Northbridge Industrial Services

Cautious optimism

12 August 2020

The H1 pre-close trading update from Northbridge suggests that H1 adj. PBT is likely to be broadly unchanged y-o-y at the break-even level. This, however, masks a strong Q1 which mostly followed the positive trends seen in 2019 and a COVID-19 related downturn in Q2. Delays to longer-term projects may affect Q3 trading at Tasman, with recovery more likely from Q4. Crestchic sales and rental in advanced economies continues to perform well, with 2020 hire revenues likely to be impacted by reduced testing in the Middle and Far East, related to natural resources and shipyards.

We think the combination of the NAV, marked discount to its peer group and the positive medium-term outlook offers strong support to the shares.

Overall revenues declined just 4.8% y-o-y during H1, which we consider an incredibly positive result given the wider global economic impact of COVID-19. Management has previously stated that revenues in April and May fell by 13% y-o-y, suggesting a near double-digit improvement during Q1.

The mix of revenue, however, did change markedly with manufacturing likely to have improved on the 38.2% share of revenues delivered during H1 2019, reflecting record order books. Meanwhile, issues regarding the manning of international projects owing to COVID-19 related outbreaks & travel restrictions from March onwards impacted rental. Such restrictions eased from June except for Singapore. Conversely, demand for load banks continues its healthy upwards trajectory in the US.

The weak oil price during H1 has had only a limited effect on Tasman, representing just 25% of divisional revenues. More importantly, natural gas and LNG continues to perform well, aided by domestic shortages in Australia and strong export demand.

The changing split of revenues influenced gross margin with rental typically higher than manufacturing. Additionally, the combination of temporary pay reductions, travel restrictions and support from governments (£0.2m) led to an offsetting decrease in OpEx. As such, we expect adj. PBT to be broadly unchanged y-o-y.

Net debt has declined modestly from the year-end to £6.3m (FY2019A: £6.4m). What is encouraging is that management has confirmed that it has formally extended its existing banking facilities and loan notes (£4.0m) by a further year to June 2022.

COVID-19 resulted in the deferral of several longer-term natural gas projects to Q4 2020/2021. As such, recovery within Tasman may be slower than anticipated during Q3, before picking up during the final quarter. Rental at Crestchic continues to be driven by the fast-growing data centre and renewable energy markets, while manufacturing continues to work through record order books. We remain optimistic with regards to the outlook for the Group into 2021 and beyond.

Considering the encouraging noises emanating from the Company, we continue to believe that the share price is both well supported and yet to reflect improved group trading. That view is supported by lowly ratings: a 27% discount to NAV and a trailing (2019) EV/EBITDA multiple of just 4x, which represents a 32.4% discount to its peers.

Company Data

EPIC	NBI
Price (last close)	90p
52 weeks Hi/Lo	165p / 62p
Market cap	£25m
NAV / share (Dec '19)	124p
Net debt (Dec '19)	£6.4m

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 power reliability and power security markets globally.

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

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