

Business Markets

Serving up a tasty option for investors

HOMESERVE

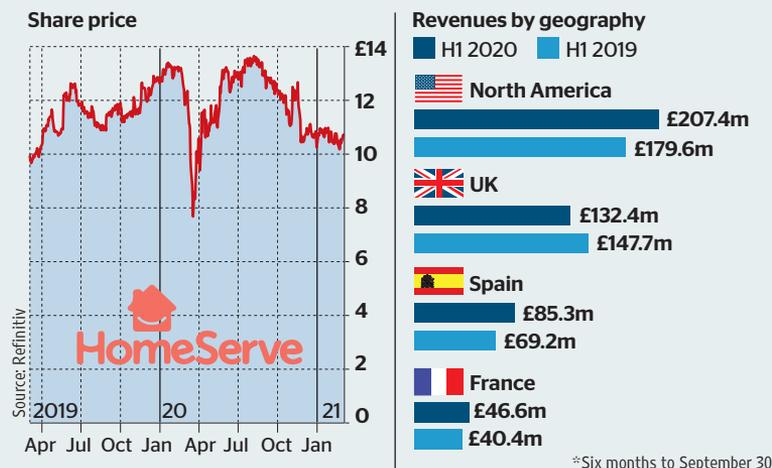
H1 revenues £536.7m **H1 pre-tax profit** £10.1m
Interim div 6.2p

There are plenty of British entrepreneurs who have created successful multinational businesses from scratch, to minimal public acclaim. Ranking pretty high among them is Richard Harpin, the former management consultant who set up HomeServe as an insurance-based repairs business in Walsall in 1993. In essence, HomeServe will send out an engineer in double-quick time to fix leaky pipes and faulty boilers in exchange for a monthly premium.

While it's hardly the most glamorous of activities, HomeServe is now a £3.6 billion operation with a position in the FTSE 250 share index, having previously scaled the heady heights of the FTSE 100. Its valuation makes it bigger than both Hiscox, also an insurer, and Centrica, the owner of British Gas, its main competitor.

But that doesn't make the shares an automatic "buy". Investors with long memories will recall a costly mis-selling scandal that engulfed HomeServe for almost two years and forced it into a big retrenchment. There are still questions, too, including over the sustainability of its ambitious expansion in the United States and about the likely scale of its home experts division, which matches customers with

Expansion pays off



ADVICE Buy
WHY Enormous opportunity in America and for expanding its checking business, plus the shares look reasonable value

tradespeople and is built around its 2017 acquisition of Checkatrade.

The group started as a joint venture with South Staffordshire Water, offering its services initially solely to customers of the utility. It now has partnership agreements with all the main British water utilities and with insurers, including Aviva, which mean that it can market

itself to their customers in exchange for a commission, if it is successful.

The same is true in America, a vastly larger market that the group entered in 2003. In a considerably more fragmented, regional landscape, HomeServe has partnership agreements with more than a thousand utilities and municipalities and the business has been growing at a very rapid rate. Indeed, the last time that this column looked at HomeServe, in April 2019, it speculated that it should not be too long before the US market became the company's largest. That has now happened: over the six months to the end of September, North America

generated 38.6 per cent of the group's £536.7 million in revenues, compared with the UK at 24.7 per cent.

So, to the questions. Although the British division is highly profitable and revenues are largely recurring, there is limited growth to be had domestically and international expansion had to happen. Today, HomeServe has 4.4 million American customers, more than double the number on this side of the Atlantic, and where North America generates annual operating profit of about \$98 million, HomeServe reckons that it can get to \$230 million and as many as seven million customers over the next few years.

Possibly the bigger challenge is the home experts division, which competes in Britain with smaller players such as MyBuilder and TrustATrader and has a relatively small international presence. Revenues grew nearly threefold to £68.7 million over the six months to the end of September, but investment kept it in the red.

The trick for Harpin, 56, will be ensuring that its websites become the go-to place for consumers looking for reliable tradespeople and rolling out the idea internationally at scale, successfully. He does have the scope to pursue acquisitions here and has shown in the past that he is willing to do so. HomeServe's shares, up 12p or 1.1 per cent, to £10.78 yesterday, trade for just over 22 times Liberum's forecast earnings and yield 2.6 per cent. It's worth betting on Harpin's success.