

Ashtead Group (LSE: AHT)

CAMSIF Industrials – Long Recommendation



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Executive Summary

- Ashtead Group (LSE: AHT) is an industrial equipment rental company with operations in the US, UK, and Canada.
- We recommend CAMSIF to long Ashtead Group [AHT] as its current price (GBX 4812.00¹) is undervalued by 27.3% given conservative estimates of construction sector growth in the near term.
- **Thesis + Catalyst:** We believe the market has yet to price in strong tailwinds from **long-term fiscal interventions** and **ESG strategies**, and has not fully ascribed value to equipment rental's **'balance sheet friendly' product offering** as firms enter a global recession
- **Ashtead's diversification into speciality markets such as HVAC + film equipment hire is a key USP**
- **Risks:** Whilst the cyclical downturn and inflationary pressures are likely to add pressure to Ashtead's top line and margins, these risks are mitigated by its strong pricing power, market dominance, diversification and cost-cutting efforts.

Business Overview

Business Description

Financials:

- LTM Revenue: **£ 8.36 billion**
- Market Cap: **£21.3 billion**
- Enterprise Value: **£30.97 billion**

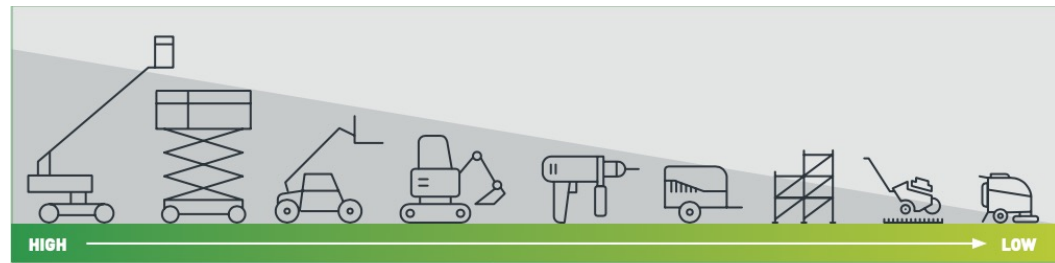
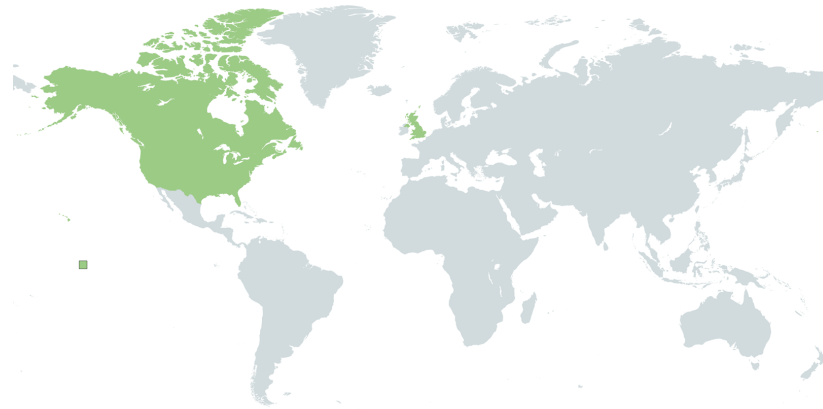
LTM Multiples:

- P/E: **17.2x**
- P/ Tangible BV: **11.0x**
- EV/Revenue: **3.9x**

Products:

- Mobile elevating work platforms
- Earth moving
- Forklifts
- Panels, fencing and barriers
- Pump and power

An international equipment rental company operating in the US, UK and Canada.



Business Overview - continued

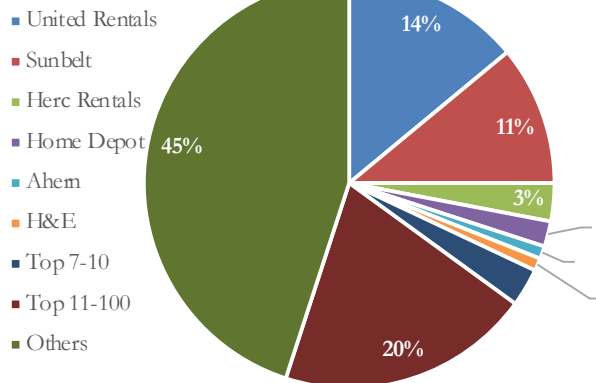
USA

The second largest equipment rental company in the US with 967 stores

Revenue: \$6,477m (83% of total)

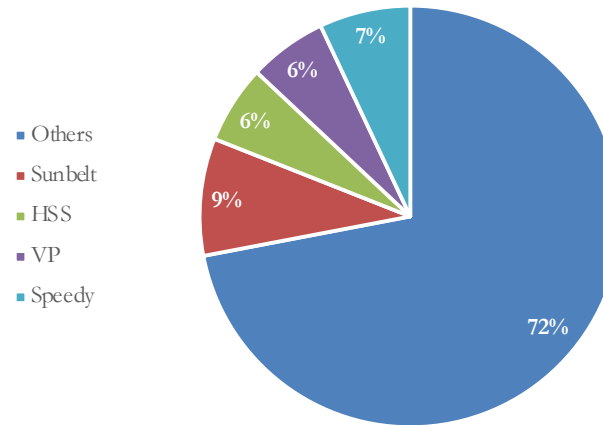
Business snapshot:

- Core business affected adversely by COVID-19 but back to exceeding pre-pandemic levels
- Expansion into equipment niches with strong M&A
- Supporting long, multi-year projects set out in "2021 Infrastructure Bill"



UK

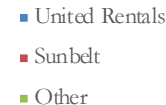
The largest equipment rental company in the UK with 188 stores



Revenue: £726m (9% of total)

Business snapshot:

- Streamlining operational networks with launch of Sunbelt 3.0
- Significant cross-selling opportunities provided by increasingly broad product offering



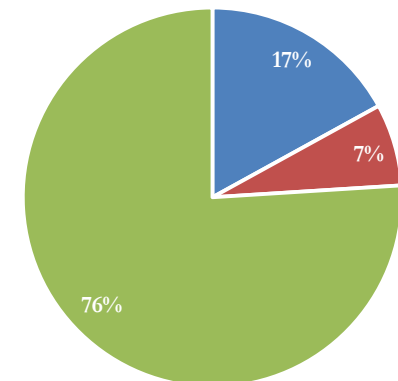
Canada

A promising newcomer with 89 stores in the Canadian equipment rental market

Revenue: C\$626m (8% of total)

Business Snapshot:

- New and relatively growing market – strong runway for growth
- Expanded into major cities like Edmonton, Ontario, Winnipeg
- Strong initial diversification (example: film and events industry in Vancouver and Toronto)



Main Thesis Points

1

Strong economic and fiscal tailwinds

2

A cyclically defensive business

3

A pioneer for ESG standards within the industry

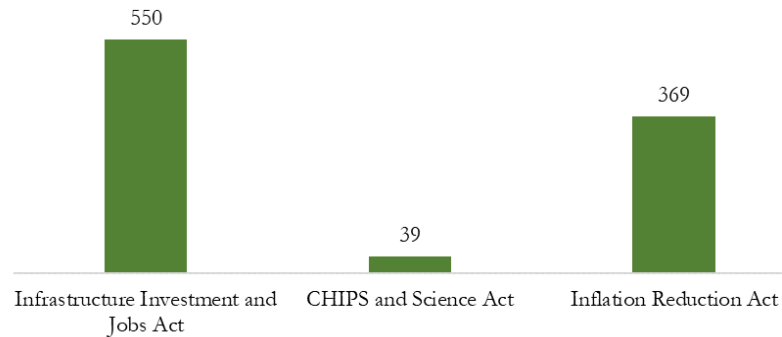


Strong buy opportunity for CAMSIF

Thesis 1 – Market growth under macroeconomic tailwind

Fiscal stimulus provides long-term visibility in US construction

US Fiscal Stimulus 2021/22 (\$ bn)



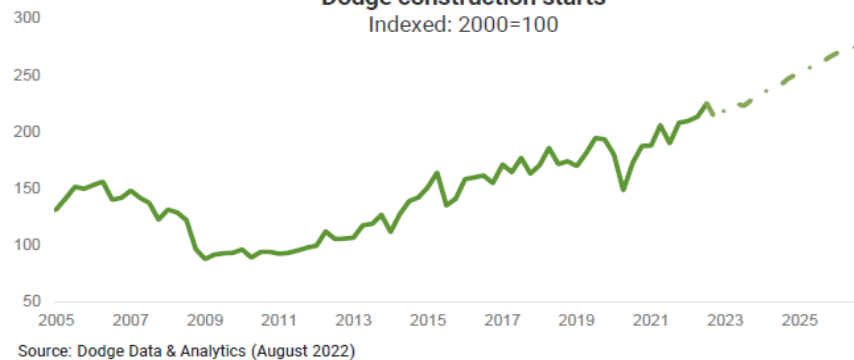
Construction market momentum index at highest since 2008

Dodge momentum index
Indexed: 2000=100, seasonally adjusted



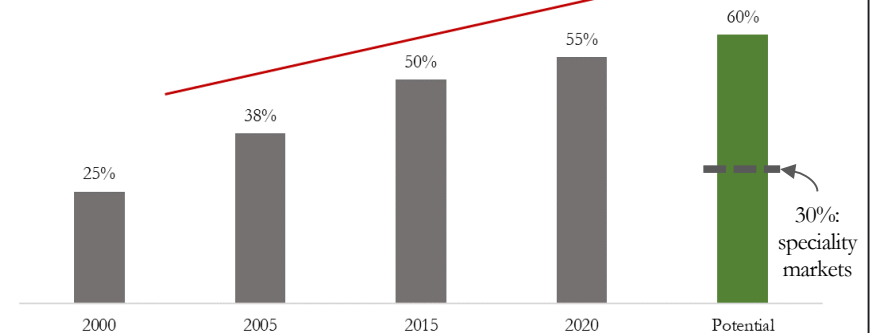
No. of new projects to continue increase in medium term

Dodge construction starts
Indexed: 2000=100



Structural trend in equipment rental penetration

Equipment Rental Penetration

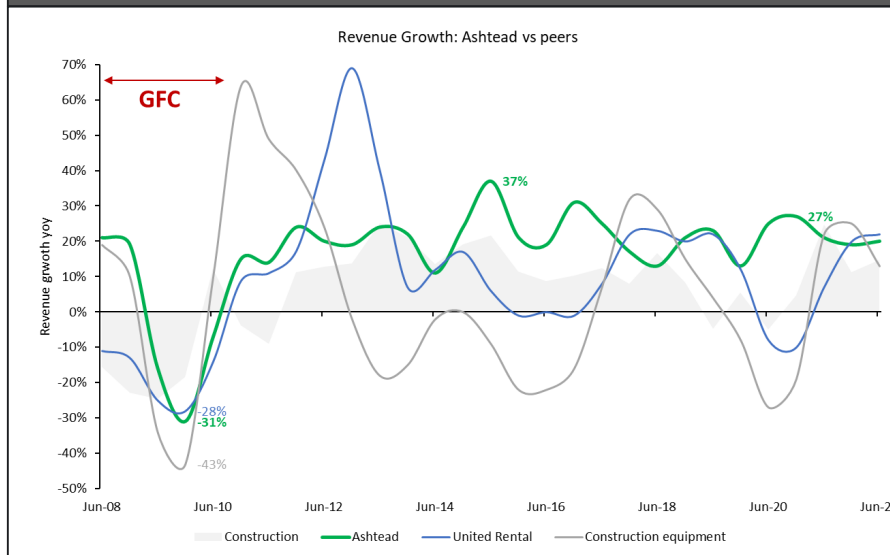


Thesis 2 – Defensive position supported by business model and industry leadership

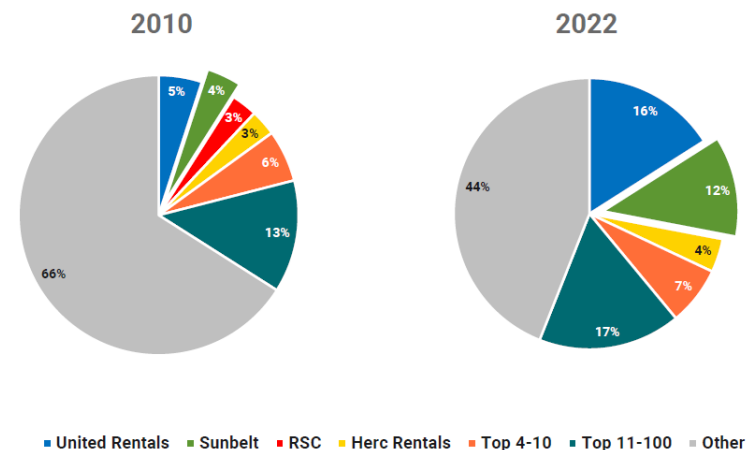
In the near term, we expect Ashtead to outperform its peers.

1. **Customer demand in equipment rental** due to financing constraints (high interest rates) and order uncertainties
2. **Further market consolidation opportunities** as the industry leader is better positioned for challenging dynamics
3. **Diverse end market exposure** driven by growth in specialty business where rental penetration remains low in non-construction markets (e.g. live events, building maintenance, utilities and emergency response)

Rental business model attracts customers in downturns, ...



... followed by track record of growth and industry consolidation

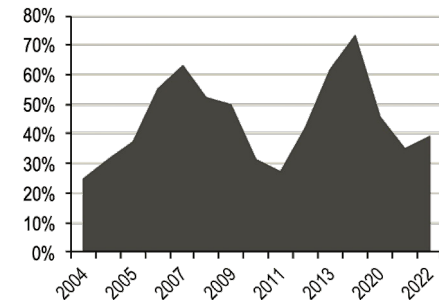


Thesis 3 – A pioneer for ESG standards within the industry

ENVIRONMENTAL

- Aim to decrease carbon intensity by 35% by 2030; Revenue intensity has decreased between 2021 to 2022 from 48.8 - 42.2 tCO₂e/\$m (48.5 on a constant currency basis)
- New CapEx cycle imminent - CapEx replacement at will involve a shift into newer growth areas (e.g. electrification of fleet)
- Partnering with Doosan Bobcat to produce first all-electric compact track loader

Three-year capex to gross rental equipment (%)



SOCIAL

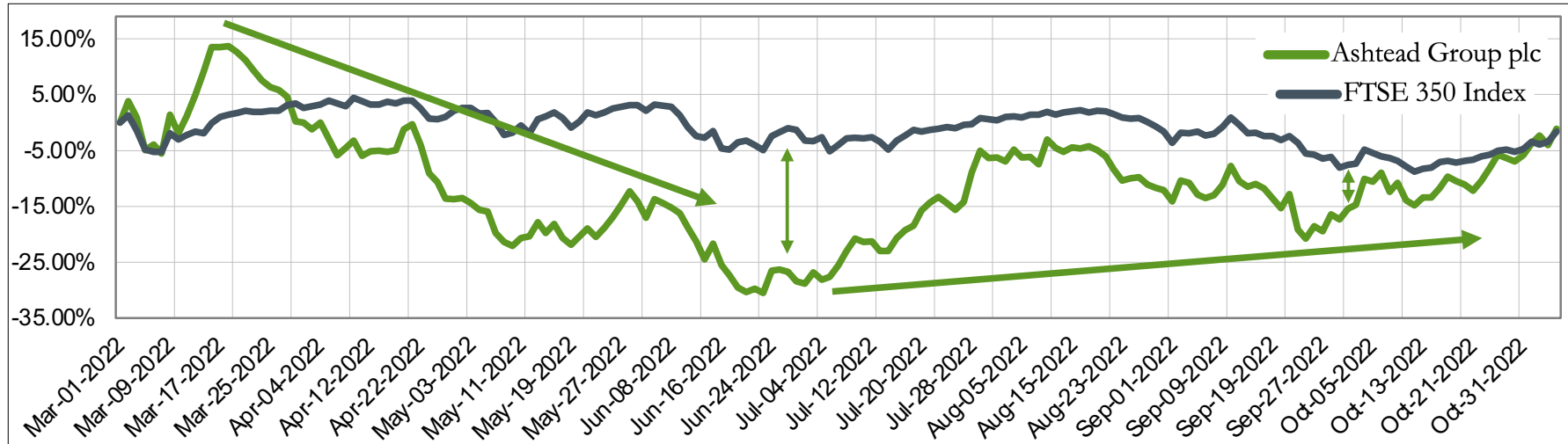
- Accident rates <2% for all locations in 2022
- Regional Safety managers engage with teams daily + annual safety weeks
- Sunbelt UK managers undertake the five-day IOSH ('Institution of Occupational Safety and Health') Managing Safely course.
- Driver + vehicle safety - telematics monitored by compliance team

GOVERNANCE

- Business ethics training for senior employees every year in the UK and every 2 years in the US
- Chairman and CEO positions are held by different people + longest serving non- exec board members appointed in 2016
- Remuneration committee made up of only independent non exec directors
- Board seems to have relevant experience with respect to operations of the business

Valuation

YTD Performance



Ratios

Company Name	Trading		Operational			
	EV/EBITDA	P/BV	LTM Gross Margin %	LTM EBITDA Margin %	LTM EBIT Margin %	LTM Net Income Margin %
Bunzl plc (LSE:BNZL)	11.9x	NM	23.2%	7.4%	6.1%	4.10%
Travis Perkins plc (LSE:TPK)	5.8x	1.5x	32.0%	7.7%	6.2%	6.90%
Ferguson plc (NYSE:FERG)	7.6x	12.6x	30.7%	11.0%	9.9%	7.43%
United Rentals, Inc. (NYSE:URI)	9.1x	71.8x	42.2%	30.1%	26.8%	17.51%
RS Group plc (LSE:RS1)	12.9x	7.1x	44.2%	13.1%	12.1%	9.01%
Ashtead Group plc	8.7x	11.0x	96.7%	43.3%	24.7%	16.04%
Median	9.3x	20.8x	31.3%	12.0%	9.2%	8.2%

DCF

Implied Share Price (Base Case): 6,084.8

Upside: 27.3%

Sensitivity Analysis:

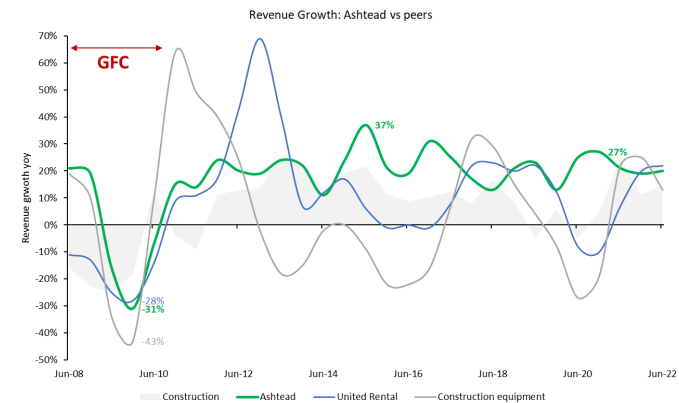
	Revenue Growth Year 1		
	-5%	5%	15%
0.25%	5,057.9	5,775.4	6,493.0
0%	5,337.8	6,084.8	6,831.9
-0.25%	5,641.1	6,420.0	7,198.9

Δ WACC

Risks and Mitigants

Cyclical downturn mitigated by rising market share and rental penetration

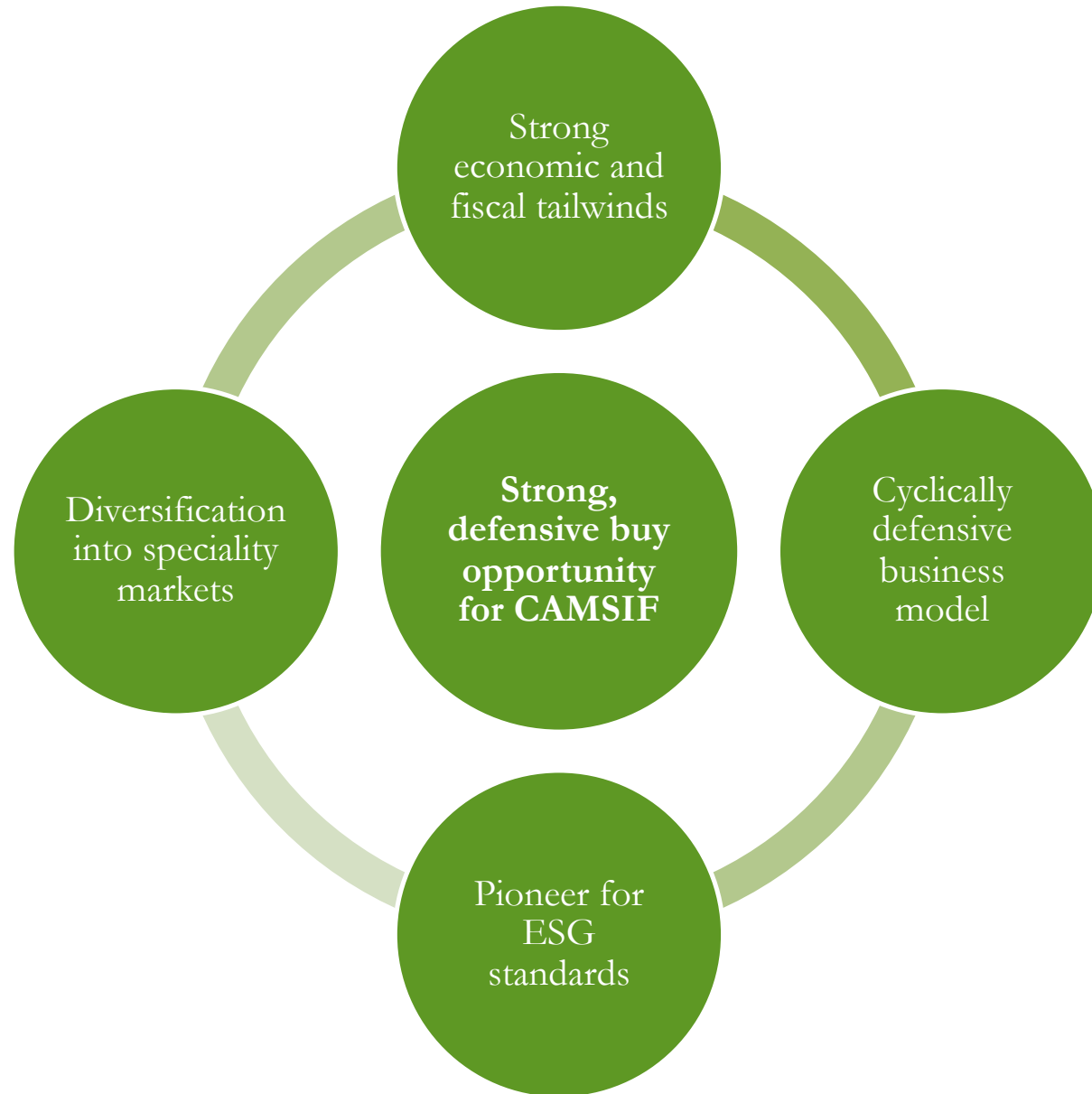
- Growth slowdowns and higher interest rates also discourage capex spending by firms – a tailwind for equipment rental.
- Market share gains from M&A and rental penetration should offset the cyclical slowdown, as in other construction slowdowns



Inflationary pressure mitigated by tight cost control

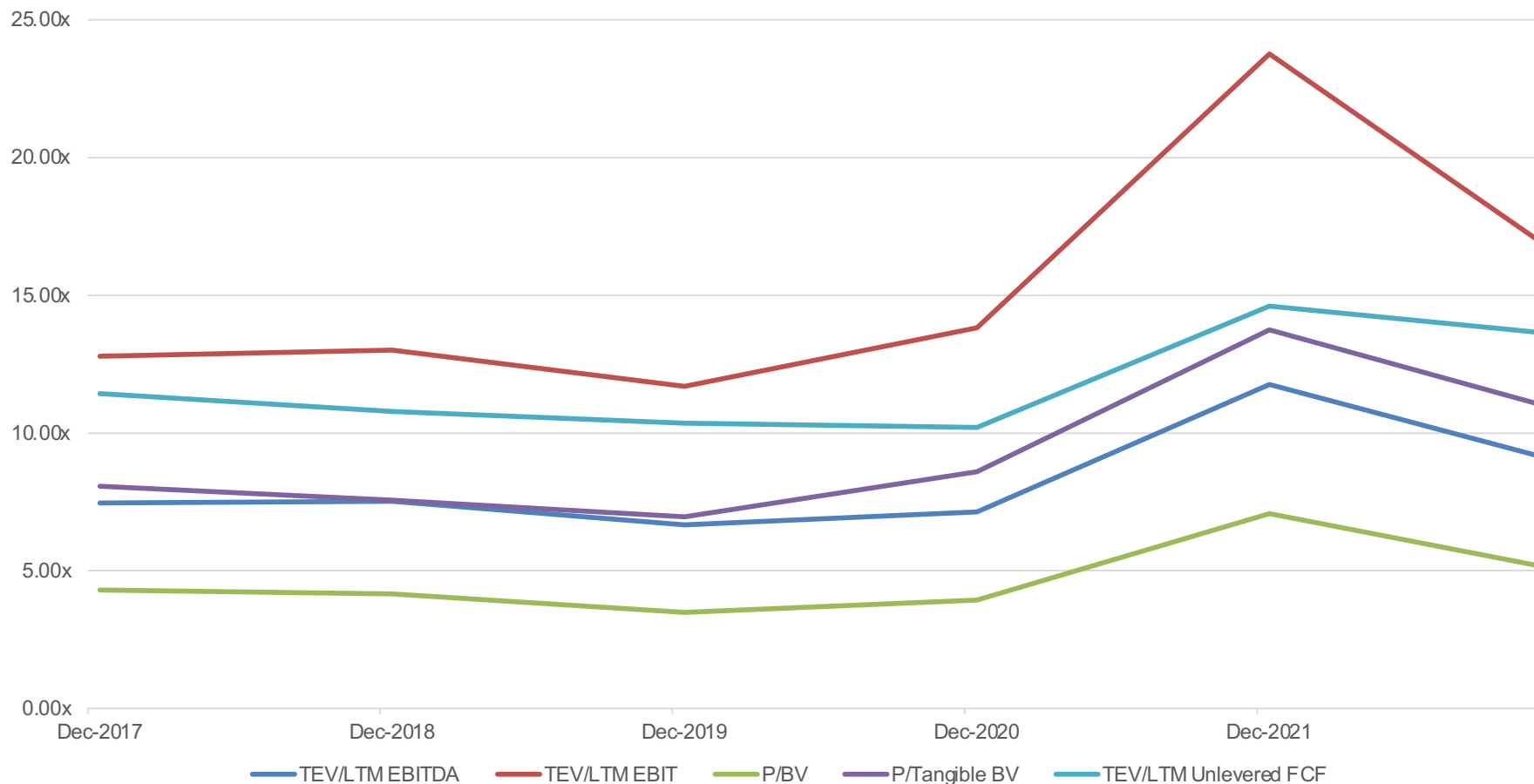
- Track record of cost reduction program to ensure operating cost rose more slowly than revenue

Conclusion



Appendix - valuation

AHT looks more attractive as multiples have come down

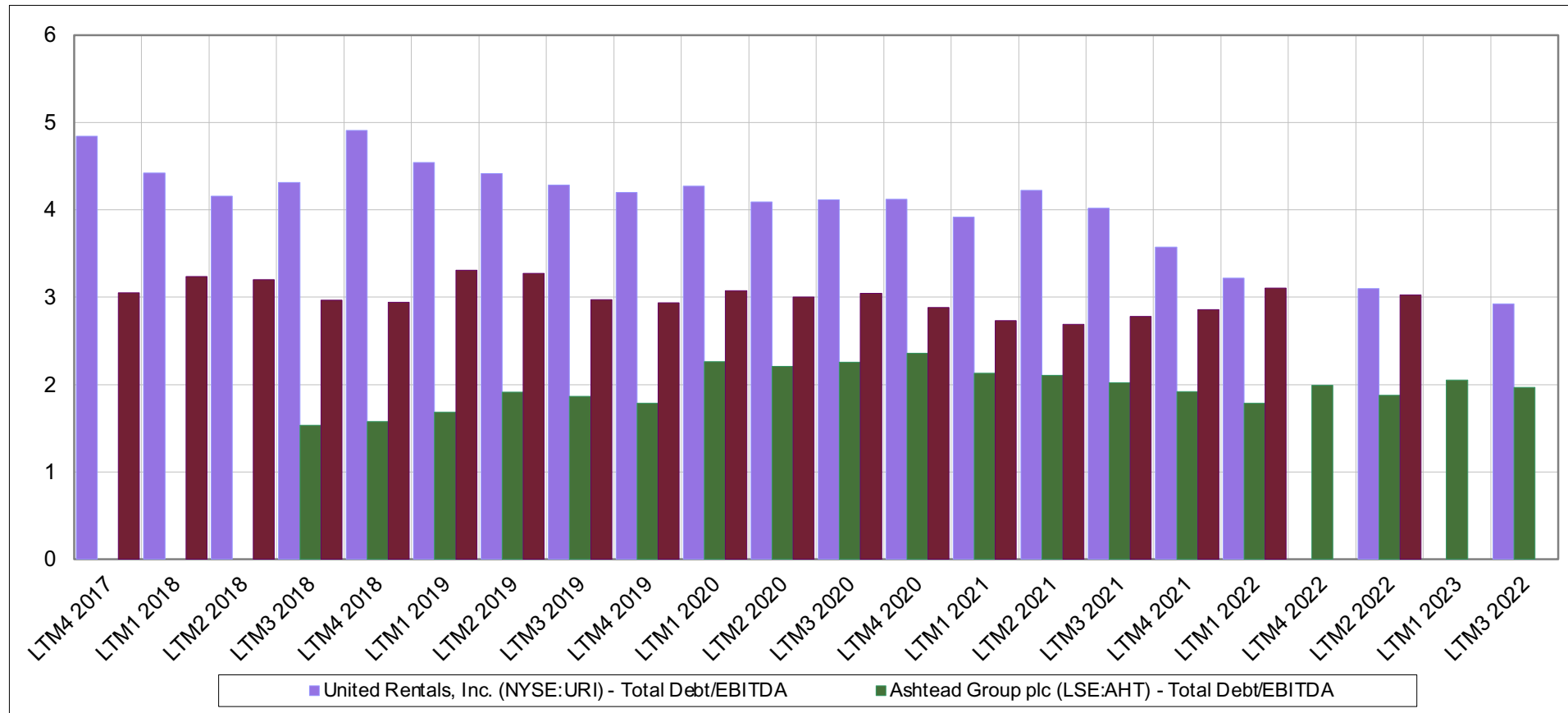


Appendix - Comps

Exceptionally operational efficiency

	Financials					Trading				Operational				
Company Name	Market Capitalization Latest	Total Enterprise Value Latest	LTM Total Revenue	LTM EBITDA	LTM EBIT	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	P/TangBV LTM - Latest	LTM Gross Margin %	LTM EBITDA Margin %	LTM EBIT Margin %	LTM Net Income Margin %	5 Year Beta
Bunzl plc (LSE:BNZL)	10,983.3	13,129.3	12,681.9	943.8	778.0	1.0x	11.9x	16.9x	NM	23.2%	7.4%	6.1%	4.10%	0.42
Travis Perkins plc (LSE:TPK)	2,005.4	3,038.3	5,524.8	425.6	340.0	0.5x	5.8x	8.9x	1.5x	32.0%	7.7%	6.2%	6.90%	1.46
Ferguson plc (NYSE:FERG)	22,854.2	27,211.2	28,566.0	3,136.0	2,835.0	1.0x	7.6x	9.6x	12.6x	30.7%	11.0%	9.9%	7.43%	1.25
United Rentals, Inc. (NYSE:URI)	22,261.9	32,725.9	11,122.0	3,350.0	2,979.0	2.9x	9.1x	11.0x	71.8x	42.2%	30.1%	26.8%	17.51%	1.86
RS Group plc (LSE:RS1)	5,156.2	5,204.4	2,925.7	383.8	353.8	1.8x	12.9x	14.7x	7.1x	44.2%	13.1%	12.1%	9.01%	0.96
Ashtead Group plc (LSE:AHT)	23,706.1	30,971.7	8,369.4	3,625.2	2,070.8	3.9x	8.7x	15.9x	11.0x	96.7%	43.3%	24.7%	16.04%	1.55
Average	14,494.5	18713.5	11531.6	1977.4	1559.4	1.4x	8.9x	12.9x	11.0x	33.2%	14.3%	11.8%	9.1%	1.2
Median	16,622.6	20170.3	9745.7	2039.9	1424.4	1.9x	9.3x	12.8x	20.8x	31.3%	12.0%	9.2%	8.2%	1.2

Appendix – Debt/EBITDA in equipment rental



Appendix - Discounted Cash Flow Model

Income Statement/Cash Flow

Ashtead Group DCF

Ticker	3LIC LIMITED CO	ANY (XLON:A Implied Share Price		Units (GBP)									
Date	05/11/2022	Today's Share Price		£ 60.8488									
				£ 47.800		Upside (Downside)		27.3%					
Assumptions													
Valuation Assumptions		Growth Assumption		2023	2024	2025	2026	2027					
WACC	9.73%	CapitalIQ Estimates		23.3%	7.2%	7.6%	7.4%	7.5%					
TGR	3.0%	FT Estimates		16.5%	7.2%	7.2%	7.2%	7.2%					
		FinBox		12.5%	7.6%	8.7%	4.0%	4.1%					
								Forecasted					
								1	2	3	4	5	
Income Statement		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue		2545.7	3186.8	3706.0	4499.6	5053.6	6638.6	7962.3	8360.4	8974.3	9677.6	10278.3	10922.9
% growth			25.2%	16.3%	21.4%	12.3%	31.4%	19.9%	5.0%	7.3%	7.8%	6.2%	6.3%
EBIT		704.9	869.3	992.9	1215.9	1231.6	1510.0	1953.8	2,051	2,202	2,375	2,522	2,680
% of sales		27.7%	27.3%	26.8%	27.0%	24.4%	22.7%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%
Taxes		209.1	264.1	-106.7	262.6	243.1	315.0	417.0	431	462	499	530	563
% of EBIT		29.7%	30.4%	-10.7%	21.6%	19.7%	20.9%	21.3%	21.0%	21.0%	21.0%	21.0%	21.0%
Cash Flow Items		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
D&A		449.4	606.8	695.6	839.0	1081.5	1445.6	1538.0	1,588.5	1,705.1	1,838.7	1,952.9	2,075.3
% of sales		17.7%	19.0%	18.8%	18.6%	21.4%	21.8%	19.3%	19.0%	19.0%	19.0%	19.0%	19.0%
CapEx		109.5	101.7	138.6	168.7	208.2	138.3	398.4	312.8	328.6	360.8	383.0	406.7
% of sales		4.3%	3.2%	3.7%	3.7%	4.1%	2.1%	5.0%	3.7%	3.7%	3.7%	3.7%	3.7%
Change in NWC		80.2	79.4	21.2	169.0	45.9	-99.0	-45.1	83.6	89.7	96.8	102.8	109.2
% of sales		3.2%	2.5%	0.6%	3.8%	0.9%	-1.5%	-0.6%	1.0%	1.0%	1.0%	1.0%	1.0%

Appendix - Discounted Cash Flow Model

DCF

DCF	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	2545.7	3186.8	3706.0	4499.6	5053.6	6638.6	7962.3	8360.4	8974.3	9677.6	10278.3	10922.9
% growth		25.2%	16.3%	21.4%	12.3%	31.4%	19.9%	5.0%	7.3%	7.8%	6.2%	6.3%
EBIT	704.9	869.3	992.9	1215.9	1231.6	1510.0	1953.8	2051.5	2202.1	2374.7	2522.1	2680.3
% margin	27.7%	27.3%	26.8%	27.0%	24.4%	22.7%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%
Taxes	209.1	264.1	-106.7	262.6	243.1	315.0	417.0	430.8	462.4	498.7	529.6	562.9
% of EBIT	29.7%	30.4%	-10.7%	21.6%	19.7%	20.9%	21.3%	21.0%	21.0%	21.0%	21.0%	21.0%
EBIAT	495.8	605.2	1099.6	953.3	988.5	1195.0	1536.8	1620.7	1739.7	1876.0	1992.5	2117.4
D&A	449.4	606.8	695.6	839.0	1081.5	1445.6	1538.0	1588.5	1705.1	1838.7	1952.9	2075.3
% of sales	17.7%	19.0%	18.8%	18.6%	21.4%	21.8%	19.3%	19.0%	19.0%	19.0%	19.0%	19.0%
CapEx	109.5	101.7	138.6	168.7	208.2	138.3	398.4	312.8	328.6	360.8	383.0	406.7
% of sales	4.3%	3.2%	3.7%	3.7%	4.1%	2.1%	5.0%	3.7%	3.7%	3.7%	3.7%	3.7%
Change in NWC	80.2	79.4	21.2	169.0	45.9	-99.0	-45.1	83.6	89.7	96.8	102.8	109.2
% of sales	3.2%	2.5%	0.6%	3.8%	0.9%	-1.5%	-0.6%	1.0%	1.0%	1.0%	1.0%	1.0%
Unlevered FCF	755.5	1030.9	1635.4	1454.6	1815.9	2601.3	2721.5	2812.8	3026.5	3257.2	3459.5	3676.8
Present Value of FCF								2,563.3	2,513.5	2,465.1	2,386.0	2,311.0
Terminal Value												35357.4
Present Value of Terminal Value												22,223
Enterprise Value												34,462
+ Cash												15.30
- Debt												7,743.70
Equity Value												26,733.90
Shares												439
Share Price												£ 60.8488

Appendix - Discounted Cash Flow Model

WACC

WACC

WACC = (% Equity x Cost of Equity) + (% Debt x Cost of Debt x (1 - Tax rate))

Cost of Equity = Risk Free Rate + (Beta x (Expected Market Return - Risk Free Rate))

Debt	7,743.7
% Debt	27.3%
Cost of Debt	3.5%
Tax Rate	21.0%

Equity Value	20,610.0
% Equity	72.7%
Cost of Equity	12.4%
Risk Free Rate	3.0%
Beta	1.7
Market Risk Premium	5.5%

Debt + Equity	28,354
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WACC	9.73%
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Appendix – Equipment Rental stock performance

