19th December 2016

Titon Holdings Plc

Hat-trick

Indeterminate derivation but unambiguous in contemporary vernacular - and Titon scored a beauty with its third set of record annual results in a row. It also delivered double digit growth in pretax, earnings and dividend. The shares rose 15% on the day to 108 pence but remain second cheapest in their Sector. Team Titan is playing on a good wicket, has strength in depth and clear ability.

- **Results:** pre-tax profits in the full year to 30 September 2016 rose 14% to £2.14 million with EPS up 21% and dividends ahead 17% (including +29% in the final). Liquidity remained similarly strong and the Group closed the year with £2.44 million of net cash. In the first two months of the new fiscal year, too, sales in the UK and continental were ahead year-on-year.

- **Ethos and track record:** this is the third year in a row that Titon has produced record results (in fiscal 2013, pre-tax profits were around £500,000). In the Group's core ventilations market, too, the quality of indoor air is recognised as a major health issue.

- **Valuation:** Titon is the second cheapest stock (to Samuel Heath) in the Hardman UK Building Materials Sector at 4.0x historic EV/EBITDA plus it sports a yield in excess of 3%; and this after generating a Total Return to Shareholders (TSR) of 22.5% over the past 12 months based on Bloomberg data.

- **Risks:** the geopolitical climate remains unsettled at home and close-to-home, in Asia and in the US. Specifically on the Brexit vote, though, Titon said: "to date, however, there has been little impact on our business and we remain optimistic that satisfactory exit terms can be negotiated". The Chairman's statement also said: "we will continue to look for new opportunities within our target markets. I look forward to another year of progress".

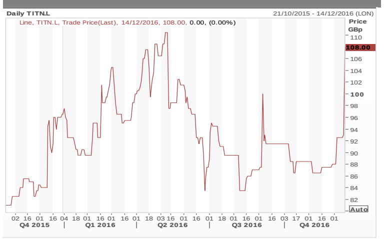
- **Investment summary:** the fiscal 2016 results are an important line in the sand for Titon and investor perception. It is important, too, to see its premier TSR numbers coming through. Expect the Group to build on this team performance as it bucks for promotion.

Financial summary and valuation

Year-end Sept (£m)	2013	2014	2015	2016E	2017E	2018E
Sales	15.7	19.3	22.3	23.0	24.0	25.2
EBITDA	0.88	1.70	2.13	2.14	2.23	2.43
Underlying EBIT	0.23	1.14	1.56	1.56	1.64	1.82
Statutory PTP	0.50	1.33	1.87	1.90	2.00	2.20
Underlying EPS (p)	2.9	8.5	12.6	13.4	14.1	15.6
Statutory EPS (p)	2.9	8.5	12.6	13.4	14.1	15.6
Net (debt)/cash	2.2	2.1	2.9	2.9	3.4	3.9
Shares issued	10.8	10.8	10.8	10.9	10.9	10.9
P/E (x)	34.3	11.6	7.8	7.4	7.0	6.3
EV/EBITDA (x)	9.7	5.0	3.7	3.6	3.3	2.8
DPS (p)	2.00	2.50	3.00	3.25	3.50	3.75
Yield	2.0	2.5	3.0	3.3	3.6	3.8

Source: Hardman & Co Research

Construction & Materials



Source: Thomson Reuters

Market data

EPIC/TKR	TON
Price (p)	98.5
12m High (p)	110.5
12m Low (p)	77.5
Shares (m)	10.9
Mkt Cap (£m)	10.7
EV (£m)	7.8
Free Float	97%
Market	MAIN

Description

Titon designs, manufactures and supplies a comprehensive range of passive and powered ventilation products; plus, handles, hinges and locking for doors and windows. "The home of domestic ventilation systems and door and window hardware".

Company information

Executive Chairman	Keith Ritchie
Chief Executive	David Ruffell

01206 713 800
www.titonholdings.com

Key shareholders

DUFM	19.0%
Chairman	9.0%
Other Directors	8.2%
Founder/NED	16.0%
Family	7.3%

Next event

15 Feb-17	AGM

Analysts

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Prologue

The spelling is debated - is it "hat-trick" or "hat trick" - as is the term's derivation which dates back to the latter half of the 19th Century when it was spotted, for the first time, in James Lillywhite's Cricketers Annual of 1877.

Half of it, though, is relatively straightforward i.e. the "hat". Here, the theory is that if a bowler dismissed three batsmen in a row, a collection was taken up and the proceeds used to buy him a new hat. Either that, or a hat was passed round and the bowler took the cash home.

But why "trick"? To be fair, the feat is difficult and quite rare in the game of cricket with, reportedly, less than 50 hat-tricks in Test cricket history. But the use of "trick" may also have been influenced by Victorian magicians who typically pulled rabbits, bunches of flowers and the like from a top hat. Contemporary audiences were in awe of such skill and sleight of hand and it is not difficult to see how the word made its way to the sport field; and, latterly, to wider vernacular.

There is no record of Titon being represented on the cricket field or treading the boards. However, it does know what three first class successes in a row are (and how to knock the ball out of the park) with the fiscal year to 30 September 2016 marking a consecutive trio of record results. And, the latest set showing pre-tax profit up 14%, EPS +21% and the dividend ahead 17% (including a 29% boundary in the final pay-out).

In terms of composition, the UK team had a good year, particularly in the final overs, as did the US (from a low base). Elsewhere, South Korea sustained its total net contribution on a difficult wicket and is looking forward to a better season.

The Group's financial metrics, too, remain A-Team with RONA of 18.2%, ROCE of 15.1% and Capital Turn at 2.0x (all on adjusted basis); plus liquidity in the field was robust with a Quick Ratio of 1.5 and net cash of £2.4 million at stumps.

Six months or so ago, the Group had to don helmet and pads when it produced what the Stock Market deemed was a disappointing set of interims. Not now, though, and, on the day of its test results, the shares rose 16% to 108 pence. Similarly, in both the year-to-date and over the past 12 months, Titon has knocked up a Total Shareholder Return (TSR) of 11.9% and 22.5% respectively which is third best in the Hardman Building UK Building Materials Sector. Yet, it remains the second cheapest stock (to Samuel Heath) in the same Sector on an historic EV/EBITDA of 4.0x; note too that the Sector EV/EBITDA batting average is 9.1x from a team of 21 stocks.

Ventilation is also the star player in the increasing watched game of premier indoor air quality (the lack of which is a major health issue); and Team Titon designs and manufactures a premier range of both passive and mechanical ventilation units - plus a squad of complementary window handles, hinges and locks.

Not that the coaching staff are exhibiting any histrionics. Their headline, for example, was "Titon delivers a fourth year of improved results". Similarly, while there are positive signs for sales in the early months of the new fiscal year, the Chairman spoke of geopolitical risks at home and close-to-home, in Asia and in the US. Nonetheless, Titon has strength in depth, leadership and clear ability.

Full year results to 30 Sept-16

Profit & loss

In the year ending 30 September, Titon's gross and net revenue rose 7% to £24.5 and £23.7 million respectively (and the £750,000 difference is derived from Inter-segment trading exclusively in the UK. At the same time, the Gross Margin strengthened from 29.3 to 29.7% and £7.1 million (+8%).

Thereafter, Administration expense as a percentage of net revenue eased from 17.1 to 16.9% whilst Distribution Costs nudged the other way from 2.8 to 3.2%. A maiden break-out of R&D costs was shown too (with fiscal 2015 restated) and they took 2.3% of the cake down from 2.4%.

Operating profit or EBIT (Earnings before Interest and Tax) increased 13% to £1.8 million with margins widening from 7.0 to 7.5%.

Net interest contributed £8,000 (2015: £9,000) whilst the South Korean Associate added £356,000 which was almost 20% higher than last time. In turn, Profit before Tax (PBT) was struck at £2.14 million and was 14% to the good.

Taxation took 8.3% (2015: 8.3%) while the South Korean Minority's contribution reduced 16% to £317,000. This meant that Net Profits were 23% better at £1.64 million as were Earnings per Share (EPS) at +21% to 15.21 pence (there were a few more shares in issue during the year).

The Final Dividend was increased a whopping 29% to 2.25 pence per share which took the total for the year to 3.5 pence which was an increase of 17% with Cover at a lush 6.0x (2015: 5.9x).

Profit and loss			
Full year to 30 September GBP million:	**2015**	**2016**	**% chge**
Gross revenue	22.859	24.471	7
Inter-segment	-0.601	-0.750	
Net revenue	**22.258**	**23.721**	7
Cost of sales	-15.745	-16.673	
Gross profit	**6.513**	**7.048**	8
Administration	-3.799	-3.998	
Distribution	-0.628	-0.756	
R&D	-0.535	-0.539	
Other income	0.011	0.017	
EBIT	**1.562**	**1.772**	13
Net interest	0.009	0.008	
Associate	0.298	0.356	19
Profit before tax	**1.869**	**2.136**	14
Tax	-0.160	-0.184	
Post-tax profit	1.709	1.952	14
Minorities	-0.376	-0.317	
Net profit	**1.333**	**1.635**	**23**
Dividends	-0.289	-0.324	
Other	0.052	0.049	
Retained profit	1.096	1.360	24
EPS (p)	12.60	15.21	21
DPS (p)	3.00	3.50	17
No. of shares	10.576	10.753	1

Source: Company data; Hardman & Co

Ratios		
Margins (%)	**2015**	**2016**
GP	29.3	29.7
EBITDA	9.6	9.8
EBIT	7.0	7.5
PBT	8.4	9.0
Net	6.0	6.9
Tax	*-8.6*	*-8.6*
Retained	4.9	5.7
Cover (x)	5.9	6.0
EBITDA (£m):		
EBIT	1.562	1.772
Depreciation	0.403	0.400
Amortisation	0.163	0.156
Total	**2.128**	**2.328**

Source: Company data; Hardman & Co

Segment analysis

The UK, with £12.9 million of Revenue, accounted for 54% of the Group total in fiscal 2016 (2015: 56%) with South Korea at 30% (2015: 32%). Domestic revenue was up 4% (2015: +6%) whilst South Korea dipped 1% (2015: +26%). Elsewhere, the US and 'Other' nations (largely in continental Europe) had excellent years with respective surges in revenue of 44 and 38%. Okay, together, they still only account for 16% of the Group total (2015: 12%).

The UK contributed £2.84 million of segment profits in fiscal 2016 which was 9% ahead year-on-year (2015: +19%). At the same time, profitability improved from 20.9 to 22.0%.

In South Korea, segment profits were 8% lower at £1.16 million (2015: +43%). Here, the Group manufactures (in Paju) and distributes product. The former, Titon Korea, is a 51% owned subsidiary, and the latter is an associate company, Browntech Sales Co. Ltd (BTS), which is 49% owned. This means that in the formal profit and loss account, South Korea is included in both the EBIT and the Associate profit line (where it is the sole contributor); and the Nation accounts for 100% of the Minorities charge. It is important to note, here too that 'segment' profit for the UK is pre-unallocated expenses while for South Korea it is 'post'. In combination, subsidiary and associate, South Korea is the largest single contributor to the Group's profit after tax and this was virtually unchanged year-on-year at £667,000 (2015: £672,000).

Titon Korea manufactures passive ventilation products, and is the national market leader, but it had a demanding year in 2016. Revenue dipped marginally (as noted above), due to reduced demand in the public sector and increased competition. This was only partly offset by private sector demand and meant that Titon Korea's contribution was 7% lower as a result of higher costs incurred. However, in 2017 sales are expected to rise.

Meantime, BTS generated a higher contribution in the year; and this can be tracked in the Associate line which rose 20% in 2016 to £356,000 (2015: £298,000). BTS distributes ventilation products in South Korea and invests in and develops schemes in the domestic residential real estate market. Two are active at this time, one in Seoul which is currently being marketed and sold out whilst the other, in the form of a secured loan, is expected to be repaid early in calendar 2017.

North America contributed £281,000 of segment profit in the year (2015: £105,000) as Titon continues to expand its distribution and its margins are now in the middle teens. And, finally, the 'Rest of the World' added £196,000 to profit (2015: £181,000) with margins at sub-10%.

Segment revenue and profit

Full year to 30 September GBP million:	2015	2016
Revenue		
UK	12.462	12.901
South Korea	7.161	7.110
Nth America	1.191	1.715
Other	1.445	1.995
Total	**22.258**	**23.721**
Segment profit		
UK	2.606	2.843
South Korea^	1.264	1.158
Nth America	0.105	0.281
Other	0.181	0.196
Total	**4.156**	**4.478**
% changes in Revenue		
UK	6	4
South Korea	26	-1
Nth America	55	44
Other	38	38
Total	**16**	**7**
% changes in Profit		
UK	19	9
S. Korea^	43	-8
Nth America	-	168
Other	-	8
Total	**30**	**8**
Margins (%)		
UK	20.9	22.0
S. Korea^	17.7	16.3
Nth America	8.8	16.4
Other	12.5	9.8
Total	**18.7**	**18.9**
Inter-segment revenue*	0.601	0.750

Source: Company data; Hardman & Co

Notes:

** inter-segment revenue pertains to UK only*

^South Korea profit includes Group share of profit from Associate BTS

Balance sheet

Net Assets including Minorities (*aka* Non-controlling Interest) rose 22% in fiscal 2016 from £12.1 to £14.8 million including a dip in Net Cash from £2.87 to £2.44 million i.e. 17% of NAV versus 24% last time.

RONA or Return on Net Assets dipped from 15.5 to 14.5% between fiscal 2015 and 16 although if Intangibles (around £600,000 in both years) and Net Cash are excluded from the denominator, the movement in RONA was from 21.7% in 2015 to a still very healthy 18.2% in 2016.

ROCE or Return on Capital Employed was 12.0% (2015: 12.9%) with Capital Turn (Revenue-divided-by-Capital-Employed) at 1.6x (1.8x). We like, the much neglected, ratio of Capital Turn because it measures how efficiently capital is utilised i.e. there are two ways to make a profit: maximise revenue and constrain costs on the one hand; and use your capital efficiently on the other - preferably a combination of both. Capital Turn can also be used to focus management and employees on using capital efficiently, avoiding waste and the like.

However, as with RONA, if ROCE excludes Intangibles and Cash, the 2016 return is 18.2% (2015: 21.7%); the same goes for an adjusted Capital Turn at 2.0x (2015: 2.6x) on the same basis.

Turning to liquidity, we highlight the Current and Quick Ratios which are calculated by dividing current assets by current liabilities (‘Current’) and current-assets-less-stocks divided by current liabilities (‘quick’; and where above 1.0 is very good). The former was 2.49 in 2016 (2015: 2.74), while at the same time, the Quick Ratio was 1.51 against 1.85. All are excellent.

Capital Employed

Year to 30 September GBP million:	2015	2016
Ordinary shares	1.063	1.091
Share premium account	0.891	0.950
Revaluation Reserve etc.	0.056	0.056
Profit & loss account	9.119	10.479
Other	-0.079	0.484
Shareholders funds	11.050	13.060
Minorities	1.043	1.714
Provisions for liabilities	0.000	0.000
Preference Shares	0.000	0.000
Other loans/leases	0.000	0.000
Bank loans & ODs	0.000	0.000
CAPITAL EMPLOYED	**12.093**	**14.774**
Fixed assets	3.218	3.511
Investments	0.796	1.464
Stocks/WIP	3.786	4.586
Corporation tax	-0.125	-0.161
Trade debtors	2.530	3.111
Other debtors	2.212	3.259
Deferred tax	0.064	0.133
Trade creditors	-2.221	-2.718
Other creditors	-1.660	-1.476
Other	0.623	0.627
Cash	2.870	2.438
CAPITAL EMPLOYED	**12.093**	**14.774**
METRICS:		
ROCE (%)	12.9	12.0
ROCE (%)*	18.2	15.1
Capital turn (x)	1.8	1.6
Capital turn (x)*	2.6	2.0
RONA	15.5	14.5
RONA*	21.7	18.2
Current ratio	2.74	2.49
Quick ratio	1.85	1.51
Stocks as % of revenue	17	19
Creditors as % of revenue	-19	-19
(Net debt)/cash (£,000)	2.870	2.438
Net assets (£,000)	12.093	14.774
Gearing % (-ve)/+ve	24	17

Source: Company data; Hardman & Co
Notes:
**adjusted for Intangibles and Net Cash*

Cash flow

In terms of cash flow, there was a modest outflow in the year ending 30 September 2016 of £432,000 (2015: inflow of £721,000) which was driven largely by capex and working capital. Net cash closed the year at £2.44 million (2015: £2.97 million).

Cash Flow		
Year to 30 September GBP million:	**2015**	**2016**
Profit before tax	1.869	2.136
Interest etc.	0.000	0.000
Depreciation	0.566	0.556
Provisions	0.000	0.000
Asset sales	-0.004	-0.019
Share issued/sold	0.085	0.136
Other	-0.298	-0.356
SOURCES	**2.218**	**2.453**
Capex	0.498	0.721
Disposals	-0.052	-0.050
Acquisitions	0.000	0.000
Stocks	0.363	0.370
Debtors	0.491	1.061
Creditors	-0.454	0.079
Tax	0.234	0.217
Dividends	0.289	0.324
Other	0.128	0.163
USES	**1.497**	**2.885**
Surplus/(deficit)	0.721	-0.432
Adjustment	0.000	0.000
Movement (debt)/cash	**0.721**	**-0.432**
Reconciliation & Analysis of Balance Sheet Debt:	**Full Year 2014-15**	**Full Year 2015-16**
(Net debt)/cash	2.870	2.438
Net assets	12.093	14.774
Gearing % (-ve)/+ve	24	17
Change	0.721	-0.432

Source: Company data; Hardman & Co

Chairman's statement

"I am delighted to report that for the fourth consecutive year Titon has delivered an improved set of results".

Profit and loss account

"In the year ended 30 September 2016, Titon's net revenue (which excludes inter-segment activity) rose 6.3% to £23.7 million. On a constant currency basis, however, the increase is 4.4%.

The gross margin rose marginally from 29.2 to 29.7% and EBITDA was struck at £2.33 million (2015: £2.13 million). Earnings before interest and tax (EBIT) or operating profit rose 13% to £1.77 million with operating margins at 7.5% (2015: 7.0%).

Net interest contributed £8,000 (2015: £9,000) while the share of profits from the Group's associate rose 19.5% to £356,000 (2015: £298,000) resulting in profit before tax of £2.14 million which was an increase of 14% year-on-year (2015: £1.87 million). The weakness of the British Pound added £58,000 to profit before tax, which means that on a constant basis, it would have been £2.08 million or 11% higher year-on-year.

Earnings per share for the year increased 21% to 15.2 pence (2015: 12.6 pence). Taxation was little changed at 9% but the non-controlling interests' debit declined from £376,000 to £317,000.

The Directors are proposing a final dividend of 2.25 pence per share (2015: 1.75p). This, when added to the interim dividend paid on 24 June 2016 would make a total for the year of 3.50 pence (2015: 3.0p) which would be a 17% rise. If approved by shareholders at the forthcoming Annual General Meeting on 15 February 2017, the dividend will be payable on 21 February 2017 to shareholders on the register on 27 January 2017. The ex-dividend date is 26 January 2017.

Balance sheet and cash flow

Net assets including minorities rose £2.68 million to £14.77 million with net cash at £2.44 million (£2015: £2.87 million) which is equivalent to 16.5% of net assets (2015: 23.7%). There was a net cash outflow in the year of £432,000 (2015: inflow of £721,000) which was caused primarily by higher receivables in Titon Korea and higher capital expenditure. Total capital expenditure in the year was £721,000 (2015: £498,000).

Net current assets were £9.04 million (2015: £7.39 million).

Return on Capital Employed (ROCE)* was 15.1% (2015: 18.2).

Segment analysis

Revenue derived from the UK business saw an increase of 7% in fiscal 2016. This included our Ventilation Systems business for mechanical ventilation products which saw sales rise 21% year-on-year, with exports doing particularly well. The latter reflects a continued targeting of and investment in new markets. The UK gains were also driven by an improving product range and a better domestic sales performance i.e. we have concentrated a higher proportion of resources on the economically more active areas of the UK.

Specifically, the Ventilation Systems business also now includes a horizontal heat recovery product and the new Trimbox NO2 filter product. The latter is designed to be used with a whole house-ventilation system and can remove up to 95% of harmful Nitrogen Dioxide emissions as well as a number of other noxious gases which frequent urban areas. Given the poor levels of outdoor air quality in the major conurbations in the UK, we believe that this product will prove to be a very useful addition to our product range in the future. The Trimbox NO2 filter unit was also a winner in the Housebuilder Product Awards 2016.

The Group has also continued to promote the benefits of good indoor air quality in the UK through our trade association, BEAMA (British Electrotechnical and Allied Manufacturers Association). The aim of this campaign is to promote the use of mechanical ventilation products in the home to improve air quality. Given an increasing number of reports about poor levels of both outdoor and indoor air quality in the UK, we firmly believe that this is an area of our business which will grow in the future. A new All Party Parliamentary Group has also recently been formed to debate healthy homes and buildings and we will contribute to this new forum.

Results for our UK Hardware business were mixed. We saw an increase in sales to the Aluminium sector but a fall in door and window products to the Timber/PVCu segment of the market, both against 2015. There has also been a slower rate of growth in private housebuilding year-on-year while public sector housebuilding continues to fall. At the same time, there was only a marginal increase in private and public sector repair, maintenance and improvement (RMI) expenditure in 2016. We had also anticipated increased sale volumes from a number of new hardware products which were introduced in January 2016, but to date these have underperformed expectations.

In South Korea, our subsidiary company Titon Korea (51% owned) manufactures passive ventilation products, and is the national market leader, but it had a more demanding year in 2016. Revenue dipped marginally, due to reduced demand in the public sector and increased competition. This was only partly offset by private sector demand and meant that Titon Korea's contribution was 17% lower as a result of higher costs incurred. However, in 2017 sales are expected to rise.

Meantime, the Group's associate, Browntech Sales Co. Limited ("BTS") generated a higher contribution in the year; and this can be tracked in the Associate line of the profit and loss account where it is the sole contributor. The Associate contribution rose 20% in 2016 to £356,000 (2015: £298,000). BTS distributes ventilation products in South Korea and invests in and develops schemes in the domestic residential real estate market. Two are active at this time, one in Seoul which is currently being marketed and sold out whilst the other, in the form of a secured loan, is expected to be repaid early in calendar 2017. BTS may also make further investments in the South Korean residential market as opportunities arise.

In combination, subsidiary and associate, South Korea is the largest single contributor to the Group's profit after tax and this was virtually unchanged year-on-year at £667,000 (2015: £672,000).

Finally, sales in the US continued to grow and Titon Inc. had another profitable year. However, the market for natural ventilation products remains relatively modest in scale at this time and geographically focused on the North East and the North-West regions.

The Board

I am delighted to welcome Kevin Sargeant to the Titon Board following his appointment as a Non-Executive Director on 1 September 2016. Kevin brings a wealth of experience and knowledge of the ventilation industry and we look forward to his contribution to the Group in the future. I also welcome Tony Gearey to the Board as an Executive Director following his appointment on 2 November 2016. Tony has been with Titon for over 30 years and is responsible for IT and Titon Inc.

Employees

The number of people employed within the Group has risen from 219 at the beginning of the year to 237 at 30 September 2016. Most of these new individuals are in the UK, where we have employed a team of ten as part of a new ducting fabrication business taken on during the year. We also introduced the National Living Wage in April 2016 which benefited a number of our weekly paid employees. However, we will continue to seek improvements in productivity to offset the additional cost. Here, too, I would like to thank all of our employees for their hard work during the year and the huge contribution they make to the success of the Group.

New Head Office

Since 1984, the Group had been headquartered at International House in Stanway which is west of Colchester in Essex, East of England. However, due to its age and lack of amenities, the building no longer proved to be efficient or practical and from early September, we have been located in the Colchester Business Park. This has proved both more efficient and popular. The move was also achieved without any disruption to our business.

Investors

As noted in the Interim Report we appointed Hardman & Co. to write research on Titon and to introduce us to a range of institutional and high net worth investors. This has been a valuable experience and we will continue to work with Hardman to further raise our profile.

Outlook

In the first two months of the new financial year, UK and continental European sales are above the corresponding period of 12 months ago. We also anticipate that our fiscal 2017 sales will rise in South Korea, where Titon is the market leader in natural ventilation. We will continue to monitor the current political situation in Korea but don't anticipate major disruption to the economy.

We are mindful of the uncertainty created by the UK's decision to leave the EU which makes both economic and corporate forecasting more difficult than usual. To date, however, there has been little impact on our business and we remain optimistic that satisfactory exit terms can be negotiated.

We have first class products, an international spread, very good people and a strong balance sheet and we will continue to look for new opportunities within our target markets. I look forward to another year of progress".

Keith Ritchie, Chairman

**ROCE is calculated by dividing EBIT by the sum of shareholders' funds, non-controlling interests and all debt less intangible assets and cash*

Notes

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