



## Market data

EPIC/TKR	CMH
Price (p)	98.0
12m High (p)	176.0
12m Low (p)	55.5
Shares (m)	8.3
Mkt Cap (£m)	8.1
EV (£m)	14.9
Free Float*	40%
Market	AIM

\*As defined by AIM Rule 26

## Description

Chamberlin is a UK based industrial engineering company operating in two divisions- Foundries and Engineering. Around 75% of sales are exported.

## Company information

CEO	Kevin Nolan
CFO	David Roberts
Chairman	Keith Butler-Wheelhouse
	+44 01922 707110
	<a href="http://www.chamberlin.co.uk">www.chamberlin.co.uk</a>

## Key shareholders

Rights & Issues IT	12.5%
Miton Capital Partners	12.5%
Henderson	9.9%
Chelverton	6.3%
Thornbridge IM	6.3%
Schroders	4.4%
Other	48.1%

## Next event

End Nov-17	2017/18 Interims
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## Analysts

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## Chamberlin

### One-off cost inefficiencies lead to lower forecasts

Chamberlin remains on track strategically, developing its product offering to the automobile turbocharger industry through expansion of its principal operational facilities. Revenue growth is meeting expectations but one-off in-house cost inefficiencies lead to lower forecasts. The risk/reward profile however remains favourable and the shares remain attractively valued both against its peer group and on a DCF basis.

► **Trading Update:** Revenues for the 1H' 17/18 financial year are in line with management expectations, reflecting overall good demand levels across the foundry and engineering businesses Demand for turbo charger bearing housings, a key growth driver for the group, continues to grow strongly. The two engineering operations, Exidor and Petrel, continue to trade in line with expectations. However, margins within the Group's foundry businesses have been adversely affected by production issues. The Company is addressing these issues and is working very closely with the machine and tooling suppliers to rectify this one-off situation in the near term.

► **2017/18 Forecasts:** Whilst management still expects group revenues for the year to be substantially ahead of last year but underlying profits are now only expected to be in-line year with the prior year. We have reduced our 2017/18 profitability expectations for the Foundries business and group underlying PTP forecasts from £1.94m to £0.76m. We are making minor adjustments to our 2018/19 forecasts

► **Valuation:** The shares remain lowly valued, trading on calendar 2017 EV/sales and EV/EBITDA of around 0.4 and 5.0 times respectively, compared with sector averages of 1.2 and 8.8 times respectively. Our DCF valuation, using a WACC of 10% suggests a fair value at around 200p.

► **Investment summary:** The company has repositioned itself from a traditional engineering company to become a key supplier to the automotive turbocharger sector. The shares offer the opportunity to invest in a cyclical stock with high operational leverage. The shares remain attractively valued against its peer group and on a DCF basis.

## Financial summary and valuation

Year End March (£m)	2016	2017	2018E	2019E
Sales	29.1	32.1	39.6	39.1
Gross profit	5.9	6.9	7.6	9.0
EBITDA	1.5	2.0	2.7	4.3
Underlying EBIT	0.4	0.7	1.1	2.4
Reported EBIT	0.1	0.4	1.1	2.4
Underlying PBT	0.65	0.57	0.76	2.06
Underlying EPS (p)	1.5	4.5	7.6	20.7
Statutory EPS (p)	-4.4	-12.2	3.1	16.2
Net (debt)/cash	-3.2	-6.8	-8.2	-7.3
P/E (x)	-	-	12.8	4.7
EV/sales (x)	0.7	0.6	0.4	0.4
EV/EBITDA (x)	-	-	5.5	3.5

Source: Hardman & Co Research

## Financials

### Segmental forecasts

#### Revenues as expected...

Revenues for the 1H' 17/18 financial year are in line with management expectations, reflecting overall good demand levels across the foundry and engineering businesses. and demand for turbo charger bearing housings, a key growth driver for the Group, continues to grow very strongly.

#### Cost inefficiencies within Foundries business...

However, margins within the Group's foundry businesses have been adversely affected by production issues. At the new machining facility technical difficulties have created cost inefficiencies and extended cycle times. The Company is addressing these issues and is working very closely with the machine and tooling suppliers to rectify the situation in the near term.

#### Engineering much as expected...

The two engineering operations, Exidor and Petrel, continue to trade in line with expectations.

#### Foundries profit forecasts lowered...

We have reduced our 2017/18 profitability expectations for the Foundries business and group profit forecasts commensurately. We are making minor adjustments to our 2018/19 forecasts. In particular, we see slower sales growth within the Foundries division to reflect the absence of exceptional (one-off) demand in the current year.

#### Chamberlin- Sales and profitability by division (£m) - Foundries

Year End March	2016	2017	2018E	2019E
Sales	25.6	21.3	28.2	25.3
Growth (%)	-15.8	-16.8	32.0	-10.0
Operating Income	1.2	1.2	0.9	1.9
Margin (%)	4.7	5.6	3.2	7.6

Source: Hardman & Co Research

#### Chamberlin- Sales and profitability by division (£m) - Engineering

Year End March	2016	2017	2018E	2019E
Sales	9.4	10.8	11.4	13.7
Growth (%)	-10.1	15.0	6.0	20.0
Operating Income	0.7	0.9	1.4	1.7
Margin (%)	7.3	8.4	12.5	12.5

Source: Hardman & Co Research

## Financials

### Profit and Loss

Chamberlin (£m)				
Year end Mar (£m)	2016	2017	2018e	2019e
<b>Sales</b>	<b>34.99</b>	<b>32.11</b>	<b>39.58</b>	<b>39.05</b>
COGS	-27.66	-25.17	-32.02	-30.07
<b>Gross profit</b>	<b>7.33</b>	<b>6.94</b>	<b>7.56</b>	<b>8.98</b>
<b>Gross margin</b>	<b>21.0%</b>	<b>21.6%</b>	<b>19.1%</b>	<b>23.0%</b>
Sales & marketing	-0.92	-1.38	-1.66	-1.83
Admin	-5.58	-4.80	-4.80	-4.75
<b>EBITDA</b>	<b>1.50</b>	<b>1.96</b>	<b>2.70</b>	<b>4.30</b>
<b>EBITDA margin</b>	<b>4.3%</b>	<b>6.1%</b>	<b>6.8%</b>	<b>11.0%</b>
Deprec & Amortis	-1.34	-1.22	-1.60	-1.90
Licensing/Royalties	0.00	0.00	0.00	0.00
Other income	0.00	0.00	0.00	0.00
<b>Underlying EBIT</b>	<b>0.83</b>	<b>0.74</b>	<b>1.10</b>	<b>2.40</b>
Share based costs	0.05	0.03	0.02	0.02
Exceptional items	-0.75	-0.37	0.00	0.00
<b>Statutory Operating profit</b>	<b>0.13</b>	<b>0.40</b>	<b>1.12</b>	<b>2.42</b>
Net financials	-0.18	-0.16	-0.34	-0.34
<b>Pre-tax profit</b>	<b>0.65</b>	<b>0.57</b>	<b>0.76</b>	<b>2.06</b>
Reported pre-tax	-0.19	-0.92	0.38	1.68
Tax payable/receivable	-0.03	-0.05	-0.13	-0.34
<b>Underlying net income</b>	<b>0.45</b>	<b>0.37</b>	<b>0.63</b>	<b>1.72</b>
Statutory net income	-0.26	-0.97	0.25	1.34
Ordinary shares				
Period-end (m)	8.0	8.3	8.3	8.3
Weighted average (m)	8.1	8.3	8.3	8.3
Fully diluted (m)	8.1	8.3	8.3	8.3
<b>Underlying Basic EPS (p)</b>	<b>5.56</b>	<b>4.49</b>	<b>7.63</b>	<b>20.75</b>
Statutory Basic EPS (p)	-3.22	-11.73	3.06	16.17
<b>U/I Fully-diluted EPS (p)</b>	<b>5.56</b>	<b>4.49</b>	<b>7.63</b>	<b>20.75</b>
Stat. Fully-diluted EPS (p)	-3.22	-11.73	3.06	16.17
DPS (p)	0.0	0.0	0.0	0.0

Source: Hardman & Co Research

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*(Disclaimer Version 2 – Effective from May 2017)*

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