

## Corporate

 Current price **98.5p**

 Sector **Utilities: Waste & disposal services**

 Code **FRAN.L**

 AIM **AIM**

### Share Performance



Source: Thomson Reuters, Allenby Capital

### Share Data

 Market Cap (£m) **88.5**

 Shares in issue (m) **94.3**

52 weeks High Low

**151.5p** **83.5p**

 Financial year end **December**

Source: Company Data, Allenby Capital

### Key Shareholders

Nigel Wray (NED) 23.36%

Stephen Hemsley (Chair) 23.14%

Cannacord Genuity 7.03%

Gresham House AM 5.69%

David Poutney (NED) 3.81%

Source: Company Data, Allenby Capital

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## Franchise Brands plc (FRAN.L)

### *FY 2020 results expected to be ahead of consensus*

Franchise Brands' trading update notes that due to a resilient performance across all divisions in the face of unprecedented headwinds and challenges caused by COVID-19, full year results are expected to be ahead of consensus forecasts. Sitting at the top end of market forecasts we have nevertheless moved our numbers up marginally in response to the positive trading update. While the country has now entered a third lockdown, the Group's B2B and B2C divisions remain open for business and we anticipate a strong recovery once the lockdown is eased. Coupled with the likelihood of an earnings-enhancing acquisition, we see the shares performing strongly in 2021.

- Full year results ahead of consensus forecasts** – The Board states that it expects Group revenue, adjusted EBITDA and EPS for the year to December 2020 to be ahead of consensus forecasts. This consensus, alongside our forecasts, shows revenue of £48.6m (Allenby £50m), adjusted EBITDA £6.1m (Allenby £6.2m) and adjusted EPS of 3.87p (Allenby 3.94p). Despite being at the high end of the forecast range, we still believe there is room for a marginal upgrade to our 2020 forecast resulting in anticipated revenue of £51m, adjusted EBITDA of £6.3m and adjusted EPS of 4.03p. Our forecasts for dividend and net cash remain unchanged at this stage.
- B2B recovers strongly in H2** – Most of the B2B division, which consists of Metro Rod, Metro Plumb and Willow Pumps, were deemed to be delivering essential services and continued trading throughout the period, albeit at much lower levels during the Spring lockdown. Thus, while sales declined by up to 30% yoy at the peak, the business recovered strongly from June onwards as customers resumed trading.
- B2C continues with robust recruitment** - ChipsAway and Ovensclean which together account for around 90% of divisional income, were effectively shut down during the first lockdown but resumed trading in June with the businesses recovering well. We would also note that franchisee recruitment was very encouraging with 31 new franchisees joining in H2 (2019: 27) resulting in 58 new additions in the year (2019: 61).
- A strong recovery in prospect** – Although the country has now entered a third lockdown, management makes the point that it is now well practiced in mitigating the impact by controlling costs and continuing to serve customers where it is safe to do so. The B2B division continues to trade but will be somewhat impacted by the temporary closure of the hospitality sector while ChipsAway and Ovensclean remain open for business. Therefore, we believe the overall impact on Group trading will be very modest. With a strong balance sheet and the possibility of an earnings accretive acquisition being concluded, we expect the share price to rise strongly in 2021. Our 2021 forecasts are unchanged but will be reviewed when the Group's prelims are announced on 4 March.

### Year End: December

£m	2018A	2019A	2020E	2021E
REVENUE	35.5	44.0	51.0	57.6
ADJUSTED EBITDA	4.0	5.2	6.3	7.7
ADJUSTED PBT	3.2	4.1	4.5	5.8
ADJUSTED EPS (p)	3.4	4.3	4.0	4.8
DIVIDEND (p)	0.67	0.95	0.95	1.40
ADJ NET (DEBT)/CASH	-5.0	-9.2	2.5	6.4
PER (x)	29.3	22.7	24.5	20.3

Source: Franchise Brands plc, Allenby Capital

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