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Speedy Hire

Support services

30 November 2017

Confident of sustainable UK earnings growth

Speedy Hire has signalled that it is fully through a transformation process and clearly focused on profitable growth. H1 revenue (ex-disposals) was almost 7% higher, at £183m, and management flagged that it expects to exceed previous adjusted PBT expectations for the full year by c 6-7%, which will form the base for future years. The positive results, benefiting from the recent operational restructuring, two recent bolt-on acquisitions and positive demand, point to sustained investor support.

Operational performance is better and it shows

The main operational reason for the improved H1 performance was better fleet utilisation, up 6% to 55%. That was combined with increased sales of consumables and training and cost reductions. The company indicated it is currently satisfied that in terms of IT, depot structure and operational methods it is performing well with some room for further improvement. Procurement is also making a contribution.

Confidence in expansion plan

Speedy is seeking UK expansion through growing the fleet once again (after restricting it in recent years to adjust the product mix and reduce capital employed), increasing services revenue (training, partnered services and testing) and making more bolt-on acquisitions. The Middle East operation is stabilised but non-core in the mid-term; it has shown improvement but with revenue at just 8% of the group total it is a distraction, in our view. Investor pressure for a tie-up with HSS is no longer in the public domain, which permits the focus on expanding and improving.

Scope to perform ahead of expectations

H1 EBITDA increased by 11.2% to £33.8m. EBITDA guidance for the full year is for around £70m; also an 11% rise. The company has consistently outperformed expectations in recent years. There is also a hint in the results statement that shareholder returns might be enhanced, but, for now, investors will need to be content with a 52% rise in the dividend to 0.5p at the interim stage. Net debt was £63m at end September, less than 1x expected FY18 EBITDA; the target is 1.5-2x so there is scope to invest in growth, both organic and via acquisition.

Valuation: Turnaround points to upside

UK equipment hire companies are typically valued on an EV/EBITDA basis. A 6x multiple for EV/EBITDA is the UK hire sector 'norm'. We believe this is appropriate for SDY, suggesting an EV of £420m. Speedy Hire's current market capitalisation is £298m with an EV of £361m, which shows 20% potential upside in the share price.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/17	369.4	16.2	2.4	1.0	23.8	1.8
03/18e	380.0	23.0	3.5	1.3	16.3	2.3
03/19e	400.3	29.0	4.4	1.6	13.0	2.8
03/20e	414.3	33.9	5.2	1.9	11.0	3.3

Source: Bloomberg (pre two recent bolt-on acquisitions)

Price	57p
Market cap	£298m

Share price graph

Share details

Code	SDY
Listing	LSE
Shares in issue	523.6m

Business description

Speedy Hire is engaged in the provision of equipment for hire and sale, and associated services to construction, infrastructure, industry and related industries.

Bull

- Operational transformation completed.
- Demand remains strong/long-term contracts.
- Fleet restructure has improved the mix.

Bear

- Core markets price competitive.
- Construction markets growth slow.
- FX raising the cost of some new fleet.

Analysts

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