

Extended life

6 August 2019

We note the recent article in Jane's Defence Weekly of the decision by the UK MoD to extend the life of the RAFs fleet of 14 Lockheed Martin C-130J/C-130J 30 Hercules transport aircraft by a further five years to 2035. Marshall Aerospace and Defence Group (MADG) has begun the work required to extend the life of the Hercules fleet.

In addition to recent contract wins, we also view this announcement as good news, extending the life of what has been a significant programme for the business. While we are leaving estimates unchanged, we reiterate our valuation per NVPO share at 532p, which represents a near 64% premium to the last average share price trade.

MADG, a specialist system engineering and project management business, had originally secured a contract to provide whole-life maintenance/support for the Hercules fleet in 2006. This latest announcement represents the second time that the life span of the RAFs Hercules fleet has been extended - the previous occasion being within the 2015 Strategic Defence and Security Review, from 2022 to 2030.

The work necessary for prolonging the life of the fleet includes the replacement of the centre-wing box (CWB). This represents part of the wider £350m investment budgeted by the MoD in the Hercules fleet and announced in September 2016. The expenditure will be split into £200m on key components (including the CWB) to extend the aircraft's life and a further £150m of upgrades to enhance its capabilities. In comparison with its ultimate replacement, the Airbus A400M, the Hercules benefits from an ability to take off and land on short runways and this is operationally invaluable.

Like any project work, revenues are likely to be 'lumpy' in nature. Yet, we also note the steady improvement in the division's book-to-bill ratio (excluding the Hercules Integrated Operational Support (HIOS) contract with the UK MoD), which rose to 2.51:1 in 2018 from 1.27:1 in 2017. This provides work to keep more of the hangars busy at any one time.

Looking ahead, we anticipate that the next trading update for Marshall of Cambridge will be in September, following the Interim results from its 65%-owned quoted subsidiary, Marshall Motor Holdings PLC (MMH).

Valuation

Our FY19 and FY20 estimates are unchanged following this announcement, as the work will be performed over the medium term, mostly beyond the scope of our current estimates. However, in terms of sentiment and future earnings visibility the announcement clearly represents good news for MADG.

We retain our valuation of 532p per NVPO share.

Marshall of Cambridge (Holdings) Ltd

Last matched trades	325p
Implied market cap	£192.0m
ED valuation/NVPO share	532p
Ordinary share count	59.1m
Preference shares (NBV)	£8.4m
Net debt (Dec' 18)	£2.4m

Non-voting ordinary shares, p



Description

Founded in 1909, Marshall of Cambridge (Holdings) Ltd (MCH) is a private, family-owned company, employing 5,786 staff.

In 2018, the business generated c.£58m of EBITDA on revenues of £2.5bn and has significant organic opportunities ahead. Not only accelerating expansion at its leading aerospace/defence (MADG) and motor retail businesses (MMH – 64.46% owned). Along with perhaps turning around its loss-making Fleet Solutions arm and providing a springboard for its high-tech venture capital investments. But also unlocking value from its 900-acre estate at Cambridge airport.

The non-voting priority ordinary shares (NVPOs) can be traded freely via a special off-exchange matching facility administered by stockbroker James Sharp & Co (to register interest, the contact is: Josh McArdle, Tel 0161 764 4043)

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Financials

Summary Income Statement					
Year to Dec, £m	2017A	2018A	2019F	2020F	2021F
Aerospace & Defence (MADG)	295.4	247.8	272.6	299.8	329.8
Property Rental	8.0	8.0	8.0	8.0	8.0
Marshall Motor (MMH)	2232.0	2186.9	2240.0	2251.2	2273.7
Fleet Solutions	42.8	47.4	49.8	52.3	54.9
Intercompany	-24.2	-6.1	-6.2	-6.4	-6.5
Revenue	2554.0	2483.9	2564.1	2605.0	2659.9
<i>Y-o-Y growth (%)</i>		-2.7%	3.2%	1.6%	2.1%
CoGS	-2202.2	-2112.2	-2153.4	-2177.9	-2203.8
Gross profit	351.7	371.8	410.7	427.1	456.2
<i>Gross margin (%)</i>	13.8%	15.0%	16.0%	16.4%	17.1%
EBITDA	59.1	57.6	52.2	56.9	71.0
<i>% margin</i>	2.3	2.3	2.0	2.2	2.7
Aerospace & Defence (MADG)	13.8	15.3	16.0	20.0	24.0
Property Rental	2.7	2.0	2.1	2.1	2.3
Marshall Motor (MMH)	34.1	31.9	27.0	27.0	28.5
Fleet Solutions	-1.4	-1.5	-0.5	0.0	0.3
Land sales & property developmt	0.0	22.6	1.2	2.6	21.2
Other/Contingency	0.0	0.0	-2.0	-2.0	-2.1
Central shared services	-6.2	-6.0	-7.3	-7.4	-7.5
Adj. EBIT (pre-amortisation)	43.0	64.4	36.5	42.3	66.6
<i>Aerospace & Defence (MADG)</i>	4.7%	6.2%	5.9%	6.7%	7.3%
<i>Property Rental</i>	33.2%	25.6%	25.7%	26.4%	29.1%
<i>Marshall Motor (MMH)</i>	1.5%	1.5%	1.2%	1.2%	1.3%
<i>Fleet Solutions</i>	-3.4%	-3.1%	-1.0%	0.0%	0.5%
Total % EBIT margin	1.7%	2.6%	1.4%	1.6%	2.5%
Net Interest	-8.3	-5.7	-7.5	-8.0	-7.5
PBT (Adjusted)	34.7	58.7	29.0	34.3	59.1
Adj. Tax	-6.7	-11.1	-6.1	-7.2	-12.4
Adj. PAT	28.0	47.5	22.9	27.1	46.7
Minority interests	-8.7	-7.4	-6.1	-6.1	-6.5
Pref. dividends	-0.7	-0.7	-0.7	-0.7	-0.7
Earnings	18.6	39.4	16.1	20.3	39.5
EPS (Adjusted) (p)	31.4	66.7	27.2	34.3	66.8
Dps (p) - Voting, ordinary	4.0	4.0	4.0	4.9	5.9
DPS (p) - NVPO	6.0	6.0	6.0	6.9	7.9
Ave no of shares (FD) (m)	59.1	59.1	59.1	59.1	59.1

Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Dec, £m	2017A	2018A	2019F	2020F	2021F
EBITDA	59.1	57.6	52.2	56.9	71.0
Working capital movement	42.5	34.4	-4.1	-5.9	-7.9
Other	25.2	-38.6	-15.0	-1.0	0.0
Operating cash flow	126.7	53.4	33.2	50.0	63.1
Net Interest	-8.4	-6.4	-7.5	-8.0	-7.5
Pref. dividends	-0.7	-0.7	-0.7	-0.7	-0.7
Minority payment	-1.6	-1.8	-8.0	-6.6	-11.2
Taxation	-2.6	-6.7	-8.0	-6.6	-11.2
Cash earnings	113.4	37.7	8.9	28.0	32.5
Net capex	-31.3	-39.9	-36.9	-41.1	-26.0
Post capex cash flow	82.1	-2.2	-28.0	-13.1	6.5
Dividends	-3.3	-3.3	-3.3	-3.4	-4.0
Free cash flow	78.8	-5.5	-31.2	-16.6	2.5
Net (Acqns)/Disposals	44.3	-0.1	-3.5	0.0	0.0
Share Issues	0.0	-1.0	0.0	0.0	0.0
Other financial	5.0	-1.8	5.8	11.0	8.0
Increase Cash/(Debt)	128.1	-8.3	-28.9	-5.6	10.5
Opening Net Cash/(Debt)	-122.2	5.9	-2.4	-31.3	-36.9
Closing Net Cash/(Debt)	5.9	-2.4	-31.3	-36.9	-26.4

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to Dec, £m	2017A	2018A	2019F	2020F	2021F
Intangible Assets	112.3	94.8	89.8	84.9	80.0
Tangible Assets	218.2	237.9	257.9	281.8	290.2
Investments/other	4.8	6.6	9.1	11.6	14.1
Net Working Capital	-15.0	-17.4	-4.1	-5.9	-7.9
Capital Employed	320.3	321.9	352.7	372.4	376.4
Other	-18.4	-23.5	-23.5	-23.5	-23.5
Net Cash/(Debt)	5.9	-2.4	-31.3	-36.9	-26.4
Provisions	-72.3	-37.9	-32.9	-31.9	-31.9
Net Assets	235.6	258.1	264.9	280.1	294.6

Source: Company historics, Equity Development estimates

Key ratios

Year to Dec, £m	2017A	2018A	2019F	2020F	2021F
Continuing revenue growth %	N/A	-2.7%	3.2%	1.6%	2.1%
Gross Margin %	13.8%	15.0%	16.0%	16.4%	17.1%
Op margin %	1.7%	2.6%	1.4%	1.6%	2.5%
PBT Margin (Adjusted) %	1.4%	2.4%	1.1%	1.3%	2.2%
Net Debt/EBITDA x	-0.1	0.0	0.6	0.6	0.4
Gearing %	-2.5%	0.9%	11.8%	13.2%	9.0%
Net Capex / Depreciation x	-1.1	-1.3	-1.1	-2.6	-1.5
Working Capital / Sales %	-0.6%	-0.7%	-0.2%	-0.2%	-0.3%
Net Capex / Sales %	1.2%	1.6%	1.4%	1.6%	1.0%
Interest Cover x	5.2	11.3	4.9	5.3	8.9
Dividend Cover x	5.2	11.1	4.5	5.0	8.5
EV/Sales x	0.1	0.1	0.1	0.1	0.1
EV/EBITDA x	3.4	4.6	2.3	2.3	3.8
EV/CFBIT x	4.0	4.9	1.6	2.4	5.7
PER (Adjusted) x	10.3	4.9	12.0	9.5	4.9
Dividend Yield %	1.8	1.8	1.8	2.1	2.4
Price/book value x	0.9	0.9	0.8	0.7	0.7
FCF Yield	42.7%	-1.2%	-14.6%	-6.8%	3.4%

Source: Equity Development



Investor Access

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