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Morning Wrap

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Equity Research 08 Aug 2025

08:35

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Kingspan H1 in line; 3% cut to FY; €650m SBB announced

Recommendation: Buy
Closing Price:€70.60

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Kingspan has published interim results reporting a resilient trading profit outturn of €443m (+5% yoy and in line with our forecast) and 8% reported revenue growth. Despite what is noted as a "persistently unforgiving economic backdrop" globally, on a lfl basis, Group trading margins increased 20bps (down 30bps on a reported basis given the dilution from Nordic Waterproofing) during the period. The Group invested almost €400m through H1 organically and inorganically, ending the period with a net debt of €1.9bn (leverage 1.74x). Such is the confidence of the cash generation in H2 and beyond, the Group has announced a SBB of €650m. The buyback will take place over the next 18-24 months and will be executed in tandem with its active development agenda with the Group clearly "focused on the opportunities that offer greatest shareholder value". The operating environment through H1 is described as "tough" ("and has been for some time") and a material change in that is not expected near-term. Activity did however firm up somewhat through H1 with Western Europe described as solid ("for the most part"), Central and Eastern Europe seeing some improvement, LATAM still performing well but the US has become more "tentative". As we enter H2, the Group's backlog stands higher overall yoy which will support growth in H2 although FX is noted as a continued prevailing headwind. With that as the backdrop, the Group now expects to deliver FY trading profit of €950m which would represent growth of 5% yoy.

From a divisional perspective, the reporting structures have been revised with the Group now reporting under two global reporting segments – Insulated Building Envelopes (previously Insulated Panels, Insulation and Roofing + Waterproofing) and Advanced Building Systems (previously Data Solutions and Light, Air + Water). In terms of those new divsions: i) Insulated Building Envelopes saw underlying revenues decline c.1% in H1 with lfl trading margins flat yoy. This performance should be viewed in light of tough trading conditions "virtually everywhere" and particularly rough Insulation markets in Europe. Excellent progress continues to be made in developing both of its US roofing plants and work is well underway in scoping out the market opportunity into the residential shingles market in the US; ii) Advanced Building Systems saw underlying revenue growth of 8% and underlying profitability growth of 16%. Sales of data infrastructure continues to be particularly strong (especially in the US). The orderbook has continued to build strongly with intake across the segment up 10% in value at period end with an expectation that that will accelerate further in H2.

We expect to move our FY25 trading profit forecast lower by c.3% (from €980m to €950m with fx accounting for €10m of the trim). Whilst near-term trading is more challenging than we expected, we believe the long-term value creation story remain strong and longer-term, shares offer significant upside potential – something which mgt also clearly believe given today's SBB announcement.

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Flutter Entertainment Strong Q2 with US ahead of expectations

Recommendation: Buy
Closing Price: £228.20

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Group revenue came in at $4,187m (GBYf: $4,129m), +16% YoY. US revenue grew by 17% to $1,791m (GBYf:$1,735m). International revenue grew increased by 15% (+12% cc) to $2,396m (GBYf: $2,395m). Adjusted EBITDA for Q2 was $919m (GBYf: $829m), +25%. By segment, US was $400m (GBYf: $298m); International was $591m (GBYf: $579m); and Corporate costs -$72m (GBYf: -$45m). The group remains on track to buyback up to $1bn over 2025. Leverage at the end of Q2 was 3.2x. On prediction markets, the group is examining to potential participation strategies for FanDuel, leveraging its significant experience with the Betfair Exchange. Flutter remains well placed for admission to other major US indices.

On guidance for FY25, management now expects Group revenue and Adjusted EBITDA of $17,260m and $3,295m, +$180m and +$115m versus prior guidance. The increases relate solely to the US with the new guidance midpoints of $7,580m for revenue and $1,245m for Adjusted EBITDA. In terms of the moving parts here; sporting results represent a $100m tailwind; Boyd market access $35m, and a slightly delayed launch in Missouri, partially offset by $40m of a headwind from incremental state taxes. There is no change to International guidance.

US revenue increased by 17% with AMP growth of 2%, sportsbook revenue +11% and iGaming revenue +42%. Within sportsbook, handle grew by 7%, and net revenue margin +40bps to 10.4%, with a $140m/$100m revenue/Adjusted EBITDA benefit from May/June sporting results. International revenue grew by 15% (+12% cc). Snai and NSX accounted for 11 ppts of this growth. By product sportsbook was +4% (-5% ex acquisition), while iGaming was +27% (+14% ex acquisition). Within the mix, UKI increased by 1% (-5% cc); SEA increased by 68% (+63% cc), with Snai contributing to 52 ppts of the growth. APAC revenue grew by 4% (+7% cc) with Australia +3%. CEE revenue was +8% (+5% cc); Brazil +144% (+175% cc); and Other -7% (-9% cc).

Overall, this was another strong print from Flutter notably in the US where Adjusted EBITDA was c.$100m ahead of expectations. Within International, UKI was below our expectations but there was strong performances from SEA. The group is making good progress on its efficiency plans within International, while it retains an exciting product roadmap across the group. In terms of numbers, the new guidance for FY25 implies a 1.5%/2.5% uplift to our forecast/consensus forecasts, with our US forecast increasing by 6% and International remaining unchanged. The stock has had a strong run into results. The share price in H2 will likely be driven by (i) US sporting results; (ii) incremental colour on potential inclusion into additional US indices; and (iii) UK tax risk. The investment case remains strong, Flutter is the best-in-class operator and is on track to more than double EBITDA between FY24 and FY27. It also retains optionality to explore adjacent verticals.

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IRES REIT Continued improvement in performance

Recommendation: Buy
Closing Price:€0.99

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IRES REIT ('IRES') announced 1H25 results this morning with the key highlights being adj. EPRA earnings growth of 2.4%, 150bps increase in the Net Rental Income ('NRI') margin and a broadly stable net initial yield. Adjusted EPRA earnings came in at €14.5m (GBYf: €14.7m), giving an adjusted EPRA EPS of 2.8c (GBYf: 2.6c). Excluding fair value movements, adjusted earnings were €16.0m (+9.5% y/y). Net rental income ('NRI') was €33.3m (+1.6% y/y) and the NRI margin increased to 78.0%, from 76.5% last year, due to the continued focus on operating efficiencies. Profit before tax of €16.3m was c.9% ahead of our estimate. The company has announced a dividend per share of 2.36c (GBYf: 2.32c), in line with Irish REIT legislation to return 85% of EPRA earnings to shareholders, and is c.26% higher y/y.

IRES completed the sale of 16 units in the first six months of the year bringing the total number of units disposed of to 57 under the asset recycling program which is has identified 315 units to be sold over a 3 to 5 year period. A further 4 sales have been completed since 30th June and contracts have been signed on an additional 2 units, giving management confidence that they remain on track to dispose of 50 units this year. Proceeds generated from the sales in 1H25 were €6.6m and a gain on sale of €1.5m was recognised in the period. The company now expects a higher average sales premium on the 2025 disposals than the previously guided range of 15% to 20%. The LTV on the portfolio was 45.0%, below the 50% debt covenant threshold, but at the upper end of management's target range. The marginal increase in the period from 44.4% at FY24 is attributable to the share buyback programme and upfront transaction costs associated with the refinancing, partially offset by disposal proceeds.

IRES is delivering on its strategic objectives with incremental improvement evident across all key metrics. Previously inhibiting factors outside of the company's control, such as the higher interest rate environment and conservative rental regulations, are now becoming tailwinds and should support higher profitability, and thus, shareholder returns over time. Management will hold a conference call at 9am IST and webcast details can be accessed via the company website.

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FBD Holdings HY25 Results – Good underlying performance, 75c special dividend announced

Recommendation: Buy
Closing Price:€13.80

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FBD Holdings plc ('FBD') announced 1H25 results this morning with the key highlights being the announcement of a 75c special dividend, a 10% increase in gross written premium ('GWP') y/y and a robust solvency capital ratio of 202% (after the special dividend) - comfortably higher than the company's 150%-170% risk appetite.

GWP increased by c.10% y/y to €248.9m with growth across all customer segments. Insurance revenue increased by c.11% y/y to €235m as the policy count increased by +3.8% to c.565k. The average premium increased by +6.1% with two thirds of this relating to customers increasing their level of insurance cover and changing business mix. Insurance service expenses increased to €257m (from €129m in 1H24) because of the poor weather experience in January due to Storm Éowyn and the lengthy cold spell. Prior year reserves were once again a net positive, benefitting from an €13m past service best estimate release. The expense ratio reduced marginally to 27.6% from 27.7% and the combined operating ratio came in at 94.2% versus 87.7% last year. Investment returns for the period were c.€13m (-12% yoy) while PBT for the period was €17.1m (vs €32.3m in HY23).

Notwithstanding the ongoing uncertainties in the external environment, the company expects to continue its good momentum into the second half of the year and has updated the guidance for its combined operating ratio which it now believes will be in the 'low 90s' for 2025 (previously mid-90s). A presentation on the results will be available on the company website from 09.00am today.

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Diageo Strong commitment to deliver MSD+ organic EBIT in FY26

Recommendation: Buy
Closing Price: £19.84

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Though the external environment remains fragile, FY26 should be a year of significant cost-saving, margin and cash delivery for Diageo, under interim CEO Nik Jhangiani. Based on H2-weighted guidance of organic sales growth "similar" to FY25 (+1.7%) and mid-single digit organic EBIT growth, we now model +1.8% organic sales and +4.0% organic EBIT to $5,912m vs. +2.3%/+3.0% previously. This drives +5% adj EPS yoy to $1.72 (up 2% from before). While the market may remain sceptical on DGE until the inflection in sales and earnings delivery comes in H2, we believe the business has the portfolio and renewed urgency to succeed, and ultimately drive a further re-rating in the shares (18x historical average P/E).

With guidance for a "slight" decline in organic sales in H1, we model -0.1% and +0.6% organic EBIT, with Q1 likely to be the low-point for sales, given US shipments vs. depletion trends (GBYe -1.5%). Based on easier comps, new capacity expansion (i.e. Guinness), Chinese New Year phasing and (hopefully) early signs of gains from new commercial initiatives (e.g. RTDs), for H2 we model +3.9% organic sales, which should drive an acceleration to +9% organic EBIT.

Despite bouncing from the lows post results, DGE shares are still -20% ytd. This leaves it trading on 15.6x/14.9x cal.25/26 P/E, a modest discount to European Beverages on 17.5x/15.2x. With a commitment to FCF of at least $3bn from FY26 onwards (GBYe $3.18bn), DGE should begin to de-lever from here organically vs. 3.4x net debt/EBITDA at FY25, and should get well within its target 2.5-3.0x target range by the end of FY28, with further disposals likely to accelerate this.

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