

Sureserve Group

Full-year results give confidence

Full-year results

FY18 was a year of transition for Sureserve, as it divested its Contracts and Property maintenance operations to focus on Compliance and Energy support services. The prospective P/E of 6.7x warrants investor attention. The investment thesis is that the group will continue to benefit from being more focused, its remaining divisions have strong regulatory drivers underpinning revenue growth, and there remains potential to improve margins and scope for growth through consolidating a fragmented industry. The outlook statement references a strong order book and a strong start to FY19, performing ahead of management expectations.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/17	181.5	5.4	2.8	0.50	9.4	1.9
09/18	190.8	6.6	3.4	0.25	7.7	1.0
09/19e	202.3	7.7	3.9	0.50	6.7	1.9
09/20e	212.5	8.3	4.3	0.75	6.1	2.9

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments. 2017 and 2018 EPS reflects a notional 19% tax charge.

FY18 operational review

The two areas of the business are well established in their fields. The Energy operation is based on the Everwarm operations and has had some notable contract successes, including the £55m Arbed 3 contract won in May last year. The Compliance operations won a £44m framework from Aberdeenshire Council. Overall the business is on 108 frameworks with a value of £633m and has maintenance contracts worth £399m. The company has also made a meaningful investment in building its capability in smart meter installation and is ready for the next phase of the roll out of that programme; it may seek a vehicle to fund meter investments.

Earnings should improve in FY19

Earnings should improve in FY19 as a result of better margins that were below the target levels in FY18 due to the developments in the group. Group normalised operating profit margins of 5% might be a realistic target.

Balance sheet looks comfortable

The balance sheet shows net debt of £11.4m at the period end, which was in part due to the exit costs from the discontinued operations; average net debt was £18.7m, which was well below the prior year level of £27.3m. There is still some deferred consideration liability but, at £0.3m, it is low. The legacy discontinued operations have a £4.5m provision until a few retained projects are completed.

Valuation: Undemanding rating

The company is now restructured and ready to grow; the space in which it operates is in consolidation mode and most activities are essential and legislation driven. The prospects are not reflected in the share price, in our view. Peers Marlowe and PTSG trade on prospective P/Es of 22.1x and reflect the potential upside path.

Industrial support services

24 January 2019

Price 26.3p
Market cap £41m

Net debt (£m) as at 30 September 2018	11.4
Shares in issue	157.5m
Free float	95%
Code	SUR
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	28.1	(27.1)	(31.8)
Rel (local)	24.8	(26.2)	(23.2)
52-week high/low		44.2p	20.0p

Business description

Sureserve is engaged in the asset and energy support services business, focused on customers in the outsourced public and regulated services sectors in the UK. It comprises two divisions: compliance and energy services.

Next events

AGM	March 2019
Interims	July 2019

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Exhibit 1: Financial summary

	£m	2016	2017	2018	2019e	2020e
Year end 30 September		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		299.1	181.5	190.8	202.3	212.5
Cost of Sales		(265.4)	(154.5)	(163.4)	(174.3)	(183.8)
Gross Profit		33.8	27.0	27.4	28.0	28.7
EBITDA		10.2	9.0	9.2	10.1	10.8
Operating Profit (before amort. and except).		8.5	7.4	8.0	8.7	9.4
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptionals		(42.6)	(11.0)	(4.6)	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0
Reported operating profit		(34.0)	(3.6)	3.4	8.7	9.4
Net Interest		(1.0)	(2.0)	(1.5)	(1.0)	(1.0)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0
Exceptionals		(0.6)	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		7.5	5.4	6.6	7.7	8.3
Profit Before Tax (reported)		(35.7)	(5.6)	1.6	7.2	7.9
Reported tax		4.5	0.9	(0.8)	(1.5)	(1.6)
Profit After Tax (norm)		6.3	6.4	5.8	6.2	6.7
Profit After Tax (reported)		(31.1)	(4.6)	0.8	5.8	6.3
Minority interests		0.0	0.0	0.0	0.0	0.0
Discontinued operations		1.9	4.6	(11.5)	0.0	0.0
Net income (normalised)		6.3	6.4	5.8	6.2	6.7
Net income (reported)		(29.3)	0.0	(10.7)	5.8	6.3
Average Number of Shares Outstanding (m)		157.5	157.5	157.5	157.5	157.5
EPS - normalised fully diluted (p)		5.1	2.7	3.2	3.8	4.1
EPS - normalised (p)		5.2	2.8	3.4	3.9	4.3
EPS - basic reported (p)		(18.6)	0.0	(6.6)	3.9	4.3
Dividend per share (p)		1.50	0.50	0.25	0.50	0.75
Revenue growth (%)		(3.8)	(44.5)	5.1	6.1	5.0
Gross Margin (%)		11.3	14.9	14.3	13.9	13.5
EBITDA Margin (%)		3.4	5.0	4.8	5.0	5.1
Normalised Operating Margin		2.9	4.1	4.2	4.3	4.4
BALANCE SHEET						
Fixed Assets		74.2	57.0	50.2	49.8	49.3
Intangible Assets		69.3	51.4	47.9	47.4	47.0
Tangible Assets		2.8	1.9	1.5	1.5	1.5
Investments & other		2.1	3.7	0.9	0.9	0.9
Current Assets		75.4	96.6	49.3	54.0	60.0
Stocks		5.2	4.5	4.2	4.5	4.7
Debtors		68.8	65.4	42.6	45.5	47.8
Cash & cash equivalents		0.0	26.1	1.7	4.0	7.5
Other		1.5	0.6	0.8	0.0	0.0
Current Liabilities		(68.7)	(72.0)	(57.4)	(56.4)	(56.3)
Creditors		(66.5)	(71.0)	(39.3)	(40.5)	(40.4)
Tax and social security		0.0	0.0	0.0	(0.3)	(0.3)
Short term borrowings		(0.3)	(0.2)	(13.0)	(13.0)	(13.0)
Other		(1.9)	(0.9)	(5.1)	(2.6)	(2.6)
Long Term Liabilities		(30.0)	(31.3)	(3.0)	(3.0)	(3.0)
Long term borrowings		(20.8)	(27.2)	(0.1)	(0.1)	(0.1)
Other long term liabilities		(9.2)	(4.1)	(2.9)	(2.9)	(2.9)
Net Assets		51.0	50.2	39.1	44.4	49.9
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		51.0	50.2	39.1	44.4	49.9
CASH FLOW						
Op Cash Flow before WC and tax		(1.7)	9.0	8.9	10.1	10.8
Working capital		(1.2)	5.7	(6.4)	(4.3)	(2.5)
Exceptional & other		(2.4)	(1.3)	(8.2)	1.5	0.1
Tax		(0.3)	0.7	(0.2)	(1.5)	(1.6)
Net operating cash flow		(5.7)	14.0	(5.8)	6.0	6.8
Capex		(0.8)	(0.9)	(0.4)	(1.0)	(1.1)
Acquisitions/disposals		(17.8)	9.1	(1.7)	(0.6)	0.0
Net interest		(0.8)	(1.4)	(1.1)	(1.1)	(1.1)
Equity financing		0.0	0.0	0.0	0.0	0.0
Dividends		(4.6)	(0.8)	(0.8)	(0.8)	(1.2)
Other		(0.4)	(0.3)	(0.0)	(0.0)	(0.0)
Net Cash Flow		(30.0)	19.8	(9.8)	2.5	3.5
Opening net debt/(cash)		(6.2)	21.0	1.3	11.4	9.1
FX		0.0	0.0	0.0	0.0	0.0
Other non-cash movements		2.8	0.0	(0.3)	(0.2)	(0.1)
Closing net debt/(cash)		21.0	1.3	11.4	9.1	5.7

Source: Sureserve accounts, Edison Investment Research

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