

# Hercules Site Services



25th July 2024

## Q3 update highlights continuing momentum

Hercules' Q3 update follows upbeat interim results in June and gives us further confidence in our forecasts for the current year (we make no changes to estimates). Further contract successes have been achieved across the Group and Hercules looks to be well positioned to benefit from the new government's infrastructure and housebuilding commitments over the coming years. We reiterate our 55p Fair Value estimate and note the attraction of a 4.7% dividend yield, unusually high for a smaller company with Hercules' growth profile.

### Divisional highlights – contract successes across the board

**Labour supply**, the Group's largest division, delivered strong growth in H1 (revenue +25%), and has reported continued success during Q3. The business was awarded a place on the Hill Group Preferred Supplier List to provide blue-collar operatives for the construction industry (an example of cross selling from Hercules' white-collar Future Build business). Hercules is also now supplying labour to the Sizewell C nuclear project, having opened a satellite office to support this multi-year opportunity.

The **Civils Projects** division continues to win work for its major water clients, notably Thames Water and Anglian Water, with £7.9m of contracts awarded to the business across the Q2 and Q3 periods. This is an attractive sector, given the **urgent need for investment** in this area, where Hercules has a strong market position. The water regulator Ofwat has recently approved a **£96bn** infrastructure spending programme for AMP8, which will underpin demand for the next five years.

The **Hercules Construction Academy** in Nuneaton (launched in January '24) has made a positive impact with the local community since launch and has also been appointed as an approved training provider for Gen2 and City & Guilds Training to deliver Construction Bootcamps across England.

### Supportive market drivers underpin growth outlook

Today's update references the new government's housing and infrastructure plans, which should benefit Hercules as a leading supplier of labour for the UK infrastructure and construction sectors. Hercules is well positioned to address industry skill shortages both by sourcing workers through its mobile apps, and by upskilling its workforce at the Hercules Construction Academy. We also note a recent **uptick in construction sector sentiment** (PMI reading over 50 for past four months), which may suggest an improving outlook for this important market.

#### Company Data

EPIC	HERC.L
Price (last close)	36.5p
52 weeks Hi/Lo	42p/24p
Market cap	£23m
ED Fair Value / share	55p
Proforma net cash/ (debt)	(£22.8m)
Avg. daily volume	39,600

#### Share Price, p



Source: ADVFN

#### Description

Hercules Site Services is a leading supplier of labour to the Construction industry in the UK. The business was founded in 2008 by CEO Brusk Korkmaz, and has achieved significant growth since then, reporting revenue of £84.7m in FY23. The business floated on AIM in 2022 to provide access to capital to support the next stage in the Group's growth plans.

Next news: Trading update post September year-end

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#### Key Financials & Valuation metrics

Year-end Sept, £m	2020A	2021A	2022A	2023A	2024E	2025E
Sales	23.0	32.8	49.5	84.7	94.7	100.1
Adjusted EBITDA	1.4	2.4	2.3	4.1	4.4	4.8
Adjusted PBT	1.0	1.4	0.7	0.9	0.7	1.1
FD Adj. EPS (p)	N/A	N/A	1.5	1.7	0.9	1.6
DPS (p)	N/A	N/A	1.7	1.7	1.7	1.7
Net Cash/(Debt)*	-4.0	-9.2	-18.2	-22.8	-22.8	-20.9
Net Cash/(Debt)**	1.7	-1.7	-5.3	-5.8	-8.9	-9.2
Net Debt**/EBITDA	N/A	0.7x	2.4x	1.4x	2.0x	1.9x
P/E	N/A	N/A	24.4x	21.6x	40.6x	23.5x
EV/EBITDA	19.8x	13.5x	18.4x	11.2x	10.5x	9.1x
EV/Sales	1.2x	1.0x	0.8x	0.5x	0.5x	0.4x
Dividend yield	N/A	N/A	4.7%	4.7%	4.7%	4.7%

Source: ED analysis, all numbers IFRS 16 basis \* including leases \*\* excluding leases

## Financials

Income statement						
Year-end Sept, £m	2020A	2021A	2022A	2023A	2024E	2025E
<b>Group revenue</b>	<b>23.0</b>	<b>32.8</b>	<b>49.5</b>	<b>84.7</b>	<b>94.7</b>	<b>100.1</b>
% growth	-	43%	51%	71%	12%	6%
% 2 Year CAGR	-	-	47%	61%	38%	9%
COGS	-18.6	-26.1	-39.8	-68.8	-77.9	-81.7
% growth	-	40%	53%	73%	13%	5%
% of revenue	81%	80%	80%	81%	82%	82%
<b>Gross profit</b>	<b>4.3</b>	<b>6.7</b>	<b>9.8</b>	<b>15.8</b>	<b>16.8</b>	<b>18.4</b>
% growth	-	55%	46%	62%	6%	9%
% margin	19%	20%	20%	19%	18%	18%
Other operating income	0.4	0.2	0.0	0.0	0.0	0.0
% of revenue	-	1%	0%	-18%	0%	0%
Segmental admin expenses	-0.9	-1.5	-3.2	-4.8	-4.4	-5.6
% of revenue	4%	5%	6%	6%	5%	6%
Central admin expenses	-2.8	-3.7	-5.4	-8.8	-10.0	-9.7
% of revenue	12%	11%	11%	10%	11%	10%
Add back D&A	0.4	0.7	1.0	1.8	2.0	1.8
% of revenue	2%	2%	2%	2%	2%	2%
<b>Adj. EBITDA</b>	<b>1.4</b>	<b>2.4</b>	<b>2.3</b>	<b>4.1</b>	<b>4.4</b>	<b>4.8</b>
% growth	-	75%	-7%	82%	7%	10%
% margin	6%	7%	5%	4.8%	4.6%	5%
Depreciation owned assets	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Depreciation right of use assets	-0.3	-0.6	-0.9	-1.6	-1.8	-1.6
Amortisation		0.0	0.0	0.0	0.0	0.0
<b>Adj. EBITA</b>	<b>1.0</b>	<b>1.7</b>	<b>1.2</b>	<b>2.3</b>	<b>2.4</b>	<b>3.0</b>
% growth	-	69%	-28%	91%	3%	27%
% conversion rate (EBITA/GM%)	23%	25%	12%	15%	14%	17%
% margin	4%	5%	2%	3%	3%	3%
Fair value gains/ other	0.1	0.0	0.0	0.0	0.0	0.0
Net interest	-0.1	-0.2	-0.5	-1.4	-1.7	-1.9
<b>Adj. PBT</b>	<b>1.0</b>	<b>1.4</b>	<b>0.7</b>	<b>0.9</b>	<b>0.7</b>	<b>1.1</b>
% growth	-	40%	-52%	34%	-23%	65%
% margin	4%	4%	1%	1%	1%	1%
Other Items/Exceptionals	0.0	-0.9	-0.5	-0.3	-0.2	0.0
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported PBT</b>	<b>1.0</b>	<b>0.5</b>	<b>0.2</b>	<b>0.6</b>	<b>0.5</b>	<b>1.1</b>

Source: Company historic data, ED estimates

<b>Cashflow statement</b>					
<b>Year-end Sept, £m</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>
<b>Adj. EBITA</b>	1.7	1.2	2.3	2.4	3.0
Depreciation owned assets	0.1	0.1	0.2	0.2	0.2
Depreciation right of use assets	0.6	0.9	1.6	1.8	1.6
Gain on disposal of PPE	0.0	0.0	0.0	0.0	0.0
Exceptionals (inc IPO costs)	-0.9	-0.5	-0.3	-0.2	0.0
Other non-cash	0.0	0.1	0.1	0.0	0.0
Working Capital Movement	-3.1	-7.1	-0.1	0.6	0.5
<b>Operating Cash Flow</b>	<b>-1.6</b>	<b>-5.3</b>	<b>3.8</b>	<b>4.8</b>	<b>5.3</b>
Net Interest	-0.1	-0.2	-0.7	-1.7	-1.9
Tax	0.0	0.0	0.0	0.0	0.0
<b>Net Operating Cash Flow</b>	<b>-1.7</b>	<b>-5.6</b>	<b>3.1</b>	<b>3.1</b>	<b>3.4</b>
Purchase of PPE	-0.4	-0.2	-0.4	-1.8	-0.4
Proceeds from sale of PPE	0.0	0.5	0.2	0.8	0.0
Total Net Capex	-0.3	0.3	-0.2	-1.0	-0.4
<b>Equity Free Cash Flow</b>	<b>-2.1</b>	<b>-5.3</b>	<b>2.9</b>	<b>2.1</b>	<b>3.0</b>
M&A	0.0	0.0	0.0	-1.0	0.0
Dividend	0.0	-0.4	-0.6	-1.1	-1.1
Share Issue	0.0	3.4	1.6	0.0	0.0
Leases	-3.0	-6.5	-8.5	0.0	0.0
FX/Other	-0.1	-0.3	0.0	0.0	0.0
<b>Net Change in Net Debt</b>	<b>-5.2</b>	<b>-9.0</b>	<b>-4.6</b>	<b>0.0</b>	<b>1.9</b>
<b>Net Debt - BOP</b>	<b>-4.0</b>	<b>-9.2</b>	<b>-18.2</b>	<b>-22.8</b>	<b>-22.8</b>
<b>Net Debt - EOP</b>	<b>-9.2</b>	<b>-18.2</b>	<b>-22.8</b>	<b>-22.8</b>	<b>-20.9</b>

Source: Company historic data, ED estimates

<b>Balance sheet</b>						
<b>Year-end Sept, £m</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>
<b>Non-Current assets</b>						
PPE	6.6	9.2	14.6	20.8	20.6	19.2
Goodwill/ Other intangibles	0.1	0.0	0.0	0.0	0.0	0.0
<b>Sub-total NCAs</b>	<b>6.7</b>	<b>9.2</b>	<b>14.6</b>	<b>20.8</b>	<b>20.6</b>	<b>19.2</b>
<b>Current Assets</b>						
Inventories	0.0	0.0	0.1	0.1	0.1	0.1
Trade and other receivables	8.6	8.3	17.9	22.6	23.0	24.0
Current tax receivable	0.1	0.1	0.1	0.1	0.1	0.1
Assets at fair value through profit or loss	0.3	0.3	0.0	0.0	0.0	0.0
Cash and cash equivalents	2.0	1.5	1.2	4.2	2.1	2.8
<b>Sub-total CAs</b>	<b>11.0</b>	<b>10.1</b>	<b>19.3</b>	<b>26.9</b>	<b>25.2</b>	<b>27.0</b>
<b>Total Assets</b>	<b>17.7</b>	<b>19.4</b>	<b>33.9</b>	<b>47.7</b>	<b>45.8</b>	<b>46.2</b>
<b>Current Liabilities</b>						
Trade and other payables	-4.8	-4.5	-7.0	-11.9	-12.9	-14.4
Provisions	-0.1	-0.3	-0.3	0.0	0.0	0.0
Loans and borrowings	-0.3	-3.1	-6.5	-10.0	-11.0	-12.0
Lease liabilities	-0.6	-0.8	-2.1	-3.5	-3.9	-3.2
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Sub-total CLs</b>	<b>-5.8</b>	<b>-8.7</b>	<b>-15.9</b>	<b>-25.4</b>	<b>-27.8</b>	<b>-29.6</b>
<b>Non-current liabilities</b>						
Deferred tax liabilities	0.0	-0.4	-0.3	-0.2	-0.1	-0.1
Lease liabilities	-5.1	-6.7	-10.9	-13.5	-10.0	-8.5
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Sub-total NCLs</b>	<b>-5.1</b>	<b>-7.2</b>	<b>-11.2</b>	<b>-13.7</b>	<b>-10.1</b>	<b>-8.6</b>
<b>Total Liabilities</b>	<b>-10.9</b>	<b>-15.9</b>	<b>-27.1</b>	<b>-39.0</b>	<b>-37.9</b>	<b>-38.2</b>
<b>NET ASSETS</b>	<b>6.8</b>	<b>3.4</b>	<b>6.8</b>	<b>8.7</b>	<b>7.9</b>	<b>7.9</b>

Source: Company historic data, ED estimates



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