

Hercules Site Services



17th October 2023

Positive year-end update, ahead of expectations

A positive year-end update from Hercules confirms a strong conclusion to FY23, ahead of expectations. It has been another year of excellent organic revenue growth (+60% at Group level), with progress in all three divisions. This continues an impressive track record (average revenue growth over past three years >50%) and Hercules enters FY24 with momentum.

Strong trading update prompts forecast upgrades

Hercules expects both its revenue and adjusted EBITDA for FY23 to be ahead of market expectations. Revenue is expected to be > £80m, representing an upgrade of at least 8% to previous expectations. We assume a similar uplift to our EBITDA forecast (+8% to £3.7m) with the headline changes set out on page 2 of this note.

Divisional highlights – organic growth across the board

All three divisions have delivered organic revenue growth. The overall performance has again been driven by the core **Labour Supply** business, which benefited from the ramp-up of the multi-year HS2 Phase 1 contract (London to Birmingham). Activity on this contract continued to increase as the year progressed and there are now some 430 Hercules operatives on site. Post year-end, Hercules announced a new five year “live tracks” contract supplying labour to Balfour Beatty Rail Limited. In **Civils**, the Group is benefiting from increasing investment in the water sector, as illustrated by the £3.1m of contract awards announced on 20th September. Meanwhile, the **Suction Excavator** business continues to see solid utilisation rates, having expanded by 14 vehicles over the period to create one of the largest fleets in the country.

Positive outlook for sustained earnings growth

As we wrote in our initiation note (Click: [Driving growth through innovation](#)), 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. Today's update confirms continuing momentum.

In our view, the Group's strong growth trajectory and forecast free cash flow (double digit FCF yield) suggest significant value in the shares. Our Fair Value per share of 60p represents a 7.5% FCY yield on prudently positioned FY25 forecasts.

Key Financials & Valuation metrics						
Year-end Sept, £m	2020A	2021A	2022A	2023E	2024E	2025E
Sales	23.0	32.8	49.5	80.5	82.5	88.8
EBITDA	1.4	2.4	2.3	3.7	4.5	5.5
Adjusted PBT	1.0	1.4	0.7	0.5	1.0	2.0
FD Adj. EPS (p)	N/A	N/A	1.5	1.7	1.7	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	-25.4	-24.5	-22.7
Net Cash/(Debt)**	1.7	-1.7	-5.3	-6.4	-6.3	-5.7
Net Debt**/EBITDA	N/A	0.7x	2.4x	1.7x	1.4x	1.0x
P/E	N/A	N/A	16.7x	14.5x	15.0x	10.2x
EV/EBITDA	14.5x	10.5x	15.2x	11.2x	8.9x	7.0x
EV/Sales	0.9x	0.8x	0.7x	0.5x	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%	-1.7%	12.4%	18.8%

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)	(£25.4m)
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.

Next news: Full year results in mid-January 2024

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Positive update prompts forecast upgrades

Hercules expects both its revenue and adjusted EBITDA for FY'23 to be ahead of previous market expectations.

Revenue is expected to be over £80m, representing an increase of c.60% on the prior year end and an upgrade of at least 8% to our forecasts. We assume a similar uplift to our revised EBITDA forecast (+8% to £3.7m) with the headline changes set out in the table below.

Forecast changes – upgrades to FY23(E)									
Year-end Sept	2023(E)			2024(E)			2025(E)		
	Revised	Old	Change	Revised	Old	Change	Revised	Old	Change
Revenue £m	80.5	74.1	8.6%	82.5	82.4	0.0%	88.8	88.8	0.0%
EBITDA £m	3.7	3.4	7.8%	4.5	4.5	0.0%	5.5	5.5	0.0%
Adj. PBT £m	0.5	0.2	120.0%	1.0	1.0	0.0%	2.0	2.0	2.0%
EPS (f. dil) p	1.7	1.4	26.5%	1.7	1.6	1.4%	2.4	2.4	2.0%
DPS p	1.7	1.7	0.0%	1.8	1.8	0.0%	1.8	1.8	0.0%
Net cash/ (debt) £m	-25.4	-25.6	-0.9%	-24.5	-24.8	-0.9%	-22.7	-23.0	-1.2%

Source: Equity Development estimates

We prudently leave our FY24 and FY25 estimates unchanged at this stage, but note that Hercules enters the new financial year with momentum. Specific FY24 tailwinds include a full year of ownership of the enlarged suction excavator fleet (14 new vehicles added at the half way point of FY23), as well as recently announced contract successes within Civils and Labour Supply (Click for recent note: [Recent newsflow points to strength in diversity](#)).

Hercules acknowledges the current UK government's recent announcement about the future of HS2 but the decision has no impact on the Group's contracts on Phase 1 (London to Birmingham) and we see potential for a further increase in demand under this multi-year contract, where activity has not yet peaked (430 Hercules operatives currently on site compared to c.280 at the time of the FY22 results in January).

Looking ahead, their **Training Academy in Nuneaton** is planning a soft launch in November before its official opening early next year, providing a new revenue stream and another example of Hercules' willingness to innovate and respond to customer need in helping to address the well-publicised skills shortage in the construction industry.



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