QuickView

Carillion

Support Services

13 March 2017

Price	230p
Market cap	£990.3m

Trading through the troubles

Although 2016 results were in line, with increased revenues and positive cash flow, Carillion's share performance reflects the challenges still evident in the balance sheet. Average net debt last year was £587m, the pension deficit at the end of 2016 was £663m (post tax) and there was an early payment facility (EPF) for suppliers of £498m at the year end. Management is tackling these with business rebalancing and ongoing cost reduction programmes. Meanwhile, the dividend was nudged up, currently yielding over 8%.

2016 results mixed but meet expectations

Carillion's numbers for last year were in line with expectations. Revenue rose by 14% to £5.2bn, mostly organic and underlying operating profit, as signalled, was up 1% to £254m. Revenue in Support Services rose 7% to £2.7bn and underlying operating profit was up 25% to £183m The company hinted at impending announcements about new contract wins and a shift in focus towards the UK. The former is evident in the announcement of a £490m JV contract win on 3 March in the Middle East. The UK successes have yet to emerge.

FD committed to balance sheet improvement

Carillion's new FD, Zafar Khan, has made a commitment to reduce net debt, reversing the five-year trend. Management is incentivised to reduce year-end debt (£219m at Dec 2016) by up to £50m. New ways are being sought to handle the £50m pa of pension deficit payments. We expect the EPF will be sustained at the current level and not increased; reducing it will have no impact on working capital.

Earnings forecasts show slow, steady growth

Consensus earnings estimates hardly altered post the results released 1 March 2017, showing limited growth in 2017 and 2018.

Valuation is harsh, maybe reflects the liabilities

We expect the company to focus strongly on tackling its financial issues as witnessed by the ongoing cost reduction programme and a focus on working capital management. The 1% rise in the dividend for 2016 shows adequate restraint to preserve cash and intent to reward shareholders and provides generous yield support. Success in strengthening the balance sheet and in rebalancing the businesses to improve profitability and working capital exposure, in areas such as the Middle East, will be key to restoring market confidence.

Consensus estimates

Year end	Revenue (£bn)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/16	5.2	178.0	35.3	18.5	6.5	8.0
12/17e	4.8	181.4	34.3	18.9	6.7	8.2
12/18e	5.0	188.4	35.7	19.4	6.5	8.4
12/19e	5.0	195.5	36.1	20.3	6.4	8.8

Source: Bloomberg

Share price graph

Share details

Code	CLLN
Listing	LSE
Shares in issue	430.0m

Business description

Carillion operates in two main segments, Support Services (52% of 2016 revenue) and Construction (42%). It also has a PPP arm that accounts for 6% of revenue, most of which is JVs.

Bull

- Strong position in UK FM market, largest player
- Highly selective approach in construction. Good risk management
- Favourable market trends in UK Infrastructure

Bear

- Balance sheet will take time to resolve
- Market conditions difficult in the Middle East
- Funding for UK Infrastructure slow to emerge

Analysts

Stephen Rawlinson	+44 (0)20 3077 57 00
Toby Thorrington	+44 (0)20 3077 57 00

industrials@edisongroup.com

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia