Investors' Chronicle | Alpha

Alpha Editor: James Norrington
Alpha Production Editor: Sameera Hai Baig

Alpha small company research

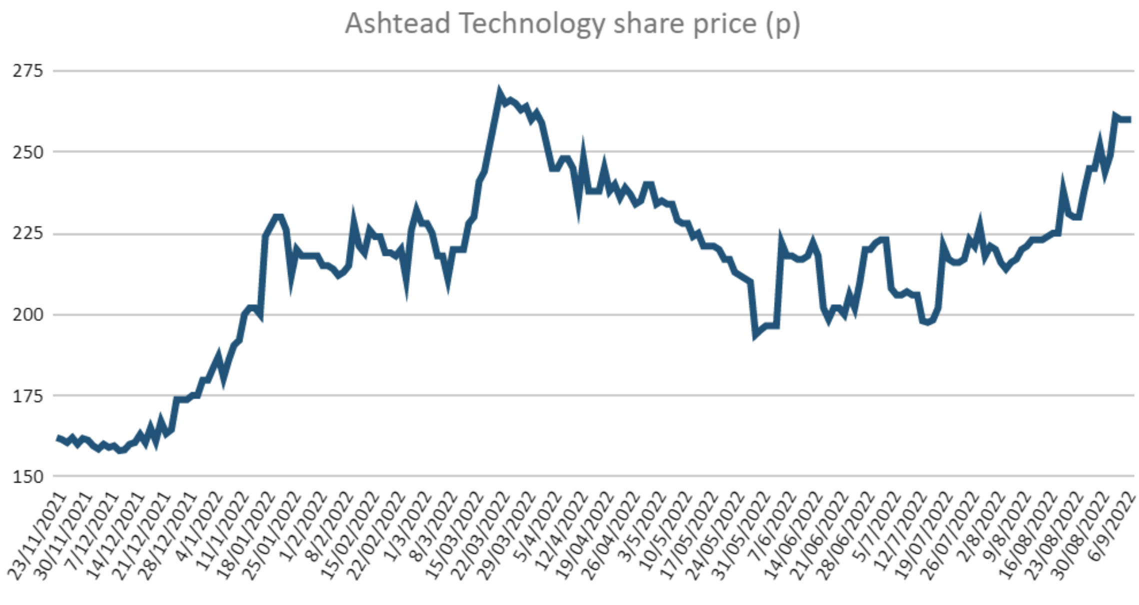
8 September 2022

Profit from the great energy re-set

'The leading independent player in the subsea equipment rental fleet market is set to deliver strong returns for shareholders for many years to come.'

Simon Thompson's view:

'The move to renewable energy can only gain momentum in the coming years as western economies wean themselves of Russian fossil fuels. Even before the invasion of Ukraine, the number of operational wind farms was set to more than double to 494 within four years, rising to 818 by the end of the decade. A leading independent cash generative services company offers exposure to the strong structural growth in this market, and is rated on forward PE ratios of 14.4 (2023) and 13.4 (2024) to suggest decent investment potential in the next 12 months.'



Source: FactSet

Bull points

1. Rising contribution from renewable sector
2. Beneficiary of increasing oil and gas production from deepwater fields
3. Attractive margins and operational gearing
4. Robust return on invested capital employed
5. Solid operational cash conversion underpins progressive dividend policy
6. High quality customer base
7. Good revenue visibility and increasing tender activity offers defensive qualities
8. Low financial leverage supports expansion

Bear points

1. Liquidity in shares
2. Economic risk
3. Supply chain risk

Ashtead Technology (AT.)	
Ticker	AT.
Current price	257.5p
Bid-offer spread	255 to 260p
Target price	325p
Market cap	£207mn
52 week high	298p
52 week low	156p
Net debt	£21.2mn (June 2022)
Net asset value	£68mn (includes intangible assets of £50.4mn)
Shares in issue	79.5mn
Financial year end	31 December
Next event	year-end trading update mid-Jan 2023
Website	ashtead-technology.com

The ongoing war in Ukraine coupled with Russia's decision to curtail gas flows to Europe in response to EU sanctions has put a rocket under energy prices and is accentuating the cost-of-living crisis. It is also ratcheting up pressure on European governments to seek alternative oil and gas supplies from more reliable sources, as well as accelerating plans for renewable energy generation to reduce the reliance on fossil fuels.

Although disturbing on many levels, this backdrop should boost the outlook for **Ashtead Technology (AT.)**, a leading independent subsea rentals and services group that supports the installation, inspection, maintenance and repair (IMR), and decommission of infrastructure across the offshore energy industry. In the fast-growing offshore wind sector, Ashtead's specialist equipment and services are essential through the project development, construction and installation phase. Once wind farms are operational, the group offers customers IMR support. In the more mature oil and gas sector, the focus is on IMR and decommissioning.

Founded in 1985, Ashtead has built a strong track record and market leading domain expertise in subsea equipment rental and related services with a long-standing, blue-chip customer base, working with eight of its 10 largest customers for more than a decade. Six of these customers operate under long-term framework arrangements, thus providing solid revenue visibility. The customer base includes the majority of the major subsea services companies (Boskalis, Fugro, Helix, Oceaneering, Subsea 7, TechnipFMC and Saipem) who provide services to oil and gas and offshore wind asset owners.

A reputation for delivering service quality and reliability is underpinned by the size, quality and depth of its 17,000-product equipment rental fleet (gross book value of £115mn and net book value of £24.1mn), of which 85 per cent is fungible across both oil and gas, and renewables markets. Importantly, Ashtead's senior management team has significant technical expertise (average tenure of 25 years in the offshore energy industry) and is supported by a highly experienced team of more than 219 employees.

The group is a global player, serving the international energy sector from nine facilities strategically located in key offshore energy hubs: Aberdeen (UK), Abu Dhabi (UAE), Broussard (USA), Halifax (Canada), Houma (USA), Houston (USA), Inverurie (UK), London (UK) and Singapore. Additionally, Ashtead has international partners in the Caribbean, West Africa and Australia.

Ashtead has three specific business lines to support the installation, IMR and decommissioning of offshore energy infrastructure:

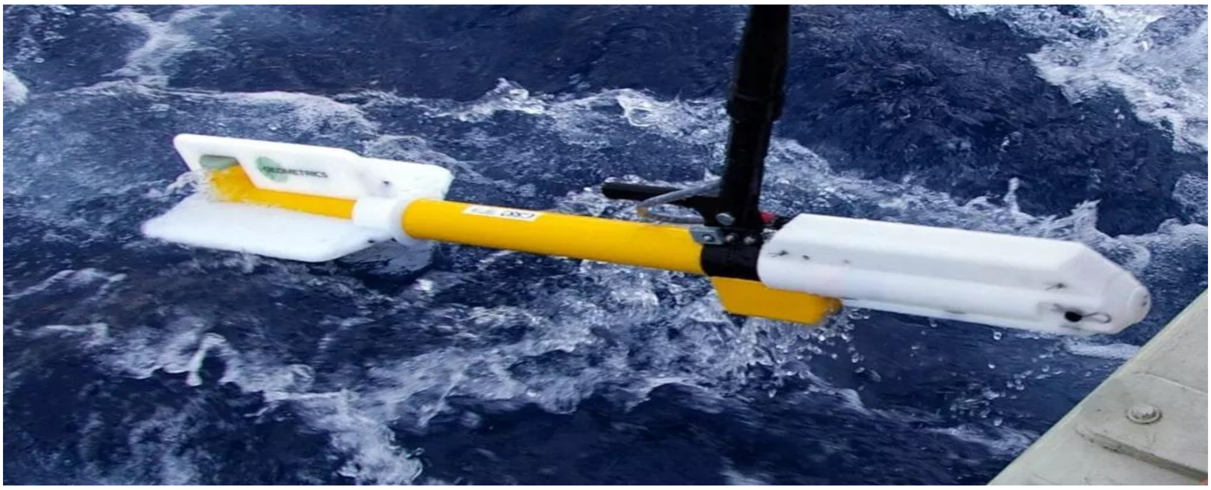
Survey & robotics. Providing an extensive array of survey and robotics equipment. The segment accounted for around 64 per cent of group revenue in 2021.

Mechanical solutions. Providing a wide range of in-house designed and third-party mechanical equipment solutions for the subsea market including dredging, cutting and driver mechanical tools. Segment accounts for about 25 per cent of group revenue in 2021.

Asset integrity. Offering custom engineered packages tailored to address operational requirements in challenging offshore environments such as hull inspection, mooring inspection and subsea sensor packages. Segment accounts for about 11 per cent of group revenue in 2021.

Around 80 per cent of group revenue is derived from the rental of specialised equipment. However, it is more than just an equipment rental business. What differentiates the company is a fully integrated service capability that enables Ashtead to provide packaged equipment solutions to customers for various applications, water depths and deployments.

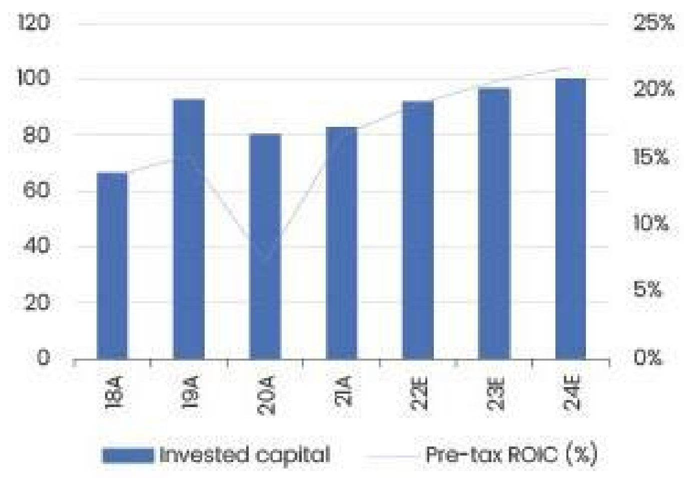
For instance, Ashtead's suite of survey and robotics solutions include environmental, geophysical, geospatial, hydrographic and metocean survey, non-destructive testing, remote visual inspection, remote operated vehicle sensors, and subsea inspection. The provision of technical services, solutions and equipment sales account for around 20 per cent of group revenue.



Range of UXO equipment to help reduce the risks of unexploded bombs and other ordnance

In turn, this creates differentiated propositions, particularly in Ashtead's mechanical solutions and asset integrity offerings, resulting in long-term customer relationships and driving higher returns on capital. In the first half of 2022, the group delivered an eye-catching 19.1 per cent return on invested capital (trading profit as a percentage of average net debt and equity), highlighting the returns the business can generate.

Ashtead Technology's return on invested capital



Source: Numis Securities (invested capital stated in £mn)

These returns are feeding through to an earnings tailwind that prompted house broker Numis Securities to push through a low single-digits rise in its 2023 profit expectations in this week's interim results. It implies the shares are only priced on modest price/earnings (PE) ratios of 14.4 (2023) and 13.4 (2024), despite strong structural growth drivers (that support organic growth), as well as a lowly leveraged balance sheet that is being used to make small earnings accretive bolt-on acquisitions (see below).

	FY 2022 £m	FY 2023 £m	FY 2024 £m
Number of analysts forecasting (see note below)	1	1	1
Revenue	65.5	73.9	81.2
Underlying EBITDA	25.0	29.1	32.0
Underlying Operating Profit	16.8	19.7	21.6
Underlying PBT	15.8	18.5	20.4
Underlying Earnings per share (p)	15.8	18.1	19.4
Dividend (p)	1.97	2.27	2.42
Net Debt @ 31 December (including IFRS 16 finance leases)	20.6	11.9	0.7

Source: Numis Securities (5 September 2022)

Given the cash-generative nature of the business and the high returns on invested capital (ROIC), the balance sheet could be almost completely de-leveraged within two years if Ashtead maintains its profit progression.

Market tailwinds remain favourable for medium term growth

The expansion of offshore wind as a means of energy production, alongside the decommissioning of existing oil and gas infrastructure, is critical to a successful energy transition process. It is also a key driver of Ashtead's revenue as wind power generation accounted for a third of total revenue in 2021, up from 29 per cent in 2020 and only 10 per cent in 2018.

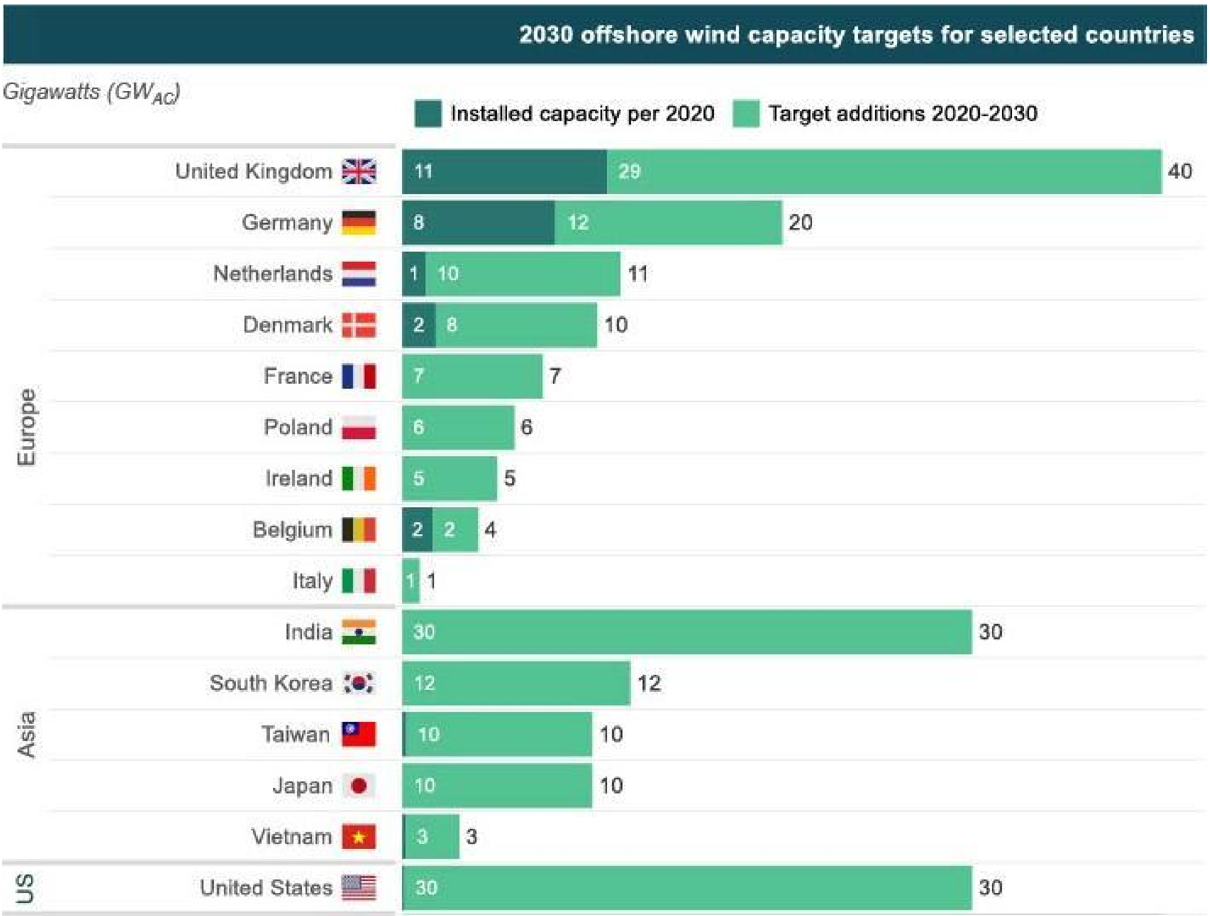
Ashtead supports the energy transition and is capitalising on the significant forecast increase in expenditure in the global offshore wind market.

However, oil and gas production (67 per cent of 2021 revenue) is still an important constituent in meeting energy demand and significant expenditure is required to maintain oil and gas production from existing fields. In many cases, this option is preferable to making investment in new oil and gas fields and associated infrastructure.

Source: Rystan Energy, Ashtead Technology; (1) excludes China

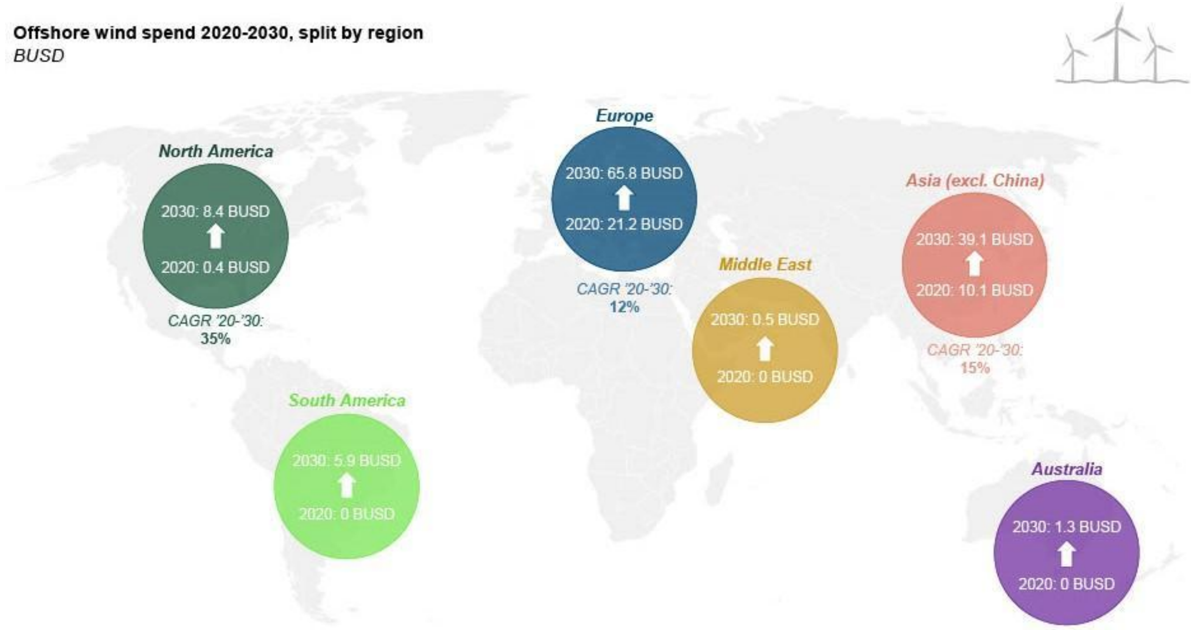
The fungibility of Ashtead Technology's equipment and solutions across the offshore wind and oil and gas markets makes for a robust proposition, enabling the group to capture growth across both these adjacent markets. Forecasts from energy consultants Rystad Energy indicate that Ashtead's total addressable market is set to grow at a compound annual growth rate (CAGR) of 16 per cent from 2021 to 2025, to $2.4bn. Within this, both offshore wind and decommissioning segments are expected to grow by a CAGR of 20 per cent, and oil and gas IMR and construction support by a CAGR of 14 per cent.

Europe is the most mature offshore wind region in the world with 74 per cent of global capacity installed. Moreover, it is expected to continue to be the largest investor with expenditure forecast to grow at 12 per cent per annum to reach $65.8bn in 2030 and account for at least 54 per cent of the global market by 2030 (excluding China).



Source: Rystan Energy Offshore Wind Report 2021

However, the offshore wind market is also expected to internationalise rapidly, notably in Asia (excluding China) and North America where CAGR in offshore wind spend is forecast at 15 per cent and 35 per cent, respectively, with expenditure in Asia reaching $39.1bn by 2030 (excluding China) and $8.4bn in North America. A material increase in spending is also anticipated in South America, Australia and the Middle East, albeit from a low base.



Source: Rystad Energy Offshore WindCube Report (2021)

As a result of the increased expenditure, the number of operational wind farms is set to more than double from 229 (as at June 2021) to 494 in 2025. At the end of 2021, there were 159 wind farms under construction, a further 64 approved and 42 in the application stage, all of which are expected to be up and running by 2025. An additional 49 wind farms are at the concept phase, with a target to be operational by 2025.

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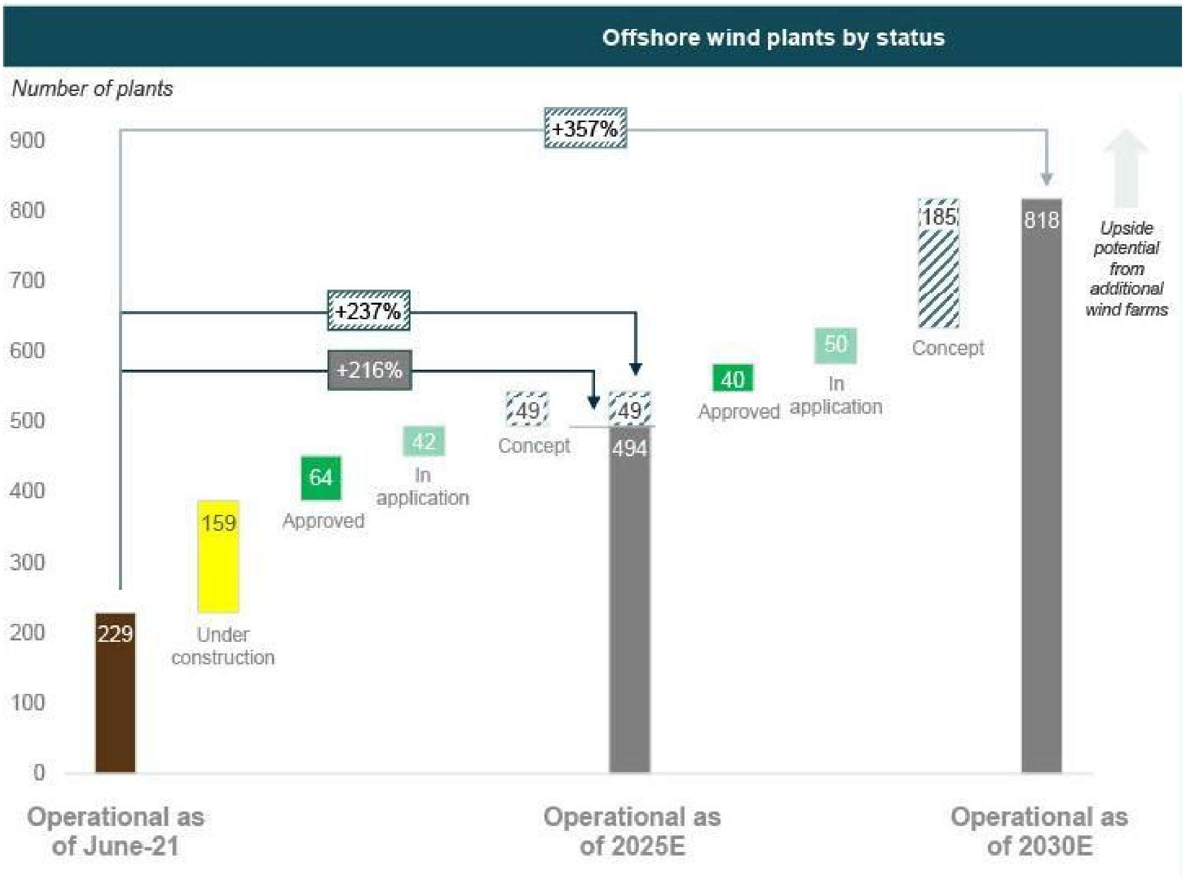
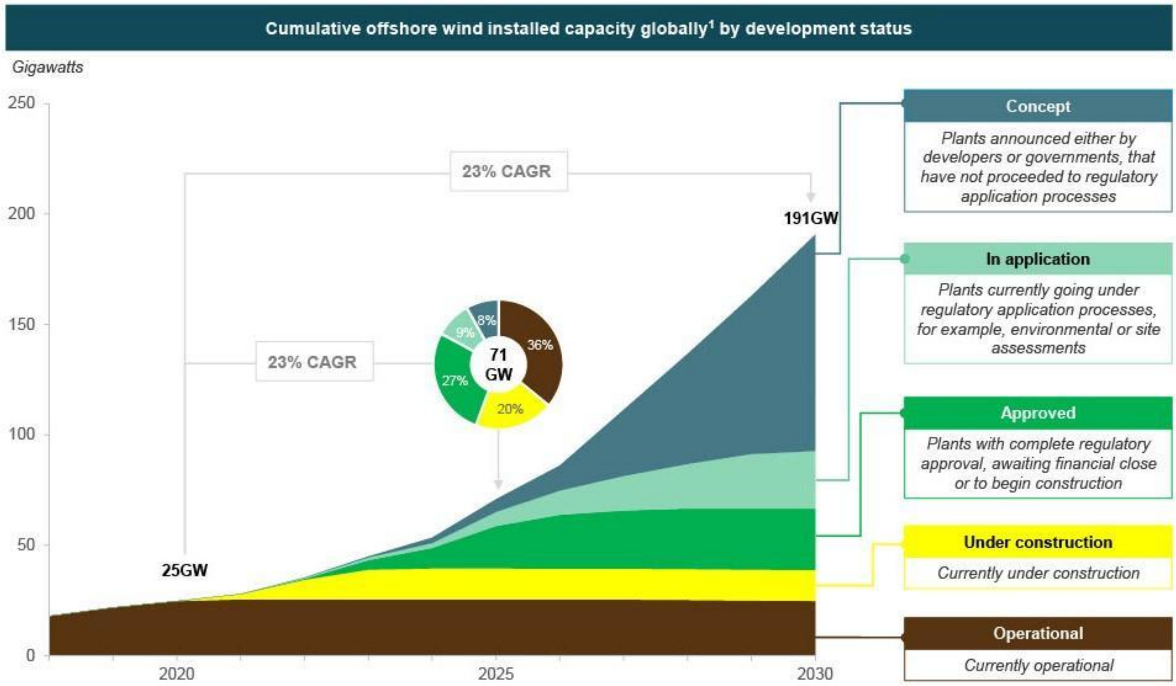


Source: Rystad Energy Offshore WindCube Report (2021)

Rystad forecast ongoing growth from 2025 to 2030 with around 800 operational wind farms by 2030, implying an annual growth rate in the global installed capacity of 23 per cent through to 2030, from 25 gigawatts (GW) of power in 2020 to 71 GW by 2025 and 191 GW in 2030.

It's worth noting that as the offshore wind industry matures, projects are becoming larger and more complex. In addition to wind farms increasing in scale, the average wind turbine size is expected to grow from 4 MW in 2015 to 9 MW (and more than 11 MW in the USA) in 2030. Larger wind turbines will require larger vessels for installation, increasing the cost of the vessel and consequently the cost of potential downtime. As a result, the need for reliable and fully supported subsea rental equipment is even more important now.

Additionally, larger wind turbines require larger foundations which require more subsea work and ongoing maintenance. The increasing scale of wind power operations is predicted to result in the average distance of wind farms from shore to more than double from 2014 levels, and the average water depth increasing from 20 to 33 metres. This will result in logistical challenges for operators: cable trenching lengths will increase owing to the greater distance from shore, and deployment times for remote operated vehicles and divers will lengthen.



Source: Rystad Energy Offshore WindCube Report (2021); note (1) excluding China

These dynamics all indicate increased demand for Ashtead's products and services, primarily installation and commissioning activity, hence why analysts forecast the group's addressable market in advanced tooling for offshore wind is set to grow from $378mn in 2021 to $748mn by 2025. In the longer term, IMR services for the offshore wind market are expected to develop strongly as the offshore wind farm installed base increases and ages, another strong bull point for Ashtead.

Oil and gas market

As Russia turns off the taps to Europe and the G7 countries, governments are having to seek alternative sources for their energy requirements at a time when oil and gas still represent more than half of global energy demand and offshore deepwater fields are forecast to account for an increasing share of total oil and gas production. Investment in the subsea segment is one of the main areas of growth in spending.

Significant ongoing investment is required to arrest production decline from existing producing fields through activities such as well intervention and continual IMR of infrastructure to maintain and extend the producing life of such fields. During the life cycle of an offshore oil and gas field around eight per cent of spend is on exploration, 33 per cent on initial development, 57 per cent during its operational life and two per cent on decommissioning.

Expenditure on existing fields is expected to remain high and account for the majority of life cycle spend in the industry, driven in part by the energy transition as field operators seek to maximise the efficiency of their existing oil fields as opposed to funding new greenfield site development.

Bearing this in mind, a fundamental driver for subsea IMR is that the inventory of both subsea equipment and pipelines continue to increase in volume and age, driving an increased IMR requirement. The average age of subsea XMTs (a stack of vertical and horizontal valves installed on a subsea wellhead to provide a controllable interface between the well and productions facilities) is projected to increase from nine years in 2015 to 11 years in 2025, whilst the average weight per unit is set to increase by 2.7 tonnes (5 per cent) in the same period. This not only increases the complexity and requirement for subsea IMR work, but results in increased spend, too. Ashtead is a major beneficiary.

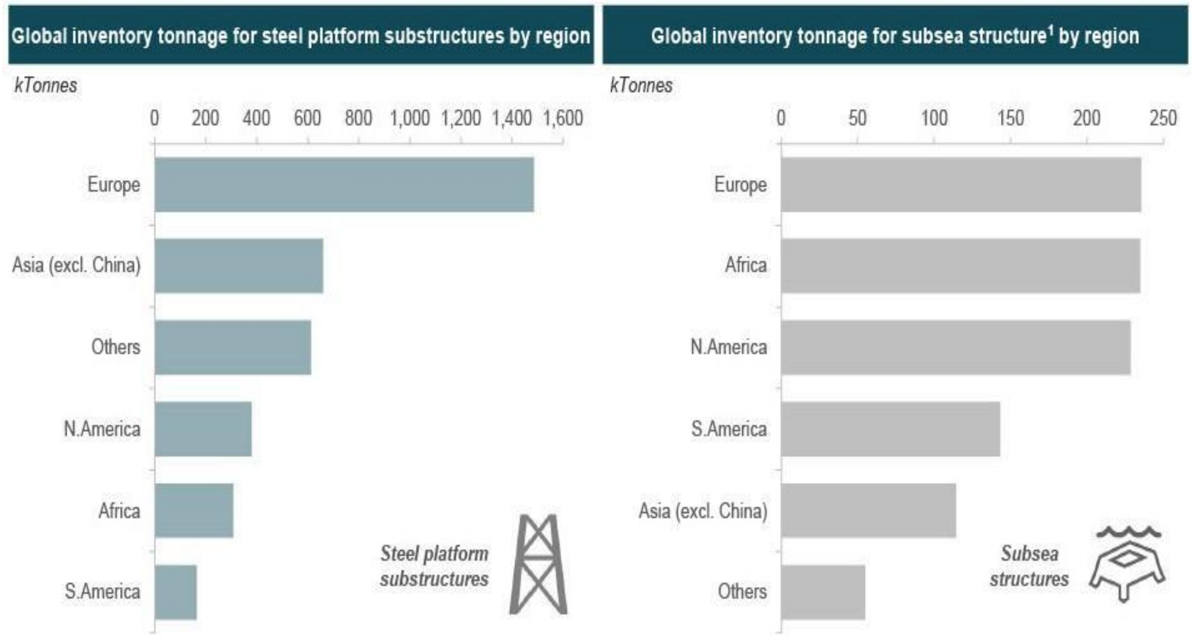
In addition, offshore oil and gas developments are increasingly located in deeper water, resulting in more complex and demanding work scopes to be undertaken by remote operated vehicles, and requiring a larger share of advanced tooling, one of Ashtead's strengths. Europe is expected to remain the largest IMR market over the next five years, accounting for more than a quarter of the market and it will drive the addressable market for Ashtead's equipment and services in this segment from $743mn per annum to over $1bn in 2025.

Decommissioning: a growth market opportunity

Ashtead is also set to benefit from an increasing number of oil and gas fields coming to the end of their producing lives. Regulation typically mandates that once oil and gas fields reach the end of their production then infrastructure is required to be removed.

For instance, the UK has a large inventory of oil and gas fields set to be decommissioned over the next 10 years, but not as large as North America which has the largest inventory of oil and gas infrastructure to be decommissioned in the world. The "Idle Iron Policy" requires platforms to be decommissioned within five years of losing adequate operational function.

Ashtead's equipment and solutions support activities during the removal of subsea infrastructure, in addition to the steel platform substructures, which provide the structural support for offshore oil and gas production facilities.



Source: Rystad Energy Research (2021); (1) includes XMTs, SURF lines and manifolds.

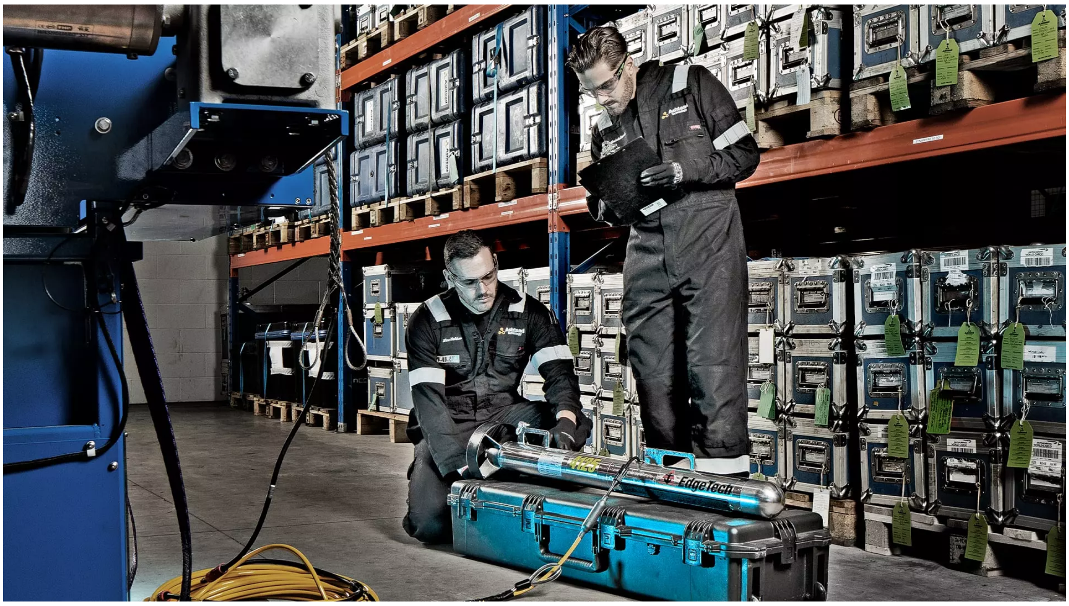
Ashtead Technology's addressable market for decommissioning within the offshore oil and gas industry is expected to grow at a CAGR of 20 per cent and be worth $394mn in 2025, according to analysts at Rystad Energy. North America and Europe are the group's largest markets, and Africa, Asia and South America are expected to grow significantly over the period.

Other market drivers

As a leading independent player, Ashtead is benefiting from a notable change in customer behaviour.

Historically, customers invested in significant equipment fleets similar to that provided by Ashtead. However, the prioritisation of returns, free cash flow generation and the reduction of capital expenditure is increasing their propensity to outsource their specialist equipment requirements. This has been accentuated by a reduction in the number of personnel with the appropriate expertise and experience across Ashtead's customer base and follows several years of redundancy programmes as customers sought to cut costs and focus on core competencies.

This change in customer behaviour led to the development of the group's asset management offering through which, given its specialist knowledge and IT systems, Ashtead provides customers with asset management services. This allows customers to maintain their equipment fleets, which can then be deployed on their own projects or rented to other Ashtead Technology customers, thus generating a return for the asset owner from otherwise unutilised assets. It also embeds Ashtead within the customer's organisation, thus creating a barrier to entry for other competitors.

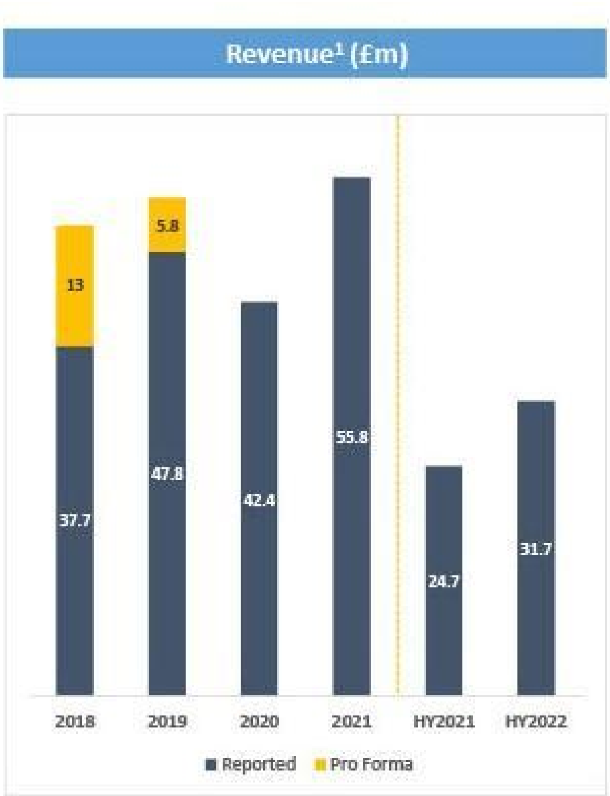


Ashtead Technology provides a range of asset management services to the subsea and onshore environmental monitoring and inspection sectors.

It's also worth noting that tight market conditions – lead times for new equipment and spares continue to rise – are increasing the propensity of customers to rent equipment, thus enabling Ashtead to increase its cost utilisation. Defined as the daily average of itemised fleet on rent weighted as a percentage of original equipment cost, Ashtead's cost utilisation increased from 39 to 44 per cent in the first half of 2022 while at the same time maintaining industry leading levels of product availability through a proactive approach in supply chain management. The group invested £7.5mn in capital expenditure in the six-month period.

Strong financials

Ashtead's interim results highlight how the group has maintained the momentum from last year, having been impacted by the Covid-19 restrictions in 2020. Prior to the pandemic, group revenue increased at a CAGR of 13.8 per cent in the three years to 31 December 2019, a year when Ashtead generated underlying earnings before interest, taxation, depreciation and amortisation (Ebitda) of £24mn on pro forma revenue of £53.6mn.



Source: Ashtead Technology interim results presentation (5 September 2022).
Note 1: pro forma figures include all acquisitions made since 2018.

In the latest six-month trading period, group revenue surged 28 per cent to £31.7mn, materially de-risking house broker Numis Securities' full-year revenue estimate of £65.5mn which factors in 17 per cent annual growth. The first half performance was driven by the renewables market, accounting for almost 30 per cent of group revenue, the segment's revenue contribution rising by 25 per cent in the six-month period.

The growth is not at the expense of profits as adjusted Ebitda increased 21 per cent to £12.3mn, accounting for almost half Numis' £25mn full-year estimate. It's notable that Ashtead's cash profit margin of 39 per cent was only down slightly in the period despite 28 per cent higher personnel costs, highlighting the ability of the business to absorb higher inputs and still grow profits strongly.

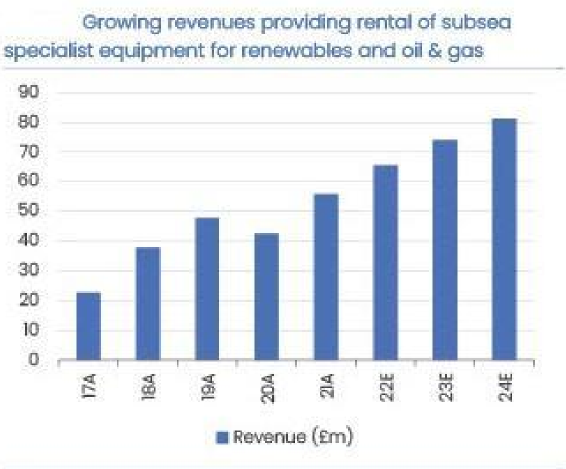
£m	HY21	HY22
Revenue	24.7	31.7
YoY performance	*25.1%*	*28.5%*
Cost of sales	(6.9)	(8.5)
Gross profit[1]	17.8	23.3
Gross margin %	*72.0%*	*73.4%*
Admin expense[1]	(8.1)	(11.6)
Other operating income[1]	0.5	0.6
Adjusted EBITDA[1]	10.1	12.3
Adjusted EBITDA margin %	*41.0%*	*38.6%*
Depreciation	(4.6)	(4.1)
Adjusted EBITA[1]	5.5	8.2
Adjusted EBITA margin %	*22.4%*	*25.8%*
Finance cost[1]	(1.6)	(0.6)
Adjusted profit before tax[1]	3.9	7.6
Taxation[1]	(1.1)	(1.0)
Adjusted profit after tax[1]	2.8	6.6
Adjusted EPS (pence)	4.1	8.3

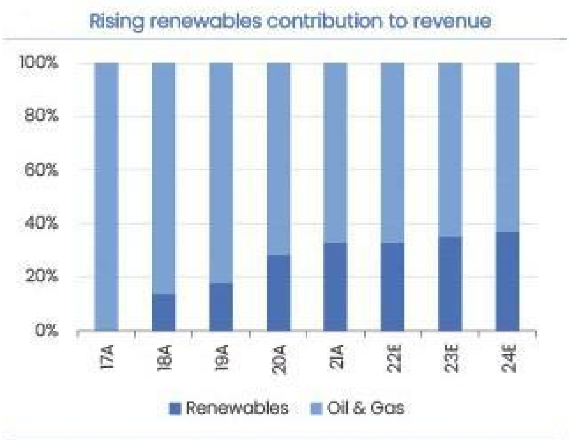
Source: Ashtead Technology interim results presentation (5 September 2022).
Note 1: stated on underlying basis to exclude non-trading items.

Admittedly, the group is benefiting from a foreign exchange tailwind as 3.6 per cent of the revenue growth came from positive foreign currency movements. This highlights the international scale of the operation with 46 per cent of group revenue generated outside Europe including 20 per cent in the Americas. With sterling remaining under severe pressure against the US dollar, this dynamic is expected to continue to benefit Ashtead.

Source: Ashtead Technology interim results presentation (5 September 2022). Note 1: pro forma figures include all acquisitions made since 2018. Note 2: stated on underlying basis to exclude non-trading items.

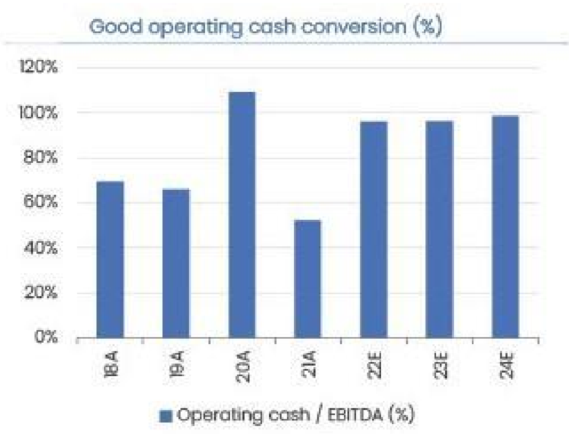
The combination of rising revenue driven by an increasing contribution from the renewable industry in the sales mix – Numis forecast 45 per cent growth in group revenue to £81.2mn over the three years to 2024 – and stable Ebitda margins also highlights the operational leverage of the business.





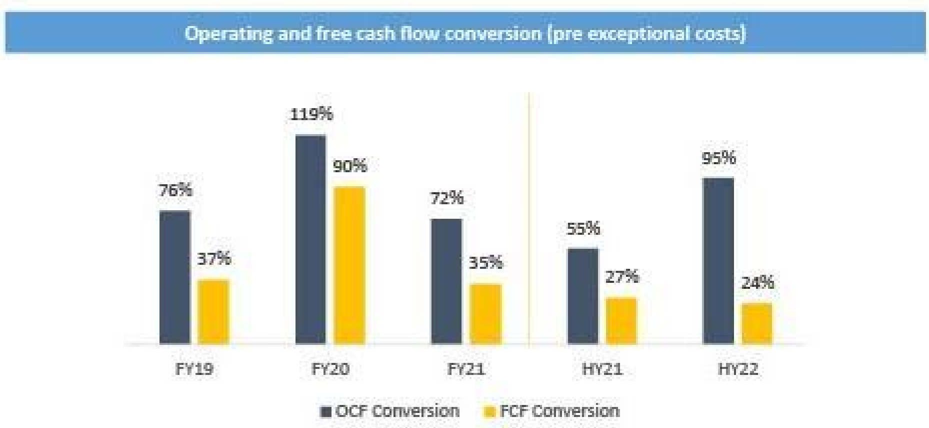
Source: Numis Securities (5 September 2022)

Trading profit margins are expected to rise from 25 to 27 per cent over the next two years, while more than 95 per cent of Ebitda over the period is expected to be converted to operating cash flow.



Source: Numis Securities (5 September 2022)

What this means is that the group's forecast net debt of £21.2mn at 30 June 2022 is set to be paid down sharply over the next couple of years by anticipated free cash flow of £8.2mn (2022), £10.5mn (2023) and £13mn (2024).



Source: Ashtead Technology corporate presentation (September 2022)

Cashflow

Strong operating cash flow generation funding growth capex

£m	HY21	HY22
Adj. EBITDA	10.1	12.3
Exceptional costs	(0.5)	(0.1)
Gain on Sale of fixed assets	(0.6)	(0.6)
Other	0.0	0.1
Cash generated before working capital movements	**9.0**	**11.7**
Working Capital Movement[1]	(4.0)	(0.1)
Cash Generated from Operating Activities ("OCF")[1]	5.0	11.6
OCF (pre-exceptional costs)	**5.5**	**11.7**
OCF Conversion (pre-exceptional costs)	**55%**	**95%**
Tax	(0.1)	(1.1)
Disposal of Fixed Assets	0.8	0.8
Capex (property, plant & equipment))	(2.5)	(7.6)
Capex (intangibles)	(0.5)	(0.2)
Payment of related party creditor	0.0	(0.3)
Lease Payments	(0.5)	(0.5)
Free Cash Flow	2.2	2.8
FCF (pre-exceptionals)	**2.7**	**2.9**
FCF Conversion (pre-exceptional costs)	**26.7%**	**23.6%**

Source: Ashtead Technology corporate presentation (September 2022)

Shareholders will also benefit from a progressive dividend policy that could see pay-outs per share of 2p (2022), 2.3p (2023) and 2.4p (2024). The group has a £40mn credit facility (expires in November 2024) with HSBC and Clydesdale Bank as well as an accordion facility of £10mn, so there are no funding issues.

Numis expects closing net debt of £20.6mn at the end of 2022 to be slashed to only £0.7mn two years later given the strong cash generation of the business. Free cash flow yields of 4.9 per cent (2023) and 6.2 per cent (2024) are attractive as are forward PE ratios of 14.4 and 13.4, respectively.

Investors' Chronicle | Alpha

Alpha Editor: James Norrington
Alpha Production Editor: Sameera Hai Baig

Ashtead Technology forecast revisions

	2022E			2023E			2024E		
(£m)	New	Old	% chg	New	Old	% chg	New	Old	% chg
Revenues	65.5	65.5	0.0%	73.9	72.0	2.6%	81.2	79.1	2.6%
Growth	*17%*	*17%*	*0bps*	*13%*	*10%*	*290bps*	*10%*	*10%*	*-7bps*
Organic growth	*17%*	*17%*	*0bps*	*13%*	*10%*	*290bps*	*10%*	*10%*	*-7bps*
EBITDA	25.0	25.0	0.0%	29.1	28.0	3.9%	32.0	30.8	3.8%
EBITA	16.8	16.8	0.0%	19.7	18.9	4.6%	21.6	20.7	4.5%
EBITA margin	*25.7%*	*25.7%*	*0bps*	*26.7%*	*26.2%*	*50bps*	*26.6%*	*26.1%*	*50bps*
PBTA	15.8	15.8	0.0%	18.5	17.8	3.8%	20.4	19.6	3.8%
EPS (p)	15.8	15.8	0.0%	18.1	17.5	3.8%	19.4	18.7	3.8%
DPS (p)	2.0	2.0	0.0%	2.3	2.2	3.8%	2.4	2.3	3.8%
Free Cash Flow	8.2	8.2	0.0%	10.5	10.1	4.0%	13.0	12.2	6.4%
Net (debt)/cash (inc. IFRS16)	-20.6	-15.0	37.2%	-11.9	-6.6	78.6%	-0.7	3.8	-118.5%
Net debt/EBITDA (x)	0.83	0.60		0.41	0.24		0.02	n.m	

Source: Numis Securities (5 September 2022)

The prospective dividend yield may be small (only 0.9 per cent for 2023), but this is a cash-generative business operating in markets that are supported by structural drivers, which is enabling management to astutely recycle the bumper cash flow generation into earnings-accretive acquisitions. That's a sensible strategy.

Acquisition history

Ashtead's acquisition strategy has supplemented the group's organic growth in recent years as well as enhancing its geographical reach and product and services offering. Using a clear and focused set of criteria, the directors successfully identified, executed and integrated five acquisitions between 2017 and 2019, generating Ebitda growth and synergies of £5.8mn (prior to IFRS-16 accounting adjustments).

In March 2017, Ashtead acquired Abu Dhabi-based TES Survey Equipment Services, thus expanding into the Middle East, a region that accounted for 8.2 per cent of revenue in the first half of 2022.

In January 2018, the group acquired Forum Subsea Rentals, a division of Forum Energy Technologies Inc., consolidating its position within the survey and robotics equipment rental market and increasing capabilities in Singapore, UK and USA. In the first half of 2022, Americas and Asia Pacific accounted for 20 per cent and 17.9 per cent of group revenue, respectively.

In November 2018, Ashtead acquired Welaptega Marine, increasing its service capability and subsequently repositioning the group as an asset integrity services provider to the offshore wind industry in addition to its traditional offshore oil and gas market. Asset integrity services accounted for around 11 per cent of group revenue in 2021.

In April 2019, Ashtead acquired AquaTech Solutions, thus expanding the footprint in the USA and boosting the group's mechanical solutions capabilities.

In September 2019, Ashtead bought Underwater Cutting Solutions (UCS), a market leader in underwater cutting, dredging and coating removal services. Since the acquisition, Ashtead's management has been driving geographic expansion of the UCS rental and service offering by leveraging the group's international network.

The fragmented nature of Ashtead's markets means there are further bolt-on acquisition opportunities to exploit, the latest being the purchase of WeSubsea, a specialist in subsea dredging technology solutions supporting customers globally from its operating base in Aberdeenshire, UK. Established in 2010, the business generated revenue of £1.9mn, adjusted Ebitda of £1.1mn and a trading profit of £0.9mn in 2021.

Ashtead is paying £5.6mn on a cash free, debt free basis, equating to a multiple of six times trading profit, so the purchase is expected to be earnings enhancing and exceed the company's cost of capital in its first full year of ownership. Completion is slated for the final quarter of 2022. Although group net debt would have been around £15mn at the end of this year without the acquisition, it looks a sound strategic deal.

Shareholders

Ashtead listed its shares, at 161p, on the London junior market in November 2021 when the group raised £11.7mn net proceeds to deleverage its balance sheet and shareholders realised a further £15.5mn.

Subsequently, the group's two major shareholders, Buckthorn Partners LLP and Arab Petroleum Investments Corporation sold down 10mn shares, or 12.6 per cent of the 79.5mn shares in issue. This is a positive development as it has broadened the shareholder base, notably Amati Global Investors emerged with a 5.5 per cent stake after the placing in July 2022.

Continued below...

Shareholder	% of Issued Share Capital
Funds controlled by Buckthorn Partners LLP	27.7%
Funds controlled by Arab Petroleum Investments Corporation	15.6%
Fidelity Management & Research	7.5%
Amati Global Investors	5.5%
Chelverton Asset Management	4.7%
JP Morgan Asset Management	3.8%
Schroder Investment Management	3.4%
Lothian Pension Fund	3.1%

Source: Ashtead Technology

It now means that 71.3 per cent of the 79.58mn shares in issue are held by the eight largest shareholders and 58.9 per cent of the shares in issue are not in public hands. This impacts liquidity, but it's possible to trade within the official bid-offer spread and in bargain sizes exceeding 10,000 shares. The lower-than-average liquidity could accentuate price moves but given the scope for positive news flow, that also has potential to work in investors' favour.

It's also worth noting that the directors have aggregate holdings of 3.4 per cent of the shares in issue, too, including chief executive Allan Pirie who holds 2.7 per cent.

Director Shareholdings	% of Issued Share Capital
Allan Pirie (1)	2.7%
Ingrid Stewart	0.4%
Joe Connolly (2)	0.2%
Bill Shannon	0.1%

Source: Ashtead Technology. Note 1 and 2: Part of these holdings are held indirectly within entities owned by Buckthorn Partners LLP and Arab Petroleum Investments.

Directors

The board's chair is **Bill Shannon** who has over 27 years of experience in plc board roles across businesses in branded retail and leisure, property, gaming and financial services. A Chartered Accountant (Scotland), Shannon has also served as chairman of LSL Property Services, Johnson Service Group, St. Modwen, and Aegon UK.

Chief executive **Allan Pirie** has 26 years of experience in the offshore energy industry. He joined the group in 2009 as chief financial officer (CFO), before taking his current role in 2012 when Ashtead was under the ownership of Phoenix Equity Partners. Phoenix subsequently sold the group in 2016 to Buckthorn Partners LLP and the Arab Petroleum Investments Corporation when the focus moved to enhancing the breadth, depth and reach of the group's offering, and accelerating the transition towards offshore renewable energy. This coincided with the said acquisitions made between 2017 and 2019. Prior to joining the group, Pirie was CFO at Triton Group, and a commercial director at Viking Offshore Services. He qualified as a Chartered Accountant (Scotland) with KPMG.

CFO **Ingrid Stewart** has 24 years of experience in the offshore energy industry. She joined the group in January 2021, having previously been a corporate development director at EnerMech, a global services company specialising in critical asset support across the asset lifecycle from pre-commissioning to decommissioning, and a director at Simmons & Company International, an independent investment bank specialising in the energy industry. Stewart is a qualified Chartered Accountant (Scotland) and was an Associate at Deloitte.

Ashtead has three non-executive directors: Joe Connolly, Thomas Thomsen, and Tony Durrant.

Joe Connolly has over 21 years of experience in the energy and resources industry. He was one of the founders of Buckthorn Partners and currently serves as its CFO. Prior to founding Buckthorn Partners, Connolly led business development at Clipper Windpower, was an equity analyst at Morgan Stanley and senior manager at Deloitte.

Thomas Thomsen has over 22 years of experience in the wind sector. He currently serves as Chief Strategy Officer of GE Onshore Wind International and was an executive director of AH Industries, and Senior Vice President of VESTAS A/S.

Tony Durrant has over 34 years of experience in the energy and resources industry. He served as the chief executive of Premier Oil, which is now part of **Harbour Energy (HBR)**, and was previously a non-executive director of Greenergy and Clipper Windpower. Durrant qualified as a Chartered Accountant with Arthur Andersen.

The directors were paid total remuneration of £0.8mn in 2021, a year when Ashtead reported pre-tax profit of £10.8mn. Their remuneration is also less than 50 per cent of the cash cost of the forecast 2022 dividend. Both metrics indicate that the directors' financial interests are aligned with those of outside shareholders. Moreover, both Pirie and Stewart have been awarded LTIP plans (406,389 shares and 246,914 shares, respectively) over the 2022 to 2024 vesting period, so have a financial incentive for the share price to progress.

Target price

Although Ashtead's shares have performed well since last autumn's IPO, there is still value on offer, priced on forward PE ratios of 14.4 (2023) and 13.4 (2023) and a modest 7.7 times (2023) and 6.6 (times) Numis' Ebitda estimates to enterprise valuation (market capitalisation and net debt). Prospective free cash yields of 4.9 per cent (2023) and 6.2 per cent (2024) highlight the ability of the business to deleverage its balance sheet and recycle surplus cash into earnings-accretive acquisitions, another share price catalyst.

On a 12-month basis, fair value should be closer to 325p, or 25 per cent above the current share price, a price level equating to forward PE ratios of 17.5 (2023) and 15.9 (2024), a rating more in keeping with estimates of cumulative earnings per share (EPS) growth of 23 per cent over the two-year forecast period.

From a technical perspective, the shares are in overbought territory with the 14-day relative strength indicator (RSI) reading 73, so may need a sideways move before making further headway. However, the direction of travel is weighted to the upside, so accumulating a position around the current price should deliver a profitable outcome on a 12-month basis. Buy.

Risk assessment

Economic risk. Business activity can be impacted by such things as changes in energy transition, availability of alternative energy sources, regulatory regimes, changes to customer vessel schedules, oil and gas prices, and weather.

In mitigation, increased exposure to offshore renewables and oil and gas decommissioning activities creates a natural hedge against declining oil and gas activity. Greater geographical diversification can help offset regional seasonal variations while higher investment in the offshore renewables sector globally (particularly across Europe, Asia and the USA), is driving market expansion.

Supply chain. Ashtead incurs ongoing capital and operating expenditures on its equipment rental fleet to remain competitive and provide quality, reliable equipment. A significant period of interruption affecting elements of its supply chain (arising from factors such as pandemics, financial uncertainty, and war) would have an impact on its ability to either service customers or could restrict growth. In addition, general inflation and unexpected increases in supply chain pricing could result in lower profits and higher capex costs that could impact financial performance.

In contingency to these risks, Ashtead enters regular dialogue with key suppliers to secure equipment if lead times extend beyond normal parameters. Preferential supply agreements are in place with various suppliers, alternative suppliers are sourced for key items where available, and higher levels of stock are held for critical spares. Although Covid-19 supply issues are likely to be further exacerbated during 2022 by the Russia/Ukraine conflict, this is also likely to further increase the trend for customers to rent rather than purchase capital equipment.

Price increases have offset general inflationary pressures seen across the business with average price increases of 6.1 per cent pushed through in the first half of 2022, and ongoing pricing momentum is expected to continue throughout the rest of the year. As the leading independent player in the subsea equipment rental market, and with the market showing increased tightness (due to supply constraints and customers preferring to rent rather than invest in capital equipment), Ashtead's scale and market position support its ability to drive further price increases if necessary.

Source: Ashtead Technology corporate presentation (September 2022)

Personnel. The group's operations require a workforce covering a range of managerial, engineering and trade specialists. Ashtead faces significant competition from within the offshore energy industry and other sectors for personnel with the skills it requires to sustain and grow its activities. If the group is unable to attract and retain personnel with the requisite skills, prospects may be adversely affected and opportunities for growth may be curtailed. Furthermore, the workforce requirements fluctuate due to seasonality of projects with higher demand for labour during summer months when offshore activity levels are highest.

To mitigate these risks, Ashtead utilises medium-term forecasts to assess resource requirements, allowing time to properly resource the organisation. Attrition by function and geography is monitored on an ongoing basis and any trends identified and followed up. Management is constantly monitoring its remuneration packages to maintain competitiveness.

Personnel costs increased from 26 to 28 per cent of group revenue in the first half of 2022, mainly due to the reintroduction of staff bonuses and increasing the headcount from 204 to 219 employees. Despite the cost increase, Ashtead's trading profit margins are expected to rise in the ongoing positive sales cycle buoyed by a combination of high gross profit margins of 75 per cent and robust equipment utilisation rates earned from a relatively fixed asset base.

Customer risk. A significant proportion of revenue in any year may be derived from a relatively small number of customers. If the group is unable to maintain strong relationships with these core customers, or fails to offer them a high level of service, prospects may be adversely affected.

In addition, if any of its key customers suffer cash flow or credit issues, this could have a negative impact on Ashtead's cash flow due to the inability of its customers to pay monies due to the group. Also, increased market activity is resulting in higher working capital requirements resulting in some customers retaining cash and slowing debtor payments.

In mitigation, the group sets processes and procedures based on industry benchmarks to minimise risk of providing poor quality products and services. It also works to mitigate customer payment issues through its contractual terms, continuously assessing the creditworthiness of its customer and supplier base, and monitoring of debtors and cash flow on a daily basis. Where necessary Ashtead exercises a range of options to mitigate against credit risk including non-supply and debt collection measures.

In the first half of 2022, Ashtead incurred a tiny £27,000 bad debt charge, and bade debts of only £39,000 for the whole of 2021, so the current debtor book, which includes trade receivables of £18.3mn, looks in decent shape, having increased from £14.2mn at the start of the year.

Geopolitical tensions. Russia's invasion of Ukraine has created energy market uncertainty as the world's leaders impose strict sanctions and turn their agendas to energy security. The impact on energy markets has been significant in both oil and gas prices, highlighting the urgent need for sovereign states in the EU and G7 countries to source their energy needs from alternative and more secure sources. This may result in a short-term pivot of Ashtead's revenues towards oil and gas, but does not change the strategy to expand its proportion of revenues from offshore renewables in the medium to long term.

Sanctions on Russia could create liquidity issues in some areas of the oil and gas industry which could filter through the supply chain, thus impacting on customers' ability to pay their debts. The war in Ukraine is also likely to further exacerbate supply issues due to increased requirement for military equipment which uses the same components as subsea equipment.

However, Ashtead is well placed to support the ongoing energy security crisis if activity pivots to either offshore renewables or offshore oil and gas activity. Market trends are being monitored on a constant basis and the group is ready to react to any positive or negative movement due to the war. Capital expenditure orders were placed in 2021 for 2022 to alleviate supply chain issues, so this area is being well managed, and close relationships are maintained with key suppliers to ensure consistency of supply.

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