

Newmark Security

Full year results

Profits growth supported by one-off effects

Newmark Security posted a record reported pre-tax profit in FY15. The result benefited from orders for cash-handling equipment from the Post Office. The value of orders from this customer is expected to reduce during FY16. We introduce forecasts for FY16 and FY17, noting that growth from other activities is not expected to make up the associated shortfall in profits until FY17. Our analysis indicates that the likely dip in profitability during FY16 is already reflected in the share price.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
04/14	19.2	1.8	0.38	0.075	12.8	1.5
04/15	22.9	2.3	0.48	0.1	10.2	2.0
04/16e	23.1	1.4	0.27	0.1	18.1	2.0
04/17e	26.0	2.3	0.44	0.1	11.1	2.0

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Record FY15 underpinned by two major contracts

FY15 revenues rose by £3.7m (19%) year-on-year. £1.1m of the rise was attributable to CSI, acquired in November 2013, and the remainder primarily to the timing of orders received for time delay cash-handling equipment from the Post Office and accelerated installation of equipment at Post Office sites during H2 to meet the customer's targets. Pre-tax profit, adjusted for £0.9m development write-down in FY14, rose by 28% to £2.3m. Management raised the dividend by 33%. Net cash increased by £2.8m to £3.9m (c 18% of current market capitalisation).

FY16 a year of transition

As flagged in our March [outlook note](#), the level of activity relating to deliveries of cash-handling equipment to the Post Office is expected to reduce in FY16. During FY15 management instigated several initiatives to generate growth elsewhere in the group. These include opening a sales office in Hong Kong, signing a contract with a major systems integrator in the Middle East, launching the SATEON Pro mid-tier access control system and gaining government CPNI certification for CSI's blast-proof doors. As a result of these initiatives, we expect FY16 revenues to be similar to FY15, but the additional cost to result in a reduction in profits. Revenue growth in the year beginning May 2016 should return the group to FY15 levels of pre-tax profit. Since the group is expected to be cash-generative and cash balances are high, we expect management to maintain the dividend at FY15 levels.

Valuation: Trading at discount to peers

The shares have performed well in recent months, more than doubling in value since January. Despite this increase, they continue to trade on a prospective P/E multiple that is at a discount to the average for our selected peer group (19.6x annualised to April 2016). This gives potential for share price appreciation to close this valuation gap, triggered by newsflow demonstrating that the group is able to generate sufficient growth in the electronics division and elsewhere in the asset protection division to offset the tapering in profits from Post Office contracts.

Tech hardware & equipment

10 August 2015

Price 4.88p
Market cap £22m

Net cash (£m) end April 2015	3.9
Shares in issue	460.2m
Free float	80%
Code	NWT
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	56.0	66.7	129.4
Rel (local)	49.9	69.6	120.3
52-week high/low		4.9p	1.7p

Business description

Newmark Security provides electronic and physical security systems that focus on the safety and security of a company's personnel and its assets.

Next event

AGM 17 September 2015

Analysts

Anne Margaret Crow +44 (0)20 3077 5700
Katherine Thompson +44 (0)20 3077 5730

tmt@edisongroup.com

[Edison profile page](#)

Exhibit 1: Financial summary

	£'000	2013	2014	2015	2016e	2017e
Year end 30 April						
PROFIT & LOSS						
Revenue		18,316	19,171	22,854	23,127	25,985
Cost of Sales		(10,438)	(10,889)	(13,142)	(13,791)	(15,229)
Gross Profit		7,878	8,282	9,712	9,336	10,756
EBITDA		3,387	2,889	3,531	2,666	3,525
Operating Profit (pre amort. of acq intangibles & SBP)		2,476	1,836	2,268	1,403	2,262
Amortisation of acquired intangibles		0	0	0	0	0
Share-based payments		0	0	0	0	0
Exceptionals		(2,274)	(852)	0	0	0
Operating Profit		202	984	2,268	1,403	2,262
Net Interest		(131)	(78)	(16)	(15)	(10)
Profit Before Tax (norm)		2,345	1,758	2,252	1,388	2,252
Profit Before Tax (FRS 3)		71	906	2,252	1,388	2,252
Tax		69	(49)	(109)	(139)	(225)
Profit After Tax (norm)		2,414	1,709	2,143	1,249	2,027
Profit After Tax (FRS 3)		140	857	2,143	1,249	2,027
Average Number of Shares Outstanding (m)		450.4	450.4	450.6	460.2	460.2
EPS - normalised (p)		0.54	0.38	0.48	0.27	0.44
EPS - normalised fully diluted (p)		0.54	0.34	0.42	0.24	0.39
EPS - FRS 3 (p)		0.03	0.19	0.48	0.27	0.44
Dividend per share (p)		0.0333	0.0750	0.1000	0.1000	0.1000
Gross Margin (%)		43.0	43.2	42.5	40.4	41.4
EBITDA Margin (%)		18.5	15.1	15.5	11.5	13.6
Operating Margin (before GW and except.) (%)		13.5	9.6	9.9	6.1	8.7
BALANCE SHEET						
Fixed Assets		9,901	9,300	9,602	9,589	9,576
Intangible Assets		9,092	8,428	8,697	8,877	9,057
Tangible Assets		809	872	905	712	519
Current Assets		5,060	7,166	8,772	9,778	11,796
Stocks		1,344	1,647	1,440	1,457	1,780
Debtors		2,588	4,078	3,130	3,168	3,560
Cash		1,128	1,441	4,202	5,152	6,457
Current Liabilities		(3,544)	(4,460)	(4,234)	(4,299)	(4,514)
Creditors including tax, social security and provisions		(3,250)	(4,264)	(4,091)	(4,156)	(4,373)
Short term borrowings		(294)	(196)	(143)	(143)	(141)
Long Term Liabilities		(468)	(378)	(548)	(548)	(548)
Long term borrowings		(184)	(124)	(113)	(113)	(113)
Other long term liabilities		(284)	(254)	(435)	(435)	(435)
Net Assets		10,949	11,628	13,592	14,519	16,311
CASH FLOW						
Operating Cash Flow		2,969	2,178	4,735	2,675	3,027
Net Interest		(131)	(78)	(16)	(15)	(10)
Tax		(9)	(45)	(155)	0	0
Capital expenditure		(228)	(284)	(288)	(250)	(250)
Capitalised product development		(1,239)	(997)	(1,089)	(1,000)	(1,000)
Acquisitions/disposals		(50)	0	0	0	0
Financing		0	0	145	0	0
Dividends		0	(150)	(338)	(460)	(460)
Net Cash Flow		1312	624	2,994	950	1,307
Opening net debt/(cash)		471	(650)	(1,121)	(3,946)	(4,896)
HP finance leases initiated		0	0	0	0	0
Other		(191)	(153)	(169)	0	0
Closing net debt/(cash)		(650)	(1,121)	(3,946)	(4,896)	(6,203)

Source: Company accounts, Edison Investment Research

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