Northbridge Industrial Services

15 June 2021

Good news from Crestchic and on refinancing

The trading update from Northbridge ahead of its AGM was positive, with activity levels within the core Crestchic loadbank division markedly higher YoY. Good order visibility into Q3 underlines their confidence in the outlook. The timetable to dispose of Tasman at a sensible price remains intact whilst work is expected to commence on the extension of manufacturing in Burton-on-Trent during Q3, adding 50% to capacity.

Although global economic recovery is building nicely, we are not yet changing revenue and EBIT projections, although the restructuring of the balance sheet and conversion/settlement of the loan notes reduces net interest. On this basis, we have increased our adj. EPS projections by 5.6% and still feel the current share price materially fails to reflect fair value.

Crestchic continues to build momentum, reflecting record orders, a return of oil & gas/marine activity in the Far East and continuing strength of the datacentre, renewable energy and grid resilience markets in Europe, the US, and the Middle East. Trading remains comfortably ahead YoY and Crestchic's performance YTD underlines the reasons for the additional manufacturing facility, adjacent to the existing Burton-on-Trent site. With work on it commencing during Q3, the new production capacity (accounting for a third of the revised total) should be operational during Q2 2022.

Tasman continues to suffer from a strong pre-COVID Q1 comparative in 2020, although current activity levels demonstrate early signs of improvement. The timetable to dispose of Tasman remains intact, albeit should acceptable bids fail to emerge, the alternative plan involves targeting margin improvements.

A new banking facility has replaced the old one and the convertible loan note. The latter facility saw a settlement of three-quarters for cash, with a supportive conversion into ordinary shares for the remainder. While this results in an exceptional interest charge of £0.8m, the current year interest saving more than offsets the increase in shares, to result in a 5.6% accretion in adj. EPS for FY21F.

Should the positive trading continue (and it looks underpinned by strong orders into Q3) then we expect to then revisit our financial projections for the current year. For now, a cleaning up of the balance sheet provides an encouraging degree of momentum in terms of earnings.

Share price not reflecting the trading recovery

As loadbank markets continue to recover/improve and the expansion of manufacturing capacity leads to an accelerated expansion in the hire fleet, we see profitability rising disproportionately to revenue growth. Even on our conservative estimates, the shares remain clearly undervalued relative to peers.

Key financials

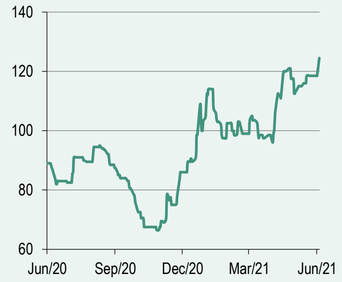
Y/e Dec 31, £m	FY18A	FY19A	FY20A	FY21E
Revenue	26.9	33.6	34.0	37.1
EBITDA	4.6	6.2	6.4	7.3
Adj. PBT	-2.0	0.3	0.4	2.1
Adj. EPS (p)	-5.9	-3.8	-0.7	5.6
DPS (p)	0.0	0.0	0.0	0.0
Net assets	36.5	35.2	27.7	29.6
Net Debt	-8.7	-6.4	-5.4	-2.0

Source: Company historics, ED estimates

Company Data

EPIC	NBI
Price (last close)	124p
52 weeks Hi/Lo	125p/65p
Market cap	£36m
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 ("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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AGM trading update – Crestchic strongly ahead YoY

Northbridge has issued a trading update ahead of its AGM. The group continues to perform well, markedly above last year's first half and driven by a much-improved performance from **Crestchic**. FY21 commenced with **the third consecutive year of record manufacturing order books**, with the factory operating at full capacity and expected to do so for the remainder of the year.

Crestchic saw activity levels improve in the Far East during Q1, with projects undertaken suggesting that life is starting to return to the oil & gas/marine segment. However, the nature of the projects is such that they tend to be lumpy with testing required towards the end of the build/conversion, which in this case related to floating production storage and offloading (FPSO) vessels.

Q2 witnessed a resurgence in the Group's more traditional markets of the UK, Europe, the US, and the Middle East, driven by strong progress within the datacentre market, with opportunities continuing to emerge within the renewable energy and grid resilience sectors. Order visibility into Q3 remains positive, demonstrating growth YoY, which augurs well for the outlook for the full year.

Input price inflation has featured YTD. Costs of materials such as metals, copper wiring and, semiconductors, which in part reflect covid-19 related shortages, plus higher shipping costs have resulted in higher prices passed on to customers.

The ongoing difficulty of moving equipment and teams across borders during the pandemic continues to hamper **Tasman**. The division is underperforming versus the H1 outcome last year, which reflected a continuation of the strong recovery in activity from H2 2019, during Q1 20. Activity in the gas markets in Australia are generally strong during its winter, with the anticipated start of several deferred contracts commencing either side of the new year further bolstering the likely H2 performance.

While management remains confident in the FY outcome, we believe it is too early to adjust our financial projections for revenues and EBIT, notwithstanding the marked YoY improvement to date. However, we have nudged EPS expectations up by 5.6% to reflect the restructuring of the balance sheet.

New Burton-on-Trent manufacturing capacity expansion

The Group has received planning permission to construct the new manufacturing facility on land adjacent to the main Northbridge facility in Burton-on-Trent. The expectation is that work will commence during Q3, with completion (including the installation of a crane and the fitting out) during Q2 2022. The anticipated cost is for it to be in the region of £2m. The new facility expands current production levels by 50%, with room at the site for further expansion when necessary.

A restructuring of the balance sheet

The terms of the £4m of convertible loan notes changed unfavourably from July 2020 (the coupon rising from 8% to 10%), requiring either settlement or conversion to reduce ongoing costs. More than three-quarters of the bondholders chose to redeem their loan notes, involving a 25% early redemption penalty. As a result, £3.8m of cash was returned to holders ahead of the AGM. The remaining £0.9m was converted into 1.1m new shares.

The opportunity was taken to renew the RCF and other banking facilities, with HSBC the chosen bank because of its global presence. The facility has been increased to £10m, which represents a vote of confidence in the Group and allows for expansionary growth (including the expansion in manufacturing). The cost of the new facility is **markedly cheaper** than the outgoing banking/loan note arrangement.

While there is an associated exceptional interest charge relating to the early redemption penalty of £0.8m, **an interest cost saving of £0.1m should occur as a result in FY21**, with a more substantial saving in FY22 and beyond, due to the restructuring of the balance sheet/debt facility.

Significantly, the interest saving more than outweighs the increase in weighted average number of shares, which in turn results in EPS accretion of 5.6% in FY21 to 5.6p.

Possible divestment of Tasman

An update has been provided on the planned divestment of Tasman, first proposed by the Board two months ago as part of a strategic review since they believed the division's ability to achieve the Group minimum return on investment target of 15% was uncertain in the shorter term. The process is underway and proceeding to plan, with management in the process of receiving and assessing indicative offers. Were an agreement with the potential suitors not reached in the current year, Northbridge would retain the division and work to further improve its return on capital.

Completion of Board restructuring

The expected reorganisation of the Board follows the decision by Ash Mehta to not seek re-election to the Board after serving for the last 14 years. Julie Aldersey-Williams replaces Ash as Chairman of the Audit Committee, while Stephen Yapp takes the role of Senior Non-Executive. Ash has agreed to remain in an advisory role to the Group for the rest of the financial year to ensure a smooth transfer of responsibilities. The previous CEO, Eric Hook, retired at the end of March, with Chris Caldwell, the MD of Crestchic joining the Board. The changes have apparently accelerated the decision making and reporting processes.

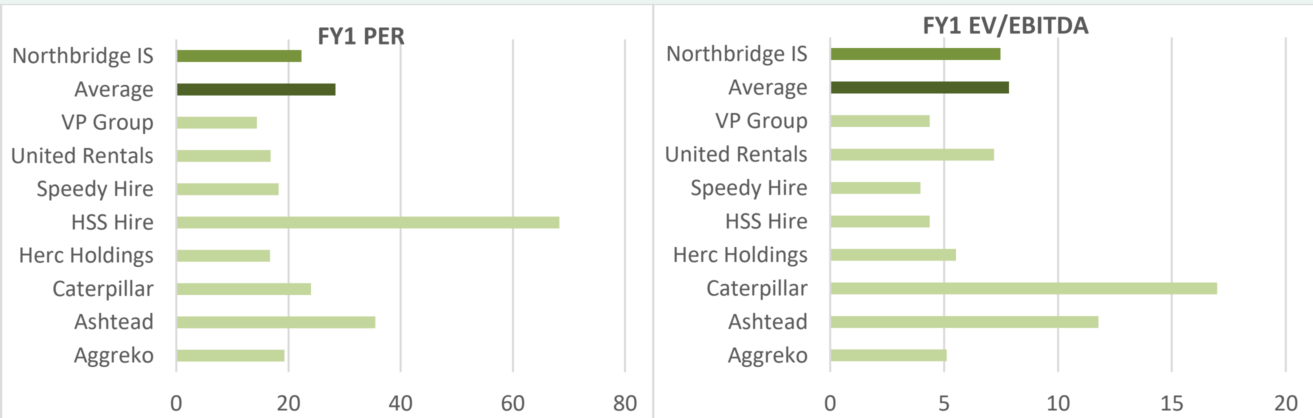
Valuation

To arrive at a sensible valuation for Northbridge, we continue to split the two divisions, Crestchic and Tasman. For the latter, we shall examine its asset base, rather than its earnings stream which currently reflects only the early stages of its recovery journey.

Trading at Crestchic is currently benefitting from record orders, with the expansion of manufacturing facilities required to meet future demand as recovery gets underway in several verticals. The new site should allow NBI to meet both medium-term growth expectations and to expand the higher margin hire fleet, which should result in margin expansion over the same four-to-five-year period. We think our projections for Crestchic remain conservative, with scope for positive momentum to continue.

With much of the asset base of Tasman NZ written down, the hire fleet of the oil & gas tools business remains valued in single digit £m's. However, we estimate that EBITDA for Tasman should amount to approximately £1.85m in FY21. Whether the Group is debt free or indebted by the year end will primarily depend on whether an agreement to dispose of Tasman emerges.

Peer group comparisons



Source: ED

As shown above, we still believe Northbridge shares' ratings do not reflect growth prospects.

Financials

Summary Profit & Loss					
Year to Dec, £m	**2017A**	**2018A**	**2019A**	**2020A**	**2021E**
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	-3.8	-1.4	1.2	1.7	2.9
Op margin (%)	-14.7%	-5.0%	3.5%	5.0%	7.8%
Net Interest	-0.6	-0.7	-0.9	-0.7	-0.6
Associates	-0.2	-0.4	-0.8	-0.6	-0.2
PBT (Adjusted)	-4.4	-2.0	0.3	0.4	2.1
Exceptionals	0.0	-0.7	0.0	-7.8	-0.8
PBT (Reported)	-4.6	-3.1	-0.5	-8.0	1.1
Tax	-0.2	0.3	-0.6	-0.1	-0.5
PAT	-4.8	-2.8	-1.1	-8.1	0.6
Minority interests	0.0	0.0	0.0	0.0	0.0
Earnings	-4.8	-2.8	-1.1	-8.1	0.6
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0
Retained Profit	-4.8	-2.8	-1.1	-8.1	0.6
EPS (Adjusted) (p)	-17.9	-5.9	-3.8	-0.7	5.6
DPS (p)	0.0	0.0	0.0	0.0	0.0
Ave no of shares (F Dil) (m)	25.9	28.8	28.2	28.2	28.7

Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Dec, £m	2017A	2018A	2019A	2020A	2021E
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	-0.8
Operating cash flow	2.6	5.0	6.8	6.6	5.7
Net Interest	-0.6	-0.7	-0.9	-0.7	-0.6
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	0.9
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	0.5	-1.5	0.0
Increase Cash/(Debt)	0.7	0.1	2.3	1.0	1.9
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	-3.5

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to Dec, £m	2017A	2018A	2019A	2020A	2021E
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	-3.5
Provisions Liabilities/Charges	-3.0	-2.3	-2.2	-2.0	-2.0
Net Assets	35.7	36.5	35.2	27.7	29.6

Source: Company historics, Equity Development estimates

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