

Support Services

Trading Comments - HYDG

HYDROGEN GROUP+ (HYDG, House Stock, 58p) FY Trading Update, Momentum, Upgrades Again.

The recruitment specialist has issued its full year trading update to end December this morning confirming that trading has remained robust across the group's regions. This strong performance pulls through a further upgrade for FY2018F and increases our confidence for the current year and beyond. We therefore upgrade for the current year and also for FY2020F. The better performance comes from continuing robust growth across the regions, but cost control is also a major driver, in our view, in translating growing Net Fee Income into rising EBITDA. We expect this strong cost control to continue. Hydrogen now estimates a closing net cash position for FY2018F of c£4.9m (our prior expectation was for £2.7m). In FY2017 the Company ended the year with modest net debt of £0.4m. A very pleasing performance then, in our opinion.

Upgrades. We upgrade our FY2018F Adj. PBT by 11% to £2.9m and FY2019F by 13% to £3.4m. Our adj. EPS for FY2018F rises by 6% to 6.8p and FY2019F by 11% to 7.5p (growth of c10% now anticipated). With higher profitability, we anticipate the tax rate maturing more quickly also. At present, we retain our dividend forecasts, but note earnings cover for FY2019F now at 5.5x – and also backed by a growing cash position with further potential earnings leverage from acquisitions in due course.

Acquisition growth. Last year's acquisition of Argyll Scott has been a major success for Hydrogen, in our view, leveraging central overheads and injecting scale into operations in the AsiaPac region in particular. With growing levels of cash and cash generating credentials, management is clear in its intent to seek further acquisitions, applying strict risk adjusted criteria. Management comments that: "the Group has built a scaleable platform to sustain future growth, which can be supplemented by selective acquisitions that meet the Board's strict criteria relating to financial, operational, strategic and cultural fit. Supported by the Group's continued strong trading performance strengthening the balance sheet, the Board is currently actively exploring a number of acquisition opportunities that it believes may meet these criteria"

Valuation thoughts. Hydrogen has clear momentum now in its development and we expect this positive news flow to continue through the current year and beyond. The company, post these latest upgrades, is trading on a current year PER of 7.7x (EV/EBITDA 3.8x), falling to 6.9x for FY202F (EV/EBITDA 3.0x). Hydrogen, on our current dividend forecasts, offers a dividend yield of 2.4% with a free cash flow yield of 9.7%.

Hydrogen expects to report its full year results on the 2nd April.

HOUSE STOCK.

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