Hogg Robinson Group

IMS

Reassuring

Support services

IMS confirmation of continued momentum after a clear H215 recovery is encouraging, even if structural pressures persist. Hogg Robinson (HRG) is responding well to a changing corporate travel market, with further good progress in ensuring a suitable cost base, while its enhanced technology offering strengthens its ability to serve the wider travel industry and expense sectors. Despite marked share price outperformance since May's results, the rating is modest and cash generation (confirmed by the IMS as "strong") amply underpins management's progressive dividend policy.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/14	340.8	35.8	7.8	2.21	8.7	3.2
03/15	330.1	30.5	6.6	2.32	10.3	3.4
03/16e	329.0	33.5	7.3	2.50	9.3	3.7
03/17e	338.0	36.0	7.8	2.65	8.7	3.9

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

IMS delivers

HRG is on course to meet its current year expectations. Although these are early days (profit is second-half oriented) and tough times in the industry advise caution, maintained constant currency revenue in Q1 (as in H215) and guidance of "good progress" over the full year appear to support our FY16 forecast of 8% higher constant currency trading profit. Our assumption of such a significant margin pickup (14.0% against 12.9% last year but still below 14.5% in FY14) reflects, in particular, better than expected cost control in FY15, raised guidance of £8-10m savings from reorganisation and the Government of Canada contract moving into profit. The new business pipeline is healthy, as is the scope to expand relationships with existing clients. Key growth initiatives, such as new service offerings (eg meetings, groups and events) and new markets (eg energy and marine) are clearly paying off.

Steady improvement on the cards

We are introducing forecasts for FY17, which assume further trading margin gain, if at a lower rate, in corporate travel management as a result of cost savings, new technology sales, boosted by the new Fraedom brand, and easing economic conditions. We look also for investment to pay off in Fraedom and forecast net debt at March 2017 to be just 0.6x EBITDA.

Valuation: Winning back trust

Despite recent share price strength and understandable caution ahead of greater evidence of HRG's ability "to get ahead of the curve", its FY16e P/E rating is low (under 10x) compared with that of the FTAS UK Support Services sector (c 17x). While this challenge is being met, we reiterate that HRG is securely funded (substantially to 2018), highly cash generative and committed to a generous dividend policy.

29 July 2015

Price	**68p**
Market cap	**£221m**

Net debt (£m) at March 2015	54.7
Shares in issue	324.3m
Free float	52%
Code	HRG
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	10.6	51.1	5.8
Rel (local)	13.8	60.3	6.9
52-week high/low		70.0p	39.4p

Business description

Hogg Robinson is an international corporate services company, specialising in travel, expenses and data management.

Next event

Interim results	Late-November 2015

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Edison profile page

Hogg Robinson Group is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

£000s	2014	2015	2016e	2017e
Year-end March	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	340,800	330,100	329,000	338,000
EBITDA	60,200	53,400	56,500	59,000
Operating Profit (before GW and except)	49,300	42,500	46,000	48,500
Exceptional Items	(7,000)	(6,300)	(10,000)	(9,000)
Amortisation of Acquired Intangibles	(3,500)	(1,000)	(1,000)	(1,000)
Associates/JVs	1,100	1,100	1,100	1,100
Operating Profit	39,900	36,300	36,100	39,600
Net Interest	(14,600)	(13,100)	(13,600)	(13,600)
Profit Before Tax (norm)	35,800	30,500	33,500	36,000
Profit Before Tax (FRS 3)	25,300	23,200	22,500	26,000
Tax	(7,600)	(7,500)	(6,800)	(8,000)
Adjustment to tax for normalised earnings	(2,500)	(800)	(2,200)	(1,700)
Profit After Tax (norm)	28,200	23,000	26,700	28,000
Profit After Tax (FRS 3)	17,700	15,700	15,700	18,000
Minority charge	(900)	(1,000)	(1,000)	(1,000)
Average Number of Shares Outstanding (m)	318.5	322.7	323.0	323.0
EPS - normalised (p)	7.79	6.57	7.28	7.83
EPS - FRS 3 (p)	5.27	4.56	4.55	5.26
Dividend per share (p)	2.2	2.3	2.5	2.7
EBITDA Margin (%)	17.7	16.2	17.2	17.5
Operating Margin (before GW and except.) (%)	14.5	12.9	14.0	14.3
BALANCE SHEET				
Fixed Assets	292,200	304,500	299,000	298,000
Intangible Assets	238,000	236,800	234,000	232,000
Tangible Assets	10,500	9,800	10,000	10,000
Investments	43,700	57,900	55,000	56,000
Current Assets	150,800	145,800	149,000	158,000
Stocks	0	0	0	0
Debtors	106,000	105,500	106,000	106,000
Cash	43,600	38,400	40,000	49,000
Current Liabilities	(172,500)	(167,700)	(172,000)	(172,000)
Creditors	(171,600)	(167,600)	(171,000)	(171,000)
Short term borrowings	(900)	(100)	(1,000)	(1,000)
Long Term Liabilities	(291,400)	(355,400)	(342,000)	(342,000)
Long term borrowings	(108,000)	(93,000)	(86,000)	(86,000)
Other long term liabilities	(183,400)	(262,400)	(256,000)	(256,000)
Net Assets	(20,900)	(72,800)	(66,000)	(58,000)
CASH FLOW				
Operating Cash Flow	52,200	39,900	40,500	43,000
Net Interest	(5,300)	(4,300)	(4,200)	(4,000)
Tax	(4,200)	(4,000)	(5,000)	(6,000)
Capex	(14,300)	(11,300)	(14,000)	(14,000)
Acquisitions/disposals	1,300	0	0	0
Financing	(1,300)	(2,600)	(2,000)	(1,800)
Dividends	(6,700)	(7,100)	(7,600)	(8,200)
Net Cash Flow	21,700	10,600	7,700	9,000
Opening net debt/(cash)	87,000	65,300	54,700	47,000
HP finance leases initiated	0	0	0	0
Other	0	0	0	0
Closing net debt/(cash)	65,300	54,700	47,000	38,000

Source: Company data, Edison Investment Research

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