

Ashtead Group

04:44 10 Dec 2019

Ashtead shares sink on US construction concerns, despite good growth in North American business

Ashtead Group PLC's (LON:AHT) shares deflated as concerns over the state of US construction and manufacturing intensified, despite the company reporting robust growth in its North American markets.

The FTSE 100-listed company, which rents out equipment such as diggers, cranes, pumps and heating equipment, said on Tuesday that its revenues rose 14% to £2.7bn in the first half of the year to the end of October, with 12% growth recorded in the last three months of the period.

Higher sales helped Ashtead generate an underlying profit before tax of £690m, up 9% on last year, reflecting "good profit growth in the US, a more moderate improvement in Canada as we invest in the business and a drag from weakness in the UK".

The US-based Sunbelt operation, from where 90% of the firm's sales are derived, grew its rental-only revenues by 15% to US\$2.8bn, joined by growth of 21% at Sunbelt Canada.

A-Plant, the UK business, saw rental-only revenue dwindle 2%, reflecting the "more competitive landscape within a more uncertain UK market".

During the last quarter, £231m was invested in bolt-on acquisitions during the period, including nine businesses and 44 stores in the US, reflecting mostly the expansion of its Sunbelt fleet.

Chief executive Brendan Horgan said: "Our North American end markets remain strong and we continue to execute well on our strategy of organic growth supplemented by targeted bolt-on acquisitions."

"In contrast, the UK market remains challenging and we are therefore refocusing A-Plant on leveraging its platform to deliver long-term sustainable results, while generating strong cash flow," he added.

Except for the UK and a currency headwind, Ashtead said it expected results to be in line with expectations and had confidence for the company's medium term future.

Light of expectations

This came in a little shy of broker Peel Hunt's expectations, with analysts looking for a pre-tax profit of £695m in the first half.

Richard Hunter, head of markets at interactive investor called profit figures "light of expectations", but noted that the company is still "ploughing ahead given the strength of the US economy in particular".

Nevertheless, Hunter added: "There are wider worries overhanging the stock, not least of which is the company's

Price: 2797

Market Cap: £12.57 billion

1 Year Share Price Graph



Share Information

Code: AHT

Listing: LSE

52 week High Low
3020 1010

Sector: Business & education services

Website: www.ashtead-group.com

Company Synopsis:

Ashtead Group is a leading provider of rental equipment with operations in the US and the UK. We provide equipment that lifts, powers, generates, moves, digs, supports, scrubs, pumps, directs, ventilates, whatever the job needs.

action@proactiveinvestors.com

reliance on the US part of its business, which accounts for 86% of revenues."

However, with the latest figures from the US commerce department revealing a drop of 0.8% in construction spending in October, Ashtead seems to be outperforming the market.

A cold wind blows in UK

However, market watchers are worried that UK segment could hold back Ashtead's progress.

AJ Bell investment director Russ Mould said the results "may raise questions over the long-term position of its UK business within the group".

"As profit tumbles at its domestic A-Plant unit, investors may hope a plan to refocus these operations ultimately becomes a plan to recycle them, to prevent them dragging on a robust North American business."

But Ian Forrest, investment research analyst at The Share Centre, countered: "While the news in the UK is concerning, that part of the company represents a smaller part of overall revenue (around 10%) and with the core North American market still performing well and further capital being invested the outlook for the group remains positive."

Ashtead also hiked the interim dividend by 10% to 7.15p per share, from 6.5p last year.

Shares were down 8% at 2,188p in early trading on Tuesday.

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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