

# Premier Technical Services

Trinity acquisition enhances earnings by c 10%

Acquisition and  
year-end update

Industrial support services

23 January 2019

**Price** 153.0p  
**Market cap** £188m

Net debt\* (£m) at 30 June 2018 11.8  
\*company definition

Shares in issue 123.2m

Free float 59%

Code PTSG

Primary exchange AIM

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 8.2 (3.5) (22.7)

Rel (local) 4.6 (1.7) (13.7)

52-week high/low 208.0p 136.5p

## Business description

Premier Technical Services Group (PTSG) is an independent provider of regulated and safety related specialist building services in four divisions across the UK. It listed on AIM in February 2015 at 52p.

## Next event

FY18 results 26 March

## Analyst

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PTSG has announced the acquisition of Trinity Fire and Security Systems along with a brief trading update noting that FY18 ended in line with management expectations. Trinity brings in a scale presence in electrical/electronic systems, while its expertise complements PTSG's existing Fire Solutions capabilities and expands the combined service offer. We have increased our earnings estimates by c 10% and, on this basis, the stock is trading on FY19 multiples of 11.3x P/E and 8.7x EV/EBITDA.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	39.2	7.5	7.6	1.4	20.1	0.9
12/17	52.9	10.2	9.7	1.6	15.7	1.0
12/18e	69.9	14.4	11.8	1.8	13.0	1.2
12/19e	124.4	19.7	13.6	1.9	11.3	1.2

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

## Broadening out and scaling up in Fire Solutions

Trinity is a specialist in electrical/electronic fire (80% of revenue) and integrated security systems from a 10-office network offering broadly national coverage. The company's testing and maintenance activities account for c 60% revenue from a contracted customer base with 80%+ renewal rates and across a range of commercial and public sector buildings. It also designs and installs these systems. Trinity's c £40m annualised revenue run rate compares to c £15m for PTSG's existing Fire Solutions division (including M&P, acquired in July), although it generates a lower EBITDA margin (of 5.5% versus PTSG's 20%+ in this division). Part of the margin difference is sub-sector specific; the opportunity for PTSG is to bring the Trinity workflows onto its Clarity ERP system to improve operational efficiency and also to offer the combined customer list an integrated fire solution package over time.

## Important, earnings-enhancing deal

PTSG is paying an initial £10.8m consideration equivalent to 4.9x run rate EBITDA (or £7.7m net of cash acquired and 3.5x on this basis) with a potential further £5m deferred depending on performance over the following two years. For the reasons outlined above, this is an important transaction on what we consider to be a typically keen PTSG acquisition multiple. Adjusting for cash acquired, this deal, together with Guardian Electrical Compliance (acquired in October), invests most of the c £19m net raised by PTSG via a placing in October. On our estimates, Trinity by itself enhances our last published earnings by c 10%. Overall, ie including the placing and Guardian effects, our EPS forecasts have increased by c 13% and c 16% for FY19 and FY20, respectively, since we [initiated coverage](#) on 8 October.

## Valuation: Growth expected and to be delivered

PTSG's share price has started to rebuild from the lows seen in December and the Trinity deal should further support this momentum. The 2017–20 EPS CAGR is now 14.6% on our estimates giving a PEG of c 1.1x and resulting in FY20 valuation metrics of 10.5x on a P/E basis and 7.6x for EV/EBITDA.

**Exhibit 1: Financial summary**

	£'ms	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>											
Revenue		9.0	12.1	13.9	18.0	25.8	39.2	52.9	69.9	124.4	138.1
Cost of Sales		(3.7)	(4.9)	(5.5)	(7.7)	(11.8)	(18.9)	(25.9)	(34.1)	(64.5)	(71.6)
Gross Profit		5.3	7.1	8.4	10.3	14.0	20.3	27.1	35.8	59.9	66.5
EBITDA		2.0	3.3	3.8	4.7	6.2	9.0	12.3	17.3	23.4	26.2
Operating Profit (before GW and except.)		1.6	2.9	3.2	4.0	5.3	7.9	10.6	15.0	20.6	23.0
Intangible Amortisation		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(0.9)	(0.1)	(0.5)	(2.5)	(4.2)	(4.8)	(8.4)	(9.9)	(5.5)	(5.5)
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit		0.7	2.8	2.6	1.5	1.1	3.0	2.3	5.1	15.1	17.5
Net Interest		(0.0)	(0.0)	(0.1)	(0.3)	(0.3)	(0.4)	(0.5)	(0.7)	(0.9)	(0.8)
Profit Before Tax (norm)		1.6	2.8	3.0	3.7	5.0	7.5	10.2	14.4	19.7	22.3
Profit Before Tax (FRS 3)		0.7	2.8	2.5	1.2	0.8	2.6	1.8	4.5	14.2	16.8
Tax		(0.1)	(0.6)	(0.6)	(0.6)	(0.3)	(0.3)	(0.5)	(1.2)	(3.0)	(4.0)
Profit After Tax (norm)		1.3	2.2	2.4	2.9	4.2	6.7	9.4	13.1	16.8	18.2
Profit After Tax (FRS 3)		0.5	2.2	1.9	0.5	0.5	2.3	1.3	3.3	11.3	12.8
Average Number of Shares Outstanding (m)					77.1	85.9	88.1	96.8	110.6	123.7	124.7
EPS - normalised (p)					3.77	4.87	7.63	9.73	11.81	13.55	14.63
EPS - FRS 3 (p)					0.69	0.57	2.61	1.37	2.96	9.10	10.23
Dividend per share (p)					0	1.00	1.40	1.60	1.80	1.90	2.00
Gross Margin (%)		58.9	59.2	60.5	57.3	54.3	51.9	51.2	51.2	48.2	48.2
EBITDA Margin (%)		22.3	27.2	27.1	26.2	24.0	23.0	23.3	24.7	18.8	19.0
Operating Margin (before GW and except.) (%)		18.1	23.6	22.8	22.3	20.5	20.0	20.1	21.5	16.5	16.7
<b>BALANCE SHEET</b>											
Fixed Assets		2.5	3.4	4.6	5.0	13.9	16.0	32.1	43.3	51.8	53.1
Intangible Assets		1.8	2.4	3.5	3.6	10.7	12.4	26.2	35.8	43.3	44.5
Tangible Assets		0.6	0.9	1.1	1.3	2.4	3.2	4.3	6.6	7.6	7.6
Investments		0.1	0.0	0.0	0.0	0.8	0.4	1.6	0.9	0.9	0.9
Current Assets		2.5	4.3	5.9	8.3	13.5	27.4	40.8	51.7	66.1	78.6
Stocks		0.1	0.1	0.1	0.2	0.4	0.5	1.2	1.6	2.5	2.8
Debtors		2.4	3.6	5.4	8.1	13.1	20.3	32.5	37.5	52.9	58.4
Cash		0.1	0.6	0.4	0.0	0.0	6.5	7.0	12.6	10.7	17.4
Current Liabilities		(2.2)	(3.3)	(4.8)	(8.5)	(9.3)	(17.9)	(24.7)	(24.8)	(27.9)	(32.2)
Creditors		(2.0)	(3.1)	(3.2)	(5.7)	(8.3)	(8.6)	(11.2)	(14.1)	(27.2)	(31.5)
Short term borrowings		(0.2)	(0.3)	(1.6)	(2.7)	(1.0)	(9.4)	(13.5)	(10.7)	(0.7)	(0.7)
Long Term Liabilities		(0.1)	(0.3)	(4.6)	(3.6)	(9.2)	(13.4)	(15.7)	(13.9)	(24.7)	(23.9)
Long term borrowings		(0.1)	(0.3)	(4.1)	(3.1)	(6.6)	(10.8)	(13.1)	(13.1)	(23.9)	(23.9)
Other long term liabilities		0.0	0.0	(0.5)	(0.5)	(2.5)	(2.6)	(2.7)	(0.8)	(0.8)	(0.0)
Net Assets		2.7	4.1	1.2	1.1	8.9	12.0	32.4	56.3	65.3	75.6
<b>CASH FLOW</b>											
Operating Cash Flow		2.0	2.4	1.8	2.6	(0.5)	0.6	(0.8)	9.3	11.5	17.9
Net Interest		(0.0)	(0.0)	(0.1)	(0.3)	(0.3)	(0.4)	(0.5)	(0.7)	(0.9)	(0.8)
Tax		(0.3)	(0.2)	(0.9)	(0.6)	(0.5)	(0.8)	(0.8)	(0.8)	(1.2)	(3.0)
Capex		(0.5)	(0.2)	(0.1)	(0.2)	(0.1)	(0.4)	(0.7)	(1.1)	(2.2)	(2.4)
Acquisitions/disposals		(0.1)	(0.3)	(0.8)	(0.7)	(3.3)	(2.7)	(16.1)	(14.2)	(10.8)	(2.7)
Financing		0.0	0.0	(4.0)	0.0	4.7	0.2	15.8	19.0	0.0	0.0
Dividends		(0.8)	(0.7)	(0.8)	(0.8)	(0.5)	(1.1)	(1.5)	(1.9)	(2.3)	(2.4)
Net Cash Flow		0.4	0.9	(4.9)	0.1	(0.6)	(4.7)	(4.6)	9.6	(5.8)	6.7
Opening net debt/(cash)		0.6	0.3	(0.1)	5.3	5.8	7.6	13.6	19.5	11.2	13.9
HP finance leases initiated		(0.0)	(0.3)	(0.4)	(0.5)	(0.6)	(1.0)	(1.0)	(0.7)	0.0	0.0
Other		0.0	(0.2)	(0.1)	(0.1)	(0.5)	(0.2)	(0.4)	(0.6)	3.1	0.0
Closing net debt/(cash)		0.3	(0.1)	5.3	5.8	7.6	13.6	19.5	11.2	13.9	7.2
Closing net debt/(cash) - company definition*		(0.1)	(0.6)	4.6	5.0	6.3	12.1	18.4	9.4	12.1	5.4

Source: PTSG, Edison Investment Research. Note: PTSG was listed on AIM in February 2015; FY15 (and the FY14 comparative) were fully reported in April of that year and the prior year information shown above was taken from the company's IPO document. Company-defined net debt differs from the other net debt line shown as it excludes finance leases. Neither definition includes outstanding loan notes (Integral Cradles deferred consideration), which are non-interest bearing but are expected to flow out as cash in FY18 £1.9m and FY20 £0.8m (included in acquisitions/disposals).

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