EDISON

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Lakehouse

Support services

31 January 2018

Creating a platform for earnings growth

The key signals from Lakehouse's 2017 results are that the mainstream, core operations are back on track and are ready to improve further. The group has undergone restructuring, which had the effect of reducing revenue in 2017 at the group level, to improve the quality of its earnings. That process included downsizing Property Services, the sale of Orchard Energy (non-core) and increasing its presence in energy services and gas compliance. During the year to September 2017, Lakehouse won orders for £580m of new work (equal to 2x 2017 revenue). It is on frameworks with a value of £1.9bn, £0.3bn more than the previous year. The order book at end FY17 was up 19% at £631m. The business is well positioned and, with net debt at a "norm" run rate of £11m at y/e, has a robust balance sheet.

A step back to move ahead in the future

Group revenue from continuing operations fell 3% to £290m in the year to end September 2017 and EBITA fell to £7.3m vs £8.5m in the prior year, including substantial investment in training and development charged to the P&L (£1.3m). The main changes were that revenue in Gas Compliance rose by 15% to £104m and fell 52% to £47m in Property Services. PBT for the year was £5.6m, in line with market expectations, and underlying EPS was 3.7p. Company guidance for FY18 is that revenue in the two core operations will increase and net operating margins will be 7-8%. In Property Services the £1.7m loss in 2016/17 will improve to around break-even, according to management. In Construction, the company expects a net operating margin of 3% on revenue of £60-70m.

Realistic earnings development expected

Consensus forecasts for the current year will be unchanged on the results, in our view. There are greater than average uncertainties in the construction and smart meter markets in the current year. Lakehouse needs more time to show further gains from the restructure, without stretching expectations too far in the short term. The range of outcomes depends in part on assumptions about the mix of work, which is always hard to gauge at this stage of the year. At 39.5p and with a FY18e consensus dividend of 1.0p (vs 0.5p for FY17), the stock offers a 2.5% yield. The company is committed to raising dividends with earnings and we believe that market consensus is on the low side, in terms of "normal" levels of cover.

Valuation is attractive versus peers

The difficult history of Lakehouse since flotation, including an EGM and a change in management, remains a valuation drag. Given the turnaround, this could provide a buying opportunity. At c 9.9x FY18e P/E, the stock trades at a discount to its peers.

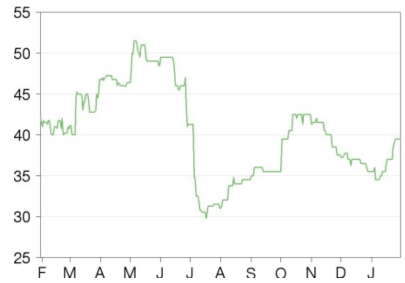
Consensus estimates (continuing business)

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
09/16	299.1	7.5	5.2	1.5	7.6	3.8
09/17	290.3	5.6	3.7	0.5	10.7	1.3
09/18e	287.0	8.2	4.0	1.0	9.9	2.5
09/19e	297.5	10.6	5.2	1.5	7.6	3.8

Source: Bloomberg

Price	39.5p
Market cap	£62m

Share price graph



Share details

Code	LAKE
Listing	AIM
Shares in issue	157.5m

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 restructure complete.
- Gas compliance performance encouraging.
- Demand for its activities remains positive from the blue-chip customer base. Large order book.

Bear

- Restructure not fully proven.
- Markets are competitive.
- Carillion impact, slow contract settlements.

Analysts

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