

1 Year Chart



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SThree has maintained its strong recovery momentum through H1 2021. The unscheduled trading update confirmed short term trading is ahead of expectations across the majority of the group portfolio. Geographically, Germany, the US and Netherlands have continued to trade well. The combination of positive net fee momentum and a tightly controlled cost base that has yet to see a sharp increase in headcount, means profit expectations have increased. H2 risks notwithstanding, we are upgrading our PBT estimates for the current year by **+15%** and for FY22E by **+7%**. The scheduled Q2 trading update is due later this month and this will provide more detail on the geographical spread of performance.

Unsurprisingly, SThree's share price has been strong and has comfortably outperformed both the peer group and broader market year to date (STEM **+53%**, recruitment peers **+29%**, FTSE All Share **+10%**). With this outperformance being driven primarily by earnings upgrades (SThree FY21 EPS estimates **+48%** over the last six months), the longstanding SThree PE discount to its peers has begun to narrow although still remains. Given the extent of SThree's operational outperformance through the pandemic and the structural growth opportunity looking ahead, this discount narrowing is more than justified.

- **Net fee momentum maintained:** The positive start to the year has been maintained with the pace of recovery in the key German, US and Dutch markets proving more robust than had been previously anticipated.
- **Margins recovering sharply:** Critical to the extent of the upgrades we have seen so far this year has been net fee growth on a cost base that has yet to see material expansion. Whilst benefiting short term margins, we do not expect the current high level of incremental drop through rates to be maintained indefinitely as some degree of cost growth is to be expected. We do see margin expansion as a core plank of the SThree equity story over the medium term, albeit at a slower pace than the current financial year.
- **Further estimates upgrades:** In response to this unscheduled trading update, we are upgrading our FY21 net fee / adj PBT estimates by **+3%** / **+15%** respectively. Our FY22 net fee / adj PBT estimates have also increased by **+3%** / **+7%** respectively.
- **Valuation discount is narrowing:** On a FY22 basis, the SThree PE discount to the peer group has broken out of its 20% - 35% range and now stands at 11%. We continue to believe that a valuation premium to the peer group can be justified; given the strength of SThree's outperformance through the pandemic and the growth positioning looking forward.

November, £m	Net Fees	PBT adj	EPS (p)	Div (p)	Net Cash	Fiscal PER x	Yield %
FY 2018A	321.1	53.3	29.6	14.5	-4.1	15.8	3.1
FY 2019A	338.0	59.1	32.3	5.1	10.6	14.5	1.1
FY 2020A	308.6	30.1	13.5	5.0	49.9	34.8	1.1
FY 2021E	324.3	46.1	22.0	8.1	55.0	21.3	1.7
FY 2022E	342.5	51.8	24.7	9.2	60.0	19.0	2.0

Source: Radnor Capital Partners

In Figure 1 below, we detail our estimate changes post the Q1 trading update.

Figure 1: Radnor estimate changes

	FY'20A	Previous		New		Change, %	
		FY'21E	FY'22E	FY'21E	FY'22E	FY'21E	FY'22E
Group Gross Revenue	1,202.6	1,239.1	1334.5	1,271.9	1,369.9	+ 3%	+ 3%
EMEA (ex DACH)		116.7	122.6	121.3	127.4	+ 4%	+ 4%
DACH		109.1	114.6	109.1	114.6	+ 0%	+ 0%
USA		81.8	87.8	85.5	91.7	+ 5%	+ 5%
APAC		8.3	8.8	8.3	8.8	+ 0%	+ 0%
Group Net Fees	308.6	316.0	333.6	324.3	342.5	+ 3%	+ 3%
EBITA	31.3	40.8	49.4	46.9	52.6	+ 15%	+ 6%
- margin %	10.1%	12.9%	14.8%	14.5%	15.4%		
Adj. PBT	30.1	40.0	48.6	46.1	51.8	+ 15%	+ 7%
Adj. EPS (p)	13.5	19.1	23.2	22.0	24.7	+ 15%	+ 7%
Dividend (p)	5.0	7.1	8.6	8.1	9.2	+ 15%	+ 7%
Net Cash (Debt)	49.9	55.5	68.3	55.0	60.0	- 1%	- 12%

Source: Radnor

In Figure 2 & 3 below, we show the evolution of the two-year prospective PE multiple for both SThree and the Recruitment peer group in the UK (Hays, Page, Robert Walters). We also show the evolution of the SThree PE discount / premium.

Figure 2: 2 Year prospective PE multiple

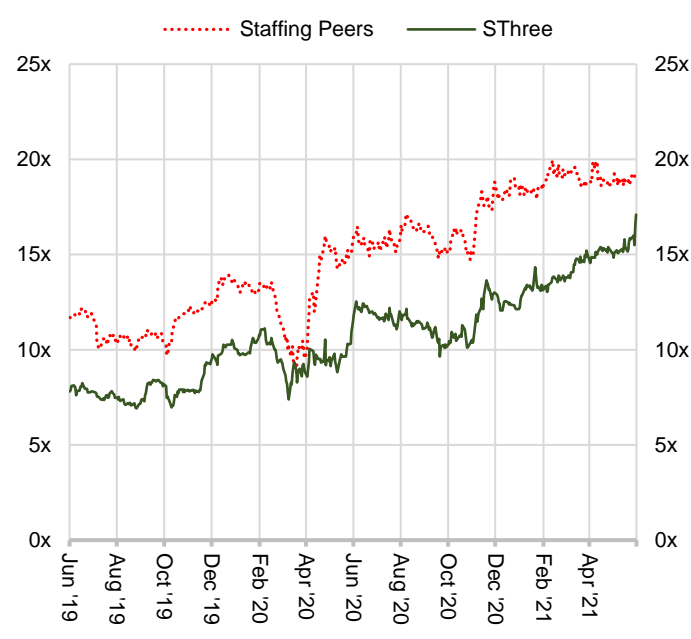
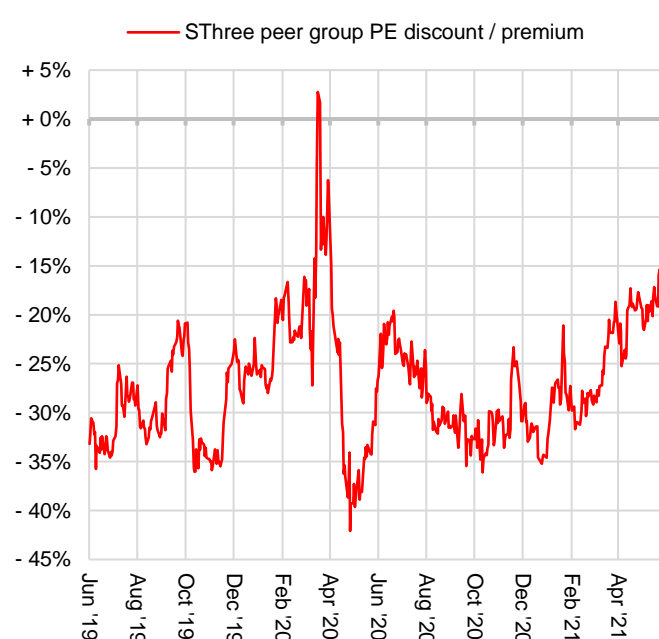


Figure 3: SThree PE discount / premium



Source: FactSet, Radnor

SThree PLC

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Price (p): 469 p
Market Cap: 624 m
EV: 574 m

PROFIT & LOSS

Year to 31 November, £m	2018	2019	2020	2021E	2022E
Group Sales	1,258.2	1,324.7	1,202.6	1,271.9	1,369.9
EMEA (ex DACH)	142.0	141.2	117.6	121.3	127.4
DACH	99.3	109.3	105.8	109.1	114.6
USA	66.6	76.7	77.2	85.5	91.7
APAC	13.2	10.8	7.9	8.3	8.8
Group Net Fees	321.1	338.0	308.6	324.3	342.5
Op. Exp.	(261.0)	(275.2)	(257.8)	(258.8)	(272.2)
EBITDA	60.1	62.8	50.7	65.5	70.2
Depr & Amort	(6.1)	(6.0)	(6.4)	(6.6)	(6.6)
Lease Depreciation	-	-	(13.0)	(12.0)	(11.0)
EBITA - Adjusted	53.9	60.0	31.3	46.9	52.6
Associates & JV's	0.1	-	-	-	-
Net Bank Interest	(0.7)	(1.0)	(1.2)	(0.8)	(0.8)
PBT - Adjusted	53.3	59.1	30.1	46.1	51.8
Non Operating Items	(6.4)	(2.3)	(1.3)	-	-
Other Financial Items	-	-	-	-	-
PBT - IFRS	46.9	56.8	28.8	46.1	51.8
Tax - Adjusted	(13.9)	(15.9)	(11.7)	(16.1)	(18.1)
Tax rate - Adjusted	26.0%	26.9%	39.0%	35.0%	35.0%
Minority interests	-	-	-	-	-
No. shares m, diluted	133.1	133.6	136.4	136.4	136.4
Adj EPS (p), diluted	29.6	32.3	13.5	22.0	24.7
Total DPS (p)	14.5	5.1	5.0	8.1	9.2

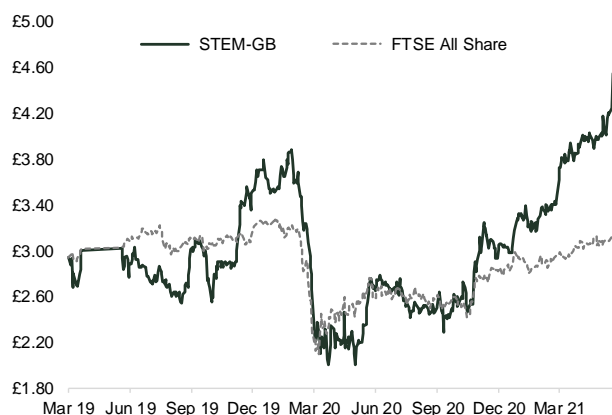
CASH FLOW

Year to 31 November, £m	2018	2019	2020	2021E	2022E
EBITDA	60.1	62.8	50.7	65.5	70.2
Working Capital	(25.3)	(13.3)	25.3	(19.7)	(15.9)
Provisions / Exceptionals	(4.7)	3.6	0.8	(0.8)	(0.8)
Gross Op Cashflow	30.1	53.2	76.9	45.1	53.6
Cash Tax	(14.4)	(13.0)	(10.5)	(11.7)	(16.1)
Cash Intererest	(0.5)	0.0	0.1	(0.8)	(0.8)
Net Op Cashflow	15.2	40.2	66.5	32.5	36.6
Capex	(5.2)	(4.6)	(5.3)	(5.3)	(5.3)
Free Cashflow	10.0	35.7	61.2	27.2	31.4
Dividends	(18.0)	(18.8)	(6.7)	(6.8)	(11.1)
Acquisitions & Inv.	-	-	-	-	-
Other Non Operating	(0.2)	0.4	(13.3)	(13.3)	(13.3)
Net Cashflow	(8.2)	17.3	41.3	7.1	7.0
Net Cash (Debt)	(4.1)	10.6	49.9	55.0	60.0

BALANCE SHEET

Year to 31 November, £m	2018	2019	2020	2021E	2022E
Intangibles	9.6	8.0	4.4	4.4	4.4
P,P+E	6.9	6.8	40.8	42.1	43.5
Tax Asset & Other	4.7	4.2	1.5	1.5	1.5
Total Fixed Assets	21.3	19.0	46.7	48.0	49.4
Current Assets	288.4	271.0	237.4	264.9	288.0
Current Liabilities	(202.3)	(182.3)	(179.5)	(187.3)	(194.6)
Net Current Assets	86.1	88.6	57.9	77.6	93.5
Long Term Liabilities	(1.6)	(1.4)	(26.0)	(26.0)	(26.0)
Net Cash (Debt)	(4.1)	10.6	49.9	55.0	60.0
Net Assets	101.6	116.9	128.5	154.6	176.8

PRICE CHART - 2 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
JO Hambro Cap Mgmt	8.0%
Kempen Cap Mgmt	6.6%
Fidelity	5.8%
SThree Founders	5.1%
Allianz Global	4.8%
Harris Associates	4.6%
Polar Capital	4.1%
Total	39.0%

Announcements

Date	Event
03 June 2021	Trading update
15 March 2021	Q1 trading update
14 December 2020	Q4 trading update
23 November 2020	Positive trading update
14 September 2020	Q3 trading update
20 July 2020	Interim results

RATIOS

	2018	2019	2020	2021E	2022E
RoE	38.8%	36.9%	14.3%	19.4%	19.1%
RoCE	51.1%	56.5%	39.8%	47.1%	45.1%
Asset Turnover (x)	0.1x	0.1x	0.2x	0.1x	0.1x
NWC % Revenue	6.8%	6.7%	4.8%	6.1%	6.8%
Op Cash % EBITA	55.8%	88.5%	245.7%	96.0%	101.8%
Net Debt / EBITDA	-0.1x	0.2x	1.0x	0.8x	0.9x

VALUATION

Fiscal	2018	2019	2020	2021E	2022E
P/E	15.8x	14.5x	34.8x	21.3x	19.0x
EV/EBITDA	9.6x	9.1x	11.3x	8.8x	8.2x
Div Yield	3.1%	1.1%	1.1%	1.7%	2.0%
FCF Yield	1.7%	6.2%	10.7%	4.7%	5.5%

Net Fees growth	5.3%	-8.7%	5.1%	5.6%
EPS growth	9.0%	-58.3%	63.1%	12.4%
DPS growth	-64.8%	-2.0%	62.8%	12.4%

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