

# Northbridge Industrial Services



## Recovery on track

05 February 2019

**The pre-close trading update was positive with further evidence of recovery in several of the Group's markets. Whilst no guidance was given in terms of gross margins, we see further improvement y-o-y reflecting a growing proportion of rental income versus sales. The purchase of PPC has gone smoothly, with customers retained in SE Asia and equipment utilised by the Malaysian JV.**

**2019 looks to have started well, with record order books at Crestchic's sales division and long-term growth derived from Crestchic USA, renewable power generation and in a recovery in oil & gas, resources and shipping markets. Despite modest capex and the asset purchase of PPC, we expect the level of net debt to be comfortable, reflecting improving cash generation. We anticipate that the Group will return to profitability during H2.**

Northbridge has issued an update for the year to December 2018. Encouragingly, the release stated that the results are in line with management's expectations; the order book at the start of 2019 is at record levels for sales of Crestchic manufactured product; and that recovery is evident across a number of its markets.

2018 was typified by an increase in the proportion of rental versus sales, reflecting an easing of the previously tight conditions in the drilling tool market (Tasman) and strong progress in the US (Crestchic). The rising number of opportunities in data centres and renewable energy (Crestchic) also contributed to the improving proportion of rental income in the developed economies. Rental revenues at Tasman were significantly ahead y-o-y, albeit from a modest base. Whilst rental income has masked the overall decline in equipment sales at Crestchic, its UK and European revenues have been resilient. The improvement in rental will have resulted in higher gross margins, which augurs well for our expectation that the Group is likely to break-even during H2 2019.

The acquisition of PPC during November was significant, due to the asset base increase of c.US\$10m, at a cost of US\$4.0m (£3.1m); expansion of the customer base beyond Malaysia to include Singapore, Thailand and Vietnam; and the modest recovery in the oil & gas markets signalling an end to the cost cutting programmes in place from 2015. Modest capex has bolstered the equipment level in Tasman Australia and New Zealand.

The record New Year order book at Crestchic augurs well for the year. The early signs of improving activity within the resources and shipping industries, coupled with good demand from long-term growth sectors (renewable power generation and data centres) are all encouraging. At Tasman, the oil & gas market continues to show progress, despite the crude oil price decline in Q4 2018. The update reinforces our confidence that the Group should move back into the black during H2 2019.

The Group's balance sheet remains strong despite the acquisition of PPC in November, and reflects both strong cash generation and an equity placing in June.

**With no change to estimates and positive signs concerning trading, we reiterate our valuation of 173p / share, which equates to a premium of 54% to the existing share price.**

### Company Data

EPIC	AIM: NBI
Price (last close)	112.5p
52 week Hi/Lo	152.5p / 107p
Market cap	£31.7m
ED valuation / share	173p
Net debt	£8.5m

### 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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## Financials

Summary Profit & Loss					
Y/e Dec 31, £m	2015A	2016A	2017A	2018F	2019F
Crestchic	22.8	19.3	20.2	20.2	21.6
Tasman Oil Tools	10.5	4.5	5.6	6.2	8.6
Other	0.8	0.0	0.0	0.0	0.0
<b>Total Revenue</b>	<b>34.1</b>	<b>23.8</b>	<b>25.8</b>	<b>26.45</b>	<b>30.24</b>
CoGS	-19.3	-14.7	-16.3	-15.8	-17.1
<b>Gross profit</b>	<b>14.8</b>	<b>9.1</b>	<b>9.5</b>	<b>10.6</b>	<b>13.1</b>
Gross margin (%)	43.4%	38.4%	36.8%	40.2%	43.4%
Op costs	15.5	12.7	12.9	11.9	12.8
Other operating income	0.0	0.0	-0.2	-0.3	0.2
Operating profit	-0.7	-3.6	-3.6	-1.5	0.5
Op margin (%)	-2.2%	-14.9%	-14.0%	-5.7%	1.6%
Net Interest	-0.6	-0.6	-0.6	-0.5	-0.5
PBT (Adjusted)	-1.4	-4.1	-4.2	-2.0	0.0
Exceptionals	-7.2	-1.4	0.0	0.0	0.0
<b>PBT (Reported)</b>	<b>-8.6</b>	<b>-5.5</b>	<b>-4.2</b>	<b>-2.0</b>	<b>0.0</b>
Tax	0.4	-0.8	-0.2	-0.5	-0.5
PAT	-8.2	-6.3	-4.5	-2.5	-0.5
Earnings	-8.2	-6.3	-4.5	-2.5	-0.5
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0
Retained Profit	-8.2	-6.3	-4.5	-2.5	-0.5
<b>EPS (Adjusted) (p)</b>	<b>-10.7</b>	<b>7.9</b>	<b>-23.7</b>	<b>-12.7</b>	<b>1.9</b>
<b>DPS (p)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Av no of shares (FD) (m)	19.7	24.0	25.9	27.2	28.2

Source: Company historics, Equity Development estimates

### Summary Cash Flow

Y/e Dec 31, £m	2015A	2016A	2017A	2018F	2019F
Operating profit	-0.7	-3.6	-3.8	-1.5	0.5
Depn. & Amortn.	6.9	7.1	7.2	5.8	5.9
Working capital movement	3.4	-0.2	-0.9	0.0	-0.6
Other	-2.7	-1.5	0.0	0.1	0.1
Operating cash flow	6.9	1.8	2.6	4.5	5.9
Net Interest	-0.6	-0.6	-0.6	-0.5	-0.5
Taxation	-0.9	-0.4	-0.3	-0.4	-0.5
Net capex	-2.0	-0.1	-0.2	-1.5	-1.3
Operating FCF	3.3	0.8	1.4	2.0	3.6
Net (Acquisitions)/Disposals	-0.9	-1.3	-0.3	-4.2	0.0
Dividends	-0.9	0.0	0.0	0.0	0.0
Share Issues	-0.2	5.3	0.0	2.2	0.0
Minority payment	0.0	0.0	0.0	0.0	0.0
Other financial	-0.9	0.0	-0.4	0.1	0.0
Increase Cash/(Debt)	0.4	4.8	0.7	0.2	3.6
<b>Opening Net Cash/(Debt)</b>	<b>-14.7</b>	<b>-14.3</b>	<b>-9.5</b>	<b>-8.7</b>	<b>-8.5</b>
<b>Closing Net Cash/(Debt)</b>	<b>-14.3</b>	<b>-9.5</b>	<b>-8.7</b>	<b>-8.5</b>	<b>-4.9</b>

Source: Company historics, Equity Development estimates

### Abbreviated Balance Sheet

Y/e Dec 31, £m	2015A	2016A	2017A	2018F	2019F
Intangible Assets	12.8	14.1	12.8	12.2	11.8
Tangible Assets	35.6	35.6	29.3	28.7	24.5
Investments/other	0.3	0.0	0.0	0.0	0.0
Net Working Capital	5.7	5.2	5.3	5.3	6.0
Capital Employed	54.4	54.9	47.4	46.2	42.2
Other	-0.9	0.0	0.0	0.0	0.0
Net Cash/(Debt)	-14.3	-9.5	-8.7	-8.5	-4.9
Provisions Liabilities/Charges	-3.3	-3.6	-3.0	-2.8	-2.5
Net Assets	35.9	41.8	35.7	35.0	34.8

Source: Company historics, Equity Development estimates

## Valuation

DCF calculation										
£m	'18F	'19F	'20F	'21F	'22F	'23F	'24F	'25F	'26F	'27F
Free cash flow	1.9	3.7	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.4
WACC (%)	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
Timing factor	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discount rate	0.92	0.85	0.79	0.73	0.67	0.62	0.57	0.53	0.49	0.45
Present value	1.8	3.1	2.9	2.8	2.6	2.5	2.3	2.2	2.1	2.0
Sum of discounted cash flows	24.4									
Term growth rate (%)	2.25									
Terminal value	32.9									
Net debt	-8.5									
Equity value	48.8									
No. of shares (m)	28.2									
Value per share (p)	173									

Source: Equity Development



## Investor Access

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