FINANCIAL TIMES
WEDNESDAY 8 APRIL 2020

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HomeServe: the spigot of the Blitz

Every day, the human tragedy of coronavirus is accompanied by corporate woes. Against the trend, one UK business — plumbing and heating repairs insurer HomeServe — says it is prospering. Its update reports that 6,000 staff are working from home.

Plumbers and engineers are fixing stuff while staying socially distanced. Business is healthy, finances are robust.

Profits in the year to March will be slightly ahead of forecasts. Good for HomeServe. The group sells peace of mind like all insurers — these days without the compliance infractions that once landed it in hot water.

The question is whether the shares offer reassurance to investors too. A 10 per cent jump suggests that they do.

The price performance has reflected HomeServe's growth more than defensive qualities — 250 per cent gains over five years before the market fall. Acquisitions have made the difference, mostly in the US where sales have almost tripled since 2014 to £330m.

The valuation had reflected that success — a peak rating of 30 times forward earnings. A sharp fall in line with the rout looks unjustified.

Redundancies and furloughing are not on the table yet. That reflects ample liquidity: £125m of cash in the bank, plus unused debt facilities, takes total reserves to £320m. Net debt as a ratio of ebitda was 2 times in March, below the 3 times covenant boundary.

Profits for the year are secure. A decision on the dividend will be made in May. Even if earnings deteriorate, the moderate payout should be safe. Although rising with profits, the yield has barely exceeded 3 per cent over the past five years. The expected payout of £80m is well covered by free cash flow. Cuts to capital spending will protect it.

There is another reason for HomeServe's upbeat tone: chief executive Richard Harpin. He founded the business. Entrepreneurs succeed because they are optimists. Moreover, he is a proud former Boy Scout.

The motto of boy scouts is one CEOs should obey right now: Be prepared.