

28 May 2015

**Key Statistics**

**Code** : EMR  
**Listing** : AIM  
**Sector** : Support Services  
**Market Cap** : £29.2m  
**Share in issue** : 44.6m  
**Current Price** : 64p  
**12 month High/Low**: 67p/39.5p

**Stock Performance**

Source: Fidessa

**Company description**

Empresaria is an international specialist staffing group, with a strategy to be diversified and balanced across geographies and sectors, with a focus on high-growth markets. The Group follows a multi-branded approach operating in 18 countries.

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**Empresaria: Strong performance yet to trigger re-rating**

**Shares in the international specialist staffing group have had a good run up 28% over the last three months and 37.6% on an annual view. This has been driven by the delivery of strong financial results as reported in the FY Dec 2014 results released in March this year which saw adjusted EPS rise 29% to 8p and the dividend double to 0.7p.**

**Branding, Niches and Diversification:** Empresaria is a Group of leading staffing brands with specialist sector expertise enabling the equity incentivised management teams to forge strong client relationships. Professional and skilled workers now makes up 81% of Empresaria's business, with a bias towards Technical & Industrial, IT Digital & Design, and Financial. Fee income is relatively evenly split between the UK, Continental Europe and the rest of the world, offering a balance between mature stable markets and higher growth emerging markets. Selective expansion continues most latterly with the purchase of stakes in businesses in Dubai and the UK (servicing the marketing industry).

**Legacy issues resolved:** Over 2011/2012 Empresaria saw its share price suffer due to specific issues in some of its territories combined with a generally weak trading environment. Specifically there was an initial provision made in the company's core German market for up to £3m following a court ruling that the CGZP union was not entitled to conclude a collective labour agreement, the likes of which had been made with some of EMR's subsidiaries. Furthermore the company had engaged in an onerous loss making contract in Chile. In the latest results it was confirmed that all claims for retrospective pay and social security have been agreed. Germany drove profit growth in Continental Europe of 77% and a new office has been opened in Santiago. The German staffing market is relatively immature and subject to structural growth.

**Margin growing / more to come:** A 3% drop in revenues in 2014 (up 2% at constant currency) was not reflective of the improving situation with net fee income (NFI) up 5% (11% at constant currency) due to the increasing proportion of permanent placings. The conversion ratio (NFI to operating profit) increased 50 bps to 14.7%. On an adjusted basis, excluding amortisation, exceptional items and profit or loss on disposal of businesses, operating profit was £6.6m up 10% on prior year and profit before tax was £6.1m, up 13%. The Group is moving towards its target conversion ratio of 20% which if achieved could increase earnings by 30% with no top line growth. Empresaria is establishing a track record of growth with 6 consecutive quarters of rising NFI and adjusted earnings have doubled since 2011. Cashflow remains strong enabling a doubling of the dividend and 36% reduction in net debt to £9.8m over 2014.

**Peer Group** – The strong share price performance shows a recovery from a low point and improving fundamentals. However we have seen no material re-rating. The stock is on 7.7x historical earnings and 7.2x consensus 2015 earnings. Rebased to the price to one year ago the historical rating was actually marginally higher at 7.4x. Looking at a selection of its peers (small to medium sized staffing agencies: Matchtech, Staffline, Interquest and SThree) the average 14x forward multiple is nearly double that of Empresaria. We argue that Empresaria's business model is proving to be effective through the delivery of strong numbers and the outlook is positive. Therefore there is scope for this valuation gap to narrow.

## Key Fundamentals

Year Ending	Revenue (£m)	Pre-tax (£m)	EPS	P/E	Div	Yield
31/12/2010	206.8	6.50	6.40	10.00	0.35	0.55%
31/12/2011	208.9	1.90	4.10	15.61	0.35	0.55%
31/12/2012	194.3	3.60	5.00	12.80	0.35	0.55%
31/12/2013	194.4	4.90	6.20	10.32	0.35	0.55%
31/12/2014	187.9	5.90	8.30	7.71	0.35	0.55%

## Forecast

Year Ending	Revenue (£m)	Pre-tax (£m)	EPS	P/E	Div	Yield
31/12/2015	192.95	7.05	8.85	7.23	0.70	1.09%
31/12/2016	202.25	7.85	9.60	6.67	0.70	1.09%

Source: Digitallook

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