

NMCN

CONSTRUCTION & MATERIALS

25 June 2020

NMCN.L

385p

Market Cap: £39.7m

SHARE PRICE (p)



12m high/low

625p/350p

Source: LSE Data

KEY DATA

Net (Debt)/Cash £21.0m (at 31/12/19)

Enterprise value £18.7m

Index/market LSE

Next news Interim results, 6 Aug

Shares in Issue (m) 10.3

Chairman Robert Moyle

Chief Executive John Homer

CFO Dan Taylor

COMPANY DESCRIPTION

Construction and services group: Water (72% of revenue, serving utilitics) & Built Environment (roads, telecoms etc).

nmcn.com

NMCN IS A RESEARCH CLIENT OF PROGRESSIVE

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Clearer picture emerging

Construction and engineering services company nmcn “continues to trade profitably” despite Covid-19, reporting a healthy order intake and cash position in today’s AGM statement. The Water segment, in particular, continued to perform strongly and we believe that nmcn’s activities will remain underpinned by the Government’s commitment to infrastructure investment. The Group intends to reinstate guidance, previously withdrawn in line with most peers, as “greater visibility” appears at the HY 2020 results.

- “Good start” in Q1, prior to Covid impact.** Revenue increased by 3.7% to £97.9m and pre-tax profit rose 5.9% to £1.8m in the first quarter to 31 March. This was only moderately affected by the lockdown, which was announced by the PM on 23 March. Since then the Group has maintained workload at over 75% of normal levels but, inevitably, for the balance of the year performance “will continue to be impacted by uncertainties in both order intake and operating efficiency”.
- Water supports increase in profits.** The larger Water segment improved margins and profit despite an anticipated decline in revenue as utility companies transition between ‘AMP’ investment cycles. Profits were steady in the Built Environment segment, with continuing benefits of the turnaround in Telecoms, offset by poor weather, the impact of Covid-19 and investment in other of the segment’s business units.
- Cash remains positive despite investment in growth.** The Group’s cash position was £11.8m at 31 March. This was lower than the prior year due to revenue growth increasing working capital requirements, the mix of contract and customer payment terms and the continued strategic investment in nmcn Investments. However, the Group anticipate cash at the half year being at similar level to the 31 March 2020 balance.
- Guidance set to return as greater visibility develops.** Most peers withdrew financial guidance early in the lockdown, but nmcn now anticipates reinstating guidance for FY 2020 at the 6 August interims. This will take into account social distancing measures and improved visibility on order intake during the rest of the year. Chief Executive John Homer summarises: “Challenges remain, but our order intake, balance sheet and positive cash position continue to remain healthy. The non-discretionary spend required in our core markets will hold steady in any economic downturn and we expect to be able to benefit from this in future trading”.

FYE DEC (£M)	2015	2016	2017	2018	2019
Revenue	217.6	250.5	302.3	340.2	405.4
Adj EBITDA	2.8	8.5	14.3	12.7	16.1
Fully Adj PBT	0.6	5.9	10.6	7.9	10.4
Fully Adj EPS (p)	12.3	63.9	82.7	57.9	78.9
EV/Sales (x)	0.1x	0.1x	0.1x	0.1x	0.0x
EV/EBITDA (x)	6.7x	2.2x	1.3x	1.5x	1.2x
PER (x)	31.2x	6.0x	4.7x	6.6x	4.9x

Source: Company Information and Progressive Equity Research estimates

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Please refer to important disclosures at the end of the document.

Profitability increased despite reduction in revenue

Continuing improvements in Telecoms mitigate weather impact and investment

Two main segments, with operations in key infrastructure and environmental areas – and focused on growth regions of the Midlands and North

Water: profits rise despite AMP transition

The larger of the two segments drove the increase in profitability during the first quarter. The Water business has continued to perform strongly despite the anticipated reduction in revenue due to the AMP transition year for many of the segment’s customers. Q1 revenues declined by 4.7% to £66.9m, but despite this, profitability increased from £1.5m to £1.6m – an increase in the margin from 2.1% to 2.4%.

The segment continues to progress its full asset lifecycle management offering and since FY 2019 results in April it has secured further orders and frameworks from Anglian Water and the Coal Authority. Outlook: “The segment is well positioned to take advantage of the resurgence in opportunities post the pandemic”.

Built Environment: Telecoms continues recovery

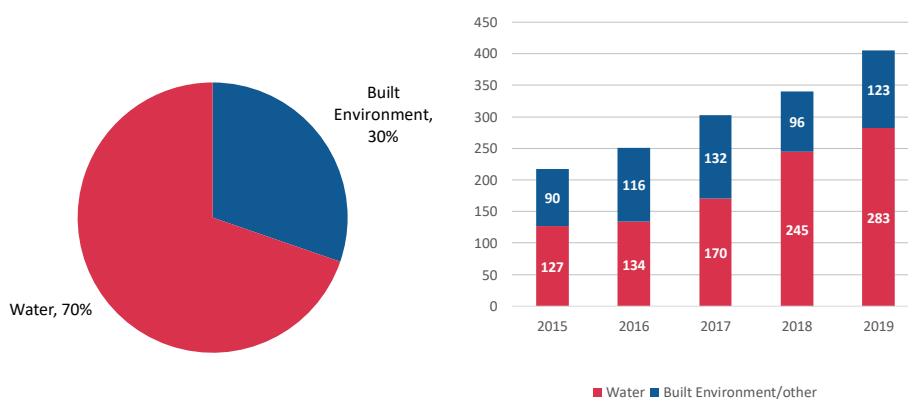
Revenue increased by 28% to £31.0m during the quarter, reflecting the ongoing organic growth across all business units in the segment, and generated unchanged profits of £0.2m. The main driver was the benefits of the turnaround within the Telecoms unit continuing into 2020. The severe weather early in the period impacted Highways and Building, while the initial effects of Covid-19 on the Building business unit and the investment in the new Power & Industrial team resulted in a small combined contribution from these activities.

nmcn in brief: benefiting from PM’s ‘levelling-up’ pledge

The Group was founded in 1946 as North Midland Construction and rebranded as nmcn in 2018. It now consists of two segments: Water (70% of FY 2019 revenue and 72% of profit) and Built Environment. Longer-term the aim is for a more even balance in revenue and earnings between the two segments. Water undertakes design, major civil and mechanical engineering, construction and maintenance programmes for large water groups. Built Environment does building and refurbishment work including housing, roads and telecoms. For greater detail, see our initiation note, 20 May 2019, *Sustainable development* ([link](#)).

Our view continues to be that nmcn stands to benefit from the Conservative Government’s manifesto commitments not only to increase overall infrastructure investment but also to ‘level-up’ prosperity in Britain’s regions, including the nmcn’s traditional core in the Midlands and North of England.

Segmental revenue split, FY 2019, % (LHS); 2015 - 19, £m (RHS)



Source: Company information

Segmental performance

Divisional results					
Year-end December (£m)	2015	2016	2017	2018	2019
Revenue					
Built Environment	90.4	116.1	131.8	95.9	122.8
<i>Change (%)</i>		28.4%	13.5%	-27.3%	28.1%
Water	127.2	134.4	170.5	244.6	282.6
<i>Change (%)</i>		5.6%	26.9%	43.5%	15.6%
Group revenue	217.6	250.5	302.3	340.2	405.4
<i>Change (%)</i>	12.6%	15.1%	20.7%	12.5%	19.2%
Operating profit					
Built Environment	(2.3)	0.9	4.1	(0.1)	3.0
<i>Margin (%)</i>	(2.6%)	0.7%	3.1%	(0.1%)	2.5%
Water	3.2	5.2	6.6	8.1	7.6
<i>Margin (%)</i>	2.5%	3.9%	3.9%	3.3%	2.7%
Total	0.8	6.1	10.7	8.0	10.6
<i>Margin (%)</i>	0.4%	2.4%	3.6%	2.4%	2.6%

Source: Company Information

Financial Summary: nmcn

Year end: December (£m unless shown)

	2015	2016	2017	2018	2019
PROFIT & LOSS					
Revenue	217.6	250.5	302.3	340.2	405.4
Adj EBITDA	2.8	8.5	14.3	12.7	16.1
Adj EBIT	0.8	6.1	10.7	8.0	10.6
Reported PBT	0.6	2.1	9.1	6.0	7.4
Fully Adj PBT	0.6	5.9	10.6	7.9	10.4
NOPAT	1.7	6.7	8.5	6.5	8.5
Reported EPS (p)	12.3	26.0	71.2	47.5	57.4
Fully Adj EPS (p)	12.3	63.9	82.7	57.9	78.9
Dividend per share (p)	0.0	4.5	6.0	18.0	9.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	4.4	8.2	11.6	20.7	(0.8)
Free Cash flow	3.2	7.3	9.1	17.9	(4.5)
FCF per share (p)	31.6	72.1	89.2	176.7	(43.6)
Acquisitions	0.0	0.0	0.0	0.0	0.8
Disposals					
Shares issued					
Net cash flow	1.2	4.8	5.7	16.3	(7.5)
Overdrafts / borrowings	4.2	4.0	6.4	2.7	4.8
Cash & equivalents	6.6	11.4	17.0	33.4	25.8
Net (Debt)/Cash	2.4	7.4	10.6	30.6	21.0
NAV AND RETURNS					
Net asset value	10.2	12.7	12.8	18.2	20.9
NAV/share (p)	100.7	125.1	126.2	179.0	203.2
Net Tangible Asset Value	10.2	12.7	12.8	18.2	18.7
NTAV/share (p)	100.7	125.1	126.2	179.0	181.2
Average equity	10.2	11.5	12.8	15.5	19.6
Post-tax ROE (%)	12.2%	23.0%	56.7%	31.1%	30.2%
METRICS					
Revenue growth		15.1%	20.7%	12.5%	19.2%
Adj EBITDA growth		202.1%	68.9%	(11.4%)	27.0%
Adj EBIT growth		619.2%	76.3%	(25.3%)	32.3%
Adj PBT growth		875.7%	78.5%	(25.4%)	32.5%
Adj EPS growth		418.4%	29.5%	(30.0%)	36.3%
Dividend growth		N/A	33.3%	200.0%	(50.0%)
Adj EBIT margins		2.4%	3.6%	2.4%	2.6%
VALUATION					
EV/Sales (x)	0.1	0.1	0.1	0.1	0.0
EV/EBITDA (x)	6.7	2.2	1.3	1.5	1.2
EV/NOPAT (x)	10.7	2.8	2.2	2.9	2.2
PER (x)	31.2	6.0	4.7	6.6	4.9
Dividend yield	N/A	1.2%	1.6%	4.7%	2.3%
FCF yield	8.2%	18.7%	23.2%	45.9%	(11.3%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

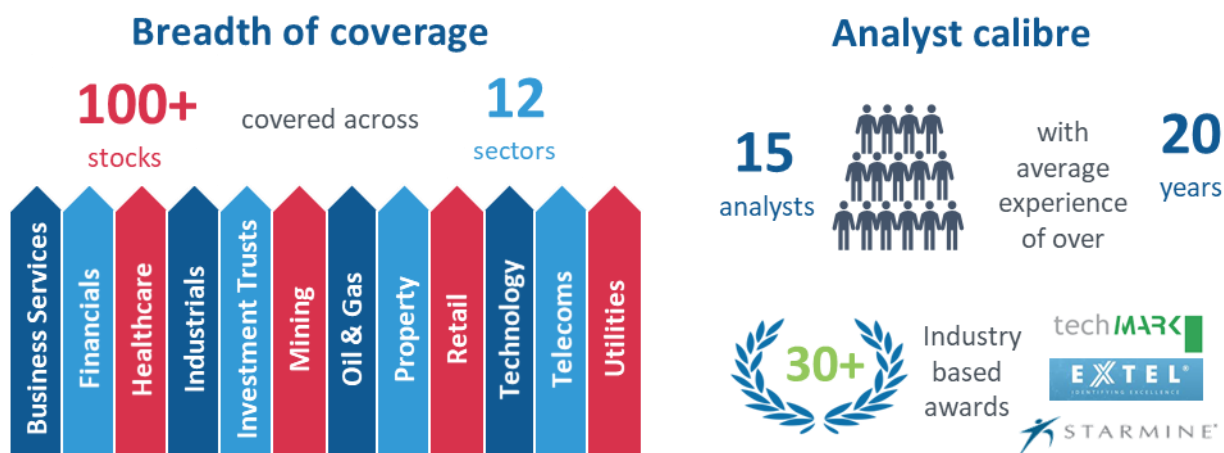
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