

Hercules Site Services



9th October 2024

Trading well ahead of expectations

A strong year end update from Hercules this morning confirms another period of impressive organic revenue growth, well ahead of expectations. This prompts 11% upgrades to our revenue and adjusted EBITDA forecasts, sustaining recent momentum into the new financial year. Hercules is led by an entrepreneurial and ambitious management team with additional firepower - following last month's £8m fundraise - to take advantage of M&A opportunities as they arise. We therefore see further potential upside to forecasts as FY25 progresses and look forward to a fuller update on trading alongside full year results in January. With this firmly in mind, and on the strength of today's upgrades, we increase our Fair Value estimate for Hercules shares from 60p to 70p.

Another record year

Hercules expects to report another record year, with revenue, adjusted EBITDA and adjusted PBT for FY24 all well ahead of market expectations. Revenue is expected to be over £105m, an increase of 24% year on year. For us, this prompts 11% upgrades to revenue and adjusted EBITDA forecasts, and a 55% upgrade to adjusted PBT, albeit from a low base.

Organic growth across the board

Each of Hercules' core divisions has delivered organic revenue growth. The Group's markets (infrastructure and construction sectors) have been supportive but not without challenges. The performance has been underpinned by Hercules' own growth initiatives (e.g. the launch of the Hercules Construction Academy) and an ability to respond to opportunities as they arise. The Group enters the new financial year with momentum, and we tentatively upgrade our FY25 forecasts to assume continued growth next year (see page 2).

Fundraise bolstered balance sheet and highlights investor confidence

Last month's placing and subscription raised gross proceeds of £8m, strengthening the balance sheet and supporting future growth ambitions. The funds have been raised from two successful entrepreneurs as well as existing and new institutional investors, a mark of confidence in strategy and growth prospects. We share this confidence and see scope for further outperformance as FY25 progresses, with M&A being an obvious potential earnings and share price catalyst. We increase our Fair Value per share estimate from 60p to 70p (13.5x FY25 EV/EBITDA).

Company Data

EPIC	HERC.L
Price (last close)	43.5p
52 weeks Hi/Lo	51p/24p
Market cap (post placing)	£34.6m
ED Fair Value / share	70p
Proforma net cash/ (debt)	(£15.3m)
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: [Full year results – January 2025](#)

James Tetley (Analyst)

0207 065 2690
james.tetley@equitydevelopment.co.uk

Andy Edmond

0207 065 2691
andy@equitydevelopment.co.uk

Key Financials & Valuation metrics

Year-end Sept, £m	2020A	2021A	2022A	2023A	2024E	2025E
Sales	23.0	32.8	49.5	84.7	105.0	111.0
Adjusted EBITDA	1.4	2.4	2.3	4.1	4.9	5.1
Adjusted PBT	1.0	1.4	0.7	0.9	1.1	1.3
FD Adj. EPS (p)	N/A	N/A	1.5	1.7	0.9	1.1
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	-15.3	-12.5
Net Cash/(Debt)**	1.7	-1.7	-5.3	-5.8	-1.4	-0.8
Net Debt**/EBITDA	N/A	0.7x	2.4x	1.4x	0.3x	0.2x
P/E	N/A	N/A	29.1x	25.7x	50.3x	40.7x
EV/EBITDA	28.0x	18.2x	23.5x	14.0x	10.2x	9.3x
EV/Sales	1.7x	1.3x	1.1x	0.7x	0.5x	0.4x
Dividend yield	N/A	N/A	4.0%	4.0%	4.0%	4.0%

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

Significant forecast upgrades

Strong conclusion to FY24

Year-end Sept	2024(E)			2025(E)		
	Revised	Old	Change	Revised	Old	Change
Revenue £m	105.0	94.7	10.9%	111.0	100.1	10.9%
Adjusted EBITDA £m	4.9	4.4	10.9%	5.1	4.8	4.4%
Adjusted PBT £m	1.1	0.7	54.9%	1.3	1.1	10.1%
EPS fully diluted p	0.9	0.9	0.0%	1.1	1.2	-8.3%
Dividend	1.7	1.7	0.0%	1.7	1.7	0.0%
Net cash/ (debt) £m	-15.3	-17.2	-11.0%	-12.5	-13.3	-6.4%

Source: Equity Development estimates

Hercules expects to report another record year, with revenue, adjusted EBITDA and adjusted PBT for FY24 all well ahead of market expectations.

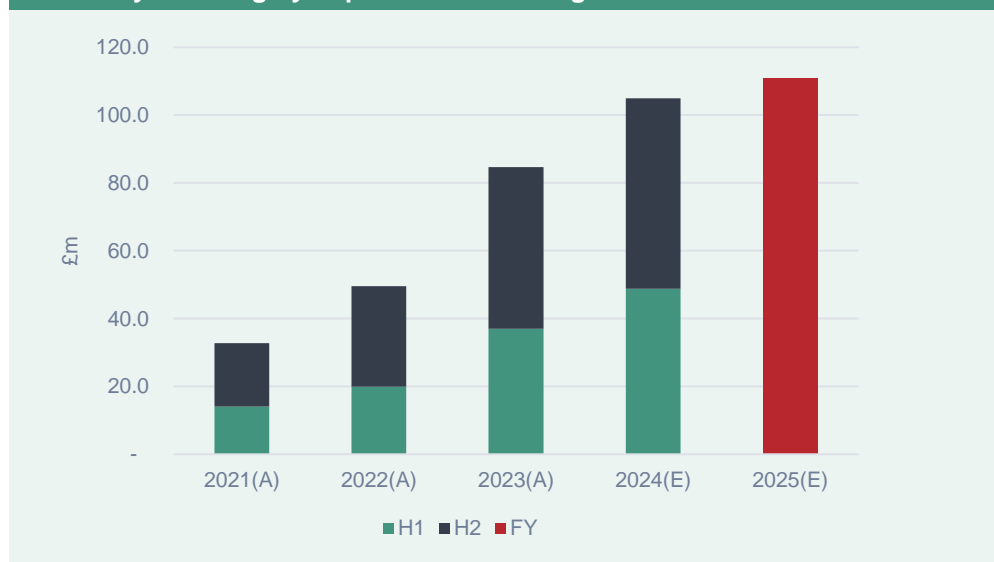
This prompts 11% upgrades to our revenue and adjusted EBITDA forecasts for FY24, and a 55% upgrade to adjusted PBT, albeit from a low base.

We make a similar upgrade to FY25 revenue, assuming current momentum is sustained, but apply a degree of prudence in terms of margins and therefore EBITDA/ adjusted PBT upgrades at this early stage in the new financial year.

Our FY24 EPS forecasts are unchanged for now as we allow for a higher deferred tax charge, as well as normalising our tax charge assumptions in FY25. We will review the finer details of our model at the time of the full year results in January.

The chart below highlights Hercules' excellent track record of revenue growth, which looks set to continue, organically and with the prospect of earnings enhancing M&A following the recent fundraise.

Another year of highly impressive revenue growth



Source: Company, ED estimates

Financials

Income statement						
Year-end Sept, £m	2020A	2021A	2022A	2023A	2024E	2025E
Group revenue	23.0	32.8	49.5	84.7	105.0	111.0
% growth	-	43%	51%	71%	24%	6%
% 2 Year CAGR	-	-	47%	61%	46%	14%
COGS	-18.6	-26.1	-39.8	-68.8	-87.4	-92.0
% growth	-	40%	53%	73%	27%	5%
% of revenue	81%	80%	80%	81%	83%	83%
Gross profit	4.3	6.7	9.8	15.8	17.6	19.0
% growth	-	55%	46%	62%	11%	8%
% margin	19%	20%	20%	19%	17%	17%
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	-4.5	-5.0
% of revenue	4%	5%	6%	6%	4%	5%
Central admin expenses	-2.8	-3.7	-5.4	-8.8	-10.3	-10.9
% of revenue	12%	11%	11%	10%	10%	10%
Add back D&A	0.4	0.7	1.0	1.8	2.1	1.9
% of revenue	2%	2%	2%	2%	2%	2%
Adj. EBITDA	1.4	2.4	2.3	4.1	4.9	5.1
% growth	-	75%	-7%	82%	19%	4%
% 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	-1.9	-1.7
Amortisation		0.0	0.0	0.0	0.0	0.0
Adj. EBITA	1.0	1.7	1.2	2.3	2.8	3.2
% growth	-	69%	-28%	91%	19%	14%
% conversion rate (EBITA/GM%)	23%	25%	12%	15%	16%	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
Adj. PBT	1.0	1.4	0.7	0.9	1.1	1.3
% growth	-	40%	-52%	34%	19%	17%
% 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
Reported PBT	1.0	0.5	0.2	0.6	0.9	1.3

Source: Company historic data, ED estimates

Cashflow statement					
Year-end Sept, £m	2021A	2022A	2023A	2024E	2025E
Adj. EBITA	1.7	1.2	2.3	2.8	3.2
Depreciation owned assets	0.1	0.1	0.2	0.2	0.2
Depreciation right of use assets	0.6	0.9	1.6	1.9	1.7
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	2.4	-0.5
Operating Cash Flow	-1.6	-5.3	3.8	7.1	4.6
Net Interest	-0.1	-0.2	-0.7	-1.7	-1.9
Tax	0.0	0.0	0.0	-0.4	-0.3
Net Operating Cash Flow	-1.7	-5.6	3.1	5.0	2.4
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
Equity Free Cash Flow	-2.1	-5.3	2.9	4.0	2.0
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	5.6	1.9
Leases	-3.0	-6.5	-8.5	0.0	0.0
FX/Other	-0.1	-0.3	0.0	0.0	0.0
Net Change in Net Debt	-5.2	-9.0	-4.6	7.5	2.8
Net Debt - BOP	-4.0	-9.2	-18.2	-22.8	-15.3
Net Debt - EOP	-9.2	-18.2	-22.8	-15.3	-12.5

Source: Company historic data, ED estimates

Balance sheet						
Year-end Sept, £m	2020A	2021A	2022A	2023A	2024E	2025E
Non-Current assets						
PPE	6.6	9.2	14.6	20.8	20.5	19.0
Goodwill/ Other intangibles	0.1	0.0	0.0	0.0	0.0	0.0
Sub-total NCAs	6.7	9.2	14.6	20.8	20.5	19.0
Current Assets						
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	21.2	23.2
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	9.6	11.2
Sub-total CAs	11.0	10.1	19.3	26.9	30.9	34.5
Total Assets	17.7	19.4	33.9	47.7	51.4	53.5
Current Liabilities						
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
Sub-total CLs	-5.8	-8.7	-15.9	-25.4	-27.8	-29.6
Non-current liabilities						
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
Sub-total NCLs	-5.1	-7.2	-11.2	-13.7	-10.1	-8.6
Total Liabilities	-10.9	-15.9	-27.1	-39.0	-37.9	-38.2
NET ASSETS	6.8	3.4	6.8	8.7	13.5	15.3

Source: Company historic data, ED estimates



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

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More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690