Diales Group Plc

Momentum in core markets, valuation compelling

24 April 2025

The H1 trading update from Diales makes for encouraging reading. Strong momentum within its core markets in Q2 has continued into Q3, leading to confirmation of no change in consensus estimates for adj. PBT/adj. EPS. The valuation is underpinned by the net cash (29% of the market cap), suggesting the operating business is valued at an underwhelming EBIT multiple of 5.6x. The dividend yield, projected at 7.9% currently, remains attractive and offers support for the shares.

Strong momentum builds during Q2

The trading outcome was broadly unchanged in H1 '25. During the corresponding period a year ago, the Group delivered revenues of £21.7m and EBIT of £0.8m. Following a quieter start to the year than originally hoped for, momentum improved considerably during Q2, particularly in its core markets of the UK, Europe and the Middle East. Canada returned to profitability following the staffing issues experienced a year ago, while the US is classed as discontinued ahead of its closure. The strong progress has continued into H2.

Benefits of the four-year transformation programme continue to emerge, not least in the identification of underperforming experts and other inefficiencies within the business.

The growth pillars of the business remain unchanged, with its focus on adding experts and a widening of the complementary end markets covered. The combination of the stock market listing and the net cash will likely prove attractive in retaining and attracting new experts (including the acquisition of teams to expand the specialisms covered internally).

The current uncertainty in global trade represents an opportunity for the Group. Additional services, including the provision of assistance on tariffs, manoeuvring supply chain challenges and cost escalation claims are in the process of being marketed to clients.

The yield on the shares remains very supportive, underpinned by the net cash of £3m currently. The unchanged 1.5p dividend projected for the year equates to a yield of 7.9% at the current share price and may limit any downside.

Valuation remains compelling

The valuation remains compelling, notwithstanding the recent decline in its peer group, and is underpinned by net cash which accounts for 29% of the current market capitalisation.

Our fair value per share of 35p is based on a peer group comparison model, utilising a conservative 25% rating discount.

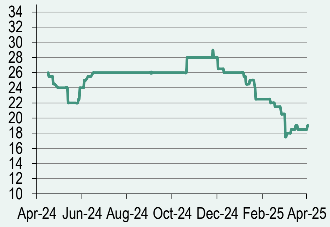
Forecasts					
Y/e 30 Sep, £m	**2022A**	**2023A**	**2024A**	**2025F**	**2026F**
Revenue	45.1	42.6	43.0	44.2	45.8
Adj. PBT	-0.5	1.0	1.2	1.3	1.5
Adj. EPS (p)	-1.8	1.4	1.4	1.5	1.8
DPS (p)	1.5	1.5	1.5	1.5	1.5
P/E (x)	-10.6	13.6	13.6	12.5	10.6
EV/EBITDA (x)	6.7	2.3	2.9	3.2	2.6
Yield	*7.9%*	*7.9%*	*7.9%*	*7.9%*	*7.9%*

Source: ED estimates, Company historic data

Company Data

EPIC	DIAL
Price (last close)	19p
52 weeks Hi/Lo	31p/17p
Market cap	£10.0m
ED Fair Value / share	35p
Net cash (24/04/25)	£3.0m

Share Price, p



Source: Investing.com

Description

Diales Group Plc (formerly Driver Group Plc) is involved in the provision of specialist dispute avoidance and dispute resolution services to the global construction and engineering industries.

Diales currently has 25 offices in 15 countries, including eight in the UK, six in Europe, two in the Americas, four in APAC, and five in the Middle East and Africa. The Group currently employs c.186 fee earning employees.

The business is split into the following reporting regions: Europe and Americas (EuAm), The Middle East, and APAC, operating as a hub and spoke model, with work sourced in the smaller regions serviced both locally and, in the UK and Europe.

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H1 '25 trading update

In terms of outcome for H1, revenues and profitability were broadly in-line with the corresponding period a year ago (on a continuing basis revenue of £21.7m and adj. PBT of £0.8m were reported). From October, the US has been classified as discontinued. We anticipate the closure of the business to complete during H2 '25.

The core markets of the UK, Europe and the Middle East traded strongly, with utilisation levels remaining high across the expert service lines and within Project Services (largely UK only). The UK had a slow start to the year as the uncertainty relating to the Autumn Statement proved briefly unsettling. The turning point witnessed in the Middle Eastern business during H2 '24 and the move to a more meaningful level of profitability continued into H1 '25.

The Canadian business returned to profitability during H1 '25, following staff related issues which had a knock-on effect to trading during FY24. The US continues to be wound down, although it continues to deliver projects (with the help of the UK and European based experts).

The maximisation of utilisation levels continues to be significant across the Group, with improved levels experienced following the introduction of the transformation programme in late 2023. The move to the hub-and-spoke model and introduction of the ERP software, which provides real-time data and greater accuracy of utilisation levels, has been a game changer. Low utilisation in parts of APAC caused by downtime in between projects resulted in lower revenues within the region.

We are encouraged that the improved momentum within the Group's main markets has continued into H2. Typically, the business has order visibility of approximately six to eight weeks. Clearly, current trading is positive, resulting in the Board's confidence in achieving a profitable outcome in H2 '25 and FY25 consensus estimates of adj. PBT of £1.3m and adj. EPS of 1.5p.

The four-year transformation process is now into its third year, with efficiency improvements continuing to feed through, thereby improving the Group's competitiveness. The focus on growth remains unchanged:

- Addition of new experts, and
- A widening in the diversity of the new experts hired, to broaden the markets served

Hiring is to be opportunistic, whether on sole candidates or the addition of teams, with the focus of the latter on complementary specialisms.

The current uncertainty within global trade is viewed as an opportunity by the Group. The in-house expertise within its core markets, and particularly within the built environment, enables the Group to provide guidance on:

- The impact of rising tariffs
- Negotiating the supply chain, and
- Earlier involvement with cost escalation claims

Although net cash has declined during H1, levels have improved already in Q3 as the investment in working capital unwinds. This is notwithstanding the payment in April of the final dividend and near completion of the most recent share buy-back programme. We discuss this in further detail in the financials section.

Valuation

We explain the reduction in the level of net cash within the next section. Following the end of H1, net cash has improved to £3m, notwithstanding the payment of the final dividend (£0.4m) and reflects the unwinding of a portion of the higher working capital required during Q2.

The current £3m of net cash equates to 5.6p per share or 29% of the Group's current market capitalisation and valuing the operating business at little over £7m, in turn suggesting an EBIT multiple of just 5.6x.

Net cash as a % of mkt cap & NAV

	Current (04/25)	FY25F	FY26F
Net cash, £m	3.0	3.7	4.2
Net cash / share (p)	5.6	6.9	7.8
Cash as a % of market cap	29.1%	36.0%	40.8%
NAV, £m	14.1	13.9	14.0
NAV / share (p)	26.1	25.8	25.9
Net cash as a % of NAV	21.3%	26.6%	30.1%

Source: Company

We have utilised peer group comparison models to determine the fair value calculation for Diales, using a conservative size-related discount of 25%. We note the vastly superior yield paid by Diales (7.9% estimated for FY25) relative to its peers (an average of 0.9% during the same period).

Peer group valuation suggests the value in DIAL

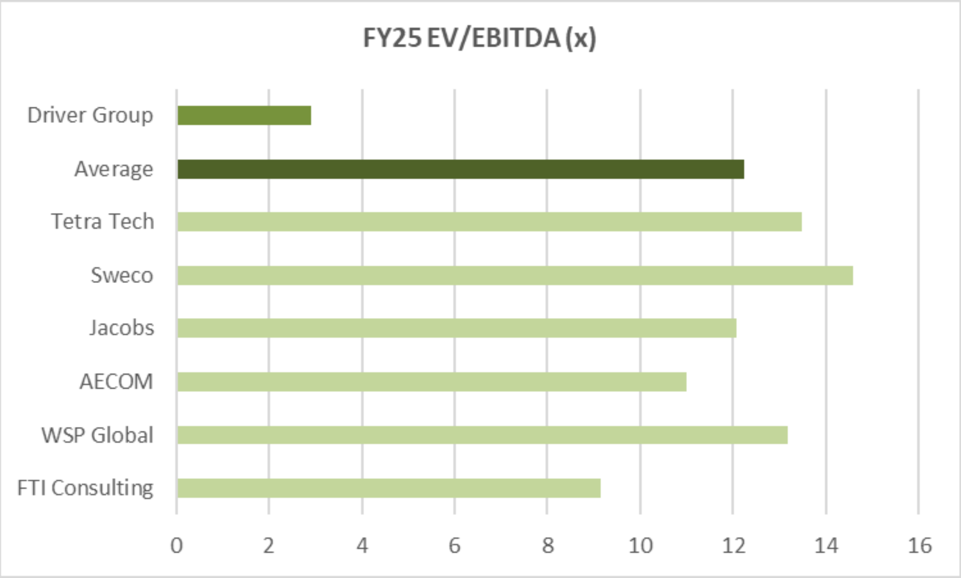
25% discount	FY1 value	FY2 value
FY1 EV/EBITDA	45.6	46.7
FY1 PER	22.9	23.9
Average	34.2	35.3
Potential rerating uptick	79.3%	84.8%

Source: Koyfin

Conclusion

Our fair value for Diales amounts to 35p / share, which represents an 83% premium to the current share price.

Peer group comparison: FY25 EV/EBITDA (x)

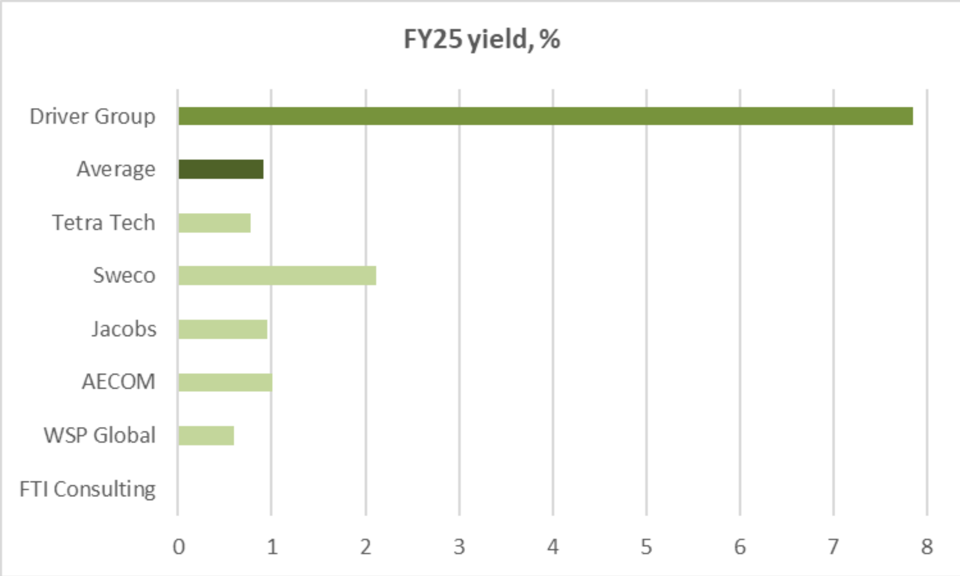


Source: Koyfin

Peer group comparison: FY25 PER (x)

Source: Koyfin

Peer group comparison: FY25 yield (%)



Source: Koyfin

Financials

We have kept most estimates unchanged from those published in December. The exceptions include:

- A reduction in revenues for FY25, to £43.5m (from £44.5m previously) and,
- Owing to the increased level of cash utilisation during H1 ’25, we have reduced our FY expectation for the net cash from £3.9m to £3.7m.

Our EBIT margin assumption has risen, reflecting a combination of improved efficiencies and higher levels of utilisation.

The higher cash consumption reflects:

- Payment of the interim dividend of £0.4m
- Share buy-backs of £0.2m, which is largely complete
- Taxation, and
- An increase in working capital and in particular, trade receivables

That said, we anticipate the increase in working capital will unwind during Q3 and into FY26, resulting in no change in the outlook for net cash at the end of September 2026. Cash levels are currently £3m after factoring in the payment of the final dividend in April.

Summary Profit & Loss

Year to Sep, £m	2022A	2023A	2024A	2025F	2026F
Europe & Americas	35.1	35.6	34.6	35.1	36.2
Middle East	6.4	4.2	4.8	5.7	6.1
APAC	3.6	2.9	3.5	2.7	2.8
Revenue	45.1	42.6	43.0	43.5	45.1
CoGS	-35.8	-31.9	-32.0	-32.0	-32.9
Gross profit	9.3	10.8	11.0	11.5	12.1
Gross margin (%)	*20.7%*	*25.3%*	*25.5%*	*26.5%*	*26.9%*
Op costs	-9.8	-9.9	-9.8	-10.2	-10.6
Other Op. income	0.1	0.0	0.0	0.0	0.0
Operating profit	-0.4	1.0	1.2	1.3	1.5
Op margin (%)	*-0.9%*	*2.2%*	*2.8%*	*3.0%*	*3.3%*
Net Interest	-0.1	0.1	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0
PBT (Adjusted)	-0.5	1.0	1.2	1.3	1.5
Exceptionals	-1.5	-0.6	-0.3	-0.2	-0.2
PBT (Reported)	-2.0	0.4	0.9	1.2	1.4
Tax	-0.5	-0.3	-0.5	-0.5	-0.6
PAT	-2.4	0.1	0.4	0.7	0.8
Minority interests	0.0	0.0	0.0	0.0	0.0
Earnings	-2.4	0.1	0.4	0.7	0.8
Ordinary Dividends	-0.8	-0.8	-0.8	-0.8	-0.8
Retained Profit	-3.2	-0.7	-0.4	-0.1	0.0
EPS (Adjusted) (p)	-1.8	1.4	1.4	1.5	1.8
DPS (p)	1.5	1.5	1.5	1.5	1.5
Ave no of shares (FD) (m)	54.9	54.0	54.0	54.0	54.0

Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Sep, £m	2022A	2023A	2024A	2025F	2026F
Operating profit	-2.9	1.0	1.2	1.3	1.5
Depn. & Amortn.	1.2	0.9	0.8	0.8	0.8
Working capital movement	2.7	1.5	-0.2	-0.9	-0.2
Other	0.0	-0.8	-1.1	-0.2	-0.2
Operating cash flow	1.0	2.5	0.7	1.0	1.9
Net Interest	-0.1	0.1	0.0	0.0	0.0
Taxation	-0.5	-0.2	-0.4	-0.5	-0.5
Net capex	-0.6	-0.1	-0.1	-0.1	-0.1
Operating FCF	-0.2	2.2	0.3	0.4	1.3
Net (Acquisitions)/Disposals	0.0	0.0	0.0	0.0	0.0
Dividends	-0.8	-0.8	-0.8	-0.8	-0.8
Share Issues	-0.5	0.0	-0.1	-0.1	0.0
Minority payment	0.0	0.0	0.0	0.0	0.0
Other financial	0.0	-0.6	-0.9	0.0	0.0
Increase Cash/(Debt)	-1.5	0.9	-1.6	-0.5	0.5
Opening Net Cash/(Debt)	6.5	4.9	5.8	4.2	3.7
Closing Net Cash/(Debt)	4.9	5.8	4.2	3.7	4.2

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to Sep, £m	2022A	2023A	2024A	2025F	2026F
Intangible Assets	3.8	3.7	3.6	3.5	3.5
Tangible Assets	0.4	0.4	0.3	0.3	0.3
Investments/other	1.6	1.4	0.9	0.0	0.0
Net Working Capital	6.5	5.5	5.7	6.6	6.8
Capital Employed	12.2	10.9	10.5	10.5	10.6
Other	-0.8	-0.8	-0.4	-0.3	-0.9
Net Cash/(Debt)	4.9	5.8	4.2	3.7	4.2
Provisions Liabilities/Charges	0.0	0.0	0.0	0.0	0.0
Net Assets	16.4	15.9	14.3	13.9	13.9

Source: Company historics, Equity Development estimates

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