



# Daniel Gladis

Director, Vltava Fund





# Babcock International

**Daniel Gladiš**

European Investing Summit, 2019

## Babcock, share price



Source: Yahoo

# Summary

- High quality company
- Stable margins
- High barriers to entry
- Low cyclical
- Multiples at historical lows

# Babcock complete maintenance work on HMS Queen Elizabeth at Rosyth



## Business description

- A leading provider of engineering services for defense, emergency services and civil nuclear markets in the UK and international

### **Core strengths:**

- Technology and expertise
- Owned infrastructure and assets
- Successful operating model
- Significant barriers to entry

## Business mix

- **75% (85%) Focus markets**
  - Defence, Emergency services, Civil Nuclear
- **25% (15%) Adjacent markets**
  - Energy and marine, Rail and power, Oil and gas aviation, Airports

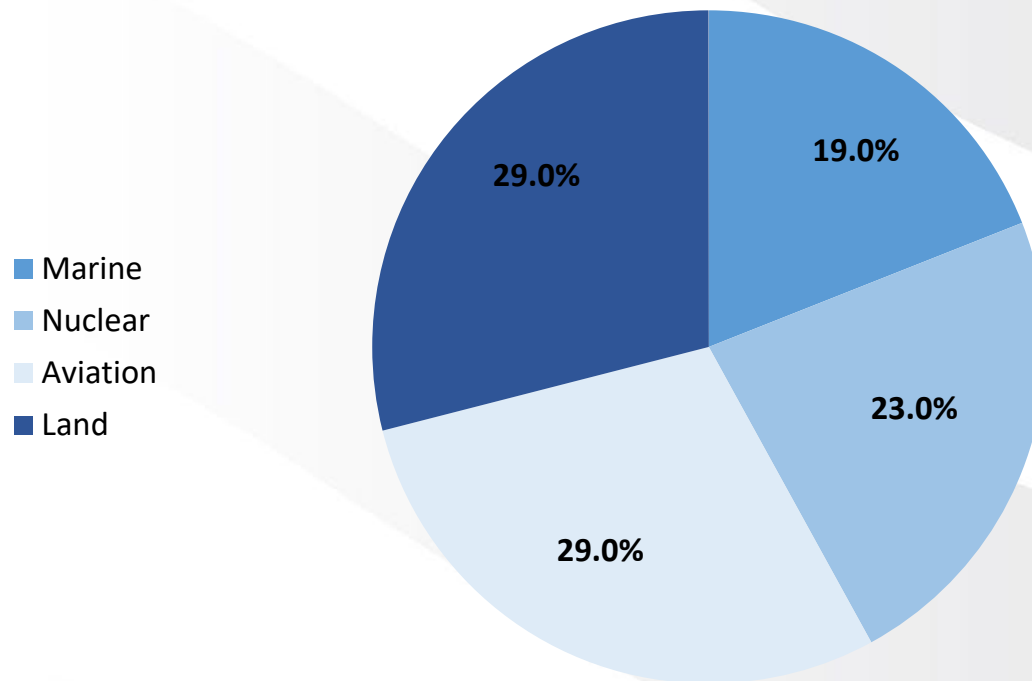
# Strategy

		Defence	Emergency services	Civil nuclear	Adjacent
<b>Group revenue</b>	%	52%	15%	10%	23%
<b>Marine</b>	21%				Energy and Marine
<b>Nuclear</b>	22%				
<b>Land</b>	33%				Rail and Power South Africa Airports
<b>Aviation</b>	24%				

Source: Babcock

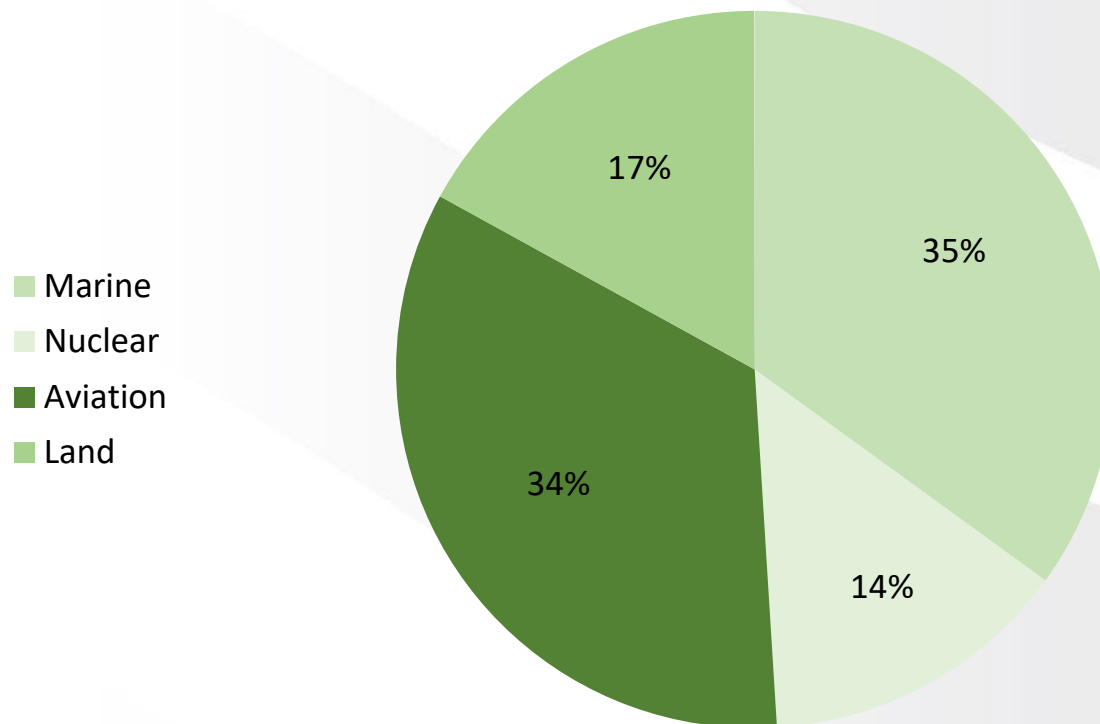


## Group order book, GBP 17bn



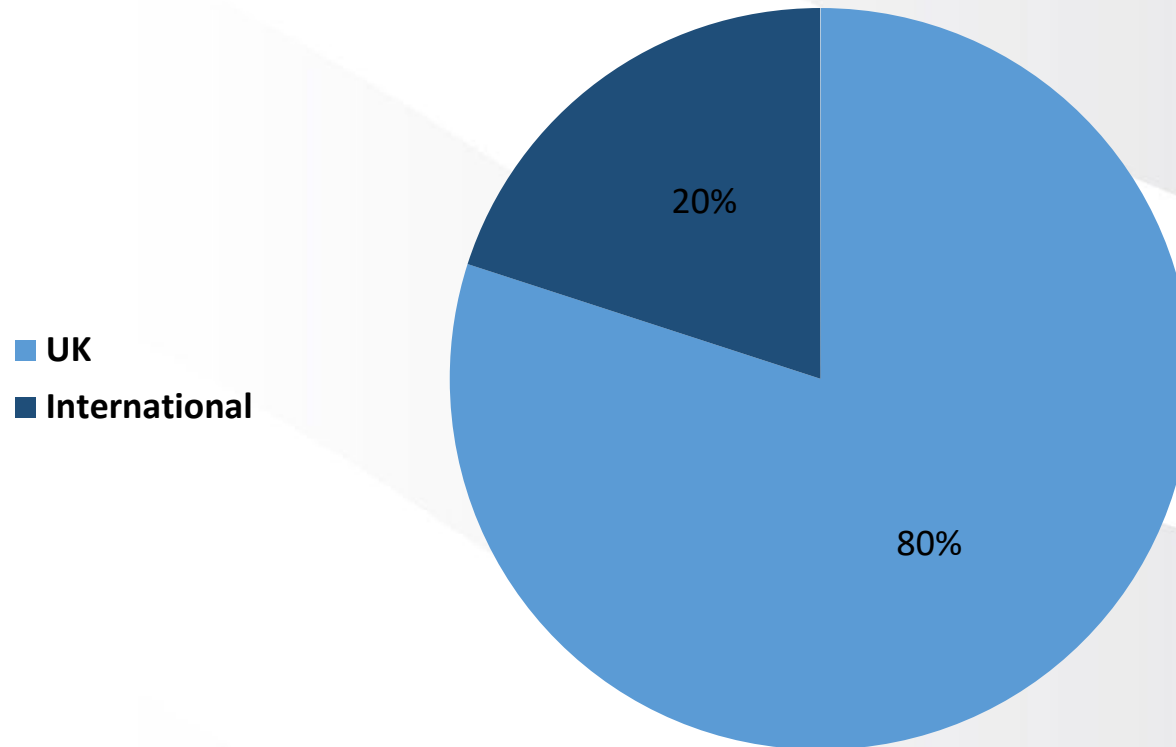
Source: Babcock

## Group pipeline, GBP 14bn



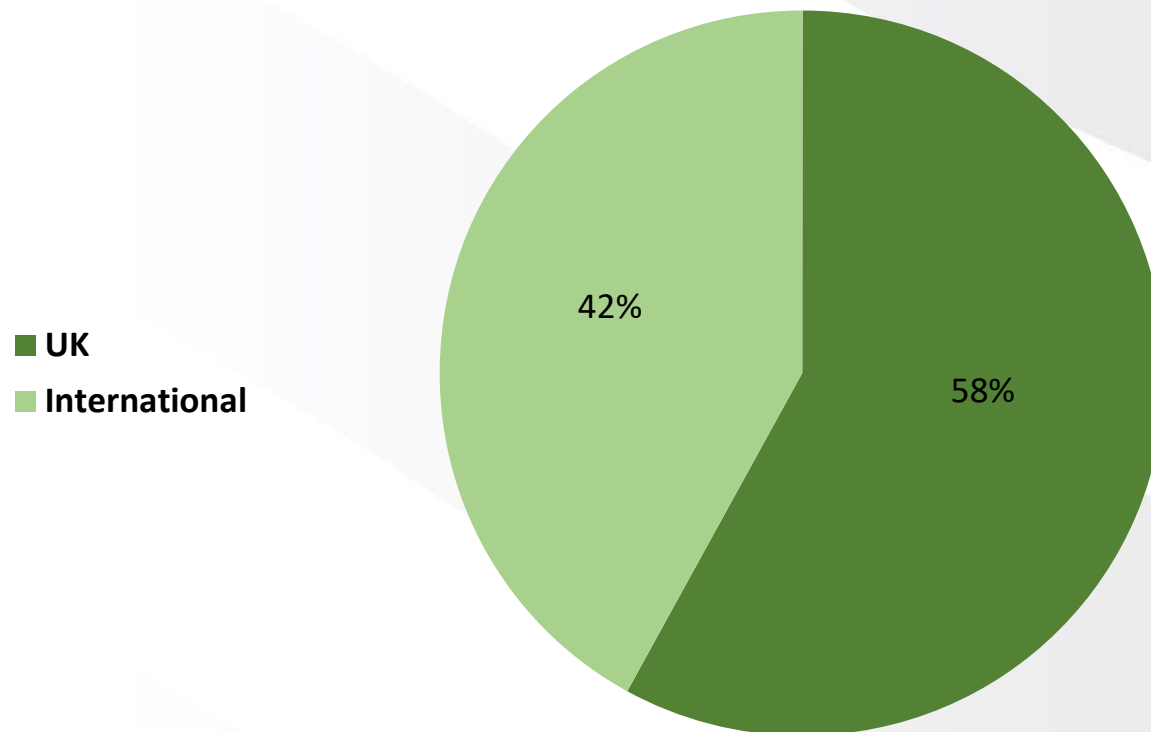
Source: Babcock

## International presence – Order book, GBP 17bn



Source: Babcock

## International presence – Pipeline, GPB 14bn



Source: Babcock

# A closer look at Babcock business

**babcock**<sup>TM</sup>



# Income statement

		2015	2016	2017	2018	2019	2020	2021	2022
<b>Continuing revenue</b>	mil GBP	3996	4158	4547	4659	4474	4840	4912	5083
<b>Oper. profit from cont. oper.</b>	mil GBP	352	352	359	370	196			
<b>Share of profit from JVs</b>	mil GBP	29	34	56	68	83			
<b>EBIT from cont. oper.</b>	mil GBP	381	387	416	439	280	448	458	479
<b>Net interest</b>	mil GBP	68	57	54	48	45			
<b>Income tax</b>	mil GBP	46	39	46	53	35			
<b>Net profit</b>	mil GBP	266	291	315	337	199	365	367	377
<b>EPS</b>		52.9	57	61.8	66.6	39.8			
<b>adj. EPS</b>		68.5	74.2	80.1	82.8	83.7	72.4	73.6	76.6
<b>DPS</b>		23.6	25.8	28.1	29.5	30	30	30	30

# Balance sheet

	2019A	2022E
Cash and equivalents	275	295
Accounts receivable	908	893
Inventories	197	193
Other current assets	59	59
<b>Current assets</b>	<b>1439</b>	<b>1440</b>
PP&E	1014	955
Other non current assets	3725	4114
<b>Total assets</b>	<b>6178</b>	<b>6509</b>
Short term borrowings	54	54
Payables	1381	1339
Other short term liabilities	90	90
<b>Current liabilities</b>	<b>1525</b>	<b>1483</b>
Long term debt	1358	1083
Other long term liabilities	410	1001
<b>Total Liabilities</b>	<b>3293</b>	<b>3567</b>
Shareholders' equity	2885	2942
Minority interest	17	17
<b>Total Liabilities &amp; equity</b>	<b>6178</b>	<b>6509</b>
Net debt	1136	842
Net debt/EBITDA	1.6	1

# Valuation ratios

555	2015	2016	2017	2018	2019	2020	2021	2022
Adj. EPS	68.5	74.2	80.1	82.8	83.7	72.4	73.6	76.6
DPS	23.6	25.8	28.1	29.5	30	30	30	30
FCFS					64	49	52	53
PE	8.1	7.5	6.9	6.7	6.6	7.7	7.5	7.2
DY	4.3%	4.6%	5.1%	5.3%	5.4%	5.4%	5.4%	5.4%
FCFY					11.5%	8.8%	9.4%	9.5%



# Why is Babcock so cheap ?

- Country
- Industry
- Company

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