Costain Group

Growth targets support higher distributions

Costain held its capital markets event (CME) on 19 November, unveiling new medium-term financial targets (FY26 base): c 10% revenue CAGR; 4.5–5.0% adjusted operating margin; >10% adjusted operating profit CAGR; and retained net cash of 4–6% of next year's revenue. Costain works on long-term frameworks for major infrastructure owners such as National Highways, London Gatwick, Heathrow and United Utilities, with no single-stage lump-sum contracts. Its forward work stands at £7bn, over 6x FY25 revenue. Watch the CMD here.

More capital available for distribution

The new capital structure target is to retain net cash, excluding joint venture cash, equal to 4–6% of next year's forecast revenue, with cash generated above that level treated as surplus. Management's illustration at 5% gives c £190m of capital available for distribution over FY27–30, versus c £65m returned to shareholders over FY23–26. The first step is a £25m share buyback from January 2027, which with dividends at 2.5x cover takes FY27 returns to c £43m, leaving an average of £45–50m a year in FY28–30 for dividends, selective M&A and further returns. CFO Helen Willis expects the retained ratio to move from 6% towards 4% as the business grows. The growth plan is entirely organic, so any M&A would be additional.

Broad-based growth supports medium-term targets

In their divisional deep dives, Transportation MD Jonathan Willcock and Natural Resources MD Peter Mumford each set out a c 10% medium-term revenue CAGR, with growth in every sector. Transportation is targeting local and devolved authorities and airport upgrades, while Natural Resources could stand to benefit from AMP8 water investment of £104bn, double the previous cycle, and is building scale in electricity connectivity and across the nuclear lifecycle. Management illustrated group revenue rising from c £1.2bn in FY26 to c £1.8bn by FY30. Stewart Wingate, chair of London Gatwick, and Louise Beardmore, CEO of United Utilities (both Costain customers), joined CEO Alex Vaughan to discuss their investment plans and how they choose suppliers.

Valuation: Premium narrows as earnings expand

Costain confirmed that FY26 trading remains in line with market expectations. On consensus, the shares trade at a premium to UK Tier 1 contractor peers, reflecting the stronger medium-term growth outlook and increasing shareholder distributions. The premium narrows into FY27 as consensus EPS rises c 15%, with delivery against the new growth and margin targets now the key determinant of further re-rating.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	P/E (x)	Yield (%)	EV/EBITDA (x)
12/25	1,045.7	48.2	16.5	1.8	7.7
12/26e	1,240.0	53.7	15.8	2.5	7.2
12/27e	1,407.0	61.9	13.7	2.9	6.3

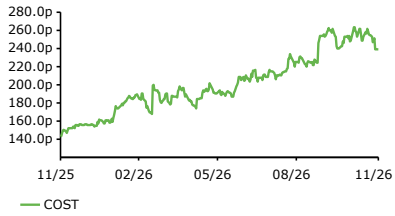
Source: LSEG Data & Analytics

Industrials

24 November 2026

Price	**239.50p**
Market cap	**£625m**

Share price performance



Share details

Code	COST
Listing	LSE
Shares in issue	260.9m
Net cash as at 30 June 2026	£164.4m

Business description

Costain is a UK infrastructure specialist that delivers engineering, construction, consulting and digital services across the transport, water, energy and defence sectors, to improve the resilience, performance and sustainability of critical infrastructure assets.

Bull points

- Record £7bn forward work covers 91% of FY27 consensus revenue.
- No single-stage lump-sum contracts, and private and regulated customers now make up 48% of forward work (FY23: 30%).
- Net cash target frees c £190m for distribution over FY27–30, starting with a £25m buyback in 2027.

Bear points

- The FY27 step change depends on programmes such as AMP8 and the M60 moving into construction on time.
- The margin target relies on operating leverage, as growth weighted to construction work is slightly margin-dilutive.
- Simultaneous ramp-ups in water, grid and nuclear could strain skills and supply chains

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