Northbridge Industrial Services

11 March 2022

Capital Markets Event maps out exciting future

Northbridge has set out its detailed plans for expanding the Crestchic business: investment in new rental hubs, widening the geographical and sector reach, focus on the fastest growing and non-cyclical sectors, the opening of the new factory, and growth in parts and service revenues. The investment required will be funded from their existing facility with limited debt on the balance sheet. We think the outlook looks very promising, as highlighted by the return of dividend payments for FY21.

The decision to focus on Crestchic was conveyed to investors approximately a year ago and followed the start of a Board reorganisation. The balance sheet was restructured and the decision to extend the Group's manufacturing facility taken. Throughout the changes, Crestchic performed strongly, aided by strong growth in both manufactured sales and significantly higher margin hire revenues. Although raw material and freight costs continued to be issues, the return on investment (RoI) increased to levels last witnessed in 2019, pre-pandemic.

This year has seen the bulk of Tasman sold, with just the assets in the Middle East left for now. The balance sheet remains healthy: year-end net debt amounted to just £1m, initial disposal proceeds since received, and only remaining capex on the new factory is due. A return to dividend payments has been announced, highlighting Board confidence and a positive trading report. A share buy-back programme was announced (up to £0.823m, recently completed) covering future LTIP requirements.

The Capital Markets Event set out the opportunities to expand the Crestchic business. These range from a widening of the geographical (new depots in existing and additional countries) and sector reach (the Middle East is currently focused on the oil & gas sector and APAC on the marine sector); an increased focus on the non-cyclical growth sectors of data centres and energy transition on a global basis; removal of the capacity bottleneck on the new manufacturing facility (live from mid-Q2); growth in parts and service revenues (40-year old installed base of Crestchic loadbanks); EV charging stations, and regulatory drivers (requiring the replacement of older, higher emission gensets).

Positive outlook maintained

The presentation reinforced our long-held view that the outlook for Crestchic is an exciting one and our current forecasts are detailed in the recent note *"A flurry of good news – 21 Feb 2022"*.

Anyone wishing to view the Capital Markets Event will be able to see the presentational slides and a recording on the Northbridge website here .

Summary financials

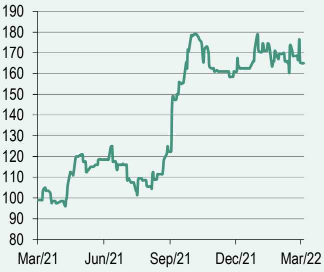
Y/e Dec 31, £m	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	26.9	33.6	34.0	38.8	34.3
EBITDA	4.6	7.0	6.4	8.3	8.3
Adj. PBT	-2.0	0.3	0.4	3.0	4.0
Adj. EPS (p)	-5.9	-0.8	-0.7	8.7	11.0
DPS (p)	0.0	0.0	0.0	1.0	1.5
Net Debt	-8.7	-6.4	-5.4	-1.0	2.2
EV/EBITDA (x)	11.7	7.2	7.4	5.6	5.7
PER (x)	n/a	n/a	n/a	19.1	15.1
Yield (%)	0.0	0.0	0.0	0.6	0.9

Source: Company historics, ED estimates

Company Data

EPIC	NBI
Price (last close)	166p
52 weeks Hi/Lo	181p/96p
Market cap	£48.1m
ED Fair Value/share	189p
Net debt (Dec '21)	£1.0m

Share Price, p



Source: ADVFN

Description

Northbridge Industrial Services (Northbridge) has announced its intention to change its name to **Crestchic Plc** following the disposal of most of the Tasman drilling tools business.

Crestchic Loadbanks is a specialist provider of electrical equipment used primarily to commission, test, and service within the global power reliability and power security markets.

David O'Brien (Analyst)
0207 065 2690
david@equitydevelopment.co.uk

Andy Edmond
0207 065 2691
andy@equitydevelopment.co.uk

FY21 – an eventful year

FY21 was a significant year for the Group, in which the seeds of the change in strategy were sown. The key events during the year were:

- **Board reorganisation**
- **Exit of Tasman commenced**
- **Return to profitability**
- **Delivering a RoI similar to pre-pandemic levels at Crestchic**
- **Restructuring of the balance sheet**
- **Expansion of the manufacturing facility**
- **Enhancing the Group's ESG credentials**

In addition to the strengthening of the Board, several senior new faces have been added to operational management, not least Steve Bacon (US Business Development Manager), Wodan de Quick (European Retail Director) and Jonathan Storer (Technical Director). Paul Brickman, the Group's Commercial Director, remains a key member of the Operating Executive team.

The preliminary results will be released in April. However, the most recent trading update confirmed that overall revenues at Crestchic had increased to £29.4m, representing **an increase of 19.5% yoy** and a **three-year CAGR of 13.0%.** Impressive growth, particularly at a time when the Group's manufacturing operation in Burton-on-Trent has been operating at full capacity and evidenced by loadbank sales being flat over the last 18 months (based on reported revenues).

Growth, therefore, emanated from **the hire services portion** of Crestchic, rising by approximately a third yoy, albeit the pandemic impacted the comparative results. The three-year CAGR in hire revenues amounts to 6.8% in reaching £15.2m, representing 52% of Crestchic revenues and markedly higher gross margins.

Notwithstanding the ongoing pressure from raw materials, the supply chain, higher payroll and freight costs, Northbridge met our upwardly revised adj. PBT expectations of £3m in FY21, representing a significant turnaround from previous years when high losses from Tasman offset positive outcomes at Crestchic.

Arguably, the most favourable outcome from FY21 was the decision to return to paying dividends. The development should not come as too much of a surprise, given the positive effect for the year in profit terms, strong cash flow and the initial proceeds received from the disposal of most of Tasman. The decision also points with confidence to the future, with the investment in Crestchic set to result in solid returns over the medium term, with positive trends in its markets. The latter include:

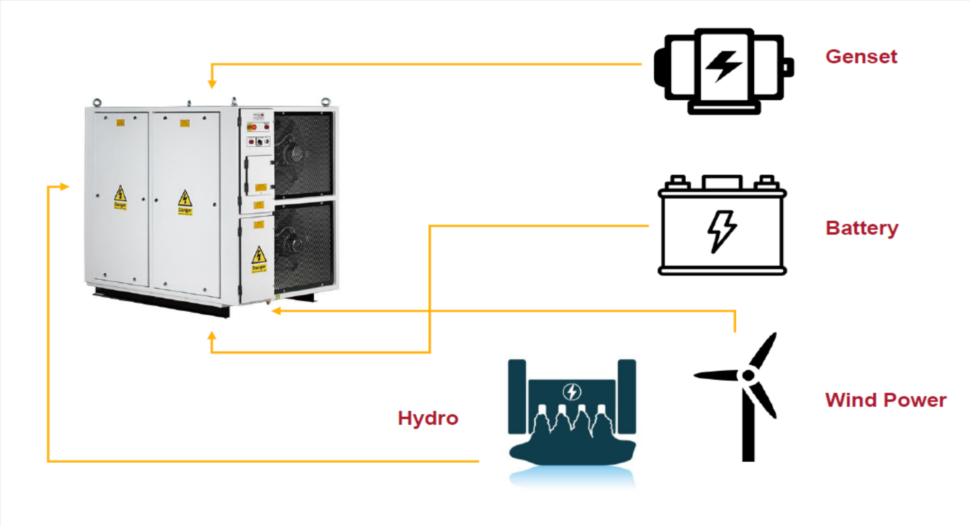
- A return of sizeable projects, signifying returning confidence in areas which have been relatively quiet in recent years (such as Marine)
- Strong growth in the data centre market, increasingly on a global basis
- The rising adoption of renewable energy sources within power generation/grid infrastructure
- Rising commodity prices, likely to boost the extractive/mining industry

A key Group metric RoI (return on investment) improved to 20%+ in FY21 within Crestchic, following a pandemic-related blip in FY20 (15%) and from 22% in FY19. The Group's target is for the measure to amount to 20%+ on a trading basis, and 15%+ when taking account of PLC costs. The Group's cost of capital is currently 12%.

The loadbank market

Investors familiar with research on Northbridge will not require any description of a loadbank. However, for the uninitiated, a loadbank is a device designed to provide electrical loads for testing power sources such as generators and uninterruptible power supplies (UPS) for electrical output and stability. Usage is:

Energy transition (gensets/UPS in other sectors)



Source: Company

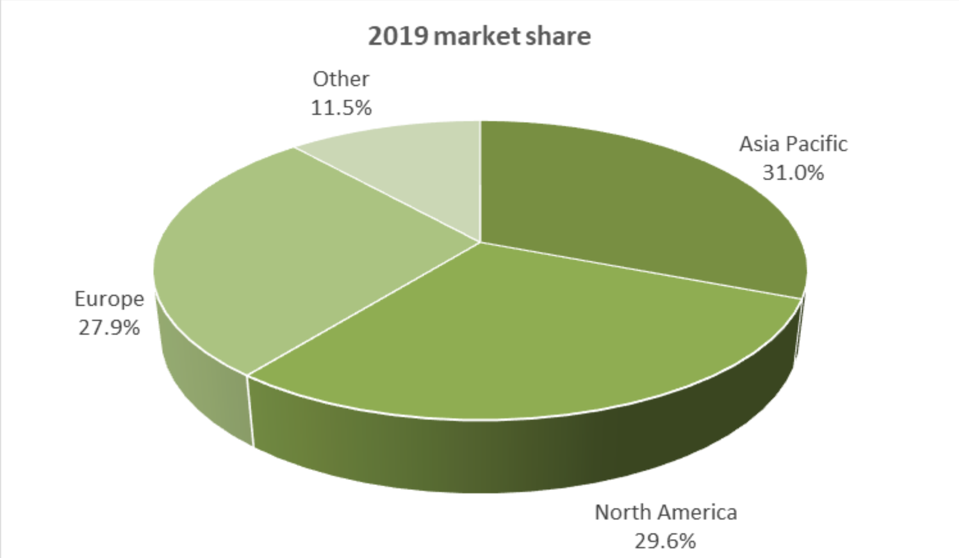
Datacentre applications

Source: Company

The global loadbank market amounts to c.£330m in scale and is growing at 5% (*source: Company estimates*) of which Crestchic accounted for a c.9% share in FY21 (on global revenues of £29.4m). Numbers one and two in the overall market are ASCO Power Systems (Schneider Group) with c.35%, and Simplex (c.11%). Note that Crestchic is unique in offering outright sales and hiring in-house.

Although slightly outdated, the last reported geographical split of the global loadbank market was in 2019. The data suggests that there isn't a massive difference in the size of the three largest regions, with the remainder accounting for 11.5% of the sector's net worth. The largest single loadbank market is Asia Pacific, followed by North America, and then Europe:

Geographical split of the global loadbank market



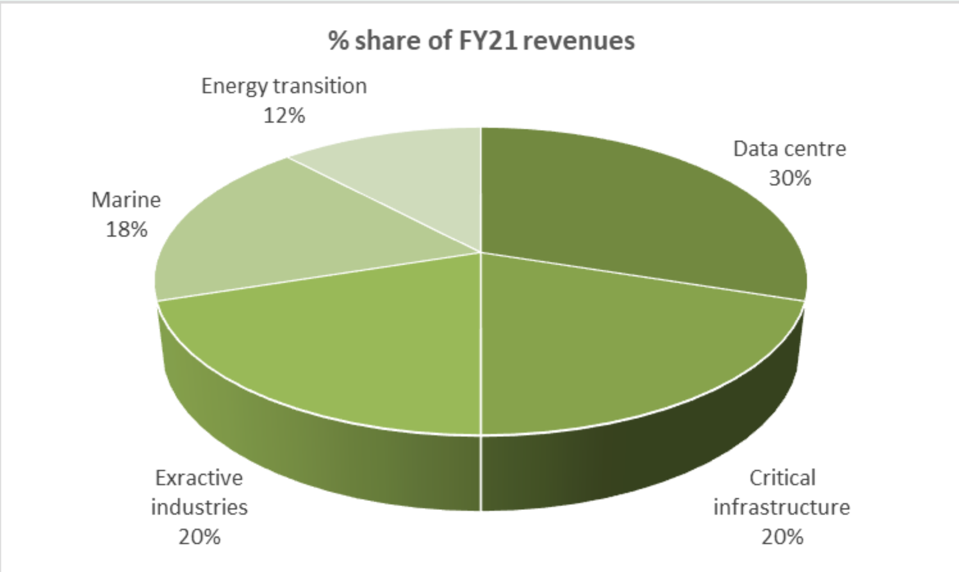
Source: 360 Research Reports

Five key sectors

The loadbank market may be further categorised into five sectors:

- **Critical infrastructure**
- **Marine**
- **Extractive industries**
- **Data centres**
- **Energy transition** (renewables and grid stability)

Split of Crestchic loadbank sales by sector



Source: Company

The two segments which have been demonstrating the most substantial growth trajectory in recent years are:

- **Data centres**
- **Energy transition**

The **data centre** market is responsible for approximately 30% of revenues at Crestchic. Typically, data centres are business-critical operations, with the data stored essential for day-to-day operations. With online services, a relatively new phenomenon, the combination of the growth in data produced and the penetration into additional countries will drive the development of data centres. Testing covers two areas, standby power, such as gensets, UPS or battery storage testing, and heat-load, to ensure that the air conditioning systems are fully operational.

In recent years **energy transition** has been a key driver of revenues, as new power sources are connected to existing grids. The power sources, such as wind, solar, hydro, battery storage and hydrogen, are inherently unreliable, requiring standby power generators to prevent power cuts. Hydrogen-powered gensets are likely to be subject to similar, if not more frequent testing than their diesel and gas generator counterparts. Significantly, expenditure on renewable energy sources continues to rise at a markedly faster pace than fossil fuel generating capacity.

Critical infrastructure includes hospitals, defence establishments, process industries, nuclear, water, finance, communications, and government. Power outages can have dire consequences, for example, should the standby power systems fail to kick in during an operation. Testing with loadbanks as part of a maintenance programme is essential and when parts of the electrical systems are replaced.

Extractive industries such as mining and oil & gas are important areas for loadbank testing. Mining is generally off-grid in relatively remote locations. The commissioning of gensets used within a mine complex requires testing, ensuring they can operate effectively following transportation and under actual site conditions. Load testing reduces the risk of wet stacking, where the engine's performance is compromised by unburnt fuel, lubricating oils, and condensation due to not running the genset at full load. Testing also ensures that the standby generators operate as required in a power failure.

Similarly, oil platforms in offshore use are isolated and off-grid, therefore requiring a power source. Loadbank testing can prevent the replacement of gensets in situ in often hazardous seas and thus avoid lost production revenues.

Both areas of the extractive industries tend to be cyclical, with activity higher following rising commodity prices as additional capacity is commissioned.

The **Marine** segment comprises shipbuilding, RMO purposes within a shipyard and power infrastructure within a container port. The top three shipbuilding nations by gross tonnage are in Asia (China, South Korea, and Japan), followed by the US. The growing environmental agenda is increasingly restricting emission levels of new vessels and potentially resulting in the replacement of older ships.

Many vessels built currently are all-electric, with a single power network supplied by a primary engine source (banks of diesel generators or gas turbines). The power system enables a combination of propulsion, light, heat, air conditioning, refrigeration, and weapons systems in military ships. Each part of the system requires different loads. A loadbank can simulate and test such systems, ensuring that the vessel is ready for launch.

Power infrastructure within container ports cannot always grow in line with power requirements. The solution tends to be temporary power to secure additional crane power. The gensets require load testing ahead of utilisation to reduce damage while a crane is in operation.

The marine sector tends to be more cyclical, with large projects (resulting in a 'lumpy' revenue stream) reflecting long construction lead times. In times of lower activity levels (low shipping rates/overcapacity), demand for loadbanks tends to be generated by military vessels and cruise liners.

Crestchic's depot network has gaps

Crestchic operates from **14 locations** and **12 countries**, including agents and distributors in California (Hawthorne CAT), China, UAE, and Singapore. In the US, the Group also utilises introduction intermediaries for manufactured sales instead of the hire of loadbanks.

Although the network has good coverage of the global market, as shown in the chart below, its reach is sometimes limited by geography or sector, so this provides numerous opportunities for Crestchic moving forward.

Crestchic geographic spread of depots/agents

Source: Company

The focus on Crestchic opens further opportunities

In recent years, Tasman demanded both investment in the hire fleet as the division extended its geographical reach ahead of pre-pandemic recovery and, more latterly, much management time to fight fires and keep it on an even keel. With the division largely jettisoned, **the focus is solely on Crestchic**, which should successfully generate above-trend growth over the medium to long term.

While the core focus continues to be on the market's data centre and energy transition segments, there is much to do to fulfil the Group's undoubted potential. **The US data centre market is expected to grow at a CAGR of 8.6% between 2021 and 2026 to US$8.4bn** (*source: Company estimates*). Given the rapid growth in commercial and mobile data alone in developing economies, we anticipate that pressure will mount for further development of data centres outside of North America/Europe.

Despite additions to renewable power capacity outstripping fossil fuels growth globally in recent years, there is still some way to go before it is the dominant source of energy in North America/Europe, with the developing world some way behind. We expect the future growth within the energy transition sector is assured over the medium and long term, as standby power is required to supplement the downtime of renewable energy generators.

In other sectors, testing requirements are growing, reflecting poor maintenance regimes, regulation (particularly on emissions), and the unreliability of the primary power supply.

Many exciting opportunities are now open to Crestchic, including:

- Capacity bottlenecks have constrained UK manufacturing for the last 18 months. The new facility will add an extra 25,000+ sq ft and a run-rate of an additional 3,300 hours per annum of operating capacity from early Q3, raising overall capacity by 92%. Customer lead times will reduce, and there will be capacity available to re-commence manufacturing both for stock (to be held in depots, reducing customer waiting times) and for the rental fleet, necessary as new depots open and demand continues to rise. The £2.2m cost of the site, including fitting out, should experience a rapid payback, given the strong order book.

- Crestchic is underweight in the US market, restricted by time/transportation costs to the East coast currently, from the Pennsylvania hub and in the key data centre market, presently limited to the testing of gensets. The opening of t**he forthcoming depot in Fort Worth, Texas**, will extend the Group's reach. Following the investment in smaller loadbanks, the Company will also target the heat load market in data centres (Austin is a digital hub in the southern US). The port of Houston also allows access to Latin American markets.

  The expectation is that the new hub will be profitable in its first year of trading.

- Currently, sales in the west of the US are via a sales agent in California (Caterpillar dealer in California), with almost no means of marketing into the northern states/Canada. The process to identify the next US depot opening is underway.

- There are few dedicated rental operators of loadbanks globally. Most hire services businesses carry (and tend to focus) on other kit and are therefore unable to give specialist advice, particularly at the higher value/more complex load testing environments. The ability to offer a product for hire or sale reaffirms Crestchic's technical expertise and higher service levels, resulting in repeat business. We think that the Group's expertise will help **secure new customers globally.**

- Crestchic has developed relationships with those commissioning and constructing the data centres and the owners and operators of such sites. The extensive technical knowledge of a manufacturer of loadbanks is helping to secure such contracts.

- In Europe, revenues arise mainly from four countries - the UK, Germany, France, and Belgium - and from five rental outlets. While Crestchic enjoys a reasonable market share in the former two countries, there is certainly room for improvement. The reorganisation of the operations in France and Belgium are underway to improve performance levels. Management is investigating the possibility of relocating to a larger depot in greater Paris.

- The securing of the pertinent ISO certification in Europe, following on from the UK's example, will only further enhance the credibility of the Group's offering.

- A refurbishment of the European fleet is underway, focused on a lower carbon footprint, including new equipment. An increased focus on fleet utilisation improving the revenue stream has commenced.

- Loadbanks tend to be used frequently within maintenance programmes across Europe. Hence the focus on the rapid growth experienced within the data centre and energy transition markets.

- The depot in Antwerp exclusively rents transformers currently, although management plans to introduce loadbanks into the facility from FY23. Further investment to expand the transformer fleet is underway (six additions, plus a refurbishment of the existing fleet).

- While Crestchic has made an impression on three of Europe's largest economies, it has only limited access to North, South, and Eastern Europe. In the shorter term, the focus will be to explore depots in Italy and Spain, with Scandinavia and central Europe a longer-term objective.
- Exposure to APAC is predominantly focused on the Marine sector, presenting opportunities elsewhere, not least in the faster-growing segments – data centres and energy transition.
- To date, revenues in the Middle East have been mainly derived from the extractive industries, focused on oil & gas. As with Asia, the opportunity exists to widen the scope of sector coverage, not least targeting data centres and energy transition.
- The move to world-class manufacturing and focusing on 'right first time' and 'no faults' will improve existing service levels and reputation. Further benefits will be the removal of inefficiencies from the facility and improving the supply chain's performance, thereby reducing costs, and driving returns higher.
- Crestchic has a 40-year installed base of equipment, which only tends to be scrapped under exceptional circumstances. Service/parts revenue is a growing segment of the business and represents an additional opportunity for high margin growth. Refurbished older equipment is frequently purchased and added to the rental fleet. The RoI on refurbished part or fully depreciated assets tends to be higher than the norm. A well-maintained fleet also equates to higher residual values on disposal.
- Electric vehicles, or charging stations for EVs, require testing post-installation. The anticipated growth in such infrastructure is likely to be significant over the next decade.
- Regulatory drivers – this can take many forms. For example, the move to tier 5 gensets, producing lower emissions than older generators, will require testing. The MCPD (medium combustion plant directive), which again regulates emissions of SO2, NOX and dust to air, will increase testing requirements.

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

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

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

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