

Williams Grand Prix

Industrials
11 October 2017

H1 sees positive financial development

Half-year results demonstrated strong progress, notably in the racing activity although, with four races left in the 2017 F1 season, another fifth place finish in the Constructors' Championship seems likely. A robust performance from Williams Advanced Engineering (WAE) was also achieved. Balance sheet reformation has been aided by strong H1 cash flow and an £8m property disposal expected shortly.

H1 sees positive financial progress

Group revenues rose by 7.4% to £85.9m (H116: £80.0m), despite a £7.6m decline in 'other' project sales outside the two main businesses. Formula One sales rose by 27.6% to £65.5m aided by specific project work, while WAE turnover was marginally lower at £19.9m (H116: £20.6m). Gross profit was 5.5% higher at £53.9m with the margin falling by 110bp to a still very healthy 62.7%. Other operating income rose 72.5% to £12.9m (H116: £7.5m). At the EBITDA level Formula One more than doubled its contribution to £10.1m from £4.1m, while WAE was broadly flat at £3.4m. Operating free cash flow of £10.9m compared to £13.0m in H116. Net assets rose by 31% to £41.1m compared to the start of the period.

Balance sheet improving

The first half of the year is seasonally stronger due to the timing of corporate sponsorship inflows, which facilitated the repayment of £11m of bank debt during the period while maintaining investment in the racing activities. A similar amount is due for repayment in H217, with an important £11m facility due in December. The company expects to raise £8m from a property disposal to fund most of the repayment, with options appearing to be in place should there be a timing mismatch. It would appear that the balance sheet will enter FY18 in better shape.

Valuation: Variability reflected in rating

With the volatility of revenues and earnings and the nature of its business, Williams continues to represent a challenge to assess from either a cash perspective or in comparison to peers. The improved financial metrics should leave the shares looking attractive, but since future investment fundamentals rely heavily on season-by-season performance, the market is right to treat the shares as highly cyclical for now. This could change if WAE grows significantly and the F1 playing field is levelled sufficiently to provide a more sustainable recurring income and cash flow.

Historic financials

Year end	Revenue* (£m)	PBT* (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/13	130.4	11.7	123.9	0.0	13.6	N/A
12/14	90.2	(34.5)	(391.2)	0.0	N/A	N/A
12/15	125.6	(11.2)	(116.2)	0.0	N/A	N/A
12/16	167.4	5.9	59.5	0.0	28.2	N/A

Source: Williams Grand Prix Holdings. Note: *Revenue & PBT for continuing operations.

Price **€18.78**
Market cap **€187m**

£1=€1.115

Share price graph



Share details

Code	WGF1
Listing	Deutsche Börse Scale
Shares in issue	10.0m
Last reported net debt as at 31 December 2016	£36.1m

Business description

The group comprises a Formula One racing team (70% revenues) and Williams Advanced Engineering (WAE, 22% revenues). The Formula One racing team placed fifth in the 2016 FIA Formula One Constructors' Championship. WAE specialises in the commercial application of aerodynamics, materials and battery technologies.

Bull

- Liberty Media's ownership of Formula One Group should lead to higher publicity for the sport and therefore higher prize funds.
- Williams Advanced Engineering is a growing business with a high-end product offering.
- If spending caps are introduced it will be to the benefit of smaller teams such as Williams.

Bear

- Management focused on track performance over shareholder return.
- Financial performance is heavily dependent on track performance, which is unpredictable.
- Higher profits at WAE are likely to be reinvested into the Formula One business.

Analysts

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H117 results

The half-year figures represent strong progress, with reported earnings significantly ahead of the FY16 full year total. While this is flattered by the reversal of the mark-to-market loss on derivative financial instruments to a gain in the current period, nevertheless, even after stripping out this non-cash movement earnings were 35% higher than in H116.

Revenues grew by 7.4% to £85.9m, with Formula One revenues showing a £14.1m (+27.6%) improvement to £65.5m driven by project work, which more than compensated for the absence of less specific project work in the 'other' category that led to a £7.6m drop in sales contribution. WAE delivered a relatively stable sales performance at £19.9m, 3.4% lower than in H116.

Exhibit 1: Interim income statement summary

Six months to June (£m)	H116	H117	% change
Revenue			
Formula One revenue	51.4	65.5	27.6
WAE revenue	20.6	19.9	(3.4)
Other	8.1	0.5	(94.0)
Group total	80.0	85.9	7.4
Gross profit	51.1	53.9	5.5
Gross margin	63.8%	62.7%	
EBITDA			
Formula One	4.1	10.1	146.3
WAE	3.5	3.4	(2.9)
Other	0.1	(3.1)	
EBITDA	7.7	10.4	34.3
Depreciation	(1.7)	(2.7)	57.2
Amortisation	(0.1)	(0.3)	184.4
EBIT	5.9	7.4	25.4
Share based payments	(0.5)	(0.4)	(26.6)
Movement in derivative financial instruments	(2.7)	2.6	
Net interest	(0.5)	(0.4)	(20.3)
Profit Before Tax (as reported)	2.2	9.3	323.1
Net Income (as reported)	2.2	9.3	323.1
EPS (as reported) (p)	22.7	96.1	323.0

Source: Company data

Gross margin fell 110bp to 62.7%, and we suspect this might reflect the absence of non-specific project work in the period. There was also a significant increase in other operating income, up 72.5% to £12.9m from £7.5m in H116, again driven by the Formula One activity. At the EBITDA level Formula One more than doubled its contribution and WAE fell only marginally, which implies the 'other' category generated a £3.1m loss, which we assume is unallocated central costs. The company continues to pay zero tax and has available tax losses and accrued R&D credits that will maintain this situation for the time being.

The company does not disclose net debt, but it would appear that it has been reduced by around £11m since the start of the year with the repayment of loans and a relatively neutral movement in cash and cash equivalents. In all, a further £11.5m of loans are due for repayment in the second half of the year. Management expects to conclude the disposal of a parcel of land beside the main site in Oxfordshire by the year end for £8m to cover the majority of this requirement. The balance will be met from existing facilities, as will any timing delay on the property deal beyond the year end.

Outlook

Sponsorship monies tend to be first half weighted in terms of cash flow, although revenue recognition is more even, and some of the elements of the H117 performance are one-off or non-recurring, with management indicating that it faces continued cost pressures in the near term. The

intimation to us is that H217 year-on-year progress is likely to be less marked than was the case in the first half.

Looking further forward, success tends to breed success for the Formula One business. A fifth place finish in the 2017 Constructors' Championship is not certain yet, but seems likely. There are four races left and a lot of points still available, but recent showings seem to be encouraging. In turn, this drives sponsorship revenues, which should remain stable. WAE continues to be positioned to grow and develop new IP-driven activities such as the potentials in electrical vehicles and battery technology. If these factors are combined with a more equitable future Formula One commercial proposition arising from the control of Liberty Media, then prospects for a more sustainable and potentially less volatile level of profitability and cash flow could become more of a reality.

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