

Hogg Robinson Group

On a journey

Final results

Support services

Hogg Robinson (HRG) has combined a strong set of financials with a declaration of medium-term growth initiatives in both travel management and FinTech. Importantly, their implementation should be facilitated by the success of management's largely completed restructuring and deleveraging programme. While there will be a short-term cost (we are reducing our current-year PBT forecast by 17%), this is wholly related to stated opex investment rather than any business deterioration (our revenue forecast is unchanged). Robust finances (FY17 net debt/EBITDA of just 0.3x) should allow continued dividend growth (FY17 cover of 3.0x).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	318.3	32.2	7.2	2.51	9.7	3.6
03/17	335.1	37.0	7.8	2.64	9.0	3.8
03/18e	336.0	31.0	6.6	2.77	10.6	4.0

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

H2: Freedom shows its potential

After H1 +4% constant currency trading profit, an unchanged H2 outturn was predictable in view of more difficult comparatives and still testing conditions. Indeed the 7% weakening in Travel Management constant currency revenue (down 4% in H1) was in line with our forecast as heightened client churn and Brexit-related uncertainty added to longstanding aggressive competitor pricing and the move to online self-booking by clients. However, the 6% decrease in constant currency trading profit was slightly more than we expected but more than made up by an excellent performance (like-for-like +72%) by Freedom as its H1 investment started to pay off. Net debt reduced by £10m in H2 to £21m (down 38% on March 2016).

Reduction in forecasts reflects investment

HRG's long-awaited review has elicited a formal growth strategy, based on group-wide investment in staff and technology. Incremental opex is projected at £25m over three years. The targeted benefit is "significant," ie Travel Management revenue CAGR of at least 2% at medium-term margin of more than 15% (FY17 13.6%), while Freedom is to grow by c 20% CAGR. The current year is one of "transition" as likely £6m initial costs are absorbed and our PBT forecast is duly revised. Continuing strong cash generation should ensure minimal rise in net debt.

Valuation: Re-rating due on signs of growth

Growth comes at a price, so the immediate earnings setback should not alarm. Rather, HRG should be rewarded for shedding a reliance on cost savings for profit improvement, while financial flexibility and hard-won efficiencies leave it well-placed to take advantage of investment opportunities (such as the planned purchase of digital travel innovator eWings.com) and to continue to grow dividends. There was a welcome reduction in the pension deficit in H2 (stable year-on-year despite a lower discount rate).

30 May 2017

Price 70p
Market cap £228m

Net debt (£m) at March 2017	21.0
Shares in issue	325.6m
Free float	52%
Code	HRG
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(0.4)	1.6	1.5
Rel (local)	(3.3)	(2.7)	(15.1)
52-week high/low		77p	62p

Business description

Hogg Robinson is an international corporate services company, specialising in travel, expenses and data management.

Next events

IMS	27 July 2017
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Exhibit 1: Financial summary

	£000s	2015	2016	2017	2018e
		IFRS	IFRS	IFRS	IFRS
Year-end March					
PROFIT & LOSS					
Revenue		330,100	318,300	335,100	336,000
EBITDA		53,400	55,500	60,700	57,500
Operating Profit (before GW and except)		42,500	44,800	49,400	45,500
Exceptional Items		(6,300)	(4,800)	(3,700)	(2,500)
Amortisation of Acquired Intangibles		(1,000)	(700)	(200)	0
Associates/JVs		1,100	1,000	900	1,000
Operating Profit		36,300	40,300	46,400	44,000
Net Interest		(13,100)	(13,600)	(13,300)	(15,500)
Profit Before Tax (norm)		30,500	32,200	37,000	31,000
Profit Before Tax (FRS 3)		23,200	26,700	33,100	28,500
Tax		(7,500)	(7,400)	(9,500)	(8,000)
Adjustment to tax for normalised earnings		(800)	(1,000)	(900)	(700)
Profit After Tax (norm)		23,000	24,800	27,500	23,000
Profit After Tax (FRS 3)		15,700	19,300	23,600	20,500
Minority charge		(1,000)	(600)	(1,300)	(700)
Average Number of Shares Outstanding (m)		322.7	324.2	323.7	325.5
EPS - normalised (p)		6.57	7.16	7.82	6.64
EPS - FRS 3 (p)		4.56	5.77	6.89	6.08
Dividend per share (p)		2.3	2.5	2.6	2.8
EBITDA Margin (%)		16.2	17.4	18.1	17.1
Operating Margin (before GW and except.) (%)		12.9	14.1	14.7	13.5
BALANCE SHEET					
Fixed Assets		304,500	305,400	314,900	327,000
Intangible Assets		236,800	242,100	256,900	262,000
Tangible Assets		9,800	8,800	8,400	9,000
Investments		57,900	54,500	49,600	56,000
Current Assets		145,800	139,000	142,600	150,000
Stocks		0	0	0	0
Debtors		105,500	93,300	106,500	110,000
Cash		38,400	43,800	35,100	38,000
Current Liabilities		(167,700)	(159,500)	(165,800)	(193,000)
Creditors		(167,600)	(149,500)	(155,700)	(153,000)
Short term borrowings		(100)	(10,000)	(10,100)	(40,000)
Long Term Liabilities		(355,400)	(334,800)	(318,000)	(299,000)
Long term borrowings		(93,000)	(67,400)	(46,000)	(24,000)
Other long term liabilities		(262,400)	(267,400)	(272,000)	(275,000)
Net Assets		(72,800)	(49,900)	(26,300)	(15,000)
CASH FLOW					
Operating Cash Flow		39,900	48,100	42,900	40,000
Net Interest		(4,300)	(4,200)	(3,500)	(4,000)
Tax		(4,000)	(5,400)	(8,900)	(10,000)
Capex		(11,300)	(8,300)	(11,000)	(16,000)
Acquisitions/disposals		0	0	500	(4,000)
Other		(2,600)	(1,400)	800	(2,300)
Dividends		(7,100)	(7,700)	(8,200)	(8,700)
Net Cash Flow		10,600	21,100	12,600	(5,000)
Opening net debt/(cash)		65,300	54,700	33,600	21,000
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		54,700	33,600	21,000	26,000

Source: Hogg Robinson data; Edison Investment Research

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