

**Market data**

EPIC/TKR	CMH
Price (p)	60.0
12m High (p)	176.0
12m Low (p)	55.5
Shares (m)	8.3
Mkt Cap (£m)	5.0
EV (£m)	11.8
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 its sales are exported.

Company information

CEO	Kevin Nolan
CFO	David Roberts
Chairman	Keith Butler-Wheelhouse
	+44 01922 707110
	www.chamberlin.co.uk

Key shareholders

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

Diary

June-18	2017/18 finals
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Analysts

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Chamberlin

Trading healthy, technical issues improving

Chamberlin remains on track strategically, as good progress is made towards resolving the technical problems at the new machine shop. The group has consequently delivered a significantly improved performance in the second half of 2017/18. Prospects are most encouraging, the group continues to develop its product offering to the automobile turbocharger industry through expansion of its main operational facilities. We are maintaining our 2018/19 forecasts. The shares remain attractively valued against the peer group on most methodologies.

- ▶ **2017/18 forecasts:** Revenues in 2H were 10% higher than in the first half and are expected to total £37.7m for the year, an increase of 17% YoY. Underlying EBIT moved from a loss in 1H to a profit in 2H, and EBIT for the full year is now expected to be around £0.4m, ahead of market expectations of around £0.2m.
- ▶ **Outlook:** Demand for petrol engine turbocharger components is strong, with consequent progressively increasing production from the Walsall foundry, as the technical issues at the company's new machining facility continue to improve. New products for machining are also being introduced into the market.
- ▶ **Risks:** Potential risks include developments with the automotive industry, foreign currency and raw material price fluctuations. From a financial standpoint, we note the group has a significant pension scheme deficit and, with limited free cashflow, the deficit is likely to remain at a relatively high level.
- ▶ **Valuation:** The shares remain lowly valued, trading on calendar 2018E EV/sales and EV/EBITDA of around 0.3x and 4.0x respectively, compared with sector averages of 1.0x and 7.7x. Our DCF valuation also suggests that the shares are significantly undervalued.
- ▶ **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.

Financial summary and valuation

Year-end March (£m)	2016	2017	2018E	2019E
Sales	29.1	32.1	37.7	40.8
Gross profit	5.9	6.9	6.8	8.2
EBITDA	1.5	2.0	1.9	3.5
Underlying EBIT	0.4	0.7	0.4	1.6
Reported EBIT	0.1	0.4	0.4	1.6
Underlying PBT	0.1	0.6	0.0	1.3
Underlying EPS (p)	1.5	4.5	0.4	13.1
GAAP EPS (p)	-4.4	-11.7	-4.2	13.1
Net (debt)/cash	-3.2	-6.8	-9.3	-8.7
P/E (x)	-	-	-	4.5
EV/sales (x)	0.7	0.6	0.3	0.3
EV/EBITDA (x)	-	-	6.2	3.2

Source: Hardman & Co Research

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The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

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