

Corporate

Current price **38.5p**

Sector **Support Services**

Code **EMR.L**

AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m) **18.9**

Shares in issue (m) **49.0**

52 weeks High Low

75p 38.5p

Financial year end **December**

Source: Company Data, Allenby Capital

Key Shareholders

Anthony Martin (Chair) **28.41%**

Close Brothers AM **13.18%**

HM van Heijst **10.81%**

Hof Hoorneman FM **8.99%**

Beleggingsclub 't Stockpaert **6.13%**

The Ramsey Partnership Fund **4.68%**

Source: Company Data, Allenby Capital

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Empresaria Group plc (EMR.L)

Continued investment in long term growth

2019 proved to be a challenging year for global staffing companies and Empresaria was no exception although, in our opinion, it managed the headwinds well overall with results in line with market expectations. As well as having to adapt to a slowing global economy and the impact of Brexit, it faced some specific issues in its UK Engineering operations and in its largest region, Germany where the weak automotive market had a negative influence on activity levels. That it could post a year on year (yoy) net fee income (NFI) rise in five of its six reporting sectors is a testament to its strategy and focused investment. While we foresee further headwinds for the staffing sector in 2020 we believe that the Board, strengthened by new CEO Rhona Driggs, and the Group's "Stronger Together" initiative will continue to drive the Group forward in many of its key areas.

- **Results in line with market expectations** – Empresaria delivered a 2% increase in NFI in constant currency terms on revenue which was 2% lower year on year (yoy). Broader economic challenges together with Group specific issues resulted in adjusted operating profit being lower by 16% at £10.4m with adjusted profit before tax reported as 19% lower yoy at £9.3m and adjusted, diluted EPS down by 30% at 8.5p.
- **Five out of six reporting sectors post yoy increases in NFI** – Offshore Recruitment Services was once again the outstanding segment delivering a 37% growth in NFI to £7.0m (2018: £5.1m) with only the Property, Construction & Engineering sector posting a decline to £3.8m (2018: £5.3m). In terms of adjusted operating profit, only one sector, Offshore Recruitment Services posted growth as Brexit uncertainty, a contraction in UK Engineering and a weak German automotive market impacted growth opportunities in other reported sectors.
- **Another year of strong cash generation** – Empresaria is highly cash generative, evidenced by a pre-tax free cash flow of £10.4m (2018: £9.6m). Net debt (excluding cash held to match pilot bonds) increased from £17.1m to £19.1m reflecting both lower profits and continued investment in existing operations.
- **FY 2020 forecasts unchanged** – but will clearly be impacted to a currently unquantifiable degree as the COVID-19 pandemic runs its course. As such our forecasts are subject to change and at this stage, we are not providing projections for FY2021. These macro issue will dissipate over time and we fully expect Empresaria to deliver strong growth and cash flow when trading conditions return to normal.

Year End: December

(£m)	2017A	2018A	2019A	2020E
NET FEE INCOME	69.4	72.3	74.5	73.0
ADJ. PBT	11.0	11.4	9.3	10.0
ADJ. FD EPS (p)	12.5	12.1	8.5	9.7
DIVIDEND (p)	1.32	2.00	2.20	2.40
NET DEBT (pre pilot bonds)	19.5	17.1	19.1	-19.8
PER (x)	3.1	3.2	4.5	4.0
YIELD	3.4	5.2	5.7	6.2

Source: Empresaria Group, Allenby Capital

Performance by sector

NFI BY SECTOR				
	2018	2019	%	% change
	£m	£m	change	constant currency
Professional	26.8	27.3	2%	1%
IT	13.6	14.4	6%	3%
Healthcare	2.7	2.8	4%	2%
Property, Construction and Engineering	5.3	3.8	-28%	-28%
Commercial	19.2	19.7	3%	3%
Offshore Recruitment Services	5.1	7.0	37%	37%
Intragroup	-0.4	-0.5	25%	
Total	72.3	74.5	3%	2%

Source: Empresaria Group

Professional

While NFI increased by 1% in constant currency, adjusted operating profit was 22% lower at £3.5m (2018: £4.5m), reflecting a more challenging environment for the Group's aviation business. These challenging market conditions are continuing into 2020 as the grounding of the Boeing 737 Max and more latterly COVID-19 are resulting in lower activity levels and an ongoing reduction in demand for new pilots.

In the UK the business was affected by the uncertainty around Brexit and the impact that this had on the Group's financial services sector. This business has been right sized to reflect ongoing demand and is expected to see the benefits in 2020. The domestic services business had another good year increasing NFI and profit.

Elsewhere, the Group's loss-making Hong Kong office was closed, as was the office in Brisbane, Australia although a new office in Auckland, New Zealand is showing promise.

IT

NFI was up 6% or 3% in constant currency with adjusted operating profit being maintained at £3.2m.

Permanent fees grew strongly in Japan, more than offsetting the challenges of rebuilding the temp base following legislative changes to the labour market in 2018. In the UK, NFI from perm grew strongly and opportunities in the temp market will be addressed in 2020 by increased investment to strengthen the Group's position.

The US performance was held back by a weakening of the cryptocurrency market after a particularly strong 2019. This resulted in management having to identify new opportunities to take the place of the lower level of activity in historic market segments. A new office in Austin has started well and is already at breakeven and the Group continues to invest in the region to exploit the many opportunities seen in the US temp market.

Healthcare

NFI grew by 2% in constant currency and adjusted operating profit was unchanged at £0.5m reflecting a year of two halves with the first six months experiencing recruitment difficulties in the businesses in the US and Finland. However, in the second half, utilising the services and skills of the Group's Offshore Recruitment Services the US business has begun to improve while Finland has responded positively to a change in management.

Property, Construction and Engineering

This segment was impacted by the need to restructure the Group's UK Engineering businesses with the result that a substantial part of the business has now been closed.

Overall, the sector saw revenues decline by 29% to £22.4m with NFI down by 28% and an adjusted operating loss being reported (2018: profit £0.5m).

Future investment in this business is expected to be targeted at the skilled, white collar market where management sees greater opportunities with less risk. A return to profit is anticipated in the current year as a result of actions taken by management.

Commercial

This segment reported a 3% increase in NFI in constant currency but a 4% decline in adjusted operating profit to £5.4m (2018: £5.6m).

The challenges facing the sector's German businesses as a result of legislative changes to labour laws in 2018 were navigated successfully with the logistics operations returning to NFI growth during the year. However, weakness in the German automotive market created new problems for the Group's temp placement activities and actions taken to right size the operations are now having a positive effect.

The Group also sees opportunities to grow its businesses in Latin America building on the success of its investment in Peru in 2018 and organic growth in Chile.

Offshore Recruitment Services

Clearly the star of the Group over the past two years this business grew NFI by 37% in constant currency and adjusted operating profit by 88% to £3.2m (2018: £1.7m). With over 1,100 full time employees the Group has noted a requirement to strengthen the support infrastructure of the operation in order to support further growth.

This business is seen by management as integral to the future growth of the Group both through its delivery to external clients and through increased internal delivery to Group operations. The United Arab Emirates (UAE) operation sits within the Offshore Recruitment umbrella and management sees an opportunity to bring these services to the UAE and the surrounding region.

Regional Summary

	Revenue		NFI		Adj. operating profit		Operating margin	
	2018	2019	2018	2019	2018	2019	2018	2019
	£m	£m	£m	£m	£m	£m	£m	£m
UK	85.7	77.6	23.7	22.6	2.9	1.2	3.4%	1.5%
Continental Europe	96.1	93.1	15.6	14.7	4.7	4.0	4.9%	4.3%
AsPac	136.8	126.4	24.5	27.7	6.1	7.2	4.5%	5.7%
Americas	48.6	61.4	8.9	10.0	2.3	2.2	4.7%	3.6%
Central & consolidation	-0.4	-0.5	-0.4	-0.5	-3.7	-4.2		
Totals	366.8	358.0	72.3	74.5	12.3	10.4	3.4%	2.9%

Source: Empresaria Group

Forecasts and conclusion

Given the economic weakness and recent COVID-19 pandemic all bets are off with regard to forecast for the current year and FY2021.

Our forecasts for FY2020 are currently unchanged but clearly as the economic impact of the virus becomes clearer, we may need to adjust our projections accordingly. At the moment we are not providing forecasts for FY2021 but will revisit the situation later in the year when there may be more clarity.

As a business, we consider Empresaria to be better positioned than many given its diversification in terms of geography, business segment and temp/perm split. The new additions to the Board, and that of Rhona Driggs as CEO in particular, should help to bring an increased focus to the Group with opportunities for cross selling and the potential for organic growth as economic conditions improve.

Income statement and forecasts

Y/E December	FY 2017A	FY 2018A	FY 2019A	FY 2020E
	£m	£m	£m	£m
UNDERLYING				
Total revenue	357.1	366.8	358.0	351.0
Cost of sales	(287.7)	(294.5)	(283.5)	(318.0)
Net Fee Income	69.4	72.3	74.5	73.0
NFI margin	19.4%	19.7%	20.8%	20.8%
Admin expenses	(57.0)	(59.0)	(56.3)	(55.8)
as a % of revenue	16.0%	16.1%	15.7%	14.3%
Underlying EBITDA	12.4	13.3	18.2	17.2
margin	3.5%	3.6%	5.1%	4.4%
Share based charges	0.2	-	(0.2)	-
Depreciation & software amortisation	(1.0)	(1.0)	(7.6)	(6.0)
Underlying operating profit	11.6	12.3	10.4	11.2
margin	3.2%	3.4%	2.9%	2.9%
CONVERSION RATIO	16.7%	17.0%	14.0%	15.3%
Finance income	0.1	0.2	0.2	-
Finance expense	(0.7)	(1.1)	(1.3)	(1.2)
Underlying profit before tax	11.0	11.4	9.3	10.0
Tax	(4.0)	(3.9)	(3.4)	(3.7)
Effective rate	36.4%	34.2%	36.6%	37.0%
Underlying post tax profit	7.0	7.5	5.9	6.3
Minorities	(0.6)	(1.3)	(1.4)	(1.3)
Underlying net post tax profit	6.4	6.2	4.4	5.0
STATUTORY				
Underlying operating profit	11.6	12.3	10.4	11.2
Exceptional items	-	(0.3)	(2.1)	-
Fair value charge on acquisition of non-controlling shares	(0.3)	-	-	-
Impairment of goodwill	-	-	(2.5)	-
Loss on business disposal	(0.9)	-	-	-
Amortisation of acquired intangible assets	(1.7)	(1.7)	(1.8)	(1.7)
Statutory operating profit	8.7	10.3	4.0	9.5
Finance income	0.1	0.2	0.2	-
Finance expense	(0.7)	(1.1)	(1.3)	(1.2)
Statutory profit before tax	8.1	9.4	2.9	8.3
Tax	(3.6)	(3.6)	(2.4)	(3.7)
Statutory post tax profit	4.5	5.8	0.5	4.6
Minorities	(0.4)	(1.2)	(1.2)	(1.3)
Statutory net post tax profit	4.1	4.6	(0.8)	3.3
WAS	50.9	50.6	50.4	50.7
WAS FD	51.4	51.0	51.4	51.8
Year-end shares	49.0	49.0	49.0	49.0
EPS				
Statutory	8.1	9.1	(1.6)	6.5
Underlying	12.6	12.2	8.6	9.9
Diluted EPS				
Statutory	8.0	9.0	(1.6)	6.4
Underlying	12.5	12.1	8.5	9.7
Interim dividend	0.0	0.0	0.0	0.0
Final dividend	1.32	2.00	2.20	2.40
Total dividend	1.32	2.00	2.20	2.40

Source: Empresaria Group; Allenby Capital

Balance sheet and forecasts

Y/E December	FY 2017A	FY 2018A	FY 2019A	FY 2020E
	£m	£m	£m	£m
Assets				
Non-current assets				
Property, plant & equipment	1.4	2.1	2.3	3.9
Right of use assets	-	-	10.6	13.5
Goodwill	35.9	37.1	33.5	33.9
Other intangible assets	18.2	17.7	15.5	13.8
Deferred tax assets	1.0	1.5	2.4	0.9
Non-current assets	56.5	58.4	64.3	66.0
Current assets				
Trade receivables	43.2	48.1	45.6	45.1
Other receivables	9.9	9.2	9.6	5.0
Cash and Cash equivalents	18.4	20.1	16.1	17.0
Cash and Cash equivalents (pilot bonds)	7.5	5.3	1.5	1.0
Current assets	79.0	82.7	72.8	68.1
Total Assets	135.5	141.1	137.1	134.1
Liabilities				
Current liabilities				
Borrowings	(36.6)	(32.0)	(25.2)	(26.8)
Trade payables	(2.1)	(2.2)	(2.1)	(2.0)
Accruals	(17.4)	(19.4)	(20.5)	(22.2)
Pilot bonds	(7.5)	(5.3)	(1.5)	(1.0)
Other payables	(15.0)	(15.0)	(13.6)	(17.0)
Lease liabilities	-	-	(6.0)	(6.1)
Tax liability	(2.6)	(3.2)	(1.4)	(3.4)
Current liabilities	(81.2)	(77.1)	(70.3)	(77.1)
Non-current liabilities				
Borrowings	(1.3)	(5.2)	(10.0)	(10.0)
Lease liabilities	-	-	(5.2)	(7.5)
Other creditors	-	-	-	-
Deferred tax liability	(4.1)	(4.2)	(3.6)	(1.1)
Non-current liabilities	(5.4)	(9.4)	(18.8)	(18.6)
Total liabilities	(86.6)	(86.5)	(89.1)	(95.7)
Net Assets	48.9	54.6	48.0	38.4
Balance Sheet Ratios				
	FY 2017A	FY 2018A	FY 2019E	FY 2020E
	£m	£m	£m	£m
Long-term financial debts	(1.3)	(5.2)	(10.0)	(10.0)
Short term financial debts	(36.6)	(32.0)	(25.2)	(26.8)
Gross debt	(37.9)	(37.2)	(35.2)	(36.8)
Cash and cash equivalents (excluding pilot bonds)	18.4	20.1	16.1	17.0
Net (debt) / cash	(19.5)	(17.1)	(19.1)	(19.8)
Acid test (Current Assets less inventory / Current Liabilities)	1.0	1.1	1.0	0.9
Equity	48.9	54.6	48.0	38.4
Gearing (Net Debt:Equity)	39.9%	31.3%	39.8%	51.6%
Net debt/trade debtors	-45.1%	-35.6%	-41.9%	-43.9%
Net debt / adj. EBITDA (x)	1.6	1.3	1.0	1.2

Source: Empresaria Group; Allenby Capital

Cash flow and forecasts

Y/E December	FY 2017A	FY 2018A	FY 2019A	FY 2020E
	£m	£m	£m	£m
Operating cash flow				
Profit for year	4.5	5.8	0.5	4.6
Depreciation	1.0	1.0	7.6	7.5
Intangible amortisation	1.7	1.7	1.8	1.7
Taxation expense recognised in income statement	3.6	3.6	2.4	3.9
Exceptional charges	0.0	0.3	0.0	0.0
Loss/(Gain) on disposal of subsidiary	0.9	0.0	0.0	0.0
Cash paid for exceptional items	0.0	0.0	0.0	0.0
Share based payments	-0.2	0.0	0.2	0.0
Net finance costs	0.6	0.9	1.1	1.2
Sub total	12.1	13.3	16.1	18.9
<i>(Increase)/Decrease in trade receivables</i>	<i>-2.8</i>	<i>-2.2</i>	<i>0.2</i>	<i>0.5</i>
<i>(Decrease)/Increase in trade payables</i>	<i>3.3</i>	<i>-2.7</i>	<i>-2.0</i>	<i>-1.5</i>
<i>Net movement in WC</i>	<i>0.5</i>	<i>-4.9</i>	<i>-1.8</i>	<i>-1.0</i>
Cash generated from operations	12.6	8.4	14.3	17.9
Interest paid	-0.7	-1.0	-1.3	-1.2
Income taxes paid	-5.5	-2.9	-5.6	-3.5
Net cash from operating activities	6.4	4.5	7.5	13.2
Cash flows from investing activities				
Acquisition of new subsidiaries	0.0	-1.7	-0.2	-0.2
Deferred considerations	-5.6	0.0	0.0	-3.5
Disposal of subsidiary	0.1	0.1	0.0	0.0
Cash acquired with subsidiary acquired	0.0	0.0	0.0	0.0
Purchase of PP&E	-0.9	-1.5	-1.5	-1.5
Finance income	0.1	0.2	0.2	0.1
Net cash used in investing activities	-6.3	-2.9	-1.5	-5.1
Cash flows from financing activities				
Proceeds from issue of share capital	0.0	0.0	0.0	0.0
Further shares acquired in existing subsidiaries	0.0	0.0	-3.5	-0.5
Proceeds from bank borrowings/loan	0.1	4.0	5.0	0.0
Increase/(decrease) in borrowings	15.3	1.5	-3.6	0.0
Repayment of loan	-9.2	-6.4	-0.2	0.0
Increase/(Decrease) in invoice discount facilities	0.7	0.1	-2.7	0.0
Dividends paid	-0.6	-0.6	-1.0	-1.1
Dividends paid to minority shareholders in subsidiaries	-0.1	-0.4	-0.6	-0.6
Net cash from/(used in) financing activities	6.1	-2.2	-13.1	-7.7
Net increase in cash and cash equivalents	6.2	-0.6	-7.1	0.4
FX	-0.6	0.1	-0.7	0.0
Cash and cash equivalents at beginning of period	20.3	25.9	25.4	17.6
Cash and cash equivalents at end of period	25.9	25.4	17.6	18.0

Source: Empresaria Group; Allenby Capital

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