

Stobart Group Ltd

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Stobart rated at 'buy' by analysts as investments expected to pay off

Stobart Group Ltd (LON:STOB) has made significant investments in its core divisions of aviation and energy that should deliver attractive earnings and cash flows for many years to come, according to analysts at Canaccord Genuity.

In the aviation division, which includes the London Southend Airport, Stobart Air regional airline and aviation ground handling business, Stobart has committed spending to increase airport capacity and to improve customer service.

Off-loading non-core infrastructure assets

In the energy business, which provides biomass for use in low-carbon power plants, the company has invested in more staff, processing and storage capacity.

At the same time, the group has been offloading non-core infrastructure assets as part of its strategy to improve shareholder returns. In the first half of the year, the group sold £27.5m worth of property assets, leaving £100m worth of non-core assets remaining.

Canaccord, which has a 'buy' rating and target price of 350p on Stobart, believes the company's two largest divisions are in the early stages of "significant value generation".

"The performance of the energy division has been held back by third party power plant commissioning delays, but most of this should be behind it," the broker said.

"The aviation division, which includes London Southend Airport, is growing strongly, albeit from a low base. With a large catchment area, excellent public transport links, and efficient, high quality, facilities, it looks well placed to capture a growing share of the London air travel market, especially considering the congested nature of the other London airports."

Southend Airport passenger numbers on the rise

Stobart said in its first-half results in October that it expects the number of passengers using Southend Airport to rise to 2.5m in 2019.

Passengers rose 37% to 839,000 in the six months to August, but easyJet recently added a fourth plane, while Ryanair will base three aircraft at the airport from next year.

READ: Stobart Group predicts surge in passengers using Southend Airport
Aviation saw revenues rise by 16% to £103m in the first half on the back of passenger growth, and underlying earnings gained 15% to £15.7m.

"The airport is on track to handle 5m passengers by 2022/23 and has the capacity to double, or even triple that number,

Price: 101.2p

Market Cap: £375.27M

1 Year Share Price Graph



Share Information

Code: STOB

Listing: LSE

52 week **High** **Low**
254.00p 98.10p

Sector: Support Services

Website: www.stobartgroup.co.uk

Company Synopsis:

Stobart Group is an infrastructure and support services business which owns and manages a range of key infrastructure sites and operates business divisions delivering critical support services to the energy, aviation and rail sectors.

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in the future," Canaccord noted.

"The airport should benefit from strongly growing revenue streams including landing fees, car parking, passenger and bag handling, hotels, rail, retail concessions and the private jet terminal."

Energy supply volumes expected to pick up

The energy division posted an 18% rise in revenue to £29.9m and underlying earnings shot up 89% to £8.7m as tonnes of fuel sold jumped 72% to 657,950.

Stobart said a key driver for growth in tonnes of fuel sold was that plants commissioned last year approached commercial volumes, offsetting the impact of unplanned outages at two major plants as well as delays to commissioning at new third-party power plants.

It added it was hard to determine the timing of the successful operation of the third-party power plants but expects further progress in the second half.

The energy business has agreements in place to supply two million tonnes of fuel per year and the capacity to provide three million tonnes per annum by fiscal year 2022.

Canaccord said while current volumes have been held back by commissioning delays, it thinks supply volumes should quickly rise to the contracted level once plants start to operate on a more consistent basis.

"There is significant potential for long term growth, as the division has the capacity to deliver three million tonnes per annum and is considering expanding into complementary waste management flows," it said.

Stobart's other divisions include rail and engineering, infrastructure and investments.

The rail and engineering business delivered a 12% gain in revenue to £22.6m in the first half but posted a loss of £4.8m. The infrastructure unit, which includes a portfolio of property assets and biomass energy plants, generated saw revenue fall 42%, and made a loss of £1.1m.

The Stobart Investments segment, which holds non-controlling interests in Eddie Stobart Logistics and Airport, generated revenue of £2.0m and earnings of £2.8m.

Attractive dividends

Overall revenue for the group increased 21% to £151.3m and underlying profit rose 10% to £17m.

Canaccord thinks Stobart made "good commercial progress" in the first half.

"It was particularly pleasing to note the EBITDA growth rates for the Energy and Aviation divisions (89% and 15% respectively)," it said.

The broker believes the company offers attractive dividends, having returned £47m to shareholders in the year ending 2017 and £63m in 2018.

Stobart raised its interim dividend to 9.0p from 7.5p last year.

Broker Stifel, which also has a 'buy' rating on the stock with a target price of 268p, said: "We continue to see significant potential for medium-term value creation, with the group's non-operating assets providing multi-year visibility on the attractive 18p per year dividend yielding over 8%."

Stifel said the first half results were "broadly positive" with good underlying profit growth in the aviation and energy

divisions mitigating a loss in rail.

Stobart Air secures services deal with British Airways

Since the first half results, Stobart Air has secured a deal to provide new aircraft, crew, maintenance, and insurance (ACMI) services to BA CityFlyer, the short-haul arm of British Airways.

The firm said the arrangement between the two airlines would see Stobart Air provide ACMI services for operating routes to and from London City Airport under the BA CityFlyer brand from November 16.

READ: Stobart Group's Stobart Air clinches services deal with BA CityFlyer

Stobart will recruit 10 new captains and 30 cabin crew to its staff, while also agreeing to lease two Embraer 190 jet aircraft under a three-year lease to Republic of Ireland-based Nordic Aviation Capital to service the new routes.

Graeme Buchanan, managing director of Stobart Air, said the agreement with BA CityFlyer allowed the firm to diversify the brands the company works with and secure "additional commercial relationships with airlines".

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