

FY trading update shows group on right track

29 October 2024

Diales has issued an update for the year to September, stating it traded broadly in line with consensus expectations. This is encouraging, suggesting profitability was largely unchanged in H2 and in turn, with higher EBIT margins. Staffing related issues in the US have continued, resulting in the decision to close the office. We think the Board's rapid response in dealing with this issue reflects the 'new' Diales which is a major encouragement. The delivery of the hub and spoke model is gathering pace and the group re-branding to Diales completed in July.

Net cash increased to £4.3m (H1 '24: £3.6m) and represents 26% of the NAV: this leaves the valuation of the operating business at a significant discount to its peers.

Revenues increased modestly yoy to £43m, suggesting a higher proportion fell during the seasonally weaker H2 (48% vs 43% in H2 '23), benefitting from a stronger Q3. Underlying EBIT is in line with expectations at 'not less than £1.1m', highlighting a modest improvement in margins during H2, in part reflecting the cost savings delivered during H1.

No breakdown of trading was published. However, our belief is that other than in North America, all other regions performed as expected, with utilisation levels continuing at high levels in the UK and Europe, driven by the new hub and spoke model. We also anticipate that the ME and APAC regions traded at broadly breakeven levels, representing a marked improvement yoy.

The staffing related problems which had an adverse effect on H1 productivity in North America continued into H2. As a result, the decision was taken to close its existing operations in the US, with discussions underway with local management with regards to existing commitments. We anticipate that this approach is likely to markedly reduce the cost of closure, which is expected to be completed during H1 '25. The division will fall under 'discontinued' in the FY24 report and accounts. Operations elsewhere in the Americas will continue to run from either Canada or Spain.

Cash continues to be returned to shareholders, with 71% of the minimum £0.25m buyback completed. Dividends continue at a premium to both the market average and its peers, with 1.5p / share, representing a 5.8% yield estimated for the full year. Organic growth through the hiring of experts, supplemented by the recruitment of teams continues to be the preferred method of utilising the cash (up to £0.75m). The pipeline of M&A opportunities remains strong. Our understanding is that headcount is broadly static yoy, suggesting an improvement in productivity.

Fair value unchanged

Cash levels improved during H2 to £4.3m (H1 '24: £3.6m) and represent 8p / share or 26% of the NAV. We demonstrate that the operating business is trading at a significant discount to its peers. With estimates broadly in-line, we reiterate our fair value/share assumption of 40p.

Forecasts				
Y/e 30 Sep, £m	2021A	2022A	2023A	2024F
Revenue	48.8	45.1	42.6	43.0
Adj. PBT	2.0	-0.5	1.1	1.2
Adj. EPS (p)	2.4	-1.8	1.4	1.6
DPS (p)	0.0	1.5	1.5	1.5
P/E (x)	10.8	n/a	18.6	16.7
EV/EBITDA (x)	2.3	11.3	4.2	4.5
Yield (%)	0.0%	5.8%	5.8%	5.8%

Source: ED estimates, Company historic data

Company Data	
EPIC	DIAL
Price (last close)	26p
52 weeks Hi/Lo	29p/20p
Market cap	£13.7m
ED Fair Value/share	40p
Net cash (at 30/09/24)	£4.3m



Source: GoogleFinance

Description

Diales Plc (formerly Driver Group Plc) is involved in the provision of specialist dispute avoidance and dispute resolution services to the global construction and engineering industries.

Diales currently has 27 offices in 15 countries, including eight in the UK, six in Europe, two in the Americas, five in APAC, and six in the Middle East and Africa. The Group currently employs c. 186 fee earning employees.

The business is split into the following reporting regions: Europe and Americas (EuAm), The Middle East (ME) and APAC, operating on a hub and spoke model, with work sourced in the smaller regions serviced both locally and, in the UK and Europe.

David O'Brien (Analyst)

0207 065 2690
david@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk

Valuation

We have constructed peer group comparison valuation models to determine a fair value of the Group's shares, utilising FY24 estimates. We consider the FY24 EV/EBITDA, PER, EV/Sales and dividend yield. While a size related discount is appropriate, the discount to its peer group is still too wide, in our opinion.

Two other factors support a fair value higher than the current share price:

- A sector leading yield, currently standing at 5.8% for FY24, compared to an average of 0.5%
- The NAV offers significant support for the existing share price. The expected FY24 NAV of 30p, represents a premium of just 12% to the last closing share price. One should bear in mind that 26% of the NAV is in cash.

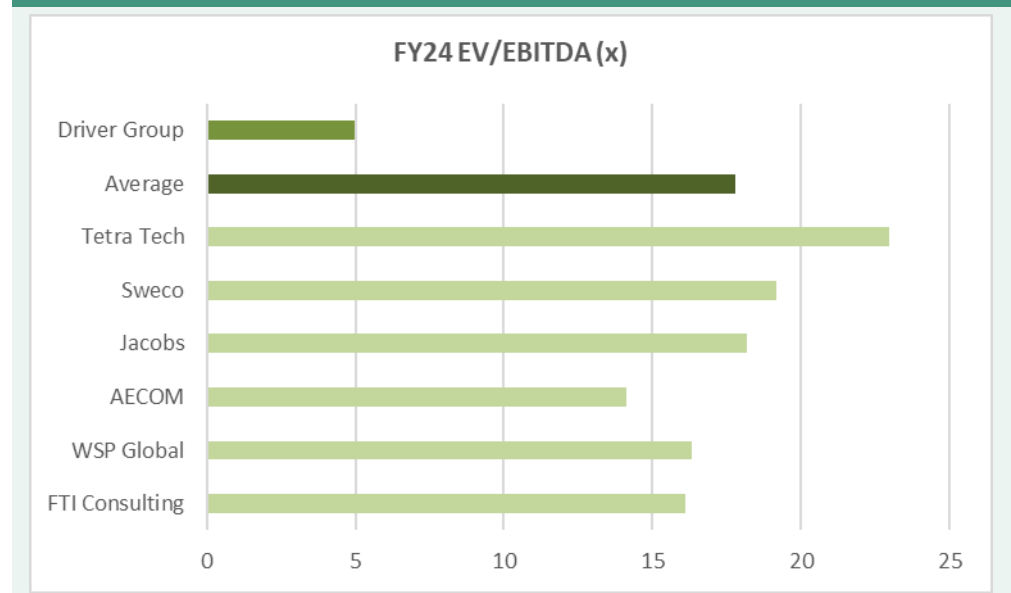
With no change to estimates we have maintained our fair value/share at 40p.

Net cash as a % of mkt cap & NAV

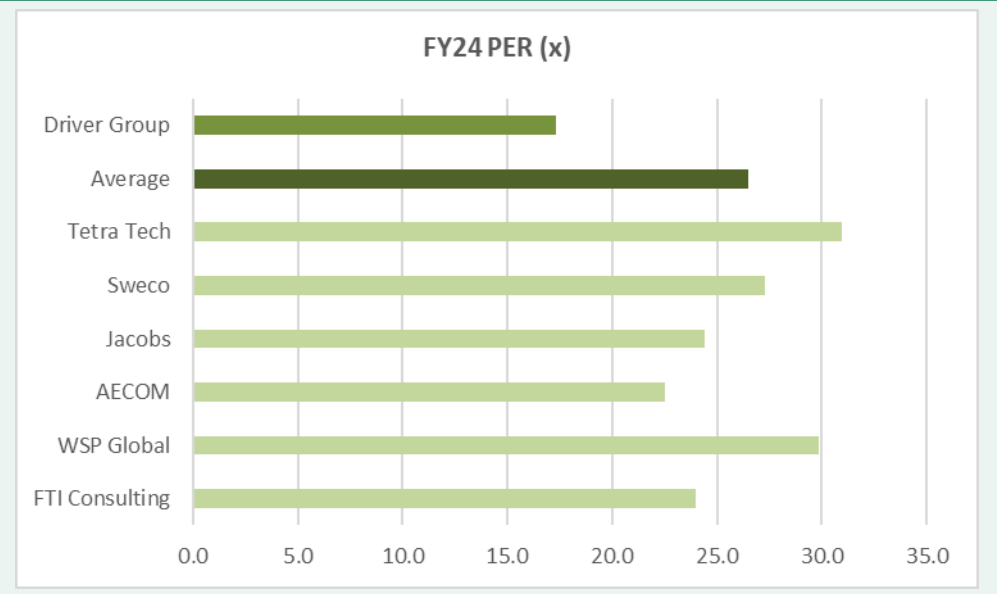
Y/e Sept, £m	FY23A	FY24F
Net cash	5.8	4.3
Net cash / share (p)	10.8	8.0
Cash as a % of market cap	41.6%	30.6%
NAV	16.0	16.3
NAV / share (p)	29.6	30.3
Net cash as a % of NAV	36.5%	26.3%

Source: Company

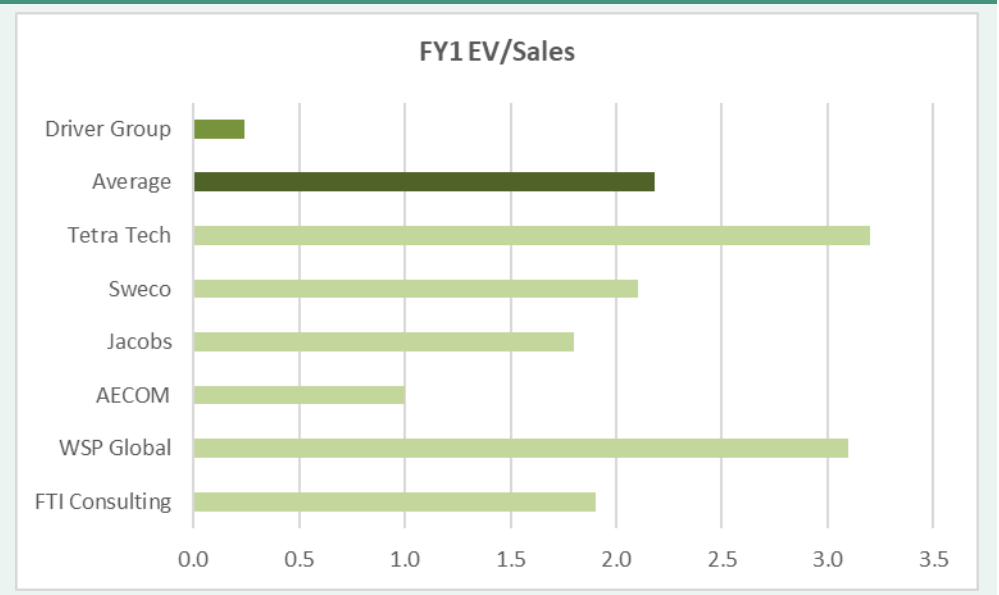
Peer group comparative valuation: FY24 EV/EBITDA (x)



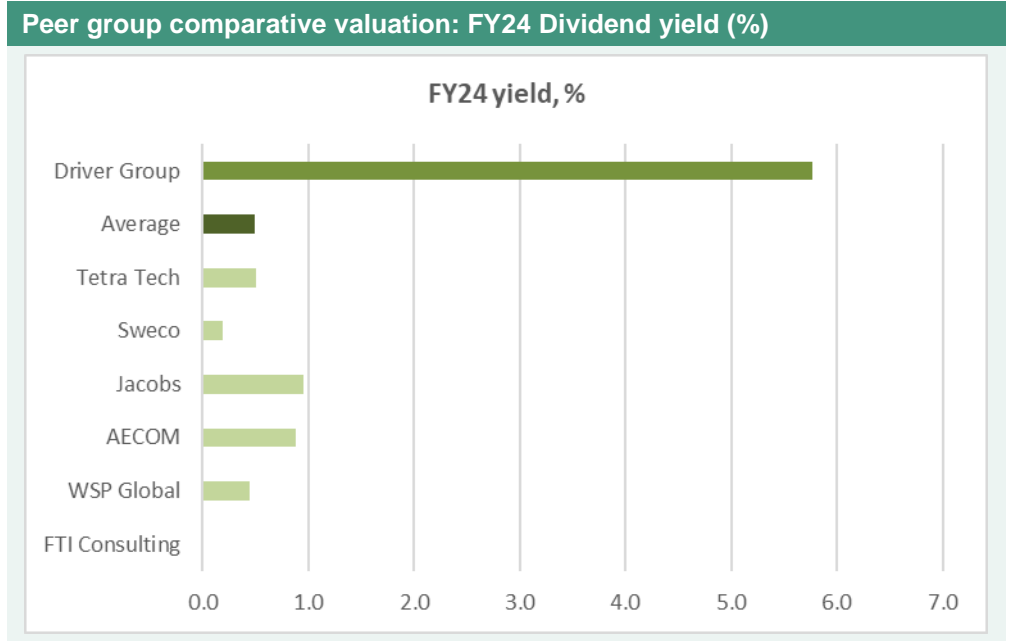
Source: Koyfin, ED

Peer group comparative valuation: FY24 PER (x)


Source: Koyfin, ED

Peer group comparative valuation: FY24 EV/Sales (x)


Source: Koyfin, ED



Source: Koyfin, ED

Financials

Summary Profit & Loss					
Year to Sep, £m	2020A	2021A	2022A	2023A	2024F
Europe & Americas	31.0	33.7	35.1	35.6	36.0
Middle East	14.4	10.9	6.4	4.2	4.2
APAC	7.7	4.1	3.6	2.9	2.9
Revenue	53.1	48.8	45.1	42.6	43.0
CoGS	-39.9	-36.5	-35.8	-31.9	-32.0
Gross profit	13.1	12.2	9.3	10.8	10.9
Gross margin (%)	24.7%	25.1%	20.7%	25.3%	25.5%
Op costs	-10.6	-10.3	-9.8	-9.8	-10.0
Other Op. income	0.1	0.2	0.1	0.0	0.2
Operating profit	2.6	2.1	-0.4	1.0	1.1
Op margin (%)	4.9%	4.3%	-0.9%	2.3%	2.5%
Net Interest	-0.1	-0.1	-0.1	0.1	0.1
Associates	0.0	0.0	0.0	0.0	0.0
PBT (Adjusted)	2.5	2.0	-0.5	1.1	1.2
Exceptionals	-1.5	-0.1	-1.5	-0.6	0.0
PBT (Reported)	1.0	1.9	-2.0	0.4	1.2
Tax	-0.4	-0.7	-0.5	-0.3	-0.3
PAT	0.6	1.1	-2.4	0.1	0.8
Minority interests	0.0	0.0	0.0	0.0	0.0
Earnings	0.6	1.1	-2.4	0.1	0.8
Ordinary Dividends	0.0	0.0	-0.8	-0.8	-0.8
Retained Profit	0.6	1.1	-3.2	-0.7	0.0
EPS (Adjusted) (p)	4.0	2.4	-1.8	1.4	1.6
DPS (p)	0.8	0.0	1.5	1.5	1.5
Ave no of shares (FD) (m)	54.7	54.3	54.9	54.0	54.0

Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Sep, £m	2020A	2021A	2022A	2023A	2024F
Operating profit	2.6	2.1	-2.9	0.4	1.1
Depn. & Amortn.	1.4	1.2	1.2	0.9	0.8
Working capital movement	2.3	-2.3	2.7	1.5	-1.8
Other	0.0	0.0	0.0	-0.2	-0.2
Operating cash flow	6.3	1.0	1.0	2.6	0.0
Net Interest	-0.1	-0.1	-0.1	0.1	0.1
Taxation	-0.5	-0.8	-0.5	-0.2	-0.3
Net capex	-0.3	-0.5	-0.6	-0.1	-0.2
Operating FCF	5.3	-0.4	-0.2	2.3	-0.5
Net (Acquisitions)/Disposals	0.0	0.0	0.0	0.0	0.0
Dividends	-0.7	-0.4	-0.8	-0.8	-0.8
Share Issues	0.0	0.0	-0.5	0.0	-0.3
Minority payment	0.0	0.0	0.0	0.0	0.0
Other financial	-1.8	-1.0	0.0	-0.6	0.0
Increase Cash/(Debt)	2.8	-1.7	-1.5	0.9	-1.5
Opening Net Cash/(Debt)	5.4	8.2	6.5	4.9	5.8
Closing Net Cash/(Debt)	8.2	6.5	4.9	5.8	4.3

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to Sep, £m	2020A	2021A	2022A	2023A	2024F
Intangible Assets	3.2	3.5	3.8	3.7	3.6
Tangible Assets	0.5	0.4	0.4	0.4	0.3
Investments/other	2.1	2.1	1.6	1.4	1.3
Net Working Capital	7.4	9.8	6.5	5.5	6.8
Capital Employed	13.2	15.8	12.2	10.9	12.1
Other	-1.0	-1.0	-0.8	-0.8	-0.7
Net Cash/(Debt)	8.2	6.5	4.9	5.8	4.9
Provisions Liabilities/Charges	0.0	0.0	0.0	0.0	0.0
Net Assets	20.4	21.3	16.4	16.0	16.3

Source: Company historics, Equity Development estimates



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690