Northbridge Industrial Services

Another encouraging update

25 June 2020

Northbridge Industrial Services ("Northbridge IS") has issued a trading update covering the first five months of the year. Key points include an excellent y-o-y uplift in Q1 revenues and resilient trading during April and May. Management acted early to reduce costs, while cash flow proved strong enabling investment within the business. The outlook for H2 appears positive, reflecting a catch-up on delayed orders at Crestchic and contracts at Tasman.

The Group's funding arrangements were extended by a further 12 months. Also, a new NED, Stephen Yapp, has been appointed to the Board. The shares remain at a significant discount to NAV and the valuation of its peers.

The trading update issued following yesterday's AGM provides room for optimism, notwithstanding the 13% y-o-y reduction in Group revenues during April and May. Responsible for the shortfall were: declining productivity due to social distancing measures within Crestchic's factory; and at Tasman a deferral of contracts with shorter lead times, owing to customer crewing issues during lockdown. Conversely, trading in Q1 was well ahead across both businesses, reflecting the record manufacturing order book at Crestchic and excellent momentum at Tasman (predominantly gas/LNG/geothermal-related).

Management took swift action on reducing the cost base early in the crisis, with some measures temporary, partly helped by various government initiatives, and some more permanent. Net debt was broadly unchanged at £6.4m from the year-end, with the improved cash flows invested in a combination of capex and working capital. Trailing EBITDA increased to £7.4m in the year to April, which compares to £7m in the year to December and £5.7m a year earlier.

The strong cash flow enabled the Group to **extend its existing banking arrangement** by a further year at favourable terms, with an additional £0.5m trade financing to fund the higher manufacturing activity. The convertible loan agreement was extended to July 2022, with the coupon rising to 10% (from 8%), as per the original agreement. The conversion price declined to 90p (from 125p), reflecting the current uncertainty.

The outlook for H2 is looking relatively upbeat. With no orders cancelled in either division, a catch-up on deliveries at Crestchic should occur, and several delayed contracts are expected to commence within Tasman. With H1 likely to deliver a similar outcome to last year (break-even at the PBT level), the recovering activity augurs well for H2, not least reflecting the strong, inherent operational gearing and a lower cost base. Management continues to believe that it remains too early to provide guidance on the full-year outcome.

We remain encouraged by this update and the strong cash flows, enabling the Group to fund the likely working capital requirement as activity improves during H2.

The Group is trading on a trailing EV/EBITDA multiple of 3.7x, which amounts to a significant discount (36.0%) to its peers. The shares currently trade at 35% discount to a book value that is backed by the rental fleet and properties, and which compares to a 41% premium to NAV for its peers.

Company Data

EPIC	AIM: NBI
Price (last close)	80p
52 week Hi/Lo	165p/62p
Market cap	£23m
Net debt (Dec '19)	£6.4m
NAV/share (Dec '19)	124p

Share Price, p

Source: ADVFN

Description

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

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

Tasman Oil Tools is a rental specialist of down-hole tools to the oil & gas, geothermal energy and coal-bed methane markets.

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