Northbridge Industrial Services

11 August 2021

Group hits strategic targets, our forecasts rise

The headline news associated with the pre-close H1 update is that strong trading at Crestchic, plus a positive order book, results in an upgrade to our estimates for FY21. Revenues improved by 22% at Group level to £19.6m (the highest level since H1 2014) and by 44% to £15.8m within Crestchic alone. The latter's progress was led by sales into the data centre market but was widespread across several sectors. The outlook remains similarly impressive, particularly within Crestchic, and as a result we have increased our estimates, with adj. PBT rising to £2.5m (from £2.1m previously).

The strong trading momentum, coupled with the progress on the Board's strategic goals gives us confidence of further progress into FY22 (as the new manufacturing facility opens). This momentum has yet to translate to a material re-rating of NBI that appears warranted once investors focus on the strong fundamentals and improving outlook.

Group revenues improved 22% overall to £19.6m during H1 and by c.44% y-o-y to £15.8m within Crestchic. By contrast, Tasman delivered revenues 25% lower y-o-y, albeit compared to a very strong comparative in Q1 2020. We estimate that the proportion of revenues derived from hire services rose to **61%**, resulting in an improved margin mix.

Crestchic's performance was underpinned by continued strong growth within the data centre segment, albeit other areas such as grid resilience, renewable energy and oil & gas also performed well - the latter reflecting a project in Asia Pacific during Q1. **Europe, the Middle East, and the US all delivered strong progress from Q2 onwards**. Although manufactured sales rose c.18% y-o-y during H1, they were unchanged on a sequential half-yearly basis, reflecting the capacity bottlenecks within the Burton-on-Trent facility.

As with so many other engineering businesses, cost inflation has reared its ugly head. This reflects a combination of raw material price increases, supply chain shortages and rising shipping costs. However, the majority of this has been passed on to customers.

The higher margin revenues underpin the increase in estimates, with gross margins for FY21 rising to 46.4% (FY20: 43.2%) and adj. PBT rising to £2.5m (representing an increase of 19% versus the previous estimate).

Outlook and valuation

Crestchic's manufacturing plant will continue to operate at capacity for the remainder of the year, with order visibility also good within hire services (into Q4). Crestchic has recently signed a contract to directly supply loadbanks and transformers to a **major ecommerce retailer**, which we hope in turn will result in similar openings within the data centre market. The anticipated recovery at **Tasman**, led by deferred contracts, has yet to filter through to the oil services sector and as such, a modest improvement is likely versus the H1 outcome.

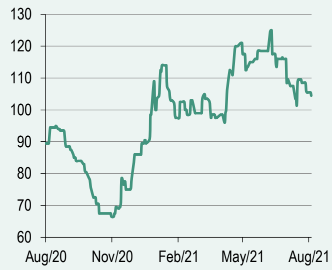
The strategic goals introduced during Q1 have all, bar one, been achieved, with planning permission on the new factory obtained. The outstanding target, that of the sale of Tasman, remains in progress, with talks with interested parties ongoing. Meanwhile, the business is being returned to profitability, following a modest H1 loss.

We think the stock-market is ignoring the strong trading momentum within Crestchic driving our upgrades. As shown later, NBI continues to trade at an undeserved discount to peers: on just a similar rating, the current fair value stands at a conservative 152p / share.

Company Data

EPIC	NBI
Price (last close)	102p
52 weeks Hi/Lo	130p/65p
Market cap	£29m
NAV / share (Dec '20)	99p
Net debt (Jun '21)	£3.5m

Share Price, p



Source: ADVFN

Description

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

Crestchic Loadbanks ("Crestchic"), 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. The Board has stated that Tasman is non-core with divestment in FY21 a distinct possibility.

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Strong trading means forecast upgrades

Following the update on trading we have increased our financial estimates across several metrics:

Changes in estimates

£m	Old	New	Change
FY21 Revenue	37.1	37.1	0.0%
FY21 EBITDA	7.5	8.1	7.4%
FY21 EBIT	2.9	3.4	17.2%
FY21 adj. PBT	2.1	2.5	19.0%
FY21 EPS (p)	5.6	7.0	24.9%
FY21 Net debt	3.5	3.3	-6.1%

Source: Equity Development

Crestchic

Activity levels during H1 were stronger across many of the regions and sectors in which Crestchic operates, with **good order visibility** into Q4 underpinning the upgrades. The strong progress was led by Asia Pacific during Q1, spreading into all other regions during Q2. Although activity levels within the data centre sector was particularly strong, other sectors such as grid resilience, renewable energy and natural resources also demonstrated good progress.

The year commenced with a third consecutive year of record factory orders at Crestchic, with management stating that manufacturing will continue at capacity levels for the remainder of the year.

Crestchic benefited from a large project during Q1, which included £1.3m of lower margin pass through revenue. On stripping out the lower margin revenue, the H1 performance remained modestly ahead of H1 2019.

Hire services accounted for approximately **55%** of the division's turnover, which is even more impressive when one considers the record manufacturing order books. Our belief is that revenues derived from the hire of load banks and transformers was the strongest in the Group's history, with manufacturing-related sales up 19% y-o-y, but at similar levels to H2 '20 (and indicating the reasoning behind the expansion of manufacturing at Burton-on-Trent).

There remains good visibility on hire service revenues into early Q4, in all regions except for Asia Pacific (which tends to be project-led and typically lumpy as a result). The US continues its strong performance across several sectors.

Traditionally, Crestchic has struggled to sell its load bank and transformer products directly into the data centre market, with sales normally via intermediaries. Importantly, securing a major e-commerce retailer changes this dynamic and may result in winning further data centre operators over the medium term.

Tasman

The division underperformed H1 '20 levels, reflecting the strong Q1 comparative (pre-pandemic), with most customers either reporting a continuation of manning and/or supply-chain issues. As a result, while the anticipated recovery within the oil & gas majors has commenced, this has yet to trickle down to the oil services sector. Some of the deferred fields have commenced drilling, albeit typically at levels below initial expectations. Nevertheless, a degree of improvement is anticipated during H2.

Not surprisingly, Tasman delivered revenues 25% below H1 '20, at £3.8m. Hire revenues are below budgeted expectations and due to a strict control of overhead and capex, losses were restricted to £0.2m during the period.

Group trends

We estimate the proportion of hire service revenues across the whole Group rose y-o-y to 61% (aided by the strong progress within Crestchic), resulting in an **improved gross margin**. We fully anticipate the proportion of hire relative to sales to rise further: to 62% for the full year which underpins our FY gross profit/margin upgrade.

Costs are on the increase, led by a lack of government support and rising cost inflation. The latter reflects supply chain shortages, input price inflation and significantly higher shipping costs. A high proportion of the cost inflation has been passed on to the customer base.

We anticipate that the rise in the gross margin to 46.4% in the full year, reflecting the revenue mix leaning further towards hire revenues, will filter down to all the other profitability measures - despite rising costs. We now estimate operating margins of 9.2%, the highest level since FY14. With interest also set to be lower following the refinancing, adj. PBT is seen to increase to £2.5m (previous expectation of £2.1m).

Net debt declined markedly from the year end position (£5.4m) to £3.5m. This reflected a combination of the strong cash flow, the redemption of the loan notes (part-conversion to equity but the majority into lower coupon bank debt) and a reduction in capex (£0.9m during H1). Notwithstanding the expense of the new manufacturing facility falling partially during H2, we now expect year end debt to fall to £3.3m by the end of FY21.

Good progress on the strategic goals

Shortly following the appointment of Peter Harris as Executive Chairman, the Board published several immediate strategic goals.

- The restructuring of the Board, with a flatter reporting structure reducing costs
- A restructuring of the balance sheet, with the loan notes replaced by a combination of bank debt and equity, at a markedly lower cost and a new banking relationship now in situ (HSBC)
- The expansion of the Burton-on-Trent manufacturing facility. Planning consent has been secured and the construction process to commence in mid-Q3, with commissioning of the new plant during H1 '22
- A strengthening of the hire fleet and a more sector focused hire and equipment sales team to serve the rapidly growing data centre market, ultimately leading to the contract with the ecommerce retailer
- The proposed disposal of Tasman Oil Tool division

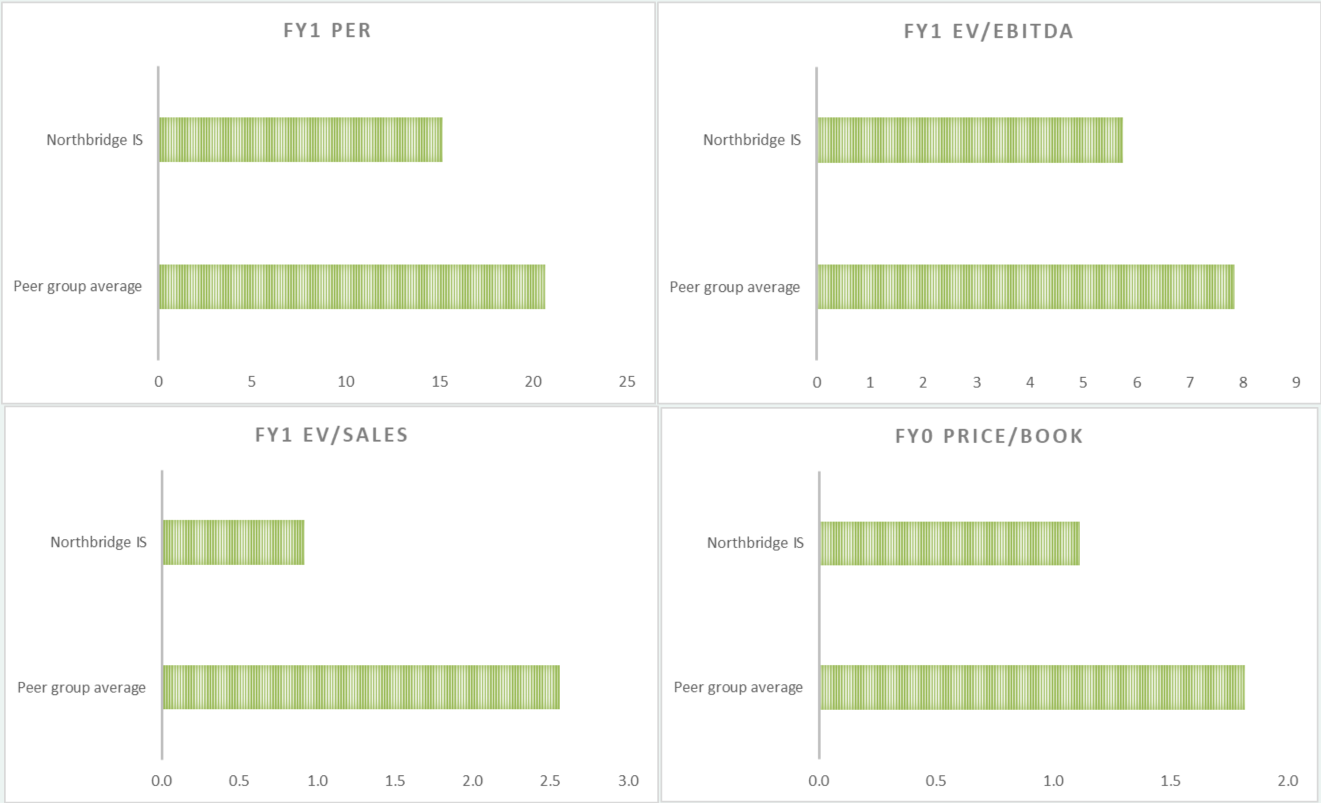
Apart from the disposal of Tasman, with discussions with interested parties continuing, all the above targets have been met. We previously highlighted that both costs and capex within Tasman was being closely monitored to help to return the business back to profitable levels.

Valuation

We have conducted a wide-ranging valuation comparison relative to Northbridge's peers, based on FY1 PER, FY1 EV/EBITDA, FY1 EV/Sales and FY0 Price/book multiples. What is very clear is that NBI trades at marked discounts on each metric, with the most significant disparity on an EV/Sales basis (65% discount), with the other three averaging a discount of 33% relative to a peer group consisting of Aggreko, Ashtead, Caterpillar, Herc Holdings, HSS Hire, Speedy Hire, United Rentals and VP Group.

Making a conservative assessment at this time that ignores the huge EV/Sales disparity and simply eradicates the 33% average discount on other metrics, would suggest a fair value of 152p / share.

NBI trades on a discount to peers on all valuation metrics



Source: Market Screener

FINANCIALS

Summary Profit & Loss					
Year to Dec	**2017A**	**2018A**	**2019A**	**2020A**	**2021E**
Crestchic	20.2	20.4	25.4	24.6	29.3
Tasman Oil Tools	5.6	6.6	8.2	9.4	7.8
Revenue	25.8	26.94	33.60	33.98	37.10
CoGS	-16.3	-15.7	-17.8	-19.3	-19.9
Gross profit	9.5	11.3	15.8	14.7	17.2
Gross margin (%)	36.8%	41.8%	47.0%	43.2%	46.4%
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	-3.8	-1.4	1.2	1.7	3.4
Op margin (%)	-14.7%	-5.0%	3.5%	5.0%	9.2%
Net Interest	-0.6	-0.7	-0.9	-0.7	-0.5
Associates/JVs	-0.2	-0.4	-0.8	-0.6	-0.4
PBT (Adjusted)	-4.4	-2.0	0.3	0.4	2.5
Exceptionals	0.0	-0.7	0.0	-7.8	-0.8
PBT (Reported)	-4.4	-2.7	0.3	-8.0	1.7
Tax	-0.2	0.3	-0.6	-0.1	-0.5
PAT	-4.7	-2.4	-0.2	-8.1	1.2
Minority interests	0.0	0.0	0.0	0.0	0.0
Earnings	-4.7	-2.4	-0.2	-8.1	1.2
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0
Retained Profit	-4.7	-2.4	-0.2	-8.1	1.2
EPS (Adjusted) (p)	-17.9	-5.9	-0.8	-0.7	7.0
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	28.7

Source: Company historics, Equity Development estimates

Summary Cash Flow					
Year to Dec	**2017A**	**2018A**	**2019A**	**2020A**	**2021E**
Operating profit	-3.8	-1.4	1.2	1.1	3.0
Depn. & Amortn.	7.2	6.0	5.8	5.3	4.7
Working capital movement	-0.9	0.4	0.6	0.2	-1.1
Other	0.0	0.0	0.0	0.0	-0.8
Operating cash flow	2.6	5.0	7.6	6.6	5.8
Net Interest	-0.6	-0.7	-0.9	-0.7	-0.5
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	4.0	2.8	1.1
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	1.0
Minority payment	0.0	0.0	-1.4	-0.3	0.0
Other financial	-0.4	-1.1	-0.3	-1.5	0.0
Increase Cash/(Debt)	0.7	0.1	2.3	1.0	2.1
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	-3.3

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet					
Year to Dec	**2017A**	**2018A**	**2019A**	**2020A**	**2021E**
Intangible Assets	12.8	12.3	11.6	4.5	4.3
Tangible Assets	29.3	28.9	25.6	24.5	23.7
Investments/other	0.0	0.0	0.9	1.0	1.0
Net Working Capital	5.3	6.2	5.8	5.2	6.3
Capital Employed	47.4	47.4	43.9	35.1	35.2
Other	0.0	0.0	0.0	0.0	0.0
Net Cash/(Debt)	-8.7	-8.7	-6.4	-5.4	-3.3
Provisions Liabilities/Charges	-3.0	-2.3	-2.2	-2.0	-2.0
Net Assets	35.7	36.5	35.2	27.7	29.9

Source: Company historics, Equity Development estimates

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