Crestchic PLC

EQUITY Development

Spectacular H1 report leads to 4th upgrade this year

29 September 2022

Adj. PBT for the half-year to 30 June increased at a remarkable rate, exceeding FY21 levels. With Q3 to date performing ahead of expectations and two additional contracts secured, we have raised FY22 and FY23 estimates for the fourth time YTD. Focusing expansionary capex on loadbanks and targeting sectors with exciting growth prospects (such as data centres and renewable energy) has proven extremely fruitful. Evidence of that success is visible in the dividend pay out during H1, ahead of the total FY21 level.

We have used the average of our conservative DCF and peer group models to reach a fair value / share of 360p, representing a premium of 36% to the existing share price.

- The strong momentum across several of the Group's markets, not least data centres, marine and energy accelerated in H1 '22, aided by the deferral of several contracts from Q4 '21. Continuing revenues improved 35% yoy and by 56% sequentially on H2 '21. The improvement was across most regions, aided by the recovery in the number and size of projects, with higher utilisation levels helping gross margins. The latter also benefitted from the rising proportion of revenues emanating from hire services, which naturally demands a higher margin.
- With two significant contracts secured early in Q3, new records within the manufacturing order book and improving visibility in hire services, H2 '22 is set to deliver new revenue records and with it, further profitability. It is worth noting that H1 '22 profit exceeded the outcome for the whole of FY21. We feel confident enough to increase our estimates for the fourth time YTD: by an average of 26% across FY22 and FY23. Our dividend estimate for FY22 doubles to 4p.
- The disposal of the remainder of Tasman remains subject to regulatory approvals in the Middle East, with completion expected in early Q4

Share price still lagging upgrades

The strong momentum in trading, coupled with the improving visibility in each segment of the business, leads us to increase adj. EPS estimates by 26% for both FY22 and FY23, with expectations now more than doubled YTD.

Our fair value calculation, based on a combination of our DCF and peer group comparison models, increases to 360p / share, from 283p.

Key financials

Y/e Dec 31, £m	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	33.6	34.0	38.8	45.3	47.0
EBITDA	7.0	6.4	8.4	12.5	13.5
Adj. PBT	0.3	-0.2	3.0	9.0	10.0
Adj. EPS (p)	-0.8	-0.7	9.3	24.6	27.4
DPS (p)	0.0	0.0	1.0	4.0	5.0
Net Debt	-6.4	-5.4	-1.1	2.5	7.1
EV/EBITDA (x)	11.3	11.7	9.1	6.0	5.2
PER (x)	n/a	n/a	28.6	10.8	9.7
Yield (%)	0.0	0.0	0.4	1.5	1.9

Source: Company historics, ED estimates

Company Data

EPIC	LOAD
Price (last close)	266p
52 weeks Hi/Lo	300p/158p
Market cap	£75m
ED Fair Value / share	360p
Net debt (June '22)	£1.5m

Share Price, p

Source: ADVFN

Description

Crestchic is a specialist provider of electrical equipment used primarily to commission, test, and service within the global power reliability and power security markets.

The Group operates from 14 locations in 12 countries, including agents and distributors in California, China, UAE and Singapore.

The Group supplies utilities, data centres, energy companies, shipbuilding, construction and the public sector with loadbanks and transformers.

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Results breakdown

Interim results			
To 30 June, £m	**H1 '21A**	**H1 '22A**	**Change, yoy**
Hire	8.7	12.4	43.0%
Sales	7.1	8.9	25.0%
Continuing revenues	15.8	21.3	34.8%
CoS	-8.8	-10.8	22.1%
Gross profit	7.0	10.6	50.9%
Gross margin, %	44.3%	49.6%	
OpEx	-5.1	-6.3	21.7%
EBITDA	3.2	5.5	73.7%
EBIT	1.9	4.3	131.0%
EBIT margin, %	11.8%	20.3%	
Net interest	-0.3	-0.2	-31.2%
Adj. PBT	1.6	4.1	163.0%
Exceptional	-0.9	0.0	-89.3%
Reported PBT	0.6	4.1	522.7%
Taxation	-0.4	-0.8	109.7%
Tax, %	23.0%	18.4%	
Adj. PAT	1.2	3.4	179.0%
Adj. EPS (p)	3.5	11.9	241.0%
Dividend (p)	0.0	1.33	n/a
Net cash/(debt)	-2.7	-1.5	-44.0%
Net debt/EBITDA	0.8	0.3	-67.7%

Source: Company

The results for the six months to June were in-line with upwardly revised estimates. Revenues increased by 19.2% overall, albeit Crestchic delivered a marked 35.1% uplift yoy. More significantly, the improvement in revenues on a sequential (HoH) basis, was **a staggering 55.8% and all organic in nature.**

The removal of COVID-19 related restrictions across much of the globe played its part, particularly within hire services. Also, several contracts were delayed from late Q4 '21 into Q1 '22 boosting the sequential comparisons. Two rental depots opened during the period, one in Antwerp (from a transformer only site) and Texas. As such, hire revenues increased by a very impressive 42.5% yoy to £12.4m.

In Europe, demand within the data centre market remains buoyant in the key financial centres, with the energy sector benefitting from the combination of strong pricing and uncertainties in supply. The larger transformer rental operation in Antwerp has begun life as a solus operation strongly, aided by additions to the rental fleet. The increase in energy prices has led to a rise in the number of projects in the Middle East, while the Group commenced its first project within the datacentre market in Israel.

Recovery of the marine sector continues, highlighted by a growing number of rental projects in energy related platforms (FPSOs) in the APAC region. In North America, rental has temporarily plateaued due to supply delays for additional hire fleet. Although the new depot in Texas opened during the period, issues around sourcing datacentre specific loadbanks resulted in a slow start to trading. The supply of new hire equipment started to come through during Q3.

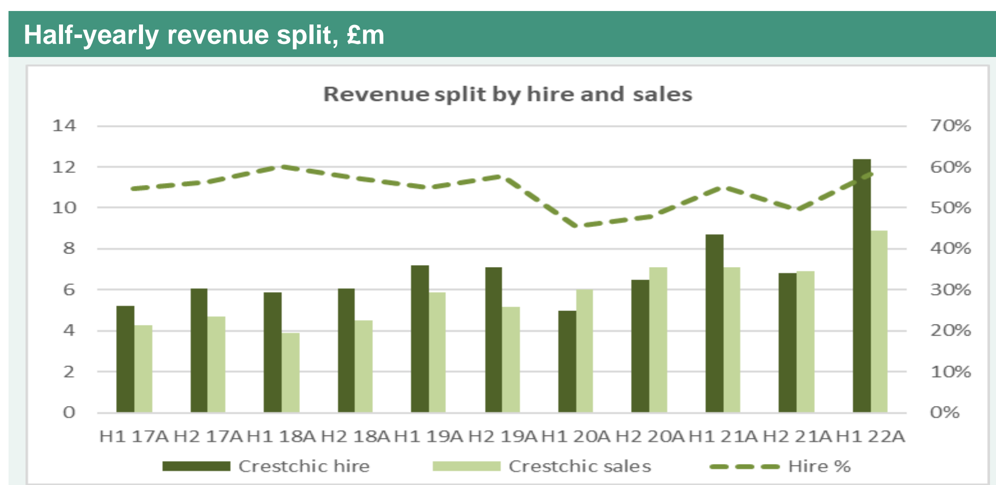
Several years of successive record manufacturing order books resulted in the production bottlenecks from H2 ’20, with capacity, including service revenues, limited to c.£14m per annum. Productivity improvements in H1 saw manufactured sales rising 25.4% yoy to £8.9m before the limiter of revenues was lifted in June by the completion of the factory extension (on time and on budget) on an adjacent site in Burton-on-Trent. The increased capacity, coupled with rising order books should result in a further increase to sales in H2.

Sales of loadbanks in Europe were strong into the loadbank sector, with specialised products (especially for the data centre market) commanding higher margins generally. Emerging applications for loadbanks in the energy transition market continue to be explored. Although the Group has not secured a rental project in Qatar (unlike in Russia), the general level of activity ahead of the FIFA World Cup remains encouraging for the sale and hire of loadbanks.

Improvement in the sale of equipment into the APAC region has continued and not just into the data centre market but also to peers within the rental sector. In the US the Group continues to sell equipment to several rental operators, highlighting the strong demand in the territory.

The £21.3m of revenues delivered by Crestchic amounts to a record six-month period for both hire services and manufacturing. H1 ’22 hire revenues exceeded its sales for the whole of FY20.

Half-yearly revenue split, £m



Source: Company

The division of revenues, heavily favouring hire (at 58.2%, and at the highest proportion of turnover since H1 ’18), has resulted in **an improvement in the gross margin mix**. The continuing (Crestchic) gross margin rose to 49.5% (H1 ’21: 44.3%), comprising hire margins of 60% (H1 ’21: 52%), with manufactured product revenues broadly unchanged yoy at 35%.

Gross margins also benefitted from:

- The increase in the number of projects, which have also increased in size generally. As project numbers increased utilisation levels also improved and transportation costs tend to be lower as a proportion of revenues, reflecting the duration of the contracts
- Bottlenecks in manufacturing capacity, at a time of rising order books requires greater planning, which resulted in productivity improvements
- One large contract in H1 ’21 was at lower margins, with subsequent wins at improved pricing levels
- Forward purchasing of inventory has not only improved availability but also avoided subsequent price increases
- Where necessary, output prices have increased, albeit at different levels across the range. Such increases have largely offset margin pressures from freight, components, and staff.

Costs, however, also increased as the Group strengthened its senior management team, invested in more sales resource, opened new hire depots in Antwerp and Texas, and ahead of the new manufacturing extension, new staff were hired and trained to ensure the new site started strongly. Costs increased 21.7% to £6.3m on a continuing basis with a combination of inflationary pressure within the supply chain and freight, as well as the higher activity levels.

The Group is **highly operationally leveraged** (as demonstrated by the chart within the Financials section), with EBIT rising 131.0% yoy to £4.3m and resulting in an improvement in margin to 20.2% (H1 '21: 11.8%). Internal return on investment (RoI) targets, pre-central costs, were implemented in 2021 and, following an improved performance, increased to 20% in H1 2022. In the rolling year to June '22, a RoI of greater than 25% was achieved.

Due to modest net debt, interest payable remained low which played a small part in H1 adj. PBT of £4.1m outstripping the result for FY21! Adjusted EPS increased 241% to 11.9p, the highest level since H1 '14. Earnings benefitted only modestly from the share buy-back programme which commenced in early Q2, with the level of purchases ahead of initial expectations.

Following a return to the dividend list in FY21, with a payment of 1p, the Board demonstrated its confidence in the outlook for the full year and beyond with the announcement to pay an interim dividend of 1.33p**. This dividend is covered almost nine times**, with a medium-term target of 4x cover. The progressive dividend is likely to be paid on a one-third, two-thirds basis on a H1/H2 split, suggesting an uplift in expectations to 4p for the full-year, from 2p previously.

Owing to several large payments during the period, the Group remained in a modest net debt position of £1.5m, up from £1.0m at the previous year end. Significant cash movements include;

- EBITDA of £5.5m
- Tasman disposal proceeds, amounting to the initial receipt of £2.7m, net of costs
- Working capital outflows of £3.7m, reflecting the rise in inventory levels to counter supply chain issues and to reflect the strong order book. Trade debtors increased largely because of the increased activity levels compared to a slower Q4 '21 and to reflect contract wins in the Middle East
- Expansionary capex of £1.8m relating to the hire fleet
- A further £1.8m expended on fixed assets, of which the largest portion was the factory extension at £1.5m
- FY21 dividend payment of £0.3m
- Commencement of share buy-back programme, with £1.9m spent during H1

Net assets improved from year end levels to £25.6m, largely reflecting the capex (factory and the hire fleet), plus higher working capital. As such, gearing amounted to a nominal level of 6%. The net debt/EBITDA ratio at the period end was just 0.3x. However, cash inflows from the unwinding of trade debtors resulted in net cash of £0.3m during Q3.

Following the completion of the disposal of the Australian and New Zealand portion of the Tasman oil tool division in February, the assets in the Far East were sold in April. Contracts have been agreed to sell the Middle Eastern segment of Tasman, with completion anticipated during early Q4 once local registrations are completed.

Looking forward

We have upwardly adjusted our FY22 and FY23 estimates for Crestchic for the fourth time YTD. Initially we expected adj. PBT of £4m for FY22, however, the strong momentum in the hire services business and the largely H2 uplift in manufactured sales (post the opening of the factory extension), have resulted in an increased adj. PBT expectation of £9m, representing a jump of 125% (albeit in four stages).

A key factor has been the opening of markets and economies to the movement of goods, previously closed during the COVID-19 related lockdowns. Higher energy prices have resulted in greater confidence in resource-based economies, leading to contracts being awarded.

For some time, the manufacturing capacity in Burton-on-Trent, including service revenues, was held at c.£14m per annum, jumping to just short of £9m in H1 22 following productivity gains in the existing manufacturing site. H2 22 will benefit from a full period of the additional capacity of the new factory, with FY23 likely to see further uplift as productivity improvements feed through, led by:

- A digitalisation of the manufacturing process
- Utilisation of 3-D design
- Use of technology to target zero defects
- Improvements to IT and related systems.

The operationally geared nature of the business is well known, particularly as the mix moves in favour of the higher margin hire services, resulting in gross margin expectations of c.52% in each of FY22 and FY23, with the level of GP feeding through to EBIT expected to rise through the 40% barrier to record levels in FY23.

With the Group cash positive from early Q3 '22, net interest is modest resulting in adj. PBT expectations of £10m in FY23.

Perhaps the most pleasing feature of the increased estimates (based on a one-third, two-thirds H1/H2 split) is the doubling of our FY22 dividend estimate to 4p, then rising to 5p in FY23. We should expect dividend cover to fall to 4x over the medium term.

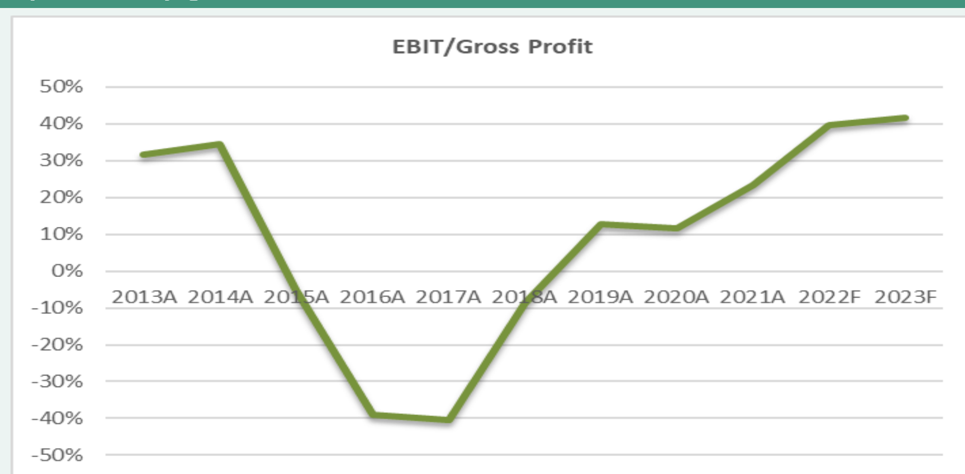
Although we have increased the contribution of Tasman at the top-line to £2.3m (from £2m previously), this reflects the delayed disposal of the Middle Eastern segment. We continue to expect Tasman to be break even at the EBIT level during FY22. The estimates for FY23 represent Crestchic only and therefore growth expectations are higher than stated, as FY22 included a modest contribution from Tasman.

Estimate changes

£m	Old FY22E	New FY22E	Change	Old FY23E	New FY23E	Change
Revenue	42.5	45.3	6.7%	44.2	47.0	6.3%
Gross profit	21.4	23.5	10.0%	22.5	24.5	8.8%
EBIT	7.5	9.3	24.1%	8.3	10.2	23.2%
Adj. PBT	7.2	9.0	25.1%	8.1	10.0	23.8%
Adj. EPS (p)	19.5	24.6	26.3%	21.8	27.4	25.8%
DPS (p)	2.0	4.0	99.4%	2.8	5.0	78.2%
Dividend cover (x)	9.8	6.2	-37.0%	7.8	5.5	-29.5%
Net cash/(debt)	2.0	2.5	24.1%	5.5	7.1	29.8%
Net debt/EBITDA	-0.2	-0.2	-0.4%	-0.5	-0.5	5.9%

Source: ED

Operationally geared



Source; Company/ED

Summary Profit & Loss

Year to 31 Dec, £m	2019A	2020A	2021A	2022E	2023E
Crestchic	25.4	24.6	29.5	43.0	47.0
Tasman Oil Tools	8.2	9.4	9.4	2.3	0.0
Revenue	33.60	33.98	38.81	45.34	47.00
CoGS	-17.8	-19.3	-20.9	-21.8	-22.5
Gross profit	15.8	14.7	17.9	23.5	24.5
Gross margin	47.0%	43.2%	46.2%	51.9%	52.1%
Op costs	13.6	13.4	13.7	14.2	14.3
Other operating income	-0.1	0.4	0.0	0.0	0.0
Associates/JVs	-0.8	-0.6	-0.4	0.0	0.0
Operating profit	1.2	1.1	3.8	9.3	10.2
Op margin (%)	3.5%	3.3%	9.9%	20.5%	21.8%
Net Interest	-0.9	-0.7	-0.5	-0.3	-0.2
PBT (Adjusted)	0.3	-0.2	3.0	9.0	10.0
Exceptionals	0.0	-7.8	-7.6	0.0	0.0
PBT (Reported)	0.3	-8.5	-4.7	9.0	10.0
Tax	-0.6	-0.1	-0.7	-1.7	-1.9
PAT	-0.2	-8.7	-5.3	7.2	8.1
Minority interests	0.0	0.0	0.0	0.0	0.0
Earnings	-0.2	-8.7	-5.3	7.3	8.1
Ordinary Dividends	0.0	0.0	-0.3	-1.1	-1.4
Retained Profit	-0.2	-8.7	-5.6	6.2	6.7
EPS (Adjusted) (p)	-0.8	-0.7	9.3	24.6	27.4
DPS (p)	0.0	0.0	1.0	4.0	5.0
Ave no of shares (FDil) (m)	28.2	28.2	28.5	29.6	29.6

Source: Company historics, Equity Development estimates

The strong cash flow (EBITDA) has been supplemented in FY22 by the proceeds from the disposal of Tasman. With capex likely to increase to £6.7m in the current year, including the factory extension and new equipment to supplement the hire fleet, the share buy-back programme and the uplift in working capital (albeit following a partial unwinding in H2 '22).

The Group should see a turnaround to net cash of £2.5m (£4m swing) during H2 and rising to c.£7.1m by the end of FY23. The level of net cash at the end of FY23 leads to several questions. One can safely assume that the cash will be utilised to provide a return in some manner, with additional capex, M&A or share buy-backs amongst the options available to the management team.

Summary Cash Flow

Year to 31 Dec, £m	2019A	2020A	2021A	2022E	2023E
Operating profit	1.2	1.1	3.8	9.3	10.2
Depn. & Amortn.	5.8	5.3	4.6	3.1	3.2
Working capital movement	0.6	0.2	-1.0	-2.0	-1.5
Other	0.0	0.0	-0.5	0.0	0.0
Operating cash flow	7.6	6.6	6.9	10.4	12.0
Net Interest	-0.9	-0.7	-0.5	-0.3	-0.2
Taxation	-0.6	-0.5	-0.5	-1.2	-1.8
Net capex	-2.2	-2.6	-0.8	-6.7	-5.0
Operating FCF	4.0	2.8	5.1	2.2	5.0
Net (Acquisitions)/Disposals	-0.1	0.0	0.0	4.2	0.9
Dividends	0.0	0.0	0.0	-0.7	-1.2
Share Issues	0.0	0.0	1.1	-2.2	0.0
Minority payment	-1.4	-0.3	0.0	0.0	0.0
Other financial	-0.3	-1.5	-1.9	0.0	0.0
Increase Cash/(Debt)	2.3	1.0	4.3	3.6	4.7
Opening Net Cash/(Debt)	-8.7	-6.4	-5.4	-1.1	2.5
Closing Net Cash/(Debt)	-6.4	-5.4	-1.1	2.5	7.1

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to 31 Dec, £m	2019A	2020A	2021A	2022E	2023E
Intangible Assets	11.6	4.5	4.3	4.3	4.3
Tangible Assets	25.6	24.5	12.1	15.7	17.5
Investments/other	0.9	1.0	2.8	2.8	2.8
Net Working Capital	5.8	5.2	2.8	4.8	6.3
Assets held for sale			4.7		
Capital Employed	43.9	35.1	26.8	27.6	30.8
Other	0.0	0.0	0.0	0.0	0.0
Net Cash/(Debt)	-6.4	-5.4	-1.1	2.5	7.1
Provisions Liabilities/Charges	-2.2	-2.0	-2.3	-2.3	-2.3
Net Assets	35.2	27.7	23.3	27.9	35.7

Source: Company historics, Equity Development estimates

Valuation

We have updated our discounted cash flow model for Crestchic using what we believe are conservative assumptions: a discount rate of 8.25%, a terminal growth rate of 2.5% and capex equating to depreciation.

The model suggests a value / share of 438p, 65.0% above the current share price.

Crestchic DCF calculation

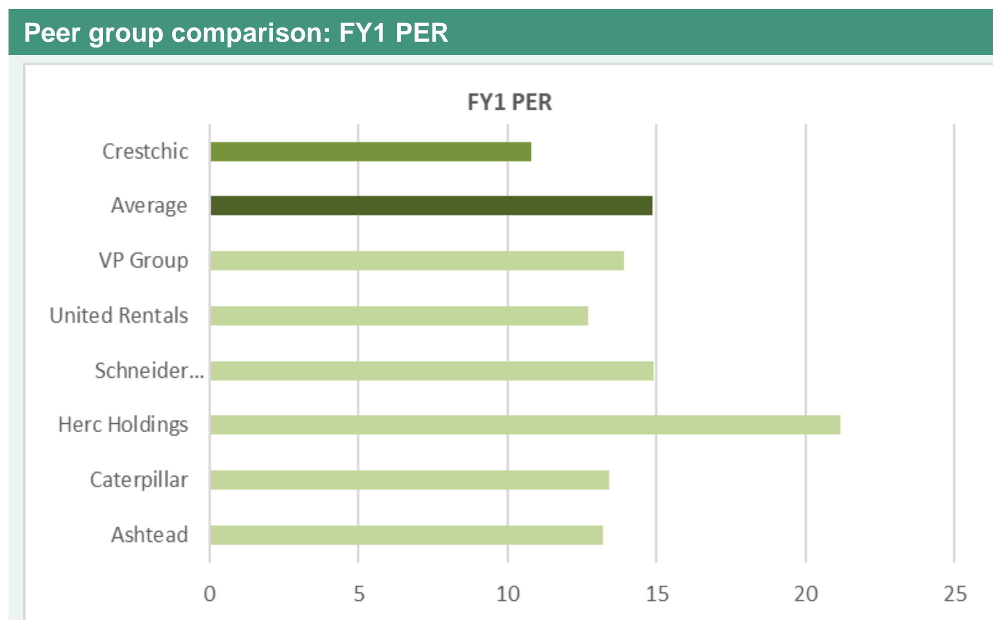
£m	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Free cash flow	6.1	6.9	7.1	7.3	7.5	7.7	7.8	8.0	8.2	8.5
WACC (%)	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
Timing factor	0.42	1.42	2.42	3.42	4.42	5.42	6.42	7.42	8.42	9.42
Discount rate	0.97	0.89	0.83	0.76	0.70	0.65	0.60	0.56	0.51	0.47
Present value	5.9	6.2	5.9	5.6	5.3	5.0	4.7	4.5	4.2	4.0
Sum of discounted cash flows	51.2									
Terminal growth rate (%)	2.50									
Terminal value	69.7									
Net debt	2.5									
Equity value	123.3									
No. of shares (m)	28.2									
Value per share, p	438.0									

Source: Equity Development

We can see from the charts below that Crestchic is trading at ratings below the average of its peer group. On a FY1 PER basis, the discount to the average of its peer group amounts to 27.6% (10.8x versus 14.9x), while on a FY1 EV/BITDA basis the gap amounts to 16.5% (6.1x compared to 7.3x). Crestchic's FY1 EV/sales multiple of 1.7x compares to the peer group average of 2.2x, or a discount of 22.9%.

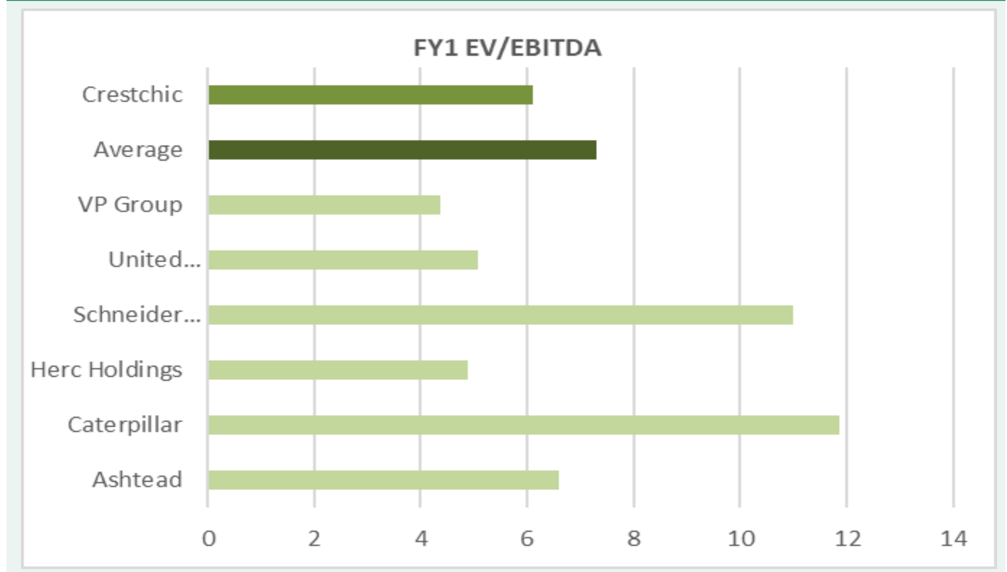
Similarly, Crestchic stands at a 19.9% FY0 price/book value multiple of 2.7x, versus 3.4x of its peers.

Peer group comparison: FY1 PER



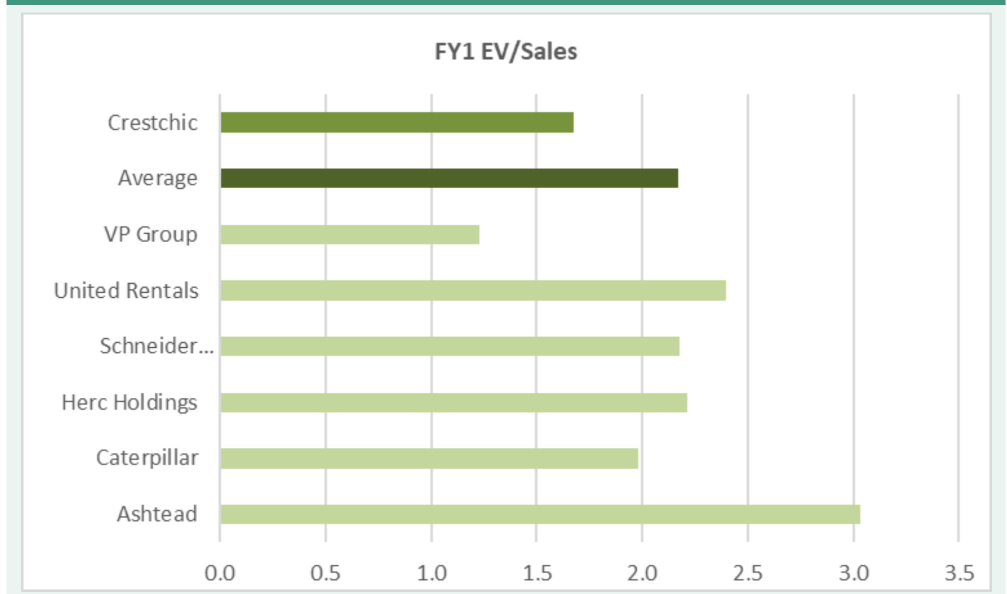
Source: Market Screener

Peer group comparison: FY1 EV/EBITDA



Source: Market Screener

Peer group comparison: FY1 EV/Sales



Source: Market Screener

Peer group comparison: FY0 Price/Book

Source: Market Screener

Fair Value

We have taken account of the comparative peer group valuations, as well as our DCF model to determine the average fair value of the Group in the table below.

This now stands at 360p per share, representing a 36% premium to the current price. We believe the strong momentum within the business, including the securing of the Group's largest ever contract, coupled with the marked uplift in the dividend gives confidence in the outlook.

We also note that Ashtead continues to be active in the loadbank industry, recently adding to its purchase earlier in the year of Comrent.

Average fair value / share (p)

	Fair value (p)
DCF	438.0
PER	366.6
EV/EBITDA	323.0
EV/Sales	345.9
Price/Book	327.9
Average	**360.3**

Source: ED, Market Screener

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