

Market trends support outlook for year ahead

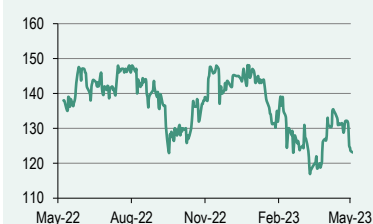
2 June 2023

This update adds FY24e forecasts which incorporate (a) full contributions from recent property services and financial advisory acquisitions, (b) relatively cautious views at this early stage of underlying FY24 organic growth (i.e. below prior years) and (c) an ongoing pick-up in UK insolvency volumes. We haven't assumed any particularly material increase in the latter. Our projections reflect potential from BEG's increasingly diversified and competitively positioned businesses.

Company Data

EPIC	BEG
Price (last close)	122p
52 weeks Hi/Lo	150p/116p
Market cap	£189m
ED Fair Value / share	175p
Avg. daily volume	309k

Share Price, p



Source: ADVFN

Description

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

Its other services include corporate finance, valuation and sale of properties, businesses and other assets, and property consultancy, planning and management.

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Summary forecasts

Year end 30 April	2020A	2021A	2022A	2023E	2024E
Revenue (£m)	70.5	83.7	110.0	122.0	129.0
Adjusted PBT (£m)	9.2	11.5	17.8	20.7	22.0
Adjusted EPS (p)	5.7	6.9	9.1	10.5	10.8
Dividend per share (p)	2.8	3.0	3.5	3.7	3.8
Yield on distribution	2.3%	2.5%	2.9%	3.0%	3.1%

Source: Group report & accounts and ED estimates

Momentum expected to build in second half of calendar 2023

To recap, the recent year-end trading update anticipated 11% growth in FY23e revenues and 6% organic growth in business recovery operations. As covered in our recent report '[Update shows FY23 well ahead of forecasts](#)' BEG has commented that it expects corporate distress caused by inflation and rising interest rates to spread from smaller to larger UK companies. The rise in insolvencies (liquidations above pre-pandemic levels) has so far been characterised by smaller businesses. Its view is that administration levels, typically involving bigger companies, are likely to pass the same threshold towards the end of 2023.

- There were 5,747 company insolvencies (seasonal adjusted) in Q1 this year, 18% up y-o-y, although that was 4% below Q4 2022.
- Administrations were 16% up y-o-y at 318 in Q1, 12% below Q4 2022.

Despite any period-to-period fluctuations BEG expect its operations to be busy over the next few years. It sees current insolvency volumes as a reflection of the delayed impact on company finances of the pandemic, Brexit, inflation, and higher interest rates. If the most exposed industry is construction, it also sees hospitality and retail as vulnerable to the impact of inflation on costs and declining consumer spending. Appointments this year include Paperchase, Covid-19 test provider Circular 1 Health, fair trade organisation Traidcraft, and cashless payment provider Tappit Technologies.

Valuation summary

Our forecasts don't include any further earnings enhancing acquisitions but BEG has a strategy to continue to build scale and add complementary services to its business complement. It has cash and undrawn facilities available to finance both organic and acquisitive investment.

The trading update included a confident growth outlook. That more than underpins our retained 175p/share fair value estimate, which is equivalent to 16x FY24e EPS.

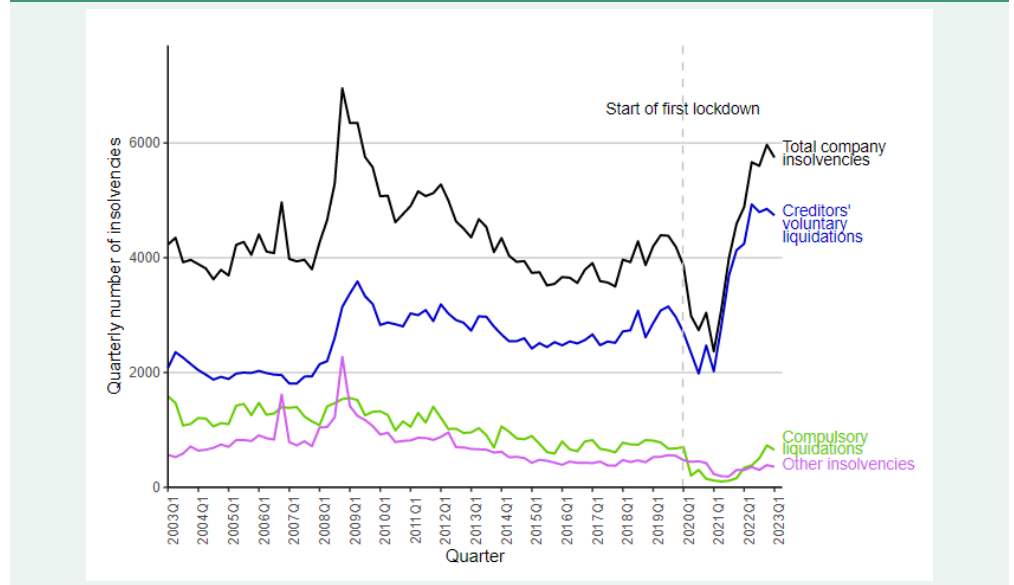
Insolvency volumes show improving underlying trend

Although insolvency volumes are subject to month-to-month volatility, quarterly and annual data reveal firmer evidence of an underlying trend. Total company insolvencies for the 12 months to end March 2023 were 38% ahead of the comparable period, administrations were 44% ahead.

By comparison, there were 1,685 registered company insolvencies in April 2023 (England & Wales), 15% below the figure for April 2022 (1,988), but above both pre-pandemic levels and those when UK government COVID-19 support measures were in place.

Compulsory liquidations numbered 183, near twice April 2022. The pandemic saw historical lows and that increase is partly due to an increase in winding-up petitions presented by HMRC. There were 1,368 Creditors' Voluntary Liquidations in April 2023, 23% down y-o-y. Administrations and Company Voluntary Arrangements were above April 2022. The seasonally adjusted quarterly figures are presented in below and show the underlying trend.

Company insolvencies decreased slightly in Q1 2023, but remained close to the highest level since 2009 (England & Wales, seasonally adjusted)



Source: Insolvency Service (compulsory liquidations only); Companies House (all other insolvency procedures)



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