

Premier Technical Services Group

Complementary Electrical Services acquisition

Premier Technical Services Group (PTSG) is expanding its Electrical Services divisional portfolio via the acquisition of Guardian Electrical Compliance, a complementary national testing and compliance company. A £20m placing has funded this £12m deal and provides finance for additional ones that appear to be well advanced. On a full-year basis, Guardian alone enhances our FY19 and FY20 EPS by c 4%, with the prospect of more to come, subject to concluding further deals.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	39.2	7.5	7.6	1.4	20.4	0.9
12/17	52.9	10.2	9.7	1.6	16.0	1.0
12/18e	69.9	14.4	11.8	1.8	13.2	1.2
12/19e	87.8	18.1	12.5	1.9	12.5	1.2

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Guardian enhances growth prospects

PTSG has announced the acquisition of Guardian Electrical Compliance, a Sheffield-based national B2B provider of electrical testing and compliance services, predominantly focused on fixed wire systems. This relatively young company (established in 2010) has grown organically to £8.3m revenue and £1.8m underlying EBIT in 2017, supported by high renewal and good new business win rates and healthy margins – characteristics it shares with PTSG. In terms of fit, Guardian broadly doubles the Electrical Services division field engineer resource, provides more fixed wire balance (PTSG has larger portable appliance testing activities) and includes 'Traq-It', a complementary customer interface IT platform that can enhance PTSG's own Clarity ERP system. There is an obvious opportunity to capture post-inspection repair and maintenance revenues, which Guardian does not currently carry out and also to cross-sell services to Guardian's client base with which there is limited overlap. PTSG is paying £12m initial cash consideration (or £11m net of cash acquired) – or c 8x 2017 PAT – and up to £4m over the next three years, depending on achieved profitability.

A successful placing of 12.7m new shares at 157.5p has raised c £19m net funds for PTSG, of which £12m is being applied to the Guardian acquisition. Separately, other target companies in the pipeline include one in Fire Solutions (expected to complete for a £4m initial consideration by the end of 2018) and potentially others in each of its divisions. These are expected to be funded from the remaining placing proceeds and an extension to existing debt facilities. Management expects planned acquisitions to be significantly earnings-enhancing when the placing proceeds are fully deployed; our FY18 EPS estimate is up c 5% (neutral underlying plus lower tax effect in FY18 only) and + c 4% in the following two full years.

Valuation: Adding to growth momentum

Share price weakness and an earnings-enhancing deal have increased our three-year EPS CAGR from 9% to 11% now and reduced the current year 13.2x P/E and 11.8x EV/EBITDA multiples down to 12.0x and 8.4x, respectively, by FY21.

Acquisition and placing

Industrial support services

22 October 2018

Price **156.0p**

Market cap **£192m**

Net debt* (£m) at end-June 2018 11.8
*company definition

Shares in issue 123.2m

Free float 59%

Code PTSG

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (12.9) (18.3) (11.4)

Rel (local) (8.7) (10.8) (5.4)

52-week high/low 210.0p 156.0p

Business description

Premier Technical Services Group is an independent provider of regulated and safety related specialist building services in four divisions across the UK. It listed on AIM in February 2015 at 52p.

Next event

H118 DPS to be paid 26 October 2018

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Premier Technical Services Group is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

£m	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS										
Revenue	9.0	12.1	13.9	18.0	25.8	39.2	52.9	69.9	87.8	95.1
Cost of Sales	(3.7)	(4.9)	(5.5)	(7.7)	(11.8)	(18.9)	(25.9)	(34.1)	(42.9)	(46.4)
Gross Profit	5.3	7.1	8.4	10.3	14.0	20.3	27.1	35.8	44.9	48.6
EBITDA	2.0	3.3	3.8	4.7	6.2	9.0	12.3	17.3	21.3	23.3
Operating Profit (before GW and except.)	1.6	2.9	3.2	4.0	5.3	7.9	10.6	15.0	18.7	20.5
Intangible Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	(0.9)	(0.1)	(0.5)	(2.5)	(4.2)	(4.8)	(8.4)	(9.9)	(4.5)	(4.5)
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit	0.7	2.8	2.6	1.5	1.1	3.0	2.3	5.1	14.2	16.0
Net Interest	(0.0)	(0.0)	(0.1)	(0.3)	(0.3)	(0.4)	(0.5)	(0.7)	(0.6)	(0.5)
Profit Before Tax (norm)	1.6	2.8	3.0	3.7	5.0	7.5	10.2	14.4	18.1	20.0
Profit Before Tax (FRS 3)	0.7	2.8	2.5	1.2	0.8	2.6	1.8	4.5	13.6	15.5
Tax	(0.1)	(0.6)	(0.6)	(0.6)	(0.3)	(0.3)	(0.5)	(1.2)	(2.7)	(3.6)
Profit After Tax (norm)	1.3	2.2	2.4	2.9	4.2	6.7	9.4	13.1	15.4	16.4
Profit After Tax (FRS 3)	0.5	2.2	1.9	0.5	0.5	2.3	1.3	3.3	10.9	11.9
Average Number of Shares Outstanding (m)				77.1	85.9	88.1	96.8	110.6	123.7	124.7
EPS - normalised (p)				3.77	4.87	7.63	9.73	11.81	12.46	13.15
EPS - FRS 3 (p)				0.69	0.57	2.61	1.37	2.96	8.82	9.56
Dividend per share (p)				0	1.00	1.40	1.60	1.80	1.90	2.00
Gross Margin (%)	58.9	59.2	60.5	57.3	54.3	51.9	51.2	51.2	51.2	51.2
EBITDA Margin (%)	22.3	27.2	27.1	26.2	24.0	23.0	23.3	24.7	24.2	24.5
Operating Margin (before GW and except.) (%)	18.1	23.6	22.8	22.3	20.5	20.0	20.1	21.5	21.3	21.6
BALANCE SHEET										
Fixed Assets	2.5	3.4	4.6	5.0	13.9	16.0	32.1	43.3	42.7	42.1
Intangible Assets	1.8	2.4	3.5	3.6	10.7	12.4	26.2	35.8	35.2	34.5
Tangible Assets	0.6	0.9	1.1	1.3	2.4	3.2	4.3	6.6	6.6	6.6
Investments	0.1	0.0	0.0	0.0	0.8	0.4	1.6	0.9	0.9	0.9
Current Assets	2.5	4.3	5.9	8.3	13.5	27.4	40.8	51.7	56.2	67.7
Stocks	0.1	0.1	0.1	0.2	0.4	0.5	1.2	1.6	2.0	2.2
Debtors	2.4	3.6	5.4	8.1	13.1	20.3	32.5	37.5	46.5	50.1
Cash	0.1	0.6	0.4	0.0	0.0	6.5	7.0	12.6	7.7	15.4
Current Liabilities	(2.2)	(3.3)	(4.8)	(8.5)	(9.3)	(17.9)	(24.7)	(24.8)	(20.1)	(22.2)
Creditors	(2.0)	(3.1)	(3.2)	(5.7)	(8.3)	(8.6)	(11.2)	(14.1)	(19.4)	(21.6)
Short term borrowings	(0.2)	(0.3)	(1.6)	(2.7)	(1.0)	(9.4)	(13.5)	(10.7)	(0.7)	(0.7)
Long Term Liabilities	(0.1)	(0.3)	(4.6)	(3.6)	(9.2)	(13.4)	(15.7)	(13.9)	(13.9)	(13.1)
Long term borrowings	(0.1)	(0.3)	(4.1)	(3.1)	(6.6)	(10.8)	(13.1)	(13.1)	(13.1)	(13.1)
Other long term liabilities	0.0	0.0	(0.5)	(0.5)	(2.5)	(2.6)	(2.7)	(0.8)	(0.8)	(0.0)
Net Assets	2.7	4.1	1.2	1.1	8.9	12.0	32.4	56.3	64.9	74.4
CASH FLOW										
Operating Cash Flow	2.0	2.4	1.8	2.6	(0.5)	0.6	(0.8)	9.3	11.1	16.2
Net Interest	(0.0)	(0.0)	(0.1)	(0.3)	(0.3)	(0.4)	(0.5)	(0.7)	(0.6)	(0.5)
Tax	(0.3)	(0.2)	(0.9)	(0.6)	(0.5)	(0.8)	(0.8)	(0.8)	(1.2)	(2.7)
Capex	(0.5)	(0.2)	(0.1)	(0.2)	(0.1)	(0.4)	(0.7)	(1.1)	(1.9)	(2.1)
Acquisitions/disposals	(0.1)	(0.3)	(0.8)	(0.7)	(3.3)	(2.7)	(16.1)	(14.2)	0.0	(0.8)
Financing	0.0	0.0	(4.0)	0.0	4.7	0.2	15.8	19.0	0.0	0.0
Dividends	(0.8)	(0.7)	(0.8)	(0.8)	(0.5)	(1.1)	(1.5)	(1.9)	(2.3)	(2.4)
Net Cash Flow	0.4	0.9	(4.9)	0.1	(0.6)	(4.7)	(4.6)	9.6	5.1	7.7
Opening net debt/(cash)	0.6	0.3	(0.1)	5.3	5.8	7.6	13.6	19.5	11.2	6.1
HP finance leases initiated	(0.0)	(0.3)	(0.4)	(0.5)	(0.6)	(1.0)	(1.0)	(0.7)	0.0	0.0
Other	0.0	(0.2)	(0.1)	(0.1)	(0.5)	(0.2)	(0.4)	(0.6)	0.0	0.0
Closing net debt/(cash)	0.3	(0.1)	5.3	5.8	7.6	13.6	19.5	11.2	6.1	(1.6)
Closing net debt/(cash) - company definition*	(0.1)	(0.6)	4.6	5.0	6.3	12.1	18.4	9.4	4.3	(3.4)

Source: PTSG, Edison Investment Research. Note: PTSG was listed on AIM in February 2015; FY15 (and the FY14 comparative) were fully reported in April of that year and the prior year information shown above was taken from the company's IPO document. Company-defined net debt differs from the other net debt line shown as it excludes finance leases. Neither definition includes outstanding loan notes (Integral Cradles deferred consideration), which are non-interest bearing but are expected to flow out as cash in FY18 £1.9m and FY20 £0.8m (included in acquisitions/disposals).

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