

Augean

Near-term expectations reduced

Augean's (AUG) dispute with HMRC over landfill taxes and tough trading conditions in its key markets creates significant uncertainty. The company has taken decisive steps to reshape its management team and reduce its cost base, in order to provide Augean with a stronger and more dynamic base from which to grow post a resolution to the dispute.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	61.0	6.2	5.58	0.65	5.7	2.0
12/16	76.0	7.2	6.47	1.00	4.9	3.1
12/17e	83.2	6.0	5.56	1.20	5.8	3.8
12/18e	84.3	8.1	6.88	1.44	4.7	4.5

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

Management changes

Stewart Davies has resigned from his position as CEO, by mutual consent, and is to be replaced by Jim Meredith, who will expand his role as non-executive chairman to become executive chairman. We expect Mr Meredith (acquired 1m shares in October 2017), who has significant experience in the waste industry, including as CEO, to focus his attention on finding a resolution to the dispute with HMRC and maximising the cash return from the business. Augean cautioned that the dispute with HMRC is unlikely to be resolved imminently. The ranks of the non-executive directors have also been strengthened with appointment of Christopher Mills and Roger McDowell. The latter was formerly a board member of Augean (2004-15) and served as interim CEO (2006-7) and interim chairman (2010-12).

Tougher trading but additional cost control

AUG warned that FY17 PBT will be below the FY16 level and that FY18 profits will also be below previous expectations (Edison FY18e was £8.3m), mainly the result of continuing weakness in the soil market (volumes and price) and legacy costs associated with Colt. To counter the tough trading, AUG announced additional cost reductions of £1.7m (total target of £3m). To facilitate the cost reduction, AUG will incur an additional one-off exceptional charge of £0.9m (£0.7m announced at H117). The cost savings are expected to yield a full year benefit in FY18.

Reduction to earnings; valuation update

We have updated our forecasts to reflect recent announcements and the H1 results. We now expect FY17 EBITDA of £11.9m (previously £14.8m) and PBT of £6.0m (£7.3m). For FY18, we forecast EBITDA of £14.4m (£16.3m) and PBT of £8.1m (£8.3m). For now our DPS forecasts remain unchanged, but AUG's ability to pay will need to be assessed in light of the scale of any settlement with HMRC. We forecast lower capex and have reduced our tax rate to 19.5%. Our DCF valuation, which does not include the cost of settling with HMRC, remains at 67p/share. The recent share price weakness now means there is a significant difference between our DCF valuation and the current share price (equivalent to c £34m) reflecting, we believe, the uncertainty surrounding the scale of the potential payment to HMRC.

Board changes and trading update

Industrial support services

30 October 2017

Price **32.00p**
Market cap **£33m**

Net debt (£m) as at 30 June 2017	12.5
Shares in issue	102.8m
Free float	99.3%
Code	AUG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	26.7	(39.1)	(39.1)
Rel (local)	23.4	(39.6)	(44.0)
52-week high/low		66.0p	23.0p

Business description

Augean manages hazardous waste through a divisional structure of five businesses: Radioactive Waste Services (3% of group revenues), Energy & Construction (33%), Industry & Infrastructure (30%), Augean Integrated Services (13%) and Augean North Sea Services (21%).

Next events

Trading update	January 2018
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Exhibit 1: Financial summary

	£'000	2015	2016	2017e	2018e	2019e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		61,005	75,959	83,212	84,295	85,918
Cost of Sales		(42,592)	(51,796)	(62,474)	(61,026)	(62,013)
Gross Profit		18,413	24,163	20,738	23,269	23,905
EBITDA		12,477	14,315	11,900	14,430	15,066
Operating Profit (before amort. and except & SBP.)		7,374	8,303	7,507	9,625	9,881
Intangible Amortisation		(133)	(262)	(232)	(232)	(232)
Exceptionals		(3,508)	(5,719)	(1,600)	0	0
Share Based Payments		(421)	(243)	(500)	(500)	(500)
Operating Profit		3,312	2,079	5,175	8,893	9,149
Associated company		0	0	0	0	0
Exceptionals		0	0	0	0	0
Net Interest		(788)	(812)	(975)	(1,027)	(1,027)
Profit Before Tax (norm)		6,165	7,248	6,032	8,098	8,354
Profit Before Tax (IFRS)		2,524	1,267	4,200	7,866	8,122
Tax		(837)	(862)	(819)	(1,534)	(1,584)
Profit After Tax (norm)		5,749	6,629	5,713	7,064	7,270
Profit After Tax (IFRS)		1,687	405	3,381	6,332	6,538
Average Number of Shares Outstanding (m)		102.1	102.4	102.7	102.7	102.7
EPS - normalised (p)		5.58	6.47	5.56	6.88	7.08
EPS - normalised and fully diluted (p)		5.58	6.47	5.56	6.88	7.08
EPS - (IFRS) (p)		1.60	0.40	3.29	6.16	6.36
Dividend per share (p)		0.65	1.00	1.20	1.44	1.73
Gross Margin (%)		30.2	31.8	24.9	27.6	27.8
EBITDA Margin (%)		20.5	18.8	14.3	17.1	17.5
Operating Margin (before GW and except.) (%)		12.1	10.9	9.0	11.4	11.5
BALANCE SHEET						
Fixed Assets		65,205	71,913	75,263	76,425	77,054
Intangible Assets		19,971	26,262	26,030	25,798	25,566
Tangible Assets		42,918	44,475	48,033	49,227	50,042
Investments		2,316	1,176	1,200	1,400	1,446
Current Assets		15,688	22,028	19,092	24,503	27,514
Stocks		306	379	457	447	454
Debtors		11,829	18,461	16,800	16,800	17,124
Cash		3,553	3,188	1,834	7,256	9,936
Other		0	0	0	0	0
Current Liabilities		(12,857)	(18,071)	(13,990)	(14,965)	(13,046)
Creditors		(11,803)	(17,900)	(13,990)	(14,965)	(13,046)
Short term borrowings		(1,054)	(171)	0	0	0
Long Term Liabilities		(13,638)	(21,303)	(22,886)	(22,886)	(22,886)
Long term borrowings		(6,764)	(13,833)	(15,333)	(15,333)	(15,333)
Other long term liabilities		(6,874)	(7,470)	(7,553)	(7,553)	(7,553)
Net Assets		54,398	54,567	57,478	63,077	68,636
CASH FLOW						
Operating Cash Flow		12,348	12,859	8,064	14,241	12,719
Net Interest		(715)	(704)	(975)	(1,027)	(1,027)
Tax		(1,105)	(941)	(852)	(559)	(1,532)
Capex		(7,525)	(8,386)	(7,950)	(6,000)	(6,000)
Acquisitions/disposals		(1,141)	(8,901)	0	0	0
Financing		96	187	57	0	0
Dividends		(511)	(665)	(1,027)	(1,233)	(1,479)
Net Cash Flow		1,447	(6,551)	(2,683)	5,422	2,680
Opening net debt/(cash)		5,712	4,265	10,816	13,499	8,077
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	(0)
Closing net debt/(cash)		4,265	10,816	13,499	8,077	5,397

Source: Augean, Edison Investment Research

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