

# NEXUS INFRASTRUCTURE CONSTRUCTION

30 October 2024

## NEXS.L

130p

Market Cap: £11.7m

### SHARE PRICE (p)



12m high/low

155p/67p

Source: LSE Data (priced as at prior close)

### KEY DATA

Net (debt)/cash	£9.2m (at 31/03/24)
Enterprise value	£2.5m
Index/market	AIM
Next news	Trading update (TBC)
Shares in issue (m)	9.0
Chairman	Richard Kilner
Chief Executive	Charles Sweeney
Finance Director	Dawn Hillman

### COMPANY DESCRIPTION

Civil engineering and infrastructure services for housebuilders, focused in the South-East and London

[www.nexus-infrastructure.com](http://www.nexus-infrastructure.com)

NEXUS INFRASTRUCTURE IS A RESEARCH CLIENT  
OF PROGRESSIVE

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## Acquisition a first step in diversification strategy

Nexus has acquired infrastructure specialist Coleman Construction & Utilities in 'an immediately earnings enhancing' deal, for a total consideration of up to c.£4.4m. The civil engineering group indicates this is a first step in its strategy of diversifying into other critical UK growth sectors, including water and marine construction. Nexus has also issued an 'in line' trading update for the year to 30 September, and it 'remains confident that the housebuilding sector will see a significant recovery'.

- Strategic acquisition.** Coleman operates across Southeast England, with extensive experience in several sectors including water, rail, highways and rivers & marine. The acquisition 'aligns with Nexus's strategic objective of diversifying into additional key sectors, critical to UK infrastructure', adding to its core business Tamdown's key market of housebuilding.
- 'Earnings enhancing'.** The initial consideration is £3.08m, cash and debt free, plus an additional c.£1m net cash adjustments subject to completion accounts, with deferred payments in year one and year two, subject to performance, for a total consideration of up to £5.38m – or £4.38m stripping out the cash adjustments. For the year to 31 March, Coleman had revenue of £8.3m, adjusted EBITDA of £0.7m and net assets of £2.3m. The acquisition 'is expected to be immediately earnings enhancing'; greater clarity, we understand, will be provided in a forthcoming update and we will adjust our estimates at that point.
- Critical sectors.** Coleman delivers civil engineering and building services. It has an extensive background of safety critical civil engineering and building work in the rail industry. We believe these and other sectors such as power infrastructure are 'must have' investments for government.
- 'In line' trading update.** The group has confirmed that trading for the year to 30 September is 'in line with market expectations'. Tamdown's year-end order book was up 23% Y/Y to £51.5m. Post period end, Tamdown has been awarded new work worth £15.9m. The Board expects to pay a final dividend in line with FY23 – consistent with our FY24E estimates.
- Long-term growth.** In 2023, Nexus disposed of TriConnex and eSmart Networks for £78m, returning c.£61m to shareholders, while retaining Tamdown. We see the acquisition as evidence of the group starting to redeploy capital to new growth opportunities alongside housebuilding, which should gain from Labour's major housebuilding ambitions (page 2).

FYE SEP (£M)	2021	2022	2023	2024E	2025E
Revenue	77.3	98.4	88.7	55.9	67.1
Fully Adj PBT	-3.0	-0.9	-5.0	-2.4	-0.5
Fully Adj EPS (p)	-3.9	-2.2	-34.5	-25.8	-4.5
Dividend per share (p)	2.0	1.0	3.0	3.0	3.5
PER (x)	N/A	N/A	N/A	N/A	N/A
EV/EBITDA (x)	-2.6x	1.5x	-1.0x	2.3x	0.9x
Dividend yield	1.5%	0.8%	2.3%	2.3%	2.7%

Source: Company Information and Progressive Equity Research estimates.

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Please refer to important disclosures at the end of the document.

## Nexus in brief: leading force in civil engineering

Nexus Infrastructure, via its principal trading business Tamdown, is a leading provider of civil engineering services, principally to major housebuilders. The group has stated its aim to expand into critical infrastructure, including water, flood protection and energy. See our initiation note, *Engineered to lead housebuilding revival*.

- **Broad range of activities.** The group's activities comprise a wide range of civil engineering services, including earthworks, roads, drainage and foundations. These activities are currently weighted towards the opening of new housebuilding sites.
- **Recent history.** Nexus has been operating for over 45 years. In February 2023, it completed the disposal of TriConnex (utilities connection for housebuilders) and eSmart Networks (power connections for industrial and commercial customers) to private investment group FitzWalter Capital for a cash consideration of £78m; c.£61m was subsequently returned to shareholders by way of a tender offer. In June 2023, Nexus announced it was owed c.£2m from the failed modular housing manufacturer ilke Homes. In October 2023, the group reported losses on a further reduction in revenue amid slowing housebuilding along with inflationary pressures, responding with a series of cost-cutting actions and other proactive measures to improve margins. The interim results in May signalled 'confidence in delivering in H2 and beyond'. The FY24E trading update, accompanying the Coleman acquisition, signalled revenue and profit in line with market expectations, with a 23% rise in the order book.
- **Leading housebuilding customers.** Clients include the UK's top five listed housebuilders – Barratt Developments, Vistry Group, Taylor Wimpey, Persimmon and Bellway – as well as leading private groups including Bloor Homes, partnership specialist Keepmoat and housing associations. The group operates mainly in London and the Southeast.
- **Multi-year opportunities.** The most immediate prospects, we believe, are housebuilders increasing the number of new sites they open. This was already looking likely, evidenced by accelerated land buying, but has been given added impetus by the new Labour government's commitment to build 1.5 million homes in the current parliament. The group expects this to boost site work by 2H 25E. The acquisition of Coleman demonstrates evidence of its strategy of diversifying into vital infrastructure. We previously argued that water and energy were the most urgent national priorities. Longer term, a major opportunity could be Labour's plans for 'new towns', given Tamdown's experience in large, complex sites. A start on these would probably require at least five years for land assembly and planning.
- **Technical, financial and operational strengths.** Tamdown has a broad range of technical abilities, a strong brand and well-established relationships with most of the leading housebuilders. This sector is going through a process of consolidation (including the Barratt-Redrow merger), adding demand for the group's capabilities in large, complex, multi-phase developments, in which the largest developers predominate. The group's robust balance sheet is of increasing importance for major customers, amid a rash of supply-chain failures afflicting the wider industry. Also significant for major customers is Tamdown's record in health & safety, demonstrated by 15 consecutive annual Royal Society for the Prevention of Accidents (RoSPA) Gold Awards.
- **Fragmented industry structure.** Competition is fragmented among Tamdown's smaller peers, but we expect a phase of consolidation, either through loss of market share, company failures or M&A. With diversification a key pillar of its strategy, we would anticipate acquisition activity in the short to medium term, and believe targets would aim to create value by adding complementary skills or market opportunities.

**Financial Summary: Nexus Infrastructure**

Year end: September (£m unless shown)

	2021	2022	2023	2024E	2025E
<b>PROFIT &amp; LOSS</b>					
Revenue	77.3	98.4	88.7	55.9	67.1
Adj EBITDA	(1.0)	1.7	(2.5)	1.1	2.7
Adj EBIT	(2.6)	(0.3)	(4.8)	(1.7)	(0.2)
Reported PBT	(1.7)	(0.9)	(8.5)	(2.7)	(0.5)
Fully Adj PBT	(3.0)	(0.9)	(5.0)	(2.4)	(0.5)
NOPAT	(2.6)	(0.3)	(4.8)	(1.7)	(0.2)
Reported EPS (p)	6.6	6.0	239.0	(29.2)	(4.5)
Fully Adj EPS (p)	(3.9)	(2.2)	(34.5)	(25.8)	(4.5)
Dividend per share (p)	2.0	1.0	3.0	3.0	3.5
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	3.4	(2.4)	(7.3)	(3.3)	0.7
Free Cash flow	(4.0)	9.6	(7.6)	(4.2)	(0.3)
FCF per share (p)	(8.9)	21.0	(30.9)	(47.0)	(3.0)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	60.2	0.0	0.0
Shares issued/(purchased)	0.0	0.0	(60.5)	0.0	0.0
Net cash flow	(3.6)	(5.3)	(9.5)	(5.3)	(0.6)
Net (debt)/cash, post IFRS16	15.5	(7.9)	3.0	(1.4)	(2.0)
Cash & equivalents	29.5	4.6	14.6	9.3	8.7
Net (debt)/cash, pre-IFRS 16	18.1	4.6	14.6	10.2	9.6
<b>NAV AND RETURNS</b>					
Net asset value	32.1	34.1	33.0	30.1	29.4
NAV/share (p)	70.8	74.9	365.4	333.2	324.9
Net Tangible Asset Value	29.8	31.8	30.6	27.7	27.0
NTAV/share (p)	65.6	69.8	339.2	307.1	298.8
Average equity	32.1	33.1	33.6	31.6	29.7
Post-tax ROE (%)	9.3%	8.2%	175.1%	(8.3%)	(1.4%)
<b>METRICS</b>					
Revenue growth	N/A	27.2%	(9.9%)	(37.0%)	20.0%
Adj EBITDA growth	N/A	N/A	N/A	N/A	138.7%
Adj EBIT growth	N/A	(87.8%)	N/A	N/A	N/A
Adj PBT growth	N/A	(69.3%)	N/A	(52.2%)	N/A
Adj EPS growth	N/A	(43.3%)	N/A	(25.2%)	N/A
Dividend growth	N/A	(50.0%)	N/A	0.0%	16.7%
Adj EBIT margins	(3.3%)	(0.3%)	(5.4%)	(3.0%)	(0.4%)
<b>VALUATION</b>					
EV/Sales (x)	0.03	0.03	0.03	0.05	0.04
EV/EBITDA (x)	-2.6	1.5	-1.0	2.3	0.9
EV/NOPAT (x)	-1.0	-8.1	-0.5	-1.5	-10.4
PER (x)	N/A	N/A	N/A	N/A	N/A
Dividend yield	1.5%	0.8%	2.3%	2.3%	2.7%
FCF yield	(6.8%)	16.2%	(23.8%)	(36.1%)	(2.3%)

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

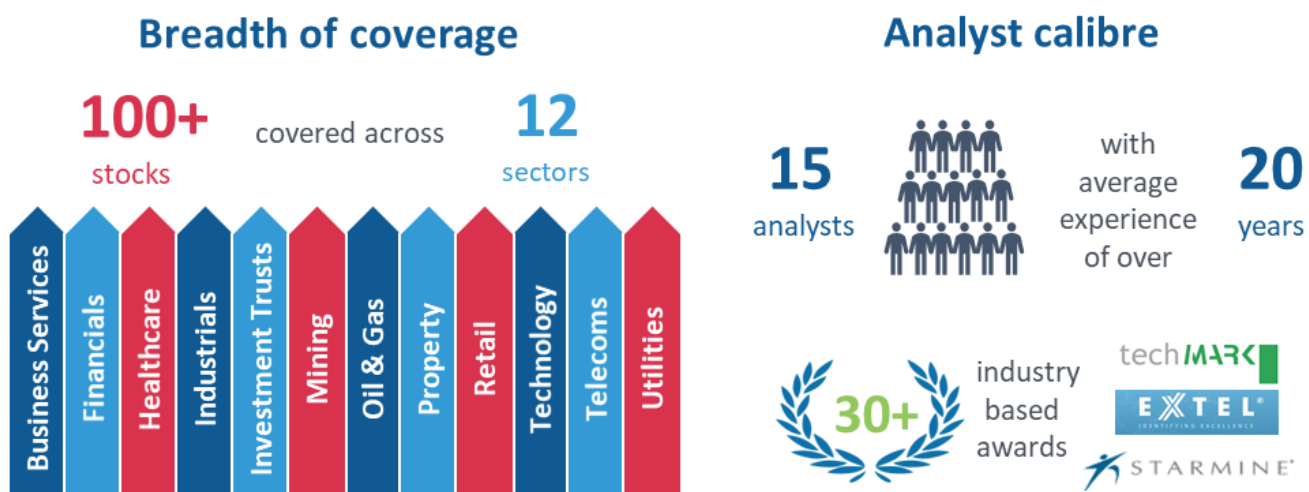
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