

BUY

Current price 101p

Sector Support Services

Code (EMR.L)

Listing AIM

SHARE PERFORMANCE



Source: Thomson Reuters, Allenby Capital

SHARE DATA

Market cap (£) 49.5m

Shares in issue (m) 49.02

52 weeks High Low
167p 95.5p

Financial year end 31 December

Source: Company Data, Allenby Capital

KEY SHAREHOLDERS

Anthony V Martin 28.41%

Liontrust Investment Partners 12.29%

Close Brothers Asset Management 7.03%

Hof Hoorneman Fund Management 6.34%

Beleggingsclub 't Stockpaert 6.13%

H M van Heijst 4.90%

M W R Hunt 3.60%

Source: Empresaria Group plc

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EMPRESARIA GROUP PLC (EMR.L)

Temporary margin pressure in Germany

An update on trading has revealed that the legislative pressures on the German staffing business, as discussed in our research note dated 1 Feb 2017, have intensified and have begun to impact on temp margins somewhat earlier than anticipated. This, coupled with continuing weakness in Middle Eastern markets, is likely to result in adjusted profit before tax being somewhat below market expectations albeit still delivering record profits for the full year. The full impact of German employment legislation will be felt in 2018 and accordingly, while we still anticipate modest growth in earnings for 2018 we have downgraded that growth from 6% to 3%. This reduction in expectations in no way compromises our belief in the investment merits of Empresaria and actually gives credence to the Group's strategy of diversification. In our view the share price fall is an over-reaction and fails to factor in the strength of the Group's business model. We therefore remain firm supporters of the Company and its management team.

- **Margin reduction in Germany** – Legislation which came into effect in Germany on 1 April 2017 stated that temporary workers must be permanently hired by clients when an assignment lasts longer than 18 months. Although the full impact on demand for temps was not anticipated to be felt by staffing companies until October 2018 (i.e. 18 months from 1 April) it would seem that margins are already coming under some pressure, particularly in the logistics business. This will impact the anticipated outcome for 2017 and more fully in 2018 when we expect to see a further reduction in NFI margin as a result of these issues.
- **Continuation of weak market conditions in the Middle East** - The cost reduction exercise undertaken in H1 to compensate for weak market conditions in the Middle East has had to be extended as the market has weakened further and this will also impact results.
- **Forecast rate of growth has been reduced** – While the great bulk of Group subsidiaries continue to trade in line with, or above management expectations, the factors noted above will combine to moderate the rate of growth that we had initially envisaged. Thus, our forecast adjusted PBT yoy growth rate has been reduced from 33% to 17% for 2017 and from 6% to 3% for 2018. Nevertheless, these revised forecasts result in record levels of profit for both forecast periods.
- **Medium term outlook remains positive** – Whilst it is always disappointing to report a reduction in forecasts, however modest, we remain confident that the continued investment and expansion of the Group's diversified operating units will result in strong growth in the medium term. The next trading update is scheduled for 24 January 2018.

EXHIBIT 1: SUMMARY OF FINANCIALS

Year End: December (£m)	2015A	2016A	2017E	2018E
REVENUE	187.3	270.4	345.0	360.0
ADJUSTED EBITDA	8.7	10.7	12.4	12.6
ADJUSTED PBT	7.7	9.4	11.0	11.3
ADJUSTED EPS (p)	10.4	11.9	12.2	12.6
PE(x)	9.7	8.5	8.3	8.0
DIVIDEND (p)	1.0	1.15	1.30	1.35

Source: Empresaria Group plc, Allenby Capital.

Note: Adjusted PBT and EPS exclude amortisation, share based charges and fair value of acquisition of non-controlling shares
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FINANCIAL SUMMARY

PROFIT & LOSS SUMMARY				
	£m	£m	£m	£m
Y/E December	FY 2015A	FY 2016A	FY 2017E	FY 2018E
Revenue	187.30	270.40	345.00	360.00
Net Fee Income	49.2	59.0	70.5	73.0
<i>margin</i>	26.3%	21.8%	20.4%	20.3%
Total operating costs	-41.20	-49.20	-58.90	-61.20
<i>as a % of revenue</i>	22.0%	18.2%	17.1%	17.0%
Operating profit (before exceptionals and share-based charges)	8.00	9.80	11.60	11.80
EBITDA	8.70	10.70	12.40	12.60
<i>margin</i>	4.6%	4.0%	3.6%	3.5%
Profit/(Loss) before tax (adjusted and before share-based charges)	7.70	9.40	11.00	11.30
Net Profit/(Loss)	4.40	4.80	4.50	4.68
Weighted Average Shares (fully diluted)	46.90	51.90	52.40	52.40
EPS adjusted (fully diluted) (pence)	10.4	11.9	12.2	12.6
Dividend	1.00	1.15	1.30	1.35
<i>Conversion ratio</i>	16.3%	16.6%	16.5%	16.2%
CASH FLOW				
	£m	£m	£m	£m
Y/E December	FY 2015A	FY 2016A	FY 2017E	FY 2018E
Net cash inflow from operating activities	5.300	6.400	6.800	6.100
Net cash outflow from investing activities	-6.600	-7.000	-6.800	-1.000
Net cash inflow/(outflow) from financing activities	1.400	9.310	-2.877	-3.203
Cash and cash equivalents at end of the year	7.700	18.010	15.133	17.030
BALANCE SHEET				
	£m	£m	£m	£m
Y/E December	FY 2015A	FY 2016A	FY 2017E	FY 2018E
Assets				
Non-current assets	34.900	59.400	65.400	65.700
Current assets (excluding cash)	35.900	50.200	47.100	49.600
Cash	7.700	18.010	15.133	17.030
Total Assets	78.500	127.610	127.633	132.330
Liabilities				
Current liabilities	-37.600	-61.400	-66.300	-68.300
Non-current liabilities	-7.200	-19.500	-15.700	-13.950
Total Liabilities	-44.800	-80.900	-82.000	-82.250
Net Assets	33.700	46.710	45.633	50.080
Net (debt)/cash	-7.300	-10.490	-11.867	-8.220

Source: Empresaria Group plc; Allenby Capital

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Ian Jermin is the author of this research recommendation. Ian is employed by Allenby Capital Limited as an Equity Analyst.

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Unless otherwise stated the share prices used in this publication are taken at the close of business for the day prior to the date of publication.

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