Northbridge Industrial Services

13 April 2021

Increased confidence and strategic review

Northbridge's results for FY20 were in line with market expectations, showing both revenues and adj. PBT higher y-o-y despite the impact of the pandemic on trading. Of greater significance was news of a strategic review of the business, with the Board examining the disposal of Tasman, the Group's oilfield services unit. Crestchic has several opportunities for further growth, and with focused investment we expect it to continue its strong progress.

Based on the current valuation, Crestchic on its own is trading at a marked discount to its hire service peers. We therefore anticipate a re-rating in the light of the strategic review.

Advisors have been appointed to potentially dispose of Tasman, which we regard as a highly sensible move. Despite Tasman moving to a cash positive outcome in FY20, the division's return on investment (RoI) remains below the Board's target at a time when several clear growth opportunities are available to Crestchic that require investment.

Three consecutive years of record orders at Crestchic has led to it hitting capacity constraints within its factory. Management expects to break ground on a new facility in H2 21, with completion in early FY22, resulting in an overall capacity increase of 50%. The renewable energy and datacentre markets continue to grow apace, with opportunities to widen Crestchic's exposure geographically (depot openings) and through development of new products. While North America has been a strong market for the division, Crestchic does not yet supply the datacentre market. The expansion of manufacturing capacity will also lead to an increase in its rental fleet to match the growing opportunities.

The FY20 results showed positive trading momentum and cash generation remained strong with net debt falling to give a net debt/EBITDA ratio of 0.9x. With the Group well advanced in negotiations with its banks to provide greater headroom on its facility, we think that the loan notes' early redemption is increasingly likely.

Valuation: a re-rating overdue

In FY20, Crestchic delivered EBITDA of £6m. At the current EV, that suggests Crestchic would be trading on a historic EV/EBITDA of 5.4x, representing a significant discount to its peers that should narrow materially as these plans are executed.

The proposed disposal of Tasman, coupled with Crestchic receiving the funding it requires to deliver on the opportunities open to it, suggests an exciting future.

Key financials

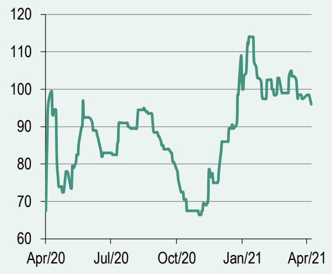
Y/e end Dec 31	FY 18A	FY 19A	FY 20A	FY 21E
Revenue, £m	26.9	33.6	34.0	37.1
Adj. Op. profit, £m	-1.4	1.2	1.7	2.7
Operating margin	-6.4%	1.0%	3.3%	7.3%
Adj. PBT, £m	-2.0	0.3	0.4	2.0
DPS, p	0.0	0.0	0.0	0.0
Net assets, £m	36.5	35.2	27.7	29.2
Net debt, £m	-8.7	-6.4	-5.4	-3.9

Source: Company historics, ED estimates

Company Data

EPIC	NBI
Price (last close)	97p
52 weeks Hi/Lo	120p/65p
Market cap	£27.2m
Net debt (Dec '20)	£5.4m
NAV / share (Dec '20)	98p

Share Price, p



Source: ADVFN

Description

Northbridge Industrial Services ("Northbridge") is a holding company focused on two divisions.

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

Tasman Oil Tools ("Tasman") is a rental specialist of downhole tools to the oil & gas, geothermal energy, coal-bed methane, and carbon capture markets.

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A strategic shift

There is no doubt that the y-o-y improvement in revenue and operating profit achieved in challenging markets highlights an encouraging performance by the Group. However, the strong outturn has been overshadowed by the announcement of the change in strategy, with the Board seeking to divest Tasman, the Group's oilfield services division.

We view this strategic shift positively, combining the possible disposal proceeds and diversion of investment capital in favour of the larger Crestchic to accelerate its growth. Crestchic has experienced rapid progress within renewable energy, datacentres, and North American markets within the last five years. To further take advantage of that inherent growth which we think is set to continue, while further broadening the available opportunities, Crestchic requires investment on several fronts. Disposing of Tasman, which has been the focus of capex in recent years, would in our opinion allow Crestchic's well regarded management to take it to the next level.

In most immediate need of investment is the Crestchic manufacturing facility in Burton-on-Trent. Following three consecutive years of record orders, bottlenecks are currently limiting further capacity increases in production. NBI owns an adjacent site on which management intends to construct an additional facility, resulting in a 50% growth in capacity. Increased capacity should enable:

- The production of units to expand the rental fleet
- The design and build of new, complementary products to expand its reach within existing markets and,
- A reduction in the order backlog, thereby improving service levels

The opening of further depots, which initially require stock, would further accelerate progress in expanding markets. The Board seeks to widen its reach in the following significant geographical markets:

- North America
- Europe
- Asia Pacific

There remains significant scope to increase the number of applications in which loadbanks and transformers are used. That involves a combination of **redesigning products**, particularly within the renewables sector, or **selling the capabilities for use in datacentres** (heat and reliability) in regions such as North America, where they are currently utilised for other purposes.

The abrupt halt to Tasman's recovery at the onset of the pandemic in late Q1 2020, which coincided with a recent low in the oil price, gave management much to consider regarding its smaller division. That Tasman was unlikely to consistently achieve its cost of capital (albeit significantly overachieving during the good times) has resulted in a strategic review of the Group's activities. An expression of interest in Tasman from a third party further crystalised Management's thinking.

As such, the Board has appointed advisors to investigate Tasman's disposal, with the caveat that any proceeds should represent a greater value to shareholders than the business's retention.

To ensure that the Group remains on a sound footing, the finance team, led by CFO, Iwan Phillips, is currently negotiating new banking facilities. Relative to EBITDA, net debt remains low (including the £4m of convertibles as debt), and Board expects to sign the new facility during Q2 2021. The new terms will provide the headroom required for the necessary investment in Crestchic over the medium term and seek to redeem the loan notes ahead of the June 2022 conversion date.

The 2020 Preliminary results

FY'20 results highlights							
Year to 31 Dec, £m	**H1 19A**	**H2 19A**	**FY 19A**	**H1 20A**	**H2 20A**	**FY 20A**	**YoY change**
Crestchic sales	5.9	5.2	11.1	6.0	7.1	13.1	18.0%
Crestchic rental	7.2	7.1	14.3	5.0	6.5	11.5	-19.5%
Crestchic total	13.1	12.3	25.4	11.0	13.6	24.6	-3.1%
Tasman sales	0.5	0.6	1.1	0.7	0.5	1.2	6.3%
Tasman rental	3.2	3.9	7.1	4.3	3.9	8.2	15.6%
Tasman total	3.7	4.5	8.2	5.0	4.4	9.4	14.4%
Group revenue	16.8	16.8	33.6	16.0	18.0	34.0	1.1%
Cost of Sales	-9.3	-8.5	-17.8	-9.1	-10.2	-19.3	8.3%
Gross Profit	7.5	8.3	15.8	6.9	7.8	14.7	-7.0%
GP%	*44.8%*	*49.2%*	*47.0%*	*43.0%*	*43.4%*	*43.2%*	*-8.0%*
OpEx	-6.7	-6.9	-13.8	-6.4	-7.0	-13.4	-2.6%
EBITDA	4.0	2.4	6.4	3.7	3.3	7.0	8.0%
EBIT	0.8	1.4	2.0	0.7	1.2	1.9	-5.6%
EBIT %	*4.5%*	*2.6%*	*3.5%*	*4.1%*	*6.9%*	*5.6%*	
Share of Olio Tasman JV	-0.3	-0.5	-0.8	-0.3	-0.3	-0.6	-30.4%
Finance costs	-0.4	-0.5	-0.9	-0.3	-0.4	-0.7	-14.1%
Adj. PBT	0.0	0.4	0.3	0.0	0.3	0.4	19.3%
Taxation	-0.1	-0.4	-0.6	0.0	-0.1	-0.1	-75.1%
PAT	-0.1	0.0	-0.2	0.0	0.2	0.2	-201.2%
Diluted EPS (p)	-0.4	-3.4	-3.8	0.1	-0.8	-0.7	-82.6%

Source: Company historics, ED estimates

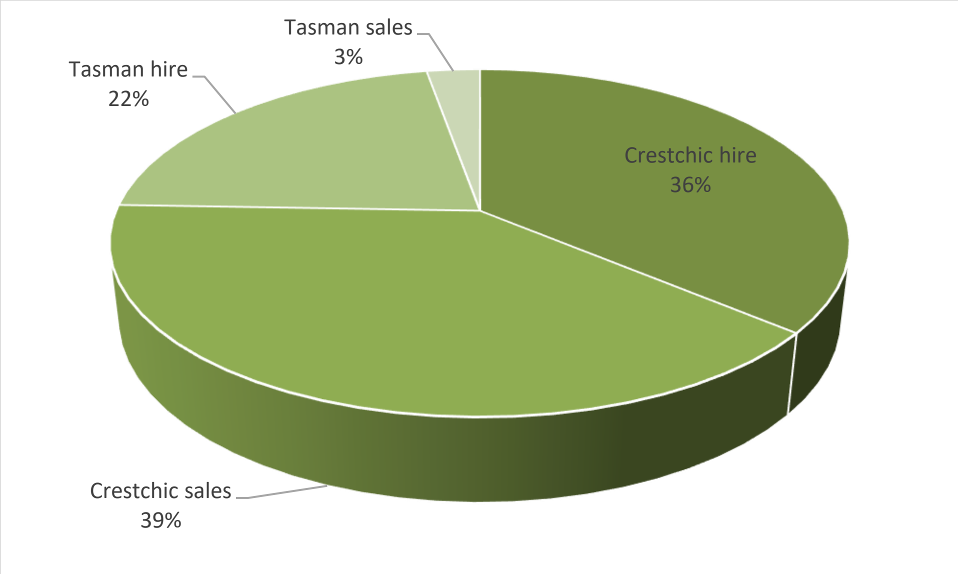
An impressive outcome

We regard these Group results as very impressive, considering the scale of reduction in the higher-margin rental activities overall (-8.0% y-o-y). The shortfall would have been more severe were it not for the strong performance of Tasman Hire during Q1 20 (H1 20: +34.4% y-o-y).

The difficulty in moving rig teams (Tasman) and equipment (Crestchic and Tasman) across borders severely curtailed activity levels and, in turn, the gross margin (equipment rental margins are the highest in the Group, by activity).

Such trends eased during Q4 20, although the deferral of several gas contracts for Tasman until Q4 21 has limited the degree of its recovery to date. Following the improvement in commodity pricing since the low point in early Q2 20, we are increasingly confident that several such contracts will commence in late 2021 or early 2022.

H2 20 split of revenues by activity

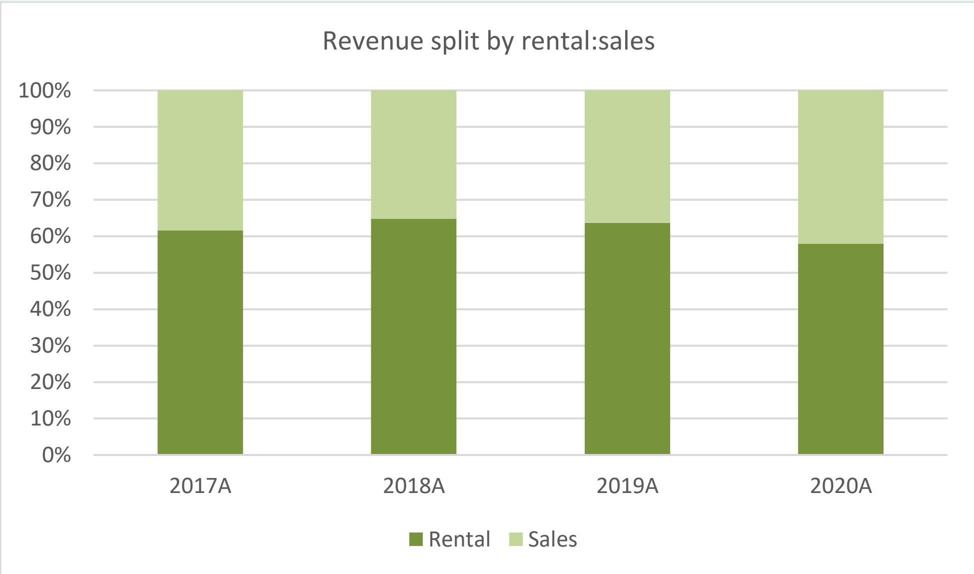


Source: Company data, Equity Development

Hire revenues within Tasman declined 9.3% on a half-yearly sequential basis during H2 20, while Crestchic's equipment rental revenues rose 30% compared to H1 20.

However, Crestchic's hire revenues still declined by 8.7% y-o-y during H2 20, reflecting the curtailment of exploration and development activity and the difficulty in deploying workers to sites and with the Middle East and Asia particularly hard hit.

Revenue split by activity

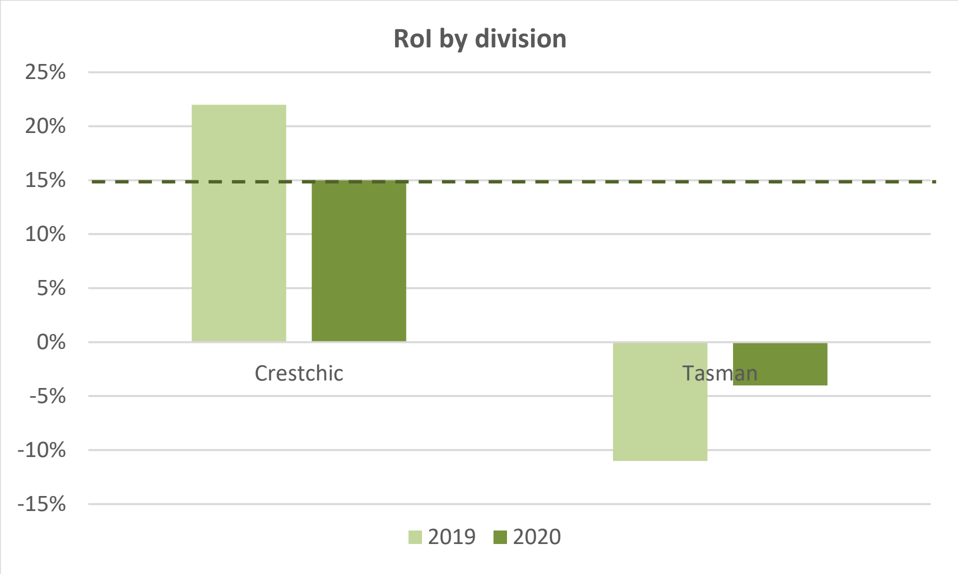


Source: Company data, Equity Development

By division, the return on investment (RoI) amounted to **15% for Crestchic** (FY19: 22%) and **-4% for Tasman** (FY19: -11%), further explaining the decision to potentially part with the oilfield services business, should a suitable offer emerge. The Board's target for the Group is an RoI of 15%.

Recovery in Crestchic's equipment rental activities should drive its returns higher, while the near fully invested Tasman should see its RoI benefit from higher activity levels in future.

RoI by division, % (15% = overall target)



Source: Company data, Equity Development

Crestchic performance

Revenues at Crestchic declined modestly (-3.1%) to £24.6m (FY19: £25.4m), reflecting the 19.7% y-o-y decline in hire revenues. Record order books within manufacturing, buoyed by the strong growth within the datacentre and renewable energy markets, were major factors in the broadly unchanged revenues. Income from equipment sales within Crestchic would have been higher had it not been for the capacity constraints within the Burton-on-Trent facility.

Renewable energy power generators face the joint issues of plant commissioning and grid connection, with **both requiring testing**. Within developed economies, the sector is experiencing strong demand for DC loadbanks, which represents an opportunity moving forward for Crestchic.

The rapid switch to renewable energy demanded by government legislation and consumers is driving the change. We think this process has much further to go with the International Renewable Energy Agency suggesting that by 2050, 86% of global energy production will be from renewable sources. Germany and the UK are the leading lights at 12.7% and 12.3% of all power, respectively, which equates to 37.1% of all UK electricity generated in 2019.

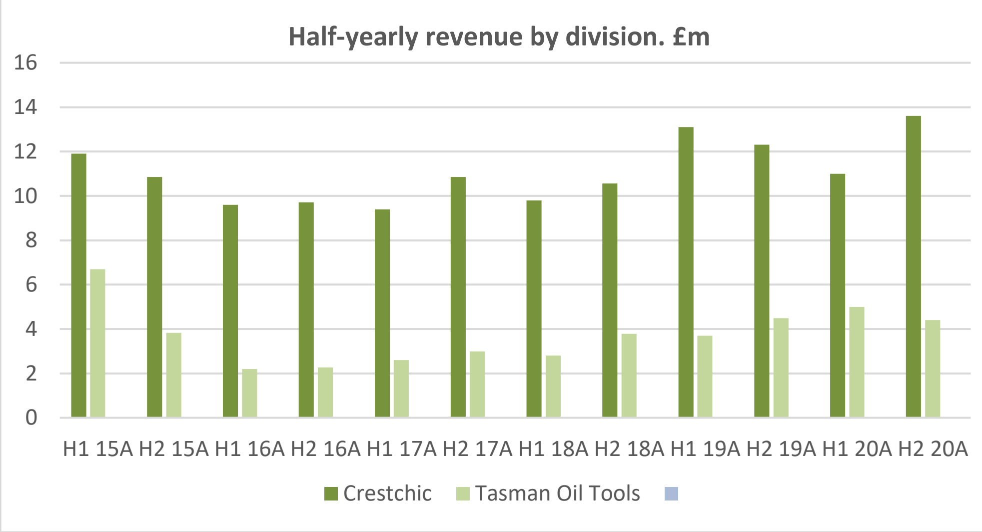
During the last five years, growth in the use of loadbanks within datacentres (heat and reliability testing) has improved significantly, from a standing start to 22% of Crestchic equipment sales revenue. In view of both business and consumers' insatiable desire to store data, as seen during lockdown periods, we anticipate the growth in datacentres has much further to go. Further benefits may be had from diversifying its datacentre offering both geographically and through the introduction of new products.

Tasman recovering

Tasman achieved its highest revenues since FY15, rising 14.4% y-o-y to £9.4m and followed an outstanding performance in Q1 20, as the recovery in its markets continued. However, the pandemic's onset, combined with lower commodity prices and issues with the manning of large rigs impacted activity levels. In turn, several large projects were deferred, leading to a H2 20 sequential half-yearly decline in revenues.

Gas projects in eastern Australia and, to a lesser extent, geothermal drilling activity in New Zealand continued to perform well in FY 20.

Divisional split of revenues



Source: Company data, Equity Development

Geographic spread

With revenues derived within the UK broadly flat y-o-y (-0.4%) to £13.4m and representing 39.6% of turnover, the most critical regions were Australia/New Zealand (Tasman, 18.4% of revenues), the Americas (Crestchic, 12.5%) and Asia (Crestchic and Tasman, 12.1%). NBI saw growth in:

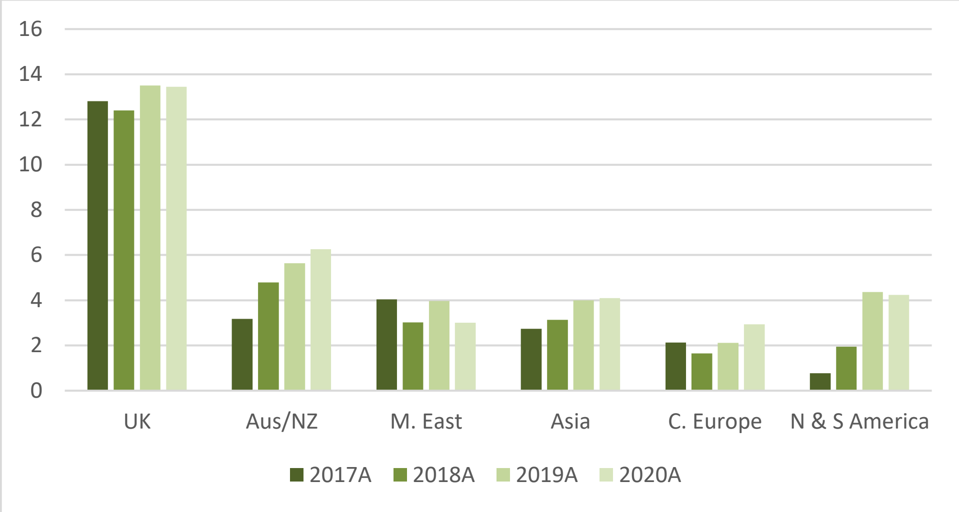
- Australia/New Zealand (+10.8% y-o-y, reflecting ongoing gas contracts in Australia (Tasman)
- Europe (ex-UK, +38.7% y-o-y), buoyed by a full year of the stand-alone German operation (FY19: 3 months). Also, the growth in the datacentre market continued to be positive and the business benefitted from a large marine project (Crestchic)
- Asia Pacific (+2.3% y-o-y), reflecting stronger demand within the Olio Tasma JV, more than offsetting the reduction in equipment hire at Crestchic.

In addition to the UK, the Americas (Crestchic) saw a modest reduction in revenues of 2.9% y-o-y.Overall, the N. American market benefitted from a sizeable rental contract in California, with the Group's equipment used to assure power resilience in the face of wildfires causing problems to grid integrity.

Demand for DC loadbanks proved strong, with an increase in the hire fleet likely to take advantage of the opportunity.

The top-line also fell in the Middle East, purely a reflection of lower activity in the oil & gas sector and the difficulty of fully manning rigs, affecting both divisions.

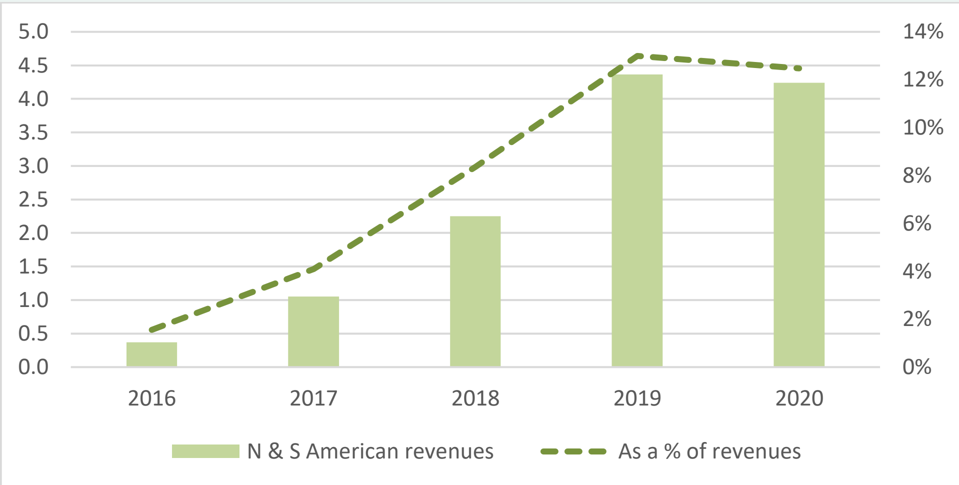
Geographical split of revenues, £m



Source: Company data, Equity Development

Although revenues in the US (predominantly) dipped modestly during FY20, the region has witnessed significant growth since opening in FY16. Representing just 2% of the American market for load banks, we anticipate strong scope for growth within the region over the short-to-medium term. One should consider that Crestchic does not currently operate within the datacentre market, its fastest-growing activity in the UK and Europe.

Strong growth in revenues from the Americas since 2016, £m



Source: Company data, Equity Development

Gross profit and operational leverage

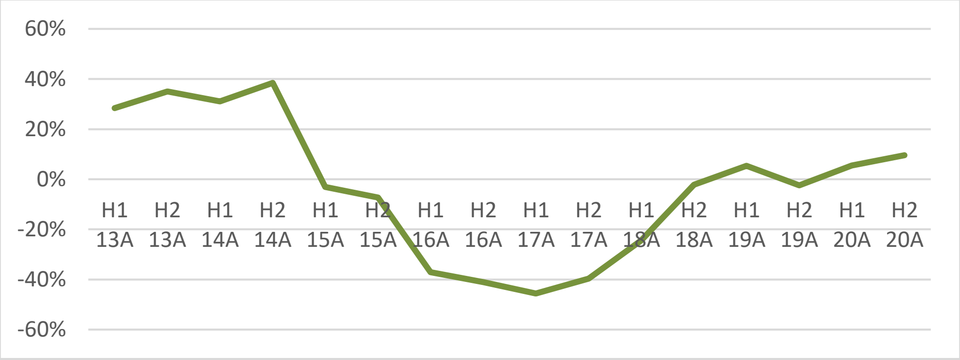
Although load bank sales revenues improved markedly (+£2m), this activity's gross profits improved by just £0.3m. The decline in GP% to 34.4% (FY19: 37.8%) reflects the requirement to change working practices at the Group's manufacturing operations to keep staff safe during the COVID-19 pandemic.

Crestchic hire was harder hit, both from a revenue and on a gross margin basis. Revenues declined £2.8m y-o-y, reflecting reduced testing within the energy and shipbuilding sectors in the Middle East and Asia Pacific. Gross margins were hit particularly hard by the top-line fall, as in the short term all costs are fixed, declining to 55.7% (FY19: 61.5%) and resulting in a £2.4m shortfall in gross profit y-o-y.

Tasman's gross profit rose significantly (+34.7% y-o-y) to £3.8m, representing a sizeable uplift in gross margin to 40.3% (FY'19: 34.2%). The gross margin improvement was due to a more favourable mix of sales, with the proportion of rental rising to 87.3% (FY19: 86.3%) and a higher recovery of fixed overheads.

The business's operational leverage is no secret, and the modest (£1.2m) improvement in revenues during H2 20 resulted in a near £1m uplift in EBIT, notwithstanding the lower gross margin y-o-y. There remains some way to go to achieve the H2 '14 peak of the proportion of EBIT converted from gross profit, and therefore remain positive on the outlook as the Group's markets recover.

Operational leverage



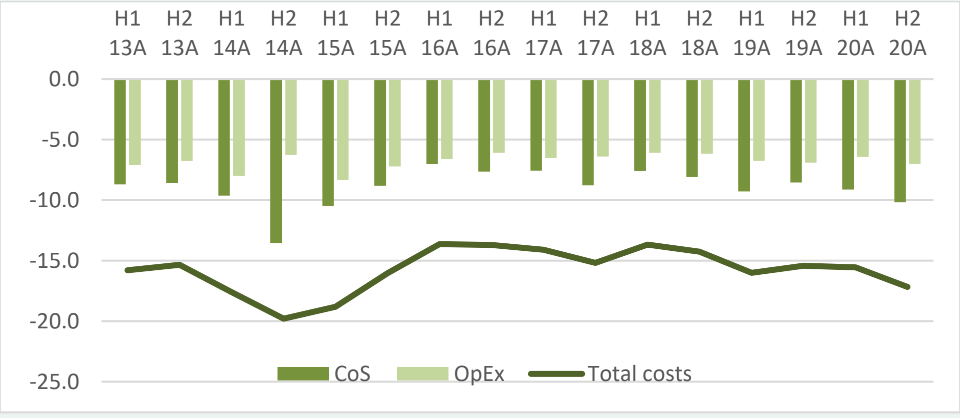
Source: Company data, Equity Development

While overall costs increased in FY20 to £32.7m (FY19: 31.4m), the entire increase reflects higher equipment sales, with rental demanding much higher margins. Operating costs fell to £13.4m (FY19: £13.6m), reflecting a combination of:

- Reduced travel and exhibition costs
- Voluntary pay reductions for senior employees
- Negotiations on fixed costs
- Reining in of capex
- Utilisation of non-repayable government-related support mechanisms during the pandemic (£0.4m)

Offsetting the various cost measures was a full year contribution of the depot in Pennsylvania, salary increases at Tasman for all staff, following years of belt-tightening, and measures to ensure the safe working of employees during the pandemic.

Progression of the cost base (CoGS + OpEx), £m

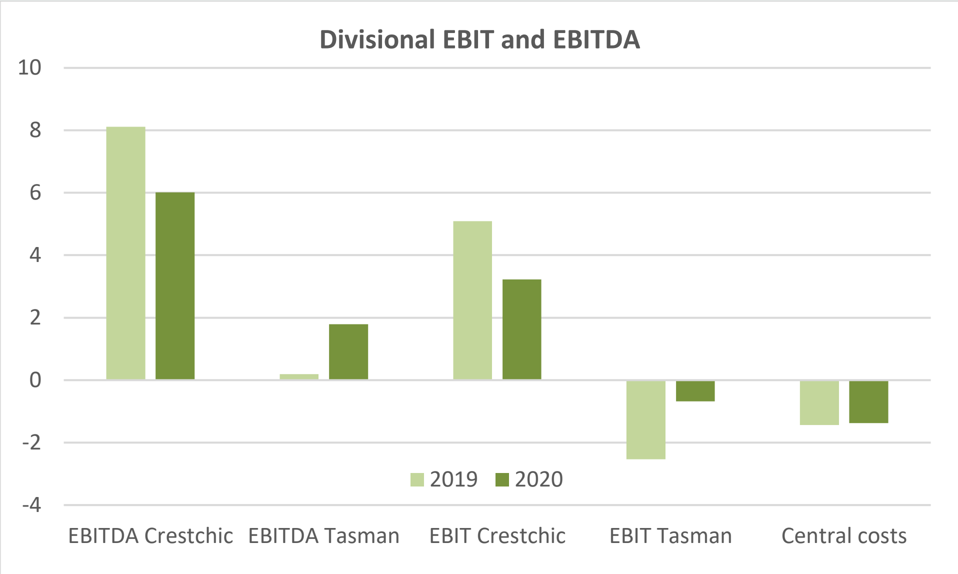


Source: Company data, Equity Development

Both divisions reported positive EBITDA and in Tasman's case for the second consecutive year. Reported EBIT, pre-exceptionals but post JV loss, amounted to £1.1m, equating to a 220% y-o-y improvement in FY20.

The progress delivered by Tasman during Q1 suggested that in the absence of the pandemic, the division would have produced its first outright profit since FY14. Crestchic has remained profitable throughout this period, although FY20 represented the first reverse since FY14.

Divisional EBITDA and EBIT, £m



Source: Company data, Equity Development

Interest was unchanged y-o-y at £0.7m, resulting in adj. PBT of £0.4m (FY19: £0.3m) and represents the second consecutive year in the black since FY14.

Exceptional costs

Activity levels within Tasman NZ have been depressed compared to business levels before the 2015 recession in the oil and gas industry. Further pandemic related interruptions resulted in management considering that activity levels are unlikely to return to the previous peak levels. The forthcoming closure of an aluminium smelter in August 2021, which utilises 13% of the country's electricity consumption, represents a further negative.

As a result, Northbridge has taken the difficult decision to write off the entire goodwill associated (£7.1m) with the acquisition in 2013. However, the business remains profitable with geothermal renewable energy a critical source of revenue for Tasman NZ.

A further £0.6m impairment was recognised on the working capital investment in Olio Tasman and highlighted the impact of COVID-19 on the business, deferring payments to Tasman.

Taxation and earnings

Prior to the exceptional tax credit of £0.4m resulting from the impairment of intangible assets, taxation amounted to £0.5m. This compares to £0.6m of tax charged in 2019. Tax losses on the Australian portion of Tasman remain available once the business moves to profitability.

Adjusted earnings improved markedly from -3.8p per share in FY19 to -0.7p in FY20, with the latter including the £0.6m tax pre-exceptional costs. The FY20 outcome represents the best adj. EPS outcome since FY14.

Balance sheet and cash flow

The key features of the balance sheet during FY20:

- Intangible assets declined £7.2m, owing to the write-down of the carrying value of goodwill on the acquisition of Tasman New Zealand
- Inventories increased by £1m y-o-y, to ensure that the factory remained operational, not hindered by issues in the supply chain (related to either COVID-19 or Brexit)
- Cash improved by £1m, highlighting the solid operational cash flow of the business
- Trade and other payables rose £1.1m, reflecting the increased level of factory production and inventory
- Net assets of £27.7m (versus £35.0m as of December 2019) due to the exceptional write-down of goodwill. The NAV stood at 98p at the year-end (FY19: 125p).
- Net debt declined by £1m to £5.4m (pre-IFRS16).

Elsewhere within the cash flow statement, operating cash flow declined modestly to £6.6m and reflected the reduction in depreciation and amortisation (-£0.5m), and broadly unchanged working capital levels and represented a significant uplift on EBIT levels.

Net capex increased y-o-y from £2.1m in FY19 (£3.7m investment, £1.6m of disposals) to a net £2.9m in FY20 (£3.8m of purchases, £0.8m of sales).

The Group chose not to defer employment taxes, VAT, rates, or goods sales tax (GST).

Board reorganisation

The Group's founder and CEO, Eric Hook, 67, retired at the end of March after guiding the business for 15 years since its inception. Ian Gardner, the MD of Tasman (a current Board member) and Chris Caldwell, the MD of Crestchic, will continue in their current positions, with Chris joining the Board in March 2021.

The Divisional MDs and the CFO, Iwan Phillips, report to the new Executive Chairman (previously NED Chairman), Peter Harris. Peter is a highly experienced operator, having been a main Board Director and Divisional MD for the RAC Plc and Chief Executive of Dawson Holdings Plc.

Ash Mehta, a NED and Chairman of the Audit Committee, is not seeking re-election after 14 years on the Board. Judith Aldersey-Williams replaces Ash as Chairman of the Audit Committee. Stephen Yapp was promoted to the role of Senior Non-Exec Director in the light of these changes.

Forecasts

We have introduced estimates for FY21. Given the ongoing uncertainties relating to the pandemic and its impact on the global economy, we have taken a conservative stance on the anticipated outcome. The strategic decision to explore Tasman's disposal places further uncertainty on the outcome and timing, with a sale of the division possibly occurring in H2 2021.

The record manufacturing order book at Crestchic provides some visibility, thereby underpinning estimates. However, the key to achieving our target is highly dependent on whether rental income at Crestchic can return to FY19 levels (£14.3m vs £11.5m in FY20).

Although the FY progression anticipated within our estimates suggests that progress at Tasman is likely to be undemanding, one needs to factor in the fall-off from the end of Q1 2020 onwards, reflecting the combination of the pandemic and oil price lows. Early signs suggest that several deferred gas-related contracts should begin by Q4, although this may well occur after the business's sale.

Q1 trading was in line with management expectations, with the start of Q2 suggesting that the Group will be ahead y-o-y at the H1 stage. The H2 is likely to see momentum build, particularly as Crestchic fulfils the manufacturing orders and the deferred contacts within Tasman start to build.

Summary Profit & Loss

Year to 31 Dec, £m	2017A	2018A	2019A	2020A	2021F
Crestchic	20.2	20.4	25.4	24.6	27.0
Tasman Oil Tools	5.6	6.6	8.2	9.4	10.1
Revenue	25.8	26.94	33.60	33.98	37.10
CoGS	-16.3	-15.7	-17.8	-19.3	-20.4
Gross profit	9.5	11.3	15.8	14.7	16.7
Gross margin (%)	36.8%	41.8%	47.0%	43.2%	45.0%
Op costs	-12.9	-12.3	-13.6	-13.4	-13.8
Other operating income	-0.2	0.0	-0.1	0.4	0.0
Operating profit	-3.6	-1.0	2.0	1.7	2.9
Op margin (%)	-14.0%	-3.7%	6.0%	5.0%	7.8%
Net Interest	-0.6	-0.7	-0.9	-0.7	-0.7
Associates	-0.2	-0.4	-0.8	-0.6	-0.2
PBT (Adjusted)	-4.2	-2.0	0.3	0.4	2.0
Exceptionals	0.0	-0.7	0.0	-7.8	0.0
PBT (Reported)	-4.4	-3.1	-0.5	-8.0	1.8
Tax	-0.2	0.3	-0.6	-0.1	-0.5
PAT	-4.7	-2.8	-1.1	-8.1	1.3
Minority interests	0.0	0.0	0.0	0.0	0.0
Earnings	-4.7	-2.8	-1.1	-8.1	1.3
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0
Retained Profit	-4.7	-2.8	-1.1	-8.1	1.3
EPS (Adjusted) (p)	-17.9	-5.9	-3.8	-0.7	5.3
DPS (p)	0.0	0.0	0.0	0.0	0.0
Ave no of shares (FD) (m)	25.9	28.8	28.2	28.2	28.2

Source: Company historics, Equity Development estimates

Gross margins are unlikely to meet FY19 peaks, reflecting the relatively slow start to the year within Tasman and the record manufacturing order books at Crestchic. Nevertheless, we anticipate good progress to a blended 45.0%, reflecting an increase in the proportion of revenues derived from equipment rental (60.4%), compared to 58.0% in FY20.

We estimate that costs (CoGS + OpEx) will amount to 92.2% of revenues (FY20: 96.3%). The key differences y-o-y will likely be the improvement in gross margin and the move to break-even of Tasman in FY21 after considering the reduced losses of the joint venture, Olio Tasman. As a result, we expect the EBIT margin to improve to the highest level in seven years, underpinned by further progress at Crestchic.

With the net interest charge unchanged y-o-y at £0.7m, this should result in adj. PBT of £2.0m and the first positive FY adj. EPS in seven years, at 5.3p. With the combination of the ongoing uncertainty, proposed disposal of Tasman, required investment in the additional capacity in Burton-on-Trent, and the convertible loan notes to consider, we think a dividend pay-out is likely to be on the agenda during FY22.

Summary Cash Flow

Year to 31 Dec, £m	2017A	2018A	2019A	2020A	2021F
Operating profit	-3.8	-1.4	0.4	1.1	2.7
Depn. & Amortn.	7.2	6.0	5.8	5.3	4.6
Working capital movement	-0.9	0.4	0.6	0.2	-0.9
Other	0.0	0.0	0.0	0.0	0.0
Operating cash flow	2.6	5.0	6.8	6.6	6.4
Net Interest	-0.6	-0.7	-0.9	-0.7	-0.7
Taxation	-0.3	-0.7	-0.6	-0.5	-0.5
Net capex	-0.2	-3.9	-2.2	-2.6	-3.7
Operating FCF	1.4	-0.1	3.2	2.8	1.5
Net (Acquisitions)/Disposals	-0.3	-1.1	-0.1	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Share Issues	0.0	2.4	0.0	0.0	0.0
Minority payment	0.0	0.0	-1.4	-0.3	0.0
Other financial	-0.4	-1.1	0.5	-1.5	0.0
Increase Cash/(Debt)	0.7	0.1	2.3	1.0	1.5
Opening Net Cash/(Debt)	-9.5	-8.7	-8.7	-6.4	-5.4
Closing Net Cash/(Debt)	-8.7	-8.7	-6.4	-5.4	-3.9

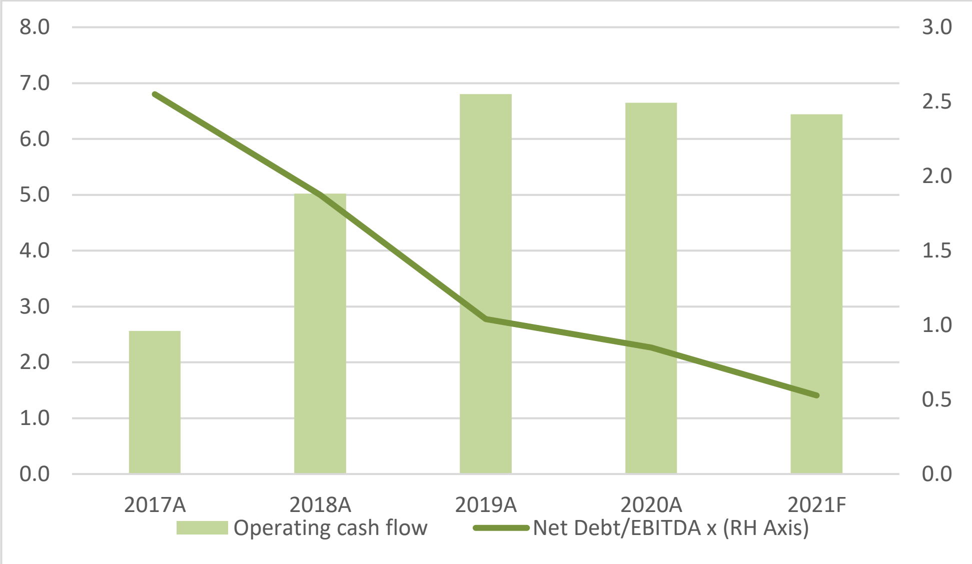
Source: Company historics, Equity Development estimates

Turning to the cash flow projections, we expect the following to be the key features during FY21:

- A broadly unchanged operating cash flow of £6.4m, equating to almost 2.4x EBIT
- Depreciation to fall due to the growing proportion of the rental fleet that is fully written down (but remains well maintained and at low utilisation levels)
- Net capex of approximately £3.7m, with a shift in favour of Crestchic as the Tasman fleet has been the focus of investment in recent years. A portion of the capex (£2m) relates to the commencement of the new manufacturing capacity in Burton-on-Trent.

We anticipate that gearing will decline to low-teen levels (13.4%) and a net debt/EBITDA of 0.5x (FY20: 0.8x) and interest cover at a healthy 4.1x. In all the above assumptions, we have included Tasman for the entire year.

Operating cash flow (£m) and net debt/EBITDA (x)



As highlighted in the cash flow, we have factored in modest growth in working capital (+£0.9m y-o-y) and heavily depreciated rental equipment as the fundamental features/changes within the balance sheet during FY21. Nevertheless, we anticipate that net assets are likely to improve y-o-y to £29.2m, which equates to **105p per share**.

Abbreviated Balance Sheet

Year to 31 Dec, £m	2017A	2018A	2019A	2020A	2021F
Intangible Assets	12.8	12.3	11.6	4.5	4.5
Tangible Assets	29.3	28.9	25.6	24.5	23.5
Investments/other	0.0	0.0	0.9	1.0	1.0
Net Working Capital	5.3	6.2	5.8	5.2	6.1
Capital Employed	47.4	47.4	43.9	35.1	35.1
Other	0.0	0.0	0.0	0.0	0.0
Net Cash/(Debt)	-8.7	-8.7	-6.4	-5.4	-3.9
Provisions Liabilities/Charges	-3.0	-2.3	-2.2	-2.0	-2.0
Net Assets	35.7	36.5	35.2	27.7	29.2

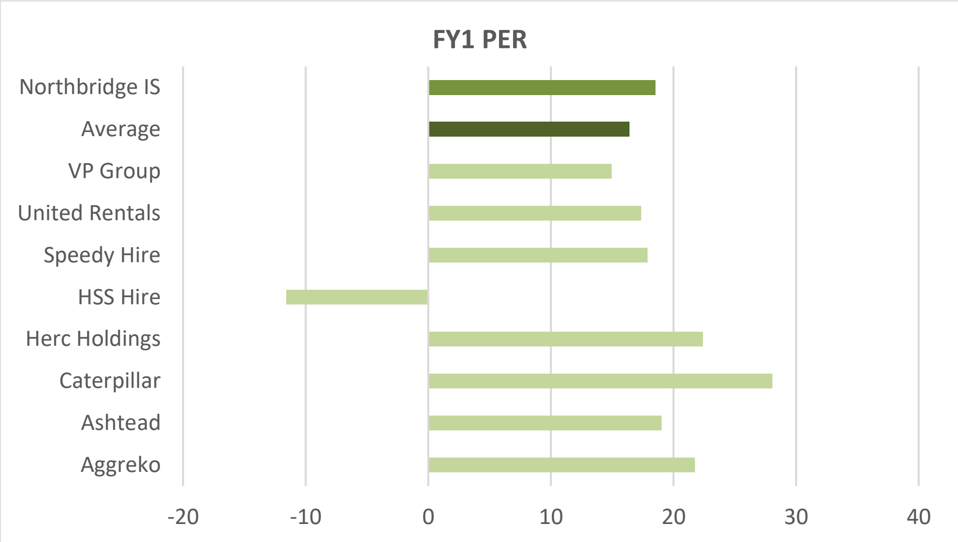
Source: Company historics, Equity Development estimates

Valuation

We have split the peer group valuation into hire services and oilfield services to indicate the potential re-rating of Crestchic, post-Tasman disposal. Earnings and EBITDA used are of the Group, rather than divisional.

The combined EPS for FY21 is the first positive EPS delivered since FY14, with Tasman break-even post-joint venture loss, pre-tax). The adj. EPS would be markedly higher were we to compare Crestchic to its hire service peers. Excluding outliers, NBI trades at a modest discount to its peers (2.0%).

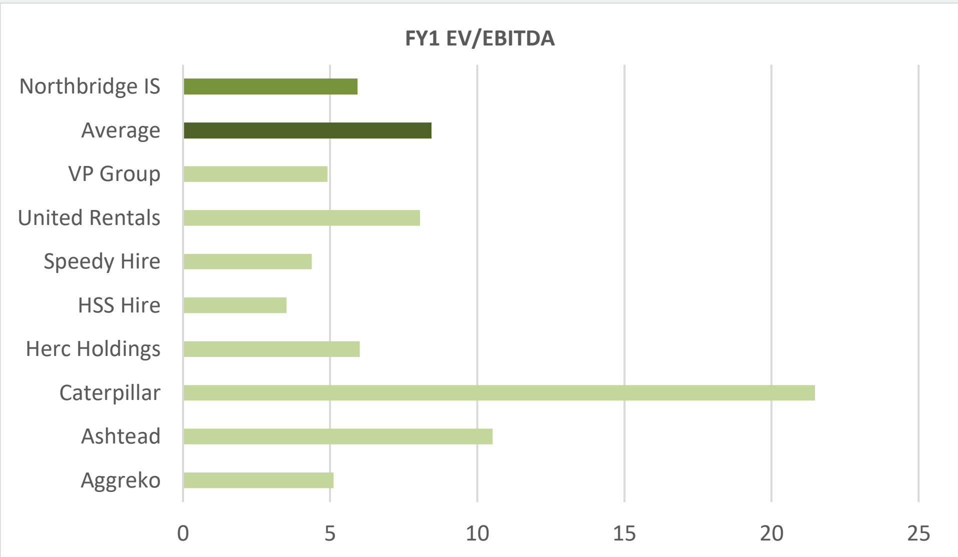
FY1 PER comparison of Hire Services peer group



Source: Bloomberg, Reuters, Marketwatch

NBI's FY1 EV/EBITDA rating sits at a **30% discount** to the average of its peers. Excluding outliers, NBI is at a 23% discount to its hire services peers. Crestchic's EBITDA amounted to £6.0m in FY20 on an ex-IFRS16 basis, suggesting the Group is trading on an **EV/EBITDA of just 5.4x** on historic numbers.

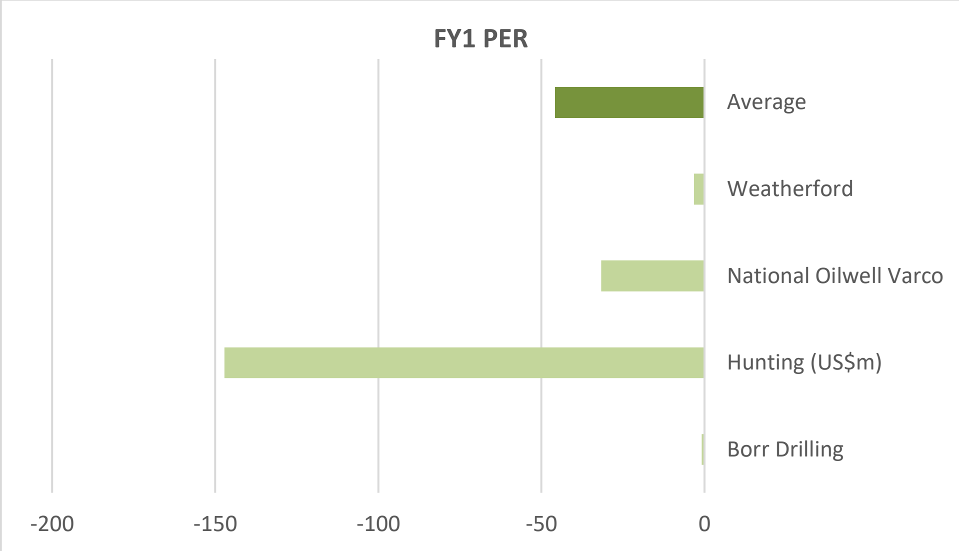
FY1 EV/EBITDA comparison of Hire Services peer group



Source: Bloomberg, Reuters, Marketwatch

We note that, like Tasman, the post-tax earnings of all the featured oil services peers are negative, highlighting the industry's issues.

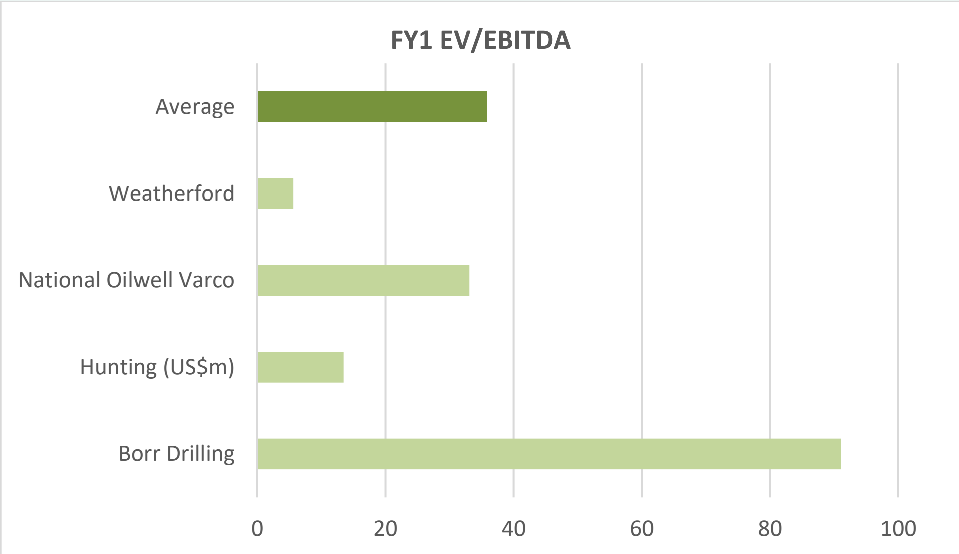
FY1 PER comparison of the Energy drilling services peer group



Source: Bloomberg, Reuters, Marketwatch

Similarly, the FY1 EV/EBITDA multiples afforded the oilfield services peers of Tasman are relatively meaningless, given FY21 is considered an early stage in the sector's recovery. Tasman delivered £1.8m of EBITDA during FY20.

FY1 EV/EBITDA comparison of the Energy drilling services peer group



Source: Bloomberg, Reuters, Marketwatch

Conclusion

We think the above demonstrates that the discount to the average of its peers' valuation is likely to be higher following a disposal of Tasman. On this basis, we believe there is scope for a material re-rating of the stock as investors focus on the strengthening returns, good growth prospects, and a more environmentally friendly NBI.

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