

# Lakehouse

## Business moving forward once again

Lakehouse's recent report on the six months to March 2017 shows the business starting to improve, following a review of strategy and operations that commenced in mid-2016. Three of the four divisions showed a better underlying revenue and EBITA performance versus last year. The troubled Property Services operation had much reduced revenue, as it completed existing work programmes and started to rebuild. There appears to be a good level of demand for all of the company's services, as evidenced by the 7% increase in the order book to £580m. Central costs have been reduced. Net debt stood at £25m at end March 2017, 1.1x 2016 EBITDA. The mid-term prospects are positive, in our view, despite the negative reaction of the share price following the interims. Consensus numbers are unaltered for the year to September 2017.

## Stepping back to regain footing

Lakehouse reported H1 revenue down 11% at £150m. Property Services revenue halved to £32.5m as legacy projects were completed while new wins have yet to have an impact, contributing to the overall group £17m revenue reduction. However, revenue increases were achieved elsewhere. Compliance achieved a 20% increase in revenue, which was ahead of management expectations, and the group contract win rate was good. The H1 £1.1m underlying EBITA loss in Property Services, versus a profit last year of £1.9m (H116), accounts for more than the £2.5m reduction in underlying EBITA at the group level, to £2.6m. The group operating cash outflow of £0.3m in the period reflects the seasonality of the business and was an improvement on management expectations.

## Improved business in the future

Lakehouse has had a chequered history since coming to the market in March 2015 at a share price of 89p. The buy and build platform and weak operational practices in Property Services overwhelmed the IPO management team; it was replaced in July last year. The core "buy and build" strategy remains in place but on hold. New work has improved risk/reward characteristics and is with long-term, blue-chip clients.

## Valuation: Share price weakness and a low valuation

Historically the share price reacted adversely to the operational issues and management upheaval but had recovered somewhat prior to this news. The valuation is below a 10-12x prospective P/E ratio, the norm for companies with similar characteristics and customers, such as Mears.

### Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
09/16	344.7	9.9	5.1	1.5	8.1	3.6
09/17e	289.0	8.2	4.1	2.0	10.1	4.8
09/18e	319.5	11.1	5.5	2.5	7.5	6.1
09/19e	347.0	13.7	6.8	3.0	6.1	7.3

Source: Bloomberg

### Support services

30 June 2017

**Price** 41.25p  
**Market cap** £64m

### Share price graph



### Share details

Code	LAKE
Listing	AIM
Shares in issue	15.6m

### Business description

Lakehouse is engaged in asset and energy support services businesses, focused on customers in the UK outsourced public and regulated services sectors. It comprises four divisions: Property Services, Compliance, Energy Services and Construction.

### Bull

- Property Services now stable; restructure complete.
- Compliance performance encouraging.
- Demand for its activities remains positive from the blue-chip customer base.

### Bear

- Restructure not proven.
- Markets are price competitive.
- Deferred dividend at halfway stage.

### Analysts

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