

Balfour Beatty plc

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Balfour Beatty bounces back with 31% dividend hike

Balfour Beatty plc (LON:BBY) shares bounced off a five-year low as the construction group hiked its dividend 31% after a half-year where the fruits of its turnaround strategy yielded stronger profits and cash flow.

Furthermore, addressing recent media allegations that maintenance records had been falsified at its US resident housing arm, Balfour said it saw no reason to write down the valuation of its assets or cut its short-term forecasts, though it has appointed an independent lawyer to investigate.

Overall, profit before tax increased 14% to £64m on revenue up 1% to £3.9bn, keeping the group on track to meet full-year targets.

Quinn's focus on quality

Chief executive Leo Quinn, who has been remodelling the business since 2015 with a more "carefully managed" approach to winning more profitable contracts following over a decade of rather haphazard expansion, hailed the increasing strength of the balance sheet, allowing Balfour Beatty to create and return value to shareholders.

Indeed, the interim dividend payment was bumped up to 2.1p per share from 1.6p a year ago as net cash averaged £290m over the period compared to £161m this time last year, with guidance for full-year average net cash increased £50m to £280m-£300m.

The order book increased 5% during the period to £13.2bn, driven by wins for the US construction business and the addition of the support services business's railway track renewal contract with Network Rail.

Future growth of the order book is expected to come from the rising infrastructure spend in the UK, US and Hong Kong, Quinn said.

"Today, the group's geographic and operational diversity underpins our risk management, with over 50% of our business and investments portfolio assets outside the UK," he said.

Positive reception

Analyst Sophie Lund-Yates at Hargreaves Lansdown said Quinn's strategy of avoiding a "a race to the bottom" in project bidding, which had hit many of its peers, left it in a much better position than it has been in the past, with the net cash position "a good situation to be in, given the industry can be tumultuous at times".

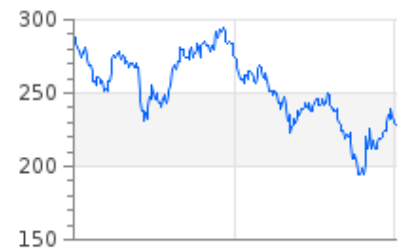
"The government is a key customer for Balfour Beatty, meaning things like major rail network projects can turn into billions of pounds worth of contracts for the group.

"However, the other side to that coin is shifts in the economy can be bad news. With uncertainty still very much the economic and political watchword, investors will be continuing to watch the direction of travel in the order book closely."

Price: £2.30

Market Cap: £15.91 m

1 Year Share Price Graph



September 2018 March 2019 September 2019

Share Information

Code: BBY

Listing: LSE

52 week High Low
295.8 192.3

Sector: Builders and building materials

Website: www.balfourbeatty.com

Company Synopsis:

Balfour Beatty is a diversified engineering, construction and services company with operations in the UK, Europe, the US, South-East Asia, Australia and the Middle East. Balfour Beatty is traded in the ISDX Exchange HERE.

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With the shares having been impacted by the US allegations and management not changing the director's valuation of the portfolio from £528mln, analysts at UBS said that the "stock looks mispriced, in our view".

"While there is now debate on the value of the military housing portfolio, the total infrastructure investment portfolio has a value of £1.16bn as of June (169p per share, of which 77p is US military housing). Average net cash is another 42p so in effect the market is attributing no net value to the rest of the business, which is now profitable and generating cash flow."

Balfour Beatty shares surged 12% to 226p on Wednesday morning, having last week fallen to below 193p for the first time since 2014.

-- Broker comments added --

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