

FY trading update shows group on right track

29 October 2024

Diales has issued an update for the year to September, stating it traded broadly in line with consensus expectations. This is encouraging, suggesting profitability was largely unchanged in H2 and in turn, with higher EBIT margins. Staffing related issues in the US have continued, resulting in the decision to close the office. We think the Board's rapid response in dealing with this issue reflects the 'new' Diales which is a major encouragement. The delivery of the hub and spoke model is gathering pace and the group re-branding to Diales completed in July.

Net cash increased to £4.3m (H1 '24: £3.6m) and represents 26% of the NAV: this leaves the valuation of the operating business at a significant discount to its peers.

Revenues increased modestly yoy to £43m, suggesting a higher proportion fell during the seasonally weaker H2 (48% vs 43% in H2 '23), benefitting from a stronger Q3. Underlying EBIT is in line with expectations at 'not less than £1.1m', highlighting a modest improvement in margins during H2, in part reflecting the cost savings delivered during H1.

No breakdown of trading was published. However, our belief is that other than in North America, all other regions performed as expected, with utilisation levels continuing at high levels in the UK and Europe, driven by the new hub and spoke model. We also anticipate that the ME and APAC regions traded at broadly breakeven levels, representing a marked improvement yoy.

The staffing related problems which had an adverse effect on H1 productivity in North America continued into H2. As a result, the decision was taken to close its existing operations in the US, with discussions underway with local management with regards to existing commitments. We anticipate that this approach is likely to markedly reduce the cost of closure, which is expected to be completed during H1 '25. The division will fall under 'discontinued' in the FY24 report and accounts. Operations elsewhere in the Americas will continue to run from either Canada or Spain.

Cash continues to be returned to shareholders, with 71% of the minimum £0.25m buyback completed. Dividends continue at a premium to both the market average and its peers, with 1.5p / share, representing a 5.8% yield estimated for the full year. Organic growth through the hiring of experts, supplemented by the recruitment of teams continues to be the preferred method of utilising the cash (up to £0.75m). The pipeline of M&A opportunities remains strong. Our understanding is that headcount is broadly static yoy, suggesting an improvement in productivity.

Fair value unchanged

Cash levels improved during H2 to £4.3m (H1 '24: £3.6m) and represent 8p / share or 26% of the NAV. We demonstrate that the operating business is trading at a significant discount to its peers. With estimates broadly in-line, we reiterate our fair value/share assumption of 40p.

Company Data

EPIC	DIAL
Price (last close)	26p
52 weeks Hi/Lo	29p/20p
Market cap	£13.7m
ED Fair Value/share	40p
Net cash (at 30/09/24)	£4.3m

Share Price, p



Source: GoogleFinance

Description

Diales Plc (formerly Driver Group Plc) is involved in the provision of specialist dispute avoidance and dispute resolution services to the global construction and engineering industries.

Diales currently has 27 offices in 15 countries, including eight in the UK, six in Europe, two in the Americas, five in APAC, and six in the Middle East and Africa. The Group currently employs c. 186 fee earning employees.

The business is split into the following reporting regions: Europe and Americas (EuAm), The Middle East (ME) and APAC, operating on a hub and spoke model, with work sourced in the smaller regions serviced both locally and, in the UK and Europe.

Forecasts

Y/e 30 Sep, £m	2021A	2022A	2023A	2024F
Revenue	48.8	45.1	42.6	43.0
Adj. PBT	2.0	-0.5	1.1	1.2
Adj. EPS (p)	2.4	-1.8	1.4	1.6
DPS (p)	0.0	1.5	1.5	1.5
P/E (x)	10.8	n/a	18.6	16.7
EV/EBITDA (x)	2.3	11.3	4.2	4.5
Yield (%)	0.0%	5.8%	5.8%	5.8%

Source: ED estimates, Company historic data

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Valuation

We have constructed peer group comparison valuation models to determine a fair value of the Group's shares, utilising FY24 estimates. We consider the FY24 EV/EBITDA, PER, EV/Sales and dividend yield. While a size related discount is appropriate, the discount to its peer group is still too wide, in our opinion.

Two other factors support a fair value higher than the current share price:

- A sector leading yield, currently standing at 5.8% for FY24, compared to an average of 0.5%
- The NAV offers significant support for the existing share price. The expected FY24 NAV of 30p, represents a premium of just 12% to the last closing share price. One should bear in mind that 26% of the NAV is in cash.

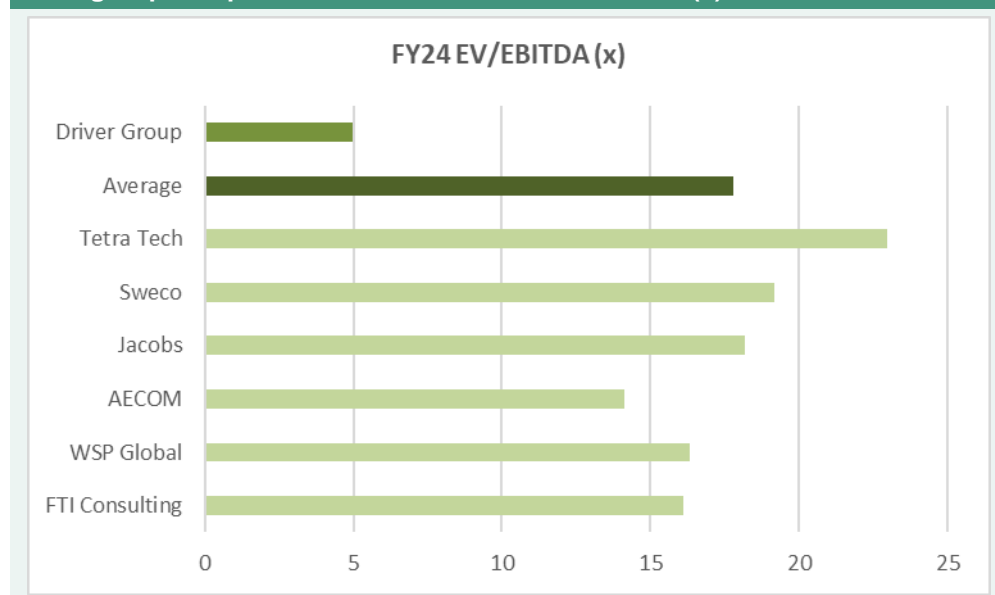
With no change to estimates we have maintained our fair value/share at 40p.

Net cash as a % of mkt cap & NAV

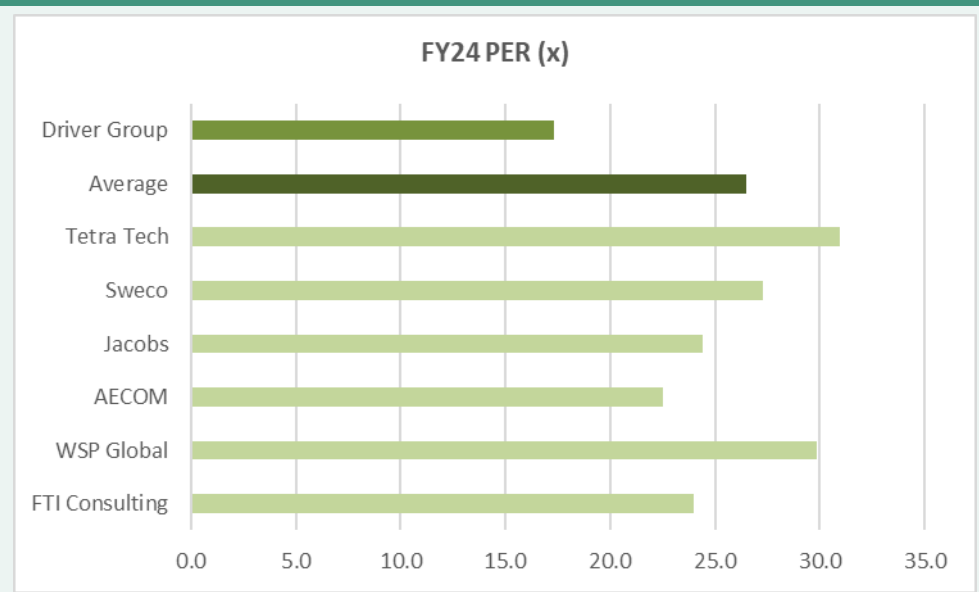
Y/e Sept, £m	FY23A	FY24F
Net cash	5.8	4.3
Net cash / share (p)	10.8	8.0
Cash as a % of market cap	41.6%	30.6%
NAV	16.0	16.3
NAV / share (p)	29.6	30.3
Net cash as a % of NAV	36.5%	26.3%

Source: Company

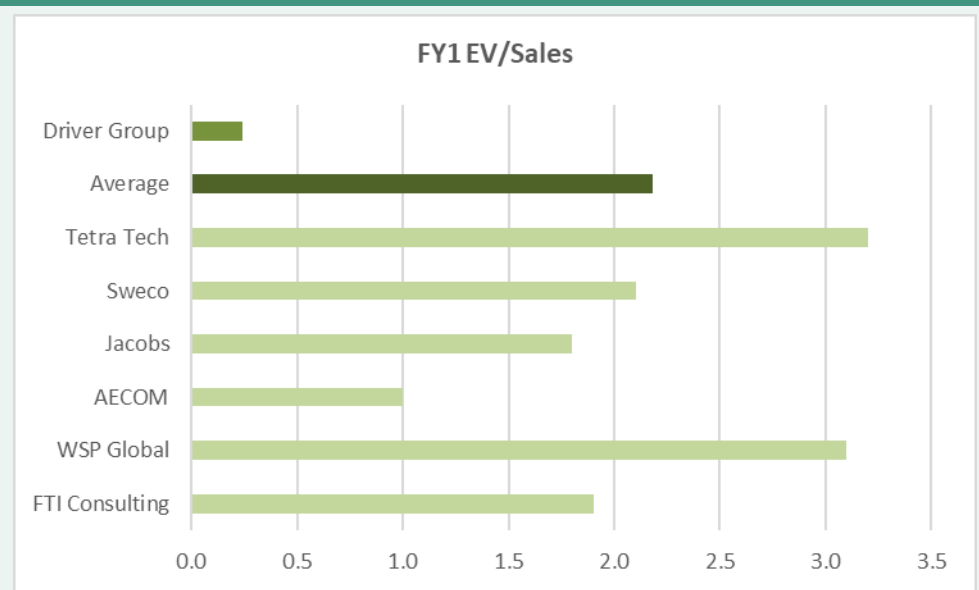
Peer group comparative valuation: FY24 EV/EBITDA (x)



Source: Koyfin, ED

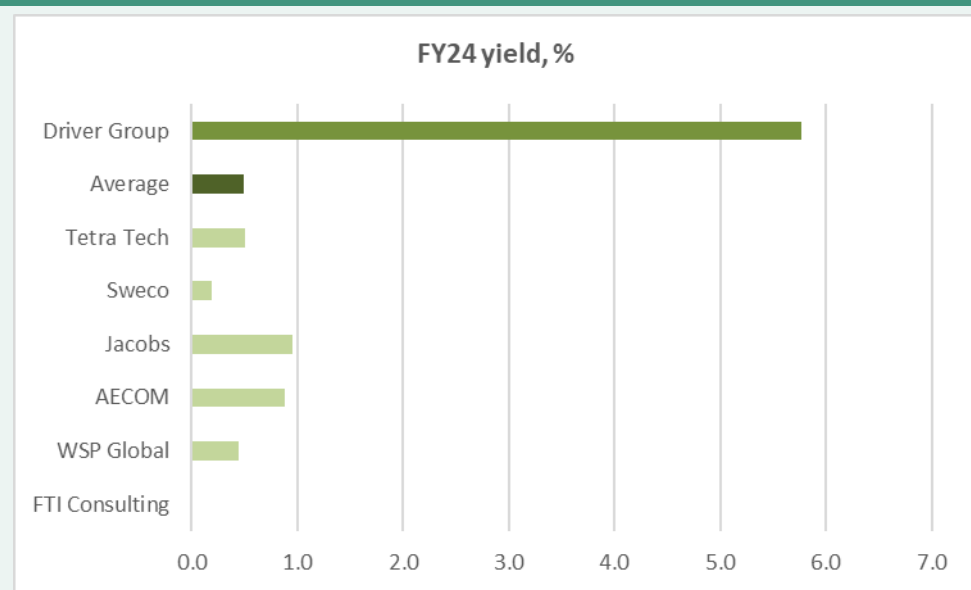
Peer group comparative valuation: FY24 PER (x)


Source: Koyfin, ED

Peer group comparative valuation: FY24 EV/Sales (x)


Source: Koyfin, ED

Peer group comparative valuation: FY24 Dividend yield (%)



Source: Koyfin, ED

Financials

Summary Profit & Loss					
Year to Sep, £m	2020A	2021A	2022A	2023A	2024F
Europe & Americas	31.0	33.7	35.1	35.6	36.0
Middle East	14.4	10.9	6.4	4.2	4.2
APAC	7.7	4.1	3.6	2.9	2.9
Revenue	53.1	48.8	45.1	42.6	43.0
CoGS	-39.9	-36.5	-35.8	-31.9	-32.0
Gross profit	13.1	12.2	9.3	10.8	10.9
Gross margin (%)	24.7%	25.1%	20.7%	25.3%	25.5%
Op costs	-10.6	-10.3	-9.8	-9.8	-10.0
Other Op. income	0.1	0.2	0.1	0.0	0.2
Operating profit	2.6	2.1	-0.4	1.0	1.1
Op margin (%)	4.9%	4.3%	-0.9%	2.3%	2.5%
Net Interest	-0.1	-0.1	-0.1	0.1	0.1
Associates	0.0	0.0	0.0	0.0	0.0
PBT (Adjusted)	2.5	2.0	-0.5	1.1	1.2
Exceptionals	-1.5	-0.1	-1.5	-0.6	0.0
PBT (Reported)	1.0	1.9	-2.0	0.4	1.2
Tax	-0.4	-0.7	-0.5	-0.3	-0.3
PAT	0.6	1.1	-2.4	0.1	0.8
Minority interests	0.0	0.0	0.0	0.0	0.0
Earnings	0.6	1.1	-2.4	0.1	0.8
Ordinary Dividends	0.0	0.0	-0.8	-0.8	-0.8
Retained Profit	0.6	1.1	-3.2	-0.7	0.0
EPS (Adjusted) (p)	4.0	2.4	-1.8	1.4	1.6
DPS (p)	0.8	0.0	1.5	1.5	1.5
Ave no of shares (FD) (m)	54.7	54.3	54.9	54.0	54.0

Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Sep, £m	2020A	2021A	2022A	2023A	2024F
Operating profit	2.6	2.1	-2.9	0.4	1.1
Depn. & Amortn.	1.4	1.2	1.2	0.9	0.8
Working capital movement	2.3	-2.3	2.7	1.5	-1.8
Other	0.0	0.0	0.0	-0.2	-0.2
Operating cash flow	6.3	1.0	1.0	2.6	0.0
Net Interest	-0.1	-0.1	-0.1	0.1	0.1
Taxation	-0.5	-0.8	-0.5	-0.2	-0.3
Net capex	-0.3	-0.5	-0.6	-0.1	-0.2
Operating FCF	5.3	-0.4	-0.2	2.3	-0.5
Net (Acquisitions)/Disposals	0.0	0.0	0.0	0.0	0.0
Dividends	-0.7	-0.4	-0.8	-0.8	-0.8
Share Issues	0.0	0.0	-0.5	0.0	-0.3
Minority payment	0.0	0.0	0.0	0.0	0.0
Other financial	-1.8	-1.0	0.0	-0.6	0.0
Increase Cash/(Debt)	2.8	-1.7	-1.5	0.9	-1.5
Opening Net Cash/(Debt)	5.4	8.2	6.5	4.9	5.8
Closing Net Cash/(Debt)	8.2	6.5	4.9	5.8	4.3

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to Sep, £m	2020A	2021A	2022A	2023A	2024F
Intangible Assets	3.2	3.5	3.8	3.7	3.6
Tangible Assets	0.5	0.4	0.4	0.4	0.3
Investments/other	2.1	2.1	1.6	1.4	1.3
Net Working Capital	7.4	9.8	6.5	5.5	6.8
Capital Employed	13.2	15.8	12.2	10.9	12.1
Other	-1.0	-1.0	-0.8	-0.8	-0.7
Net Cash/(Debt)	8.2	6.5	4.9	5.8	4.9
Provisions Liabilities/Charges	0.0	0.0	0.0	0.0	0.0
Net Assets	20.4	21.3	16.4	16.0	16.3

Source: Company historics, Equity Development estimates



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