

NEXUS INFRASTRUCTURE CONSTRUCTION

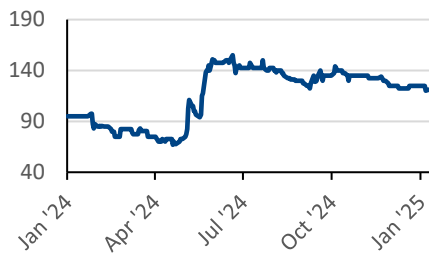
23 January 2025

NEXS.L

121p

Market Cap: £10.9m

SHARE PRICE (p)



12m high/low

155p/67p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£12.8m (at 30/09/24)
Enterprise value	£1.9m
Index/market	AIM
Next news	AGM, 12 March
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

NEXUS INFRASTRUCTURE IS A RESEARCH CLIENT
OF PROGRESSIVE

ANALYSTS

Alastair Stewart

+44 (0) 20 7781 5308

astewart@progressive-research.com



www.progressive-research.com

Poised for housebuilding and water boosts

FY24 results to September were broadly in line with our estimates, showing a greatly reduced loss, but with better-than-expected year-end cash. We maintain our estimates for FY25E, but see potential for a better outcome given our view that the main Tamdown civil engineering division could be an early beneficiary of rising housing starts, due to resilient demand and an improving planning backdrop. The acquisition in October of Coleman Construction & Utilities, which takes Nexus into the critical water sector, should also reinforce the outlook, in our view.

- Strong cashflow and rising order book.** Revenue fell by 37% to £56.7m, but was slightly ahead of our estimate of £55.9m, 'demonstrating resilience in a challenging market'. Adjusted loss before tax fell from £5.0m to £0.7m, before an impairment loss of £1.8m and other exceptionals of £0.3m. Pre-IFRS16 net cash was £12.8m, better than our £10.2m. The order book rose by 12% to £51.6m, despite weakness in the housebuilding market.
- Tamdown could benefit from improved planning outlook.** We are not changing our estimates at this point (pages 2 - 3), but note that the main division, Tamdown, has an extremely short lead-in time to any improvement in new site openings by housebuilders. This month, several of the biggest housebuilders have referred to a marked improvement in the planning system, which could result in new developments opening quicker than expected.
- Smart water move, with other deals mooted.** In addition to the potential improvements in housebuilding, the group made its first move, post-period-end in diversifying into new, long-term growth sectors with the [Coleman acquisition](#). In today's results statement, the company hints: 'The Board will continue to review further diversification options in FY25.'
- Turnaround followed by long-term growth strategy.** In 2023, Nexus disposed of TriConnex and eSmart Networks for £78m, returning c.£61m to shareholders, while retaining Tamdown. We see the Coleman 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 4).

FYE SEP (£M)	2021	2022	2023	2024	2025E
Revenue	77.3	98.4	88.7	56.7	67.1
Fully Adj PBT	-3.0	-0.9	-5.0	-0.7	-0.5
Fully Adj EPS (p)	-3.9	-2.2	-34.5	-7.3	-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)	1.9x	-1.1x	0.8x	-0.7x	-0.7x
Dividend yield	1.7%	0.8%	2.5%	2.5%	2.9%

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

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

Figure 1: P&L and per share data

Year-end September (£m)	FY21	FY22	FY23	FY24	FY25E	H1 23	H2 23	H1 24	H2 24
Revenue	77.3	98.4	88.7	56.7	67.1	51.0	37.7	25.8	30.9
COGS	(71.3)	(88.5)	(82.7)	(49.1)	(57.5)	(45.3)	(37.5)	(22.3)	(26.7)
Gross profit	6.0	9.9	6.0	7.7	9.6	5.8	0.2	3.5	4.2
Operating expenses	(8.6)	(10.2)	(10.8)	(7.8)	(9.8)	(5.7)	(5.1)	(4.8)	(3.1)
Operating profit	(2.6)	(0.3)	(4.8)	(0.2)	(0.2)	0.1	(4.9)	(1.3)	1.1
Exceptionals	1.3	-	(3.6)	(2.1)	-	-	(3.6)	-	(2.1)
Interest	(0.4)	(0.6)	(0.2)	(0.5)	(0.3)	(0.0)	(0.1)	(0.2)	(0.3)
PBT, reported	(1.7)	(0.9)	(8.5)	(2.8)	(0.5)	0.0	(8.6)	(1.5)	(1.3)
Tax	(0.1)	(0.1)	0.0	-	0.1	-	0.0	0.0	(0.0)
Discontinued	4.8	3.7	67.3	-	-	67.3	-	-	-
Net attrib. profit	3.0	2.7	58.8	(2.8)	(0.4)	67.3	(8.5)	(1.4)	(1.3)
PBT, pre-exceptionals	(3.0)	(0.9)	(5.0)	(0.7)	(0.5)	0.0	(5.0)	(1.5)	0.8
EBITDA	(1.0)	1.7	(2.5)	2.6	2.7	1.4	(3.8)	0.1	2.5
Diluted shares (million)	46.3	46.1	24.6	9.0	9.0	40.3		9.0	
EPS, basic (p)	6.6	6.0	239.0	(30.6)	(4.5)	167.3		(15.9)	
EPS, pre-exc, cont. (p)	(3.9)	(2.2)	(34.5)	(7.3)	(4.5)	0.1		(15.9)	
DPS - declared (p)	2.0	1.0	3.0	3.0	3.5	1.0	2.0	1.0	2.0
Dividend cover (x)	na	na	(11.5)	(2.4)	(1.3)				
NAV (p)	70.8	74.9	365.4	331.9	323.7	461.0		349.5	
TNAV (p)	65.6	69.8	339.2	305.7	297.5	434.8		323.3	
FCFPS (p)	(8.9)	21.0	(30.9)	(4.0)	(2.9)	(15.9)		(51.2)	
<i>Change in revenue, Y/Y (%)</i>		27.2%	-9.9%	-37.0%	18.3%	9.3%	-27.2%	-49.4%	-18.0%
<i>Gross margin (%)</i>	7.8%	10.1%	6.7%	13.5%	14.3%	11.3%	0.6%	13.5%	13.5%
<i>Operating margin (%)</i>	-3.3%	-0.3%	-5.4%	-0.3%	-0.4%	0.1%	-12.9%	-4.9%	3.6%

Source: Company Information and Progressive Equity Research estimates.

Figure 2: Cash Flow and Balance Sheet

Year-end September (£m)	FY21	FY22	FY23	FY24	FY25E	H1 23	H2 23	H1 24	H2 24
Adjusted cash flow statement									
Group operating profit	(2.6)	(0.3)	(4.8)	(2.2)	(0.2)	0.1	(4.9)	(1.3)	(1.0)
Depreciation	1.6	2.0	2.3	2.8	2.9	1.3	1.1	1.4	1.4
Other, non-cash	6.1	4.7	(3.5)	(0.3)	-	0.5	(3.9)	(0.1)	(0.2)
Working capital	(1.7)	(8.9)	(1.3)	0.2	(2.0)	(7.8)	6.5	(4.6)	4.8
Operating cash flow	3.4	(2.4)	(7.3)	0.5	0.7	(6.0)	(1.3)	(4.6)	5.1
Capex	(5.8)	12.8	(0.4)	(0.3)	(0.8)	(0.0)	(0.4)	(0.1)	(0.2)
Interest	(0.4)	(0.2)	(0.2)	(0.5)	(0.3)	0.0	(0.2)	0.1	(0.6)
Tax	(0.3)	(0.6)	0.2	-	0.1	(0.4)	0.6	-	-
Free cashflow	(4.0)	9.6	(7.6)	(0.4)	(0.3)	(6.4)	(1.2)	(4.6)	4.3
(Acquisitions)/disposals	0.0	-	60.2	-	-	60.2	-	-	-
Dividends - paid	(0.3)	(1.1)	(0.1)	(0.3)	(0.3)	(0.1)	-	-	(0.3)
Share (purchase)/proceeds	0.0	0.0	(60.5)	-	-	(60.5)	-	-	-
Other financing	0.7	(13.8)	(1.5)	(1.2)	-	(1.4)	(0.1)	(0.775)	(0.4)
Change in cash	(3.6)	(5.3)	(9.5)	(1.8)	(0.6)	(8.2)	(1.3)	(5.4)	3.6
Summary balance sheet									
Intangible fixed assets	2.4	2.4	2.4	2.4	2.4	2.4		2.4	
Tangible fixed assets	19.6	18.1	16.8	15.4	13.2	17.6		15.7	
Working capital	(7.6)	13.3	10.9	10.6	12.6	17.9		15.4	
Provisions, others	(0.3)	(12.5)	(11.7)	(11.2)	(11.2)	(12.2)		(11.1)	
Retirement benefits	-	-	-	-	-	-		-	
Net cash/(debt), pre-leases	18.1	4.6	14.6	12.8	12.2	16.0		9.2	
Discontinued	-	8.3	-	-	-	-		-	
Net assets	32.1	34.1	33.0	30.0	29.2	41.6		31.6	
<i>Net cash/(debt), inc leases</i>	<i>15.5</i>	<i>(7.9)</i>	<i>3.0</i>	<i>1.6</i>	<i>1.0</i>	<i>3.8</i>		<i>(1.9)</i>	

Source: Company Information and Progressive Equity Research estimates.

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	2024	2025E
PROFIT & LOSS					
Revenue	77.3	98.4	88.7	56.7	67.1
Adj EBITDA	(1.0)	1.7	(2.5)	2.6	2.7
Adj EBIT	(2.6)	(0.3)	(4.8)	(0.2)	(0.2)
Reported PBT	(1.7)	(0.9)	(8.5)	(2.8)	(0.5)
Fully Adj PBT	(3.0)	(0.9)	(5.0)	(0.7)	(0.5)
NOPAT	(2.6)	(0.3)	(4.8)	(0.2)	(0.2)
Reported EPS (p)	6.6	6.0	239.0	(30.6)	(4.5)
Fully Adj EPS (p)	(3.9)	(2.2)	(34.5)	(7.3)	(4.5)
Dividend per share (p)	2.0	1.0	3.0	3.0	3.5
CASH FLOW & BALANCE SHEET					
Operating cash flow	3.4	(2.4)	(7.3)	0.5	0.7
Free Cash flow	(4.0)	9.6	(7.6)	(0.4)	(0.3)
FCF per share (p)	(8.9)	21.0	(30.9)	(4.0)	(2.9)
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)	(1.8)	(0.6)
Net (debt)/cash, post IFRS16	15.5	(7.9)	3.0	1.6	1.0
Cash & equivalents	29.5	4.6	14.6	12.8	12.2
Net (debt)/cash, pre-IFRS 16	18.1	4.6	14.6	12.8	12.2
NAV AND RETURNS					
Net asset value	32.1	34.1	33.0	30.0	29.2
NAV/share (p)	70.8	74.9	365.4	331.9	323.7
Net Tangible Asset Value	29.8	31.8	30.6	27.6	26.9
NTAV/share (p)	65.6	69.8	339.2	305.7	297.5
Average equity	32.1	33.1	33.6	31.5	29.6
Post-tax ROE (%)	9.3%	8.2%	175.1%	(8.8%)	(1.4%)
METRICS					
Revenue growth	N/A	27.2%	(9.9%)	(36.0%)	18.3%
Adj EBITDA growth	N/A	N/A	N/A	N/A	2.3%
Adj EBIT growth	N/A	(87.8%)	N/A	N/A	N/A
Adj PBT growth	N/A	(69.3%)	N/A	(86.0%)	N/A
Adj EPS growth	N/A	(43.3%)	N/A	(78.9%)	N/A
Dividend growth	N/A	(50.0%)	N/A	0.0%	16.7%
Adj EBIT margins	(3.3%)	(0.3%)	(5.4%)	(0.3%)	(0.4%)
VALUATION					
EV/Sales (x)	-0.02	-0.02	-0.02	-0.03	-0.03
EV/EBITDA (x)	1.9	-1.1	0.8	-0.7	-0.7
EV/NOPAT (x)	0.7	5.9	0.4	11.9	7.9
PER (x)	N/A	N/A	N/A	N/A	N/A
Dividend yield	1.7%	0.8%	2.5%	2.5%	2.9%
FCF yield	(7.4%)	17.4%	(25.6%)	(3.3%)	(2.4%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

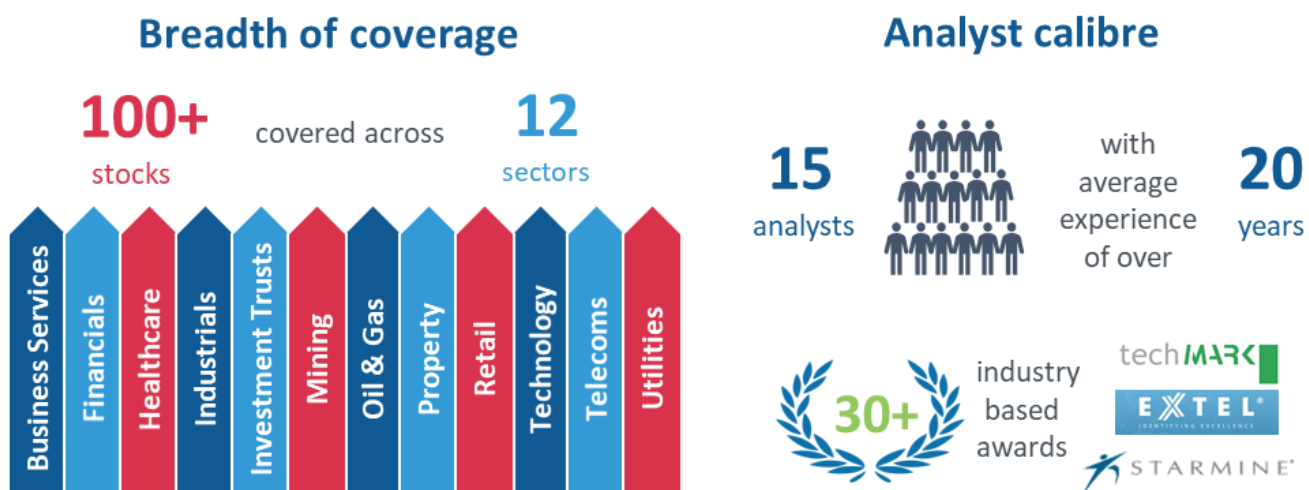
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To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
+44 (0) 20 7781 5300
info@progressive-research.com