Begbies Traynor

Positive Q3, forecasts on track

27 February 2023

BEG's positive third quarter update (to end January 2023) was another confirmation of the inherent resilience of a broad services offering which includes business recovery, financial advisory, and property services consultancy. The detail included continuing good levels of new insolvency work, particularly administrations, and market share appears to be building.

Business recovery continued 'to take an encouraging level of new insolvency appointments across all market segments' and included recent higher value cases, such as Paperchase's on-going administration. It also noted an ongoing recovery of mid-market cases and although these may still be below pre-pandemic levels, the trend bodes well for the FY23/24 outlook. A mid-market recovery would represent upside for our current forecasts as we have conservatively assumed that this input would remain relatively subdued.

Trading update: resilient revenue streams

The overview is encouraging. Business recovery & financial advisory trade in line with expectations as this division works through a good pipeline of engagements. Property advisory & transactional services division is also performing well and in line with expectations. It is supported by resilient income streams and a continuing flow of new instructions.

The outlook for the current year is unchanged. We have consistently predicated our view of the group's key investment attractions primarily on the breadth of the services it offers. As the market leader by UK insolvency volumes this represents a significant potential source of further growth, and the data is supportive. BEG has a strong mid-market position and a proven ability to attract a good balance of cases across the market.

Recent UK Insolvency Services data tracks growth in the market overall and we have set out some of that overleaf. We note that numbers flattened out somewhat over the last couple of months and administrations remain below historic levels. That broadly matches our view and the assumptions for our forecasts, which anticipated a long haul rather than a rapid recovery.

Recent Insolvency Services updates did however refer to more activity by HMRC and as a key creditor, its more proactive approach could have a marked impact.

Valuation remains undemanding

BEG's Q3 financial performance was in line with the first half and the outlook is unchanged. The statement expressed confidence regarding delivery of full year market expectations and on that basis, we have maintained our full year forecasts.

Our existing 175p/share fair value is fully underpinned by the outlook for organic growth. We expect the group to continue to capitalise on recent deals and actively seek further opportunities.

Summary forecasts

Year end 30 April	2020A	2021A	2022A	2023E
Revenue (£m)	70.5	83.7	110.0	117.7
Adjusted PBT £m)	9.2	11.5	17.8	19.7
Adjusted EPS (p)	5.7	6.9	9.1	10.0
Dividend per share (p)	2.8	3.0	3.5	3.7
Yield on distribution	2.1%	2.3%	2.7%	2.8%

Source: Group report & accounts and ED estimates

Company Data

EPIC	BEG
Price (last close)	132p
52 weeks Hi/Lo	98p/152p
Market cap	£196m
ED Fair Value/share	175p

Share Price, p

Source: ADVFN

Description

Begbies Traynor (BEG) is a leading UK business recovery, financial advisory and property services consultant. It handles the largest number of corporate appointments in the UK, and principally serves the mid-market and smaller companies.

The group's other services include corporate finance, valuation and sale of properties, businesses and other assets, and property consultancy, planning and management.

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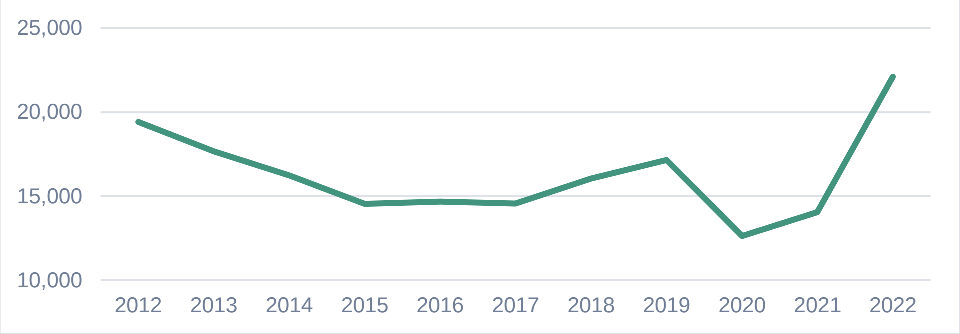
UK insolvency data

As market leader by volume insolvency work is a significant driver of group results. The trends are positive. According to UK Insolvency Service data, registered company insolvencies (for England and Wales) in 2022 were at their highest since 2009. These were driven by historically high numbers of company voluntary liquidations and an increase in compulsory liquidations.

Total Registered Company Insolvencies, England & Wales, 2012-2022



Source: Insolvency Service Official Statistics

The detail for the final three months of 2022 included:

- In 2022, 49.5 per 10,000 active companies entered insolvent liquidation. That's above both the figure for 2021 (32.9 per 10,000) and pre COVID-19 pandemic number (41.9 per 10,000).
- The liquidation rate last year was at its highest level since Q3 2015

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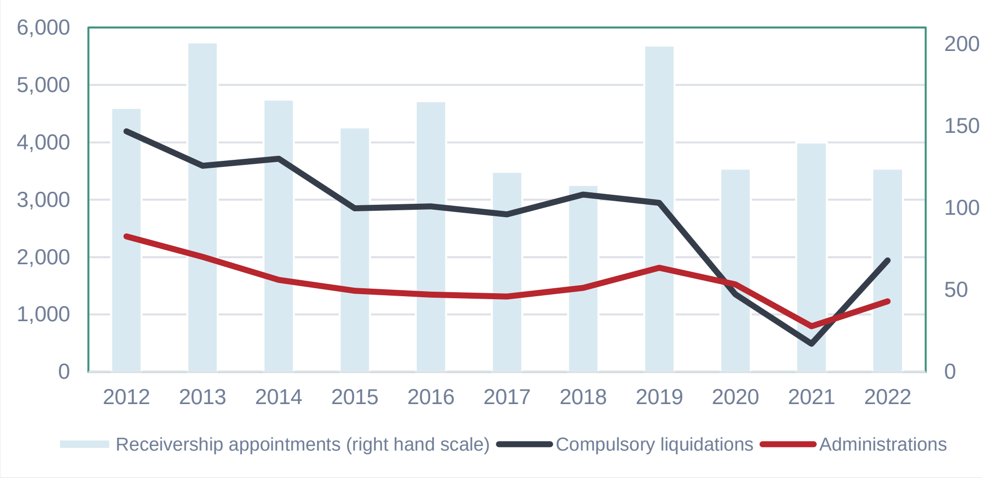

Source: Insolvency Service Official Statistics

- There were 22,109 registered company insolvencies. That's the highest since 2009 and 57% above 2021. This was driven by the highest recorded number of annual Creditors' Voluntary Liquidations (CVLs). The figure was c. 21% higher than if the pre-pandemic trend had continued.
- Annual compulsory liquidations were above the record low recorded in 2021 but remained below pre-pandemic levels. Similarly, administrations were above and CVAs similar to 2021, both were lower than pre-pandemic levels.
- Most industries recorded increases in insolvencies from 2021 to 2022.

The January 2023 update recorded a y-o-y increase in registered company insolvencies, driven by higher numbers of CVLs and compulsory liquidations.

- There were 1,671 registered company insolvencies in January 2023, 7% above January 2022 and 11% ahead of three years previously (pre-pandemic: 1,502 in January 2020).
- The figure for CVLs (1,382) was 2% higher y-o-y and 37% above January 2020. Volumes of administrations and CVAs were both below pre-pandemic levels but higher than January 2022.
- Compulsory liquidations (189) were 52% above January 2022, but 36% below January 2020. **That increase in compulsory liquidations from their historical lows seen during the COVID-19 pandemic in part reflects an increase in winding-up petitions presented by HMRC.**

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