

Hercules Site Services



10/10/2023

Recent newsflow points to strength in diversity

Hercules has recently released two positive contract announcements, highlighting continuing momentum at the beginning of the current financial year. It is encouraging to see new business wins for both of Hercules divisions (Labour Supply and Civils Projects) and across two different infrastructure sectors (Water and Rail). The Group also remains busy on HS2 Phase One (London to Birmingham) despite the recently announced cancellation of Phase 2.

As we wrote in our recent initiation note, we expect growth to be supported by a favourable outlook for infrastructure spending, a structural undersupply of skilled labour and Hercules' recent organic investment in technology and fleet expansion.

Five-year contract with Balfour Beatty Rail (9th October)

Hercules has been awarded a five-year contract to provide Balfour Beatty Rail with specialist labour for live track works. Hercules will be one of six suppliers supporting Balfour Beatty's contracts under CP7, Network Rail's five-year investment programme (running from 1st April 2024). Hercules has worked with Balfour Beatty for many years and the contract award again highlights the strength of this relationship. Live track work is a new area of activity for Hercules, which should open further opportunities for the Group in the rail sector.

Civils Projects contract news (20th September)

The Balfour Beatty contract followed a positive update from Hercules' Civils Projects division. The Civils division has been awarded contracts with a combined value of over £3.1m since 1st May to deliver critical work for two major clients (Thames Water and Anglian Water) on wastewater treatment and water management projects. Hercules has significant experience in this area and should benefit from increasing investment by the UK water companies in infrastructure over the coming years.

Hercules remains busy on HS2 Phase One (London to Birmingham)

As indicated within Hercules' Balfour Beatty Rail update, the Group remains busy on HS2 Phase One despite the recent government announcement on the future of Phase 2. Hercules' work on this project continues to build momentum with the Labour Supply division providing greater number of contractors to site (Hercules had operatives working on site during H1'23).

Key Financials & Valuation metrics						
Year-end Sept, £m	2020A	2021A	2022A	2023E	2024E	2025E
Sales	23.0	32.8	49.5	74.1	82.4	88.8
EBITDA	1.4	2.4	2.3	3.4	4.5	5.5
Adjusted PBT	1.0	1.4	0.7	0.2	1.0	2.0
FD Adj. EPS (p)	N/A	N/A	1.5	1.4	1.6	2.4
DPS (p)	N/A	N/A	1.7	1.7	1.8	1.8
Net Cash/(Debt)*	(4.0)	(9.2)	(18.2)	(25.6)	(24.8)	(23.0)
Net Cash/(Debt)**	1.7	(1.7)	(5.3)	(6.6)	(6.6)	(6.0)
Net Debt**/EBITDA	N/A	0.7x	2.4x	1.9x	1.5x	1.1x
P/E	N/A	N/A	16.7x	18.4x	15.2x	10.5x
EV/EBITDA	14.5x	10.5x	15.2x	12.2x	9.0x	7.1x
EV/Sales	0.9x	0.8x	0.7x	0.6x	0.5x	0.4x
Dividend yield	N/A	N/A	6.9%	6.9%	7.0%	7.2%
FCF yield	N/A	N/A	(37.9%)	(3.2%)	12.3%	18.5%

Source: ED analysis, all numbers IFRS 16 basis * including leases ** excluding leases

Company Data

EPIC	HERC.L
Price (last close)	25p
52 weeks Hi/Lo	73p/25p
Market cap	£16m
ED Fair Value / share	60p
Proforma net cash/(debt)	(£25.6m)
Avg. daily volume	32,000

Share Price, p



Source: ADVFN

Description

Hercules Site Services is a leading supplier of labour to the Construction industry in the UK. The business was founded in 2008 by CEO Brusk Korkmaz, and has achieved significant growth since then, reporting revenue of £49.5m in FY22.

The business floated on AIM in 2022 to provide access to capital to support the next stage in the Group's growth plans.

James Tetley (Analyst)

0207 065 2690
james.tetley@equitydevelopment.co.uk

Andy Edmond

0207 065 2691
andy@equitydevelopment.co.uk



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some, or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair, and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its Directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors, and employees, will not be liable for any loss or damage arising from any use of this document to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690