

Augean

Trading update

Improving underlying cash flow

No immediate resolution to the dispute with HMRC over landfill taxes is expected and, in the absence of clarity as to the timing and scale of any potential payments, Augean's management continues to take firm action to improve the strength of the business (disposals/cost control). The difference in market capitalisation between a share price of 25p and our DCF valuation of c 70p/share equates to c £47m and compares to the total of HMRC assessments received so far of £12m (five assessments).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	84.7	6.0	5.6	0.0	4.5	0.0
12/18e	79.5	8.1	6.3	0.0	4.0	0.0
12/19e	79.2	8.8	7.1	0.0	3.5	0.0

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

A tough year in FY17

While revenue rose 11% in FY17, to £84.7m (Edison FY17e £83.2m), operating profit fell to £6.4m (FY16: £7.8m). The main reasons for the decline were increased costs (put in place in H216), issues with a legacy contract at Colt, lower volumes in the soil market and exceptional costs of £8.6m (ongoing restructuring costs and an impairment charge to the carrying value of Colt of £6.3m). Given the continuing uncertainty relating to its landfill tax dispute with HMRC, Augean will not pay a dividend for FY17 (reducing cash outflow by c £1m in FY18). Capex increased to £8.5m (FY16: £8.4m). Nonetheless, end-December net debt was £10.8m, significantly below our forecast of £13.5m, and has fallen further to £8.9m (at 19 March). The lower debt figure was the result of stronger than anticipated operating cash flow (better working capital movements + lower tax and interest payments).

AIS disposal and tax update

Before the results Augean announced the disposal of Augean Integrated Services (AIS) for up to £4.1m. Given the history of losses for this division (FY17: £0.4m), its negative contribution to cash flow and the c £1m of annual capex, the disposal will have a significant beneficial impact on group cash flow. We expect Augean to take similar action with other businesses that fail to generate cash. It remains of the view that there will be no swift resolution to the dispute with HMRC. However, Augean did reveal that HMRC has advised it that its original assessment of £2.8m, relating to the February 2014 quarter, will now be revised downwards by £1.5m (53%), due to the reclassification of the tax banding for certain types of waste.

Valuation: Discount reflects tax uncertainty

We have revised our forecasts to reflect the results and the disposal. We now expect a quicker reduction in net debt (disposal of AIS/absence of dividend payments/lower capex). Our DCF valuation, which excludes the impact of any settlement, indicates an underlying valuation of c 70p (c 11.3x FY18e normalised EPS). The difference in market capitalisation between the share price of 25p and the DCF valuation of 70p/share equates to c £47m and compares to the total of HMRC assessments received so far of £12m (five assessments).

Industrial support services

21 March 2018

Price 25.00p
Market cap £26m

Net debt (£m) at 19 March 2018	8.9
Shares in issue	102.9m
Free float	98%
Code	AUG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(7.4)	(10.7)	(56.5)
Rel (local)	(5.4)	(5.5)	(55.0)
52-week high/low	66.00p	23.00p	

Business description

Formed in 2004, Augean is a UK-based specialist waste management business, working in the hazardous wastes, radioactive waste, and oil and gas sectors.

Next events

IMS	May 2018
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Analyst

Graeme Moyse +44 (0)20 3077 5700

industrials@edisongroup.com

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Exhibit 1: Financial summary

	£000s	2017	2018e	2019e	2020e
31-December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		84,691	79,468	79,242	82,015
Cost of Sales		(61,247)	(54,311)	(52,380)	(53,595)
Gross Profit		23,444	25,157	26,862	28,420
EBITDA		12,941	14,017	15,042	15,878
Operating Profit (before amort. and except & SBP.)		7,003	9,189	9,895	10,514
Intangible Amortisation		(447)	(130)	(100)	(100)
Exceptionals		(8,605)	1,300	0	0
Share Based Payments		(194)	(200)	(200)	(200)
Operating Profit		(2,243)	10,159	9,595	10,214
Associated company		0	0	0	0
Exceptionals		0	0	0	0
Net Interest		(850)	(939)	(926)	(915)
Profit Before Tax (norm)		5,959	8,051	8,768	9,399
Profit Before Tax (IFRS)		(3,093)	9,221	8,668	9,299
Tax		(401)	(1,798)	(1,690)	(1,813)
Profit After Tax (norm)		5,752	6,453	7,278	7,786
Profit After Tax (IFRS)		(3,494)	7,423	6,978	7,486
Average Number of Shares Outstanding (m)		102.8	102.9	102.9	102.9
EPS - normalised (p)		5.59	6.27	7.07	7.56
EPS - normalised and fully diluted (p)		5.59	6.27	7.07	7.56
EPS - (IFRS) (p)		(3.40)	7.21	6.78	7.27
Dividend per share (p)		0.00	0.00	0.00	0.00
Gross Margin (%)		27.7	31.7	33.9	34.7
EBITDA Margin (%)		15.3	17.6	19.0	19.4
Operating Margin (before GW and except.) (%)		8.3	11.6	12.5	12.8
BALANCE SHEET					
Fixed Assets		68,001	65,985	65,838	65,583
Intangible Assets		20,080	19,985	19,885	19,785
Tangible Assets		46,678	44,600	44,453	44,189
Investments		1,243	1,400	1,500	1,609
Current Assets		26,589	35,089	41,761	50,137
Stocks		440	390	376	385
Debtors		19,570	18,363	18,311	18,952
Cash		6,579	16,335	23,074	30,800
Other		0	0	0	0
Current Liabilities		(18,989)	(17,850)	(17,197)	(17,633)
Creditors		(18,989)	(17,850)	(17,197)	(17,633)
Short term borrowings		0	0	0	0
Long Term Liabilities		(25,496)	(25,496)	(25,496)	(25,496)
Long term borrowings		(17,378)	(17,378)	(17,378)	(17,378)
Other long term liabilities		(8,118)	(8,118)	(8,118)	(8,118)
Net Assets		50,105	57,728	64,906	72,591
CASH FLOW					
Operating Cash Flow		10,490	15,130	14,403	15,500
Net Interest		(429)	(939)	(926)	(915)
Tax		(650)	(1,650)	(1,738)	(1,759)
Capex		(8,457)	(5,250)	(5,000)	(5,100)
Acquisitions/disposals		62	2,465	0	0
Financing		28	0	0	0
Dividends		(1,027)	0	0	0
Net Cash Flow		17	9,756	6,739	7,726
Opening net debt/(cash)		10,816	10,799	1,043	(5,696)
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		10,799	1,043	(5,696)	(13,422)

Source: Company accounts, Edison Investment Research

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