



Norcon: Dial N for income

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Buoyed by its strong Middle East ties, telecoms consultant Norcon has comfortably ridden out the recession and now looks to recovery in Europe and the fast-growing markets of Asia and Africa to boost its impressive organic growth. Given the company's enviable earnings visibility, and its bumper yield appeal, the miserly rating looks undeserved.

Norcon's ungenerous rating is most likely explained by the understated way it has gone about its business and the fact that its shares have historically been tightly held. Tellingly, the company effected a modest £1.6 million AIM IPO in 2008 with little public relations fanfare, and post-float, a miserly 5.5 per cent of the shares were in public hands. But following a series of placings, bringing Gartmore, AXA and Henderson onto the shareholder register, Norcon's free float has increased to 23 per cent, and finance director Marne Martin says, 'the plan is to become a majority-free-float company in stages'.

A truly international concern, Cyprus-headquartered Norcon was founded in Norway in the 1950s, is domiciled in the Isle of Man and has worked closely with the Saudi state telecoms company since the 1960s.

Since floating, efforts have been made to diversify geographically and reduce reliance on key customer Saudi Telecom and the rest of the Saudi market, which provided 78 per cent of sales in the first half of 2009, down from 93 per cent a year earlier.

Martin insists that organic growth should continue to come from the Middle East, as well as Asia and Africa, where the company is clinching new business and building up its presence. 'There are also a lot of opportunities to go back into Scandinavia again,' she explains, 'with major projects happening like 4G [the installation of the next generation of mobile standards, with 'ultra-fast' broadband].'

Growth slowed slightly in the first half of 2009, but this is often the nature of the consultancy business, with larger projects often tapering off before others begin. But after global volumes were hit last year by project postponements, 'we are now seeing people resuming large infrastructure projects again', says Martin, who seems confident that Norcon will be able to absorb some of this work, leading to a positive impact on 2011 figures.

Providing consultancy services, often at the infrastructure level and sometimes in the defence sector, the operating arm, Norconsult Telematics, enjoys a strong reputation. This is absolutely crucial to a consultant's ability to continue to win contracts. 'We have never had a bad debt or any litigation. Reputation is number one,' stresses Martin. 'It's not just people but our systems that are in demand.'

Norcon ensures that its consultancy staff are working within the client organisation – employing them on renewable fixed-term contracts – which keeps overheads low and gives the business a lean and efficient structure. So, while peers generally attain consultant utilisation rates of 70 to 75 per cent, Norcon typically reaches 90 to 95 per cent and enjoys gross margins north of 20 per cent.

Its own high standards may even have hampered the recent hunt for acquisitions, since potential targets have not been growing fast enough or producing good enough profits for Norcon to commit to a deal. But as Martin opines, 'We still have organic growth to come and are open to acquisitions, but we are not pursuing them very aggressively. They would have to be on good terms and appropriate multiples.'

Turnover grew by an impressive 23 per cent to \$67.7 million (£41.9 million) in 2008 and sales are forecast to have risen by a further 12.3 per cent in 2009 to \$76 million. Profits, up 32 per cent in 2008, are expected to have grown by a still-encouraging 20 per cent. With most contracts running over multiple years and secured on fixed-price deals, revenues and earnings are so highly visible that generally the full year's income can be confidently predicted from early in the second quarter.

Furthermore, Norcon's majority shareholders – all non-executive directors – are committed to consistently paying out around 50 per cent of available profits in dividends. Based on house broker FinnCap's forecast 9.7 cent (6p) dividend for 2009, the shares offer a bumper yield of 8 per cent. Allied to an inexpensive prospective multiple of just over six times, they are worth buying and holding for the long term.