liabilities	(45.7)	(42.9)	(40.8)	(50.7)	(53.8)	(55.2)	(56.8)	(57.7)
Creditors	(44.8)	(42.3)	(40.8)	(47.6)	(49.8)	(47.2)	(48.7)	(50.0)
Short term borrowings	(0.953)	(0.7)	0.0	(3.1)	(4.0)	(8.0)	(8.1)	(7.7)
Long Term Liabilities	(23.3)	(16.9)	(13.2)	(15.8)	(12.3)	(12.5)	(11.5)	(11.5)
Long term borrowings	0.0	0.0	0.0	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Other long term liabilities	(23.3)	(16.9)	(13.2)	(10.8)	(7.3)	(7.5)	(6.5)	(6.5)
Net Assets	16.4	20.1	22.5	28.3	31.6	28.5	29.0	29.9
CASH FLOW								
Operating Cash Flow	(2.6)	(0.1)	2.4	(1.0)	3.4	1.1	5.0	5.6
Net Interest	(0.8)	(0.5)	(0.1)	(0.2)	(0.6)	(0.8)	(0.7)	(0.6)
Tax	(0.2)	(0.0)	(0.3)	(0.3)	(0.9)	(0.5)	(0.5)	(0.6)
Capex	(1.3)	(1.4)	(1.7)	(2.5)	(1.9)	(2.7)	(2.7)	(2.7)
Acquisitions/disposals	(0.8)	(1.4)	(1.6)	(7.9)	(2.3)	(0.5)	0.0	0.0
Financing	(0.0)	0.0	(0.2)	0.0	0.0	(0.0)	(0.0)	0.0
Dividends	0.0	0.0	(0.5)	(0.8)	(0.7)	(1.3)	(1.3)	(1.4)
Net Cash Flow	(5.6)	(3.3)	(2.0)	(12.6)	(3.0)	(4.7)	(0.1)	0.4
Opening net debt/(cash)	(23.0)	(18.6)	(15.2)	(12.3)	(0.2)	2.5	7.0	7.2
HP finance leases initiated	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.3	(0.2)	(0.9)	0.5	0.3	0.1	0.0	(0.0)
Closing net debt/(cash)	(18.6)	(15.2)	(12.3)	(0.2)	2.5	7.0	7.2	6.8

Source: WYG accounts, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia