HARDMAN & CO.

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February feature article

Renewable Generation – Coming of Age

By Nigel Hawkins, Hardman & Co Analyst

Executive summary

- This Investment **Research Paper** addresses the issue of renewable power generation in the UK and in mainland Europe, which – after the deep-seated financial crisis of 2008/09 and the ensuing recession – now has better prospects of achieving critical mass. It also considers investment perspectives.

- In recent years, there has been a major shift in favour of renewable generation. It has been led by wind generation, mainly on-shore but also increasingly off-shore. In the UK's case, there has been a sea-change in operating costs, illustrated by the successful bids by two leading energy companies – EdP Orsted and Engie – to build and operate North Sea wind farms.

- Share prices of virtually all leading energy companies have slumped over the past decade, with EdF and the two German companies, E.On and RWE, being dire performers. The latter two companies have undertaken major restructuring in the light of the highly contentious decision by the German Government in 2011 to end nuclear power generation by 2022.

- Nevertheless, some energy companies have prospered of late. Denmark's long-established turbine manufacturer, Vestas, has seen a 20x rise in its share price since its nadir in November 2012. Also, in Denmark, the re-named Orsted, which focuses on renewable generation, has seen its shares rise by ca.25% since its IPO in late 2017.

- In the UK, smaller renewable power investment funds, such as Greencoat UK, TRIG and Next Energy Solar, have met investor expectations and have delivered a steadily rising dividend stream.

- It is self-evident that ***wind-power generation*** is the key renewable source. Recent figures show EU wind capacity of 169 GW, a small percentage of which are off-shore wind plants.

- ***Solar power*** is beginning to make a real impact, certainly in terms of capacity. EU PV-generated solar capacity has now reached 107 GW.

- ***Marine-sourced generation*** projects struggle. The iconic Rance plant in Normandy – built in the 1960s – seems destined to stand alone, since no new large EU tidal schemes are close to fruition, while wave power technology is currently well short of achieving commercial viability.

- *Biomass* continues to face major challenges. Despite the very expensive – and nearly complete – Drax conversion programme, new biomass projects are few, although some are being delivered, notably in Finland and Germany.

- New ***hydro-power*** projects, too, are scarce, although a few, including SSE's troubled 100 MW scheme at Glendoe, have been delivered in recent years.

- Whilst ***geo-thermal energy*** thrives in Iceland, its impact elsewhere is very limited; it barely features in EU energy statistics. Similarly, generated power from ***fuel cells*** is also minimal.

- In Germany, the *Energiewende* is under way in the electricity sector, with nuclear power generation ending by 2022 – a policy that has seen shares in E.On and RWE plunge. Such a scenario can only boost the renewables sector there, despite the financial collapse of some wind and solar developers.

History and background

The windmills of antiquity

The generation of renewable power is hardly a recent innovation. Aside from some of the windmills of antiquity – a few of which are still standing – part of the Industrial Revolution was powered by renewable sources, most notably the textile industry in Yorkshire and Lancashire, which relied heavily on water power.

Overseas, the low-lying lands of Holland were dominated by windmills, many of which are still operational to this day.

King Coal and nuclear

However, throughout much of the 20th century, leading European nations relied initially on coal and subsequently on nuclear sources for their base-load requirements, although the use of gas, especially in the UK, became far more important in the last decade of the 20th century.

In recent years, climate change issues – such as carbon emissions – have come to the fore. This trend has been a key driver in developing renewable generation. Nonetheless, despite technology improvements, the need – in some cases – for large subsidies and the inability to operate as base-load plant remain.

While political support for renewable power generation is widespread, its adoption has been far more complex. However, following the Berlin Renewable Energy Conference in 2004, the EU was legally obliged to adopt a more pro-active stance to promote renewable generation investment.

Subsidy-driven

To enable the shift from fossil-fuel generation to a portfolio that is increasingly based on renewables output, a wide range of subsidies have been introduced, ranging from straightforward price per MWh premium payments to Contracts for Differences (CfDs). In Germany, the use of 'feed-in' tariffs has been pivotal in ensuring that renewable generation plant is called up for use when its output becomes available.

Renewable generation advances

Over the past decade, renewable generation has played a far more prominent role than previously. In 2017, renewables-generated output in the EU accounted for ca.18% of total output: most of this output was generated from either wind farms or solar plants.

In consequence, output from fossil-fuel plants, especially in Germany and the UK, has declined. In some countries, nuclear power output has also fallen, as old plants have been decommissioned and not replaced.

Challenges of the financial crisis

Nonetheless, the advent of the financial crisis of 2008/09 presented real problems for the renewable generation sector. In many countries, public debt levels have soared, with a serious impact on borrowing costs. Many EU governments sought aggressively to reduce public expenditure, with renewable subsidies being an obvious target for cost-cutting: Spain was particularly aggressive in adopting this stance.

The future's bright – the future's renewables

However, a decade on, the prospects for renewable power generation look infinitely brighter.

Current scenario

Orsted's optimism

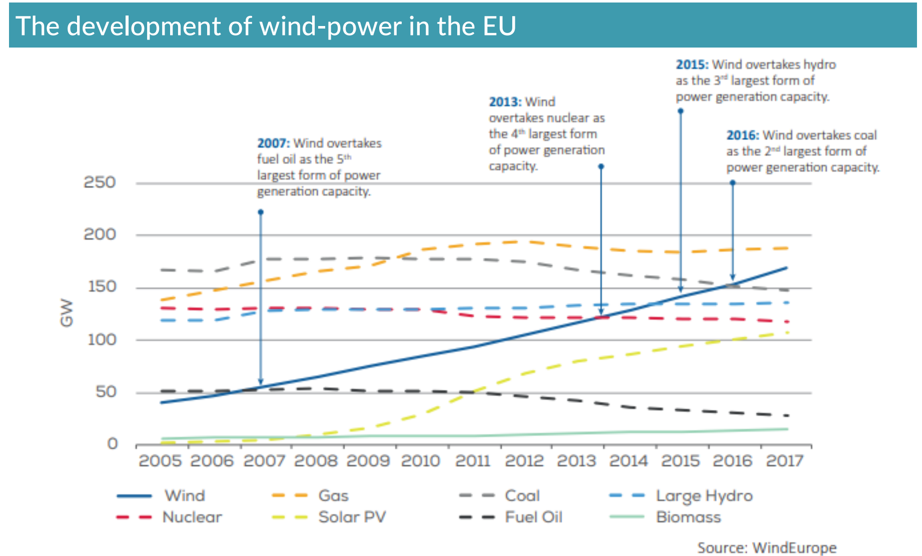
At present, renewable generation – after a testing time and considerable dependence on subsidies – is prospering. Undoubtedly, wind is to the fore, both on-shore and increasingly off-shore. Leading Danish renewable generation company, Orsted, currently has generation capacity of 11.9 GW (including projects that have received a final investment decision). By 2030, it expects that its capacity will reach 30 GW.

This more optimistic scenario is a far cry from the experiences of recent decades where gas-fired, coal-fired and nuclear generation – the latter pair were crucial elements from the early 1960s until the 1990s – have dominated electricity output. And it is only in recent years that on-shore wind output has made a meaningful contribution to overall output.

Sea-change in the generation mix

Consequently, following the wide-ranging economic turmoil of recent years, the EU's generation mix has become increasingly varied. The graph below shows how EU capacity developed between 2005 and 2017 and, more specifically, how wind-generated capacity has assumed much greater importance.

The development of wind-power in the EU



Source: WindEurope

More specifically, the table below traces the use of renewables generation – on a four-year sequential basis between 2004 and 2016 – across all current EU members.

Share of renewable energy in gross final energy consumption

Country (%)	2004	2008	2012	2016
Austria	22.5	27.8	31.5	33.5
Belgium	1.9	3.6	7.2	8.7
Bulgaria	9.4	10.5	16.0	18.8
Croatia	23.5	22.0	26.8	28.3
Cyprus	3.1	5.1	6.8	9.3
Czech Rep.	6.8	8.6	12.8	14.9
Denmark	14.9	18.6	25.7	32.2
Estonia	18.4	18.9	25.8	28.8
Finland	29.2	31.3	34.4	38.7
France	9.5	11.3	13.4	16.0
Germany	5.8	8.6	12.1	14.8
Greece	6.9	8.0	13.5	15.2
Hungary	4.4	8.6	15.5	14.2
Ireland	2.4	4.1	7.1	9.5
Italy	6.3	11.5	15.4	17.4
Latvia	32.8	29.8	35.7	37.2
Lithuania	17.2	17.8	21.4	25.6
Luxemburg	0.9	2.8	3.1	5.4
Malta	0.1	0.2	2.8	6.0
Netherlands	2.0	3.6	4.7	6.0
Poland	6.9	7.7	10.9	11.3
Portugal	19.2	23.0	24.6	28.5
Romania	16.3	20.5	22.8	25.0
Slovakia	6.4	7.7	10.4	12.0
Slovenia	16.1	15.0	20.8	21.3
Spain	8.4	10.8	14.3	17.3
Sweden	38.7	45.3	51.1	53.8
UK	1.1	2.7	4.6	9.3

Source: European Environment Agency (EEA)

Looking forward – and despite the recent benefits of cheap coal input prices – the coal generation component is expected to decline, especially if the carbon price increases markedly.

Nuclear generation to wind down

Given that Germany is abandoning nuclear power as from 2022 and that Italy, Spain and Sweden, *inter alia*, have no plans to build replacement nuclear plant, EU nuclear output seems certain to be dominated by France from the start of the 2020s. Further investment in renewable generation is anticipated, notably from those countries that have lagged in this respect.

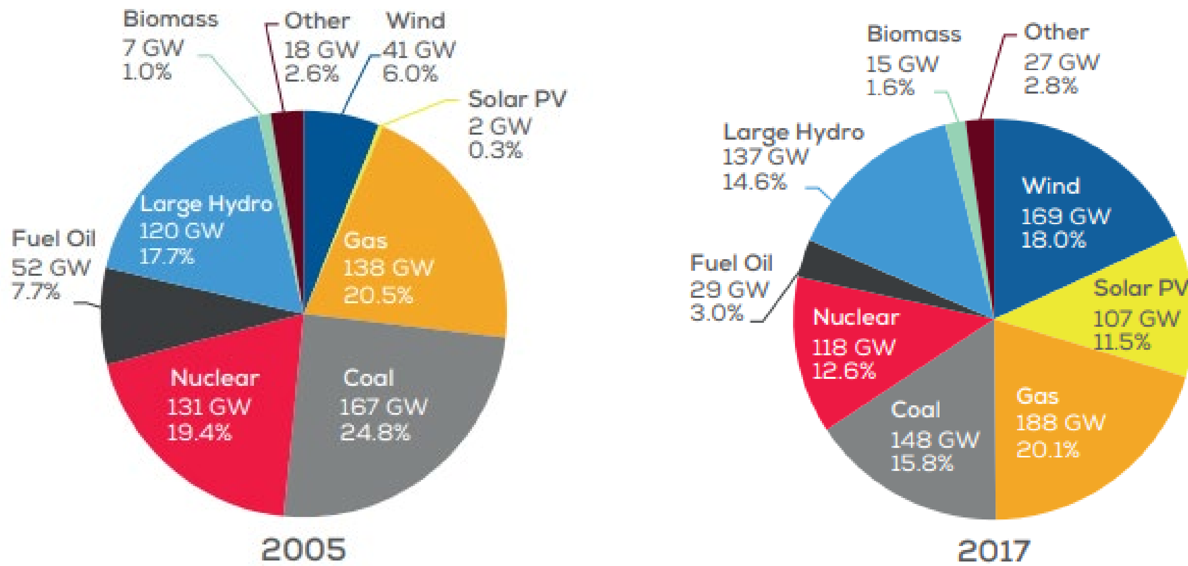
However, much of the new investment seems likely to be wind-related. In terms of regions, the south of Germany – especially Bavaria and Baden Württemberg – is widely expected to be the focus of much new energy investment, including heavy expenditure on grid connections.

Sharp change in investment profiles

Indeed, this scenario is underpinned by the generation investment profile of recent years. Coal generation investment has fallen markedly, while few new gas-fired plants have been built of late. And, as for nuclear power, France is – by some way – the largest investor in new nuclear-build; it also faces heavy expenditure to modernise its existing nuclear fleet.

The shift in EU generation sources between 2005 and 2017 is shown by the two pie charts below.

Share of installed capacity in 2005 and 2017



Source: WindEurope

Solar power surge

Apart from the marked increase in wind generation capacity, it is the emergence of solar power from just 2 GW in 2005 to over 100 GW just 12 years later that is most noteworthy: much of it has been built in Germany.

Major players

The power of monopolies

For many decades, EU energy provision was undertaken by integrated monopoly businesses, most of which were publicly owned. As privatisation developed from the 1980s onwards, this scenario changed, as some leading energy companies were sold to the private sector. In many cases – most obviously with ENEL in Italy – the monopoly aspects were retained.

There were two major exceptions to this structure.

The E.On/RWE duopoly

First, in Germany, there was a duopoly, instead of a monopoly. After consolidation, two leading players emerged, E.On and RWE: the former was more dependent upon nuclear output, while the latter was predominantly coal-based. For both companies, renewable generation was a low priority, despite Germany being at the centre of the political movement to promote 'green' power.

UK electricity supply privatisation

Second, in the UK, the electricity supply industry was split up, with virtually all the major businesses being privatised. Similarly, a duopoly was created, with PowerGen and National Power being dominant; both were eventually subsumed – into E.On and RWE, respectively.

In the intervening period, there have been many developments in terms of the core energy portfolios of the leading energy players. In particular, investment in new nuclear power has been minimal – France and, to a lesser extent, the UK and Finland being exceptions.

And, in recent years, these companies have begun investing in renewable power, although – in most cases – it remains a modest component of their plant portfolio.

For EdF, E.On and RWE, renewables investment was accorded a low priority – certainly compared with Iberdrola: their emphasis was on generation output from their nuclear and fossil-fuel plants, in both Germany and overseas.

Iberdrola was among the first of the EU's major players to focus on both wind generation and solar power; heavy investment followed. ENEL and SSE (with its many hydro plants) and the state-owned Vattenfall of Sweden have also been to the fore in prioritising renewable generation investment.

Nonetheless, the share price performances over the past decade of these energy companies have, with a few exceptions, generally been dire.

Electricity utilities are not recession-proof

The realisation that electricity utilities – especially those heavily involved in generation – were anything but recession-proof took time to become apparent. But the 2008/09 financial crisis and the ensuing recession soon demonstrated how exposed they were – and far more so than those utilities that were dependent upon price-regulated network businesses.

Subsequently, with the switch away from fossil fuels and the environmental priority accorded to renewable generation, along with tighter regulation and ongoing political concerns, it is not surprising that their share price ratings remain depressed.

Germany's 2011 nuclear stunner

Indeed, the most egregious case of political intervention was the German Government's sudden decision in 2011 to abandon nuclear power generation by 2022 – a policy that did immense damage to the projected cashflows of both E.On and RWE.

Dire share price performers

The table below shows the share prices of the worst-performing five major energy players since their peak – the date of the latter is highlighted. In some cases, especially for E.On and RWE, adjustments have been necessary to take account of their changed corporate status.

Share price performances of leading energy companies

Company	Price peak	Date	Current price	Decline (%)
EdF	€85.5	11/07	€14.1	84
E.On	€49.3	1/08	€9.5	81
RWE	€97.7	1/08	€21.4	78
Engie	€43.0	6/08	€13.9	68
Centrica	402p	9/13	135p	66

Source: Bloomberg

Nuclear – a common factor in share price plunges

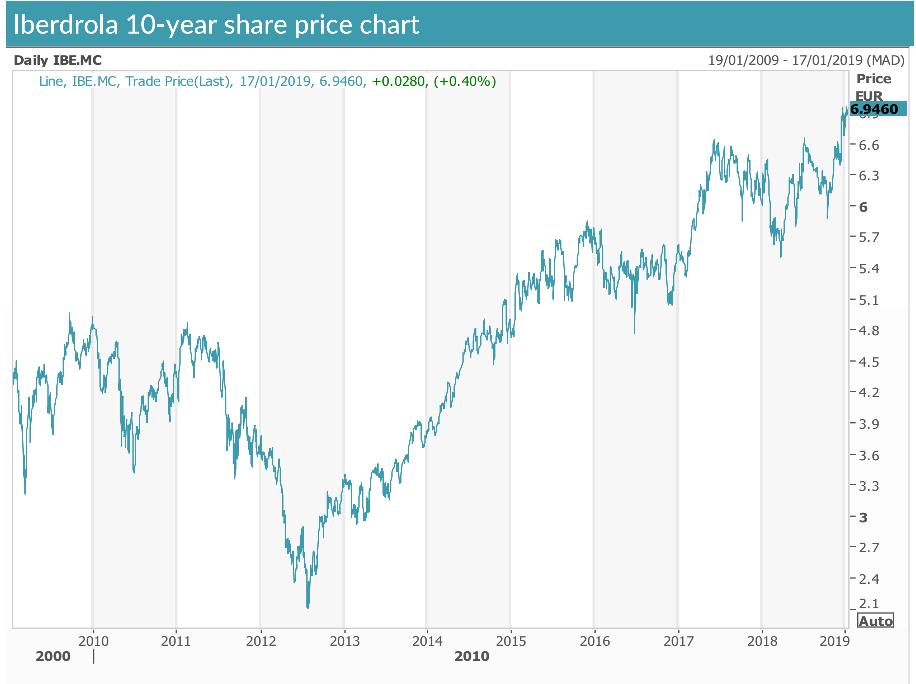
The plunging share price ratings of industry leviathans such as the nuclear-dominated – and effectively state-owned – EdF and both E.On and RWE really are dreadful. Undoubtedly, the nuclear factor has been pivotal in this respect.

But Iberdrola outperforms

Less obviously, it is notable how Iberdrola, which embraced renewable generation with gusto far earlier than others, has been a resilient performer. Almost a generation ago, it reaffirmed its determination to invest heavily in wind-power, as well as confirming that solar power development was a long-term priority. Both polices have been firmly vindicated.

The graph below shows how Iberdrola has outperformed other major EU energy companies over the past decade, even though its core market, Spain, suffered particularly badly from the post 2008/09 recession (and we note that youth unemployment remains extremely high there to this day).

Iberdrola 10-year share price chart



Source: Eikon Thomson Reuters

Other players

While Iberdrola's emphasis on renewable generation has enabled it to prosper – at least in relative terms to other major EU energy players – there have been other companies that have also delivered enhanced shareholder value from renewable generation in recent years.

Renewable generation IPOs have stumbled

Indeed, in riding this trend, some undertook IPOs, with the specific intention of enhancing their overall rating through a separate stock market quotation. In some cases, this worked for a short period but, except for Portugal's EDP Renovaveis' IPO, all have been reversed. In any event, the latter, whose parent company EdP owns an 82.6% stake, might end up as part of China Three Gorges (CTG), which has launched a contested offer for EdP itself.

Of the other IPOs, Iberdrola's Renovables and EdF's Energies Nouvelles were both reversed in 2011. ENEL's Green Power spin-off was bought back more recently.

The ill-fated SSE/Innogy tie-up

Furthermore, as part of the major restructuring of RWE, its Innogy business, which encompasses renewable power, as well as grid, infrastructure assets and electricity supply, was spun out of the parent; the latter still owns 76.8% of the company. There are plans for E.On to acquire Innogy, although the collapse of the proposed SSE/Innogy energy supply deal has cast some doubt on whether this transaction will proceed. In any event, its renewable element currently accounts for ca.15% of Innogy's total EBITDA.

Nonetheless, other quoted stocks have become more prominent in the renewable energy space. Aside from the 'Big Six', Renewable Investment Funds have become more significant.

The Greencoat wind model

In the UK, Greencoat UK, currently capitalised at £1.5bn, is a typical example. Its focus is UK wind generation. There are more than 30 plants within its portfolio, of which 93% are on-shore. Its shareholdings, with a few exceptions, vary between 51% and full ownership. Total net capacity is 785 MW.

Greencoat plans to become more involved in off-shore wind development. Currently, it holds a 25% stake in the 90 MW Rhyl Flats wind farm, which is located off the North Wales coast.

The Renewable Investment Group (TRIG), with its current capitalisation of £1.1bn, is primarily an investor in renewable generation. Currently, it is invested in 61 separate projects, of which 32 are wind-generation and 28 are solar-power; one is focused on battery storage.

NextEnergy Solar prospers

NextEnergy Solar, which focuses exclusively on the solar space, has thrived in recent years, as it has steadily built up its 569 MW portfolio, which is largely based in the south of England, where average irradiation levels are comparatively higher than further northwards.

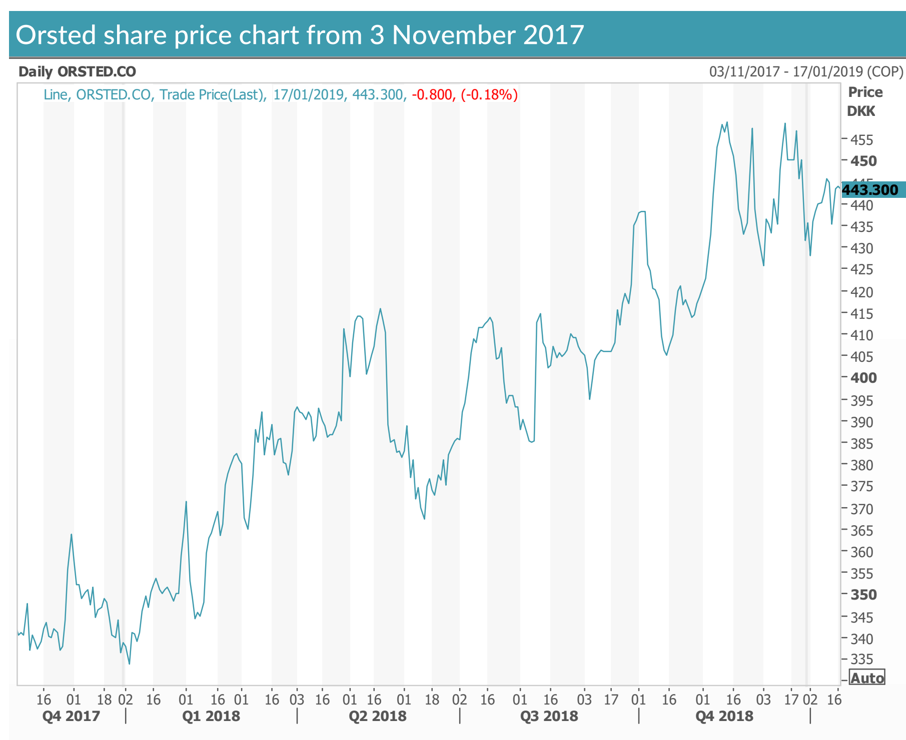
Overseas, the re-named Orsted, emerging from Denmark's Dong Energy, has prospered. Dong was formed in 2006 as the Danish energy sector was consolidated. Orsted's generation portfolio is heavily biased towards renewable generation; it has ambitions to operate ca.30 GW of renewable generation plant by 2030.

Denmark's Orsted thrives

Since its successful IPO in November 2017, Orsted has seen its share price rise by around a quarter, as investors increasingly accord a higher rating to renewable generation, especially as costs fall and subsidies become far less prevalent.

Orsted's share price graph is reproduced below – its current market capitalisation is ca.£22bn.

Orsted share price chart from 3 November 2017

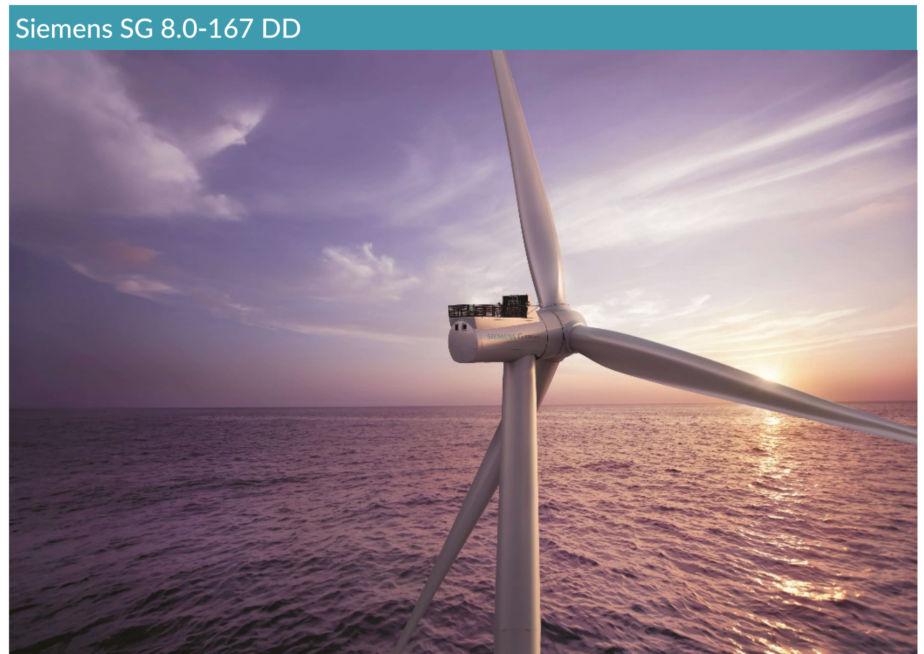


Source: Eikon Thomson Reuters

Turbine manufacturers

In assessing renewable energy – and its prospects – it is important not to overlook the wind-turbine manufacturers, who play a key role. Some of the very large off-shore turbines, notably the Siemens SG 8.0-167 DD (depicted below), which has a rotor diameter of 167 metres, are extremely costly to build and to deploy. Clearly, these costs are integral, along with the net selling price, in determining a project's financial viability.

Siemens SG 8.0-167 DD



Source: Siemens Gamesa

In recent years, the market shares of leading turbine manufacturers have changed quite markedly, with the 2017 merger between Siemens' wind-turbine division and Spain's Gamesa being key. Along with Denmark's Vestas, this joint venture controls a third of the wind-turbine market.

Siemens Gamesa now in pole position

The table below, which was compiled by Statista data from 2017, shows how the major turbine manufacturers dominate the turbine market – the off-shore element is becoming especially important. The latest figures suggest that Siemens Gamesa is now the largest supplier.

Wind-turbine market shares

Company	Country	Market share (%)
Vestas	Denmark	16.7
Siemens Gamesa	Germany/Spain	16.6
Goldwind	China	10.5
General Electric Wind	US	7.6
Enercon	Germany	6.6

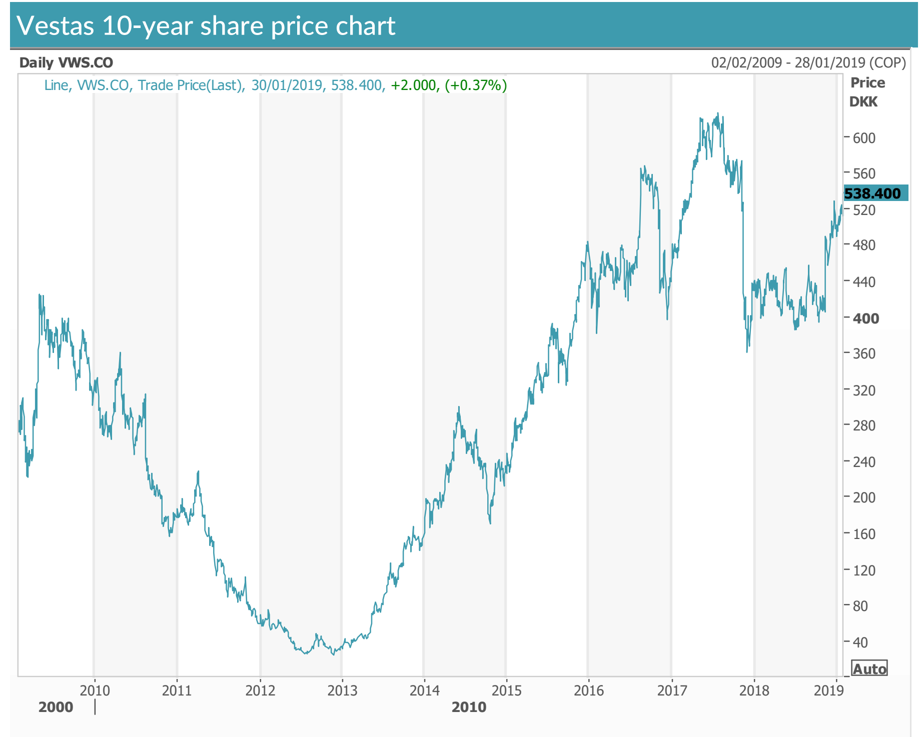
Source: Statista

While Vestas looks recently to have lost its pole position to the Siemens Gamesa joint venture, its recovery has been quite remarkable.

Vestas at rock bottom in 2012, but now prospering

As recently as November 2012, its shares had plummeted to just 25.3DK; subsequently, they have increased by ca.20x, following some major restructuring and a widening recognition that the off-shore wind sector, especially in the windy Baltic Sea, offered major opportunities. This deeply impressive transformation – in noted contrast to the fortunes of many larger EU energy players – is illustrated by the 10-year graph below.

Vestas 10-year share price chart



Source: Eikon Thomson Reuters

The General Electric plunge

By contrast, General Electric – for so long the bellwether of industrial America – has seen its shares plunge by almost 90% – as at December 2018 – off their autumn 2000 peak. Given the fundamental restructuring under way in several of its key divisions, it is self-evident that some of its wind-related assets might be put up for sale.

Subsidies/regulation

Kick-starting renewables

In order to kick-start the renewable generation sector, the payments of very substantial subsidies have been undertaken. The subsidy regimes vary from country to country, as do the amounts received. Indeed, some EU countries still use a 'feed-in' tariff mechanism.

RO closed to new entrants in 2017

As the cost of renewable generation falls, subsidies are being pared back. Many governments are under considerable pressure to cut back on their expenditure – or at least to curtail its growth. Importantly, there have been a few attempts to impose retrospective cuts in subsidies. And, in 2017, the UK's Renewables Obligation (RO) was closed to new renewables generation capacity.

Off-shore wind cost targets comfortably breached

Also in the UK, there was an ambitious target to cut off-shore wind operating costs to £100 per MW – the target date was 2018. In the event, during the preceding year, there were winning bids to develop two North Sea wind-sites at £57.50 per MWh (2012 prices) – a stunning result. Against this background, using an auction system has become increasingly common, especially since it delivers pricing tension – as the above examples demonstrate.

Consequently, much of the price regulation imposed on many on-shore electricity activities has been replaced by the bidding mechanism. However, for one-off projects,

such as the controversial – and, for the moment at least, discarded Swansea Bay Tidal Lagoon Scheme – the Treasury still makes the final judgment in terms of the available subsidy.

About the author

Nigel Hawkins undertakes analysis of the Utilities sector at Hardman & Co, along with working on some special projects.

He has been an investment analyst since 1989, focusing on the UK/EU privatised water and electricity sectors, as well as gas and telecom companies. He has worked at Hoare Govett, Yamaichi and Williams de Broe.

Before joining the City, he worked as Political Correspondence Secretary to Lady Thatcher at 10 Downing Street between 1984 and 1987. Prior to that, he qualified as an Associate of the Institute of Chartered Secretaries and Administrators (AICS), and graduated in Law, Economics and Politics from Buckingham University.

Company research

Priced at 28 January 2019 (unless otherwise stated).

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OPM
Price (p)	44.75
12m High (p)	60.0
12m Low (p)	38.5
Shares (m)	87.6
Mkt Cap (£m)	39.2
EV (£m)	38.3
Free Float*	35.1%
Market	AIM

*As defined by AIM Rule 26

Description

1pm is a finance company/broker providing almost 20k UK SMEs with a variety of products, including loans, lease, hire purchase, vehicle and invoice finance. Advances range from £1k-£500k. The company distributes directly, via finance brokers and vendor suppliers.

Company information

CEO	Ian Smith
CFO	James Roberts
Chairman	John Newman

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Key shareholders (30/11/18)

Lombard Odier	22.5%
Sapia Partners	14.8%
Ronald Russell (director)	12.1%
Mike Nolan (director)	5.1%

Diary

Jun'19	Trading update

Analyst

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1PM PLC

1H FY'19: good news on credit and integration

We had been looking for two key themes with the 1H FY'19 results announced on 16 January: i) any early signs of credit deterioration were modest; and ii) integrations were going well. 1pm delivered on both. On credit, the net bad debt write-off was down on last year. Management detailed the diversification of the business, and commented how its operating flexibility, small individual exposures, human underwriting and fixed-rate lending should limit losses in a downturn. On group synergies, we note cross referrals are ticking up each month and the cost of group funds is falling. 1H FY'19 saw good franchise and revenue growth. The valuation appears anomalous with the group's prospects.

- **Company news:** We reviewed the 1H FY'19 results in our note, *Geared up for growth*, published on 16 January. New business origination was up 10%, revenue rose 15%, and gross profit was up 17%. Central control investment has continued, and expenses rose 20%. The cost of funds fell, with profit before tax up 11%.
- **Outlook:** These results were consistent with our FY'19 estimates. Management outlined aggressive new targets for 2023, with a lending/invoice finance book of £350m (compared with £145m in 2018 and just £19m in 2014) and £90m+ of revenue in 2023 (against £30m in 2018 and £4m in 2014).
- **Valuation:** Our assumptions are unchanged from those detailed in our note of 16 January. The GGM indicates 116p and the DDM 69p (DDM normal payout 77p). The 2020E P/E (5.0x) and P/B (0.6x) appear an anomaly with 1pm's profitability, growth and downside risk, and we note that peers are trading on higher ratings.
- **Risks:** Credit risk is a key factor and is managed by each business unit according to its own specific characteristics, with a group overview of controls. With the January results, 1pm highlighted how the business model moderates downside risk. Funding is widely diversified and at least matches the duration of lending.
- **Investment summary:** 1pm offers strong earnings growth, in an attractive market, where management is tightly controlling risk. Targets to more than double the market capitalisation appear credible, with triggers to a re-rating being both fundamental (delivery of earnings growth, proof of cross-selling) and sentiment-driven (payback for management actively engaging the investor community). Profitable, growing companies generally trade well above NAV.

Financial summary and valuation

Year-end May (£000)	2016	2017	2018	2019E	2020E
Revenue	12,554	16,944	30,103	33,503	36,854
Cost of sales	-4,480	-6,094	-10,118	-11,264	-12,672
Admin. expenses	-4,290	-6,469	-12,183	-13,603	-14,419
Operating profit	3,418	4,121	7,966	8,914	9,763
Pre-tax profit	3,346	4,080	7,850	8,708	9,537
Adjusted EPS (p)	6.5	6.5	7.9	8.1	9.0
Total receivables	56,061	73,955	126,069	136,197	149,817
Equity to receivables	43%	39%	38%	41%	42%
Shares in issue (m)	52.5	54.9	86.2	88.5	90.6
P/adjusted earnings (x)	6.9	6.9	5.7	5.5	5.0
P/B (x)	1.0	0.9	0.8	0.7	0.6
Dividend yield	1.1%	1.1%	1.5%	1.9%	2.5%

Source: Hardman & Co Research

Healthcare Equipment & Services

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	AVO
Price (p)	38.0
12m High (p)	64.0
12m Low (p)	32.4
Shares (m)	194.6
Mkt Cap (£m)	73.9
EV (£m)	66.9
Free Float*	60%
Market	AIM

**As defined by AIM Rule 26*

Description

Advanced Oncotherapy (AVO) is developing next-generation proton therapy systems for use in radiation treatment of cancers. The first system is expected to be installed in Harley Street, London, during 2019; it will be operated through a JV with Circle Health.

Company information

Exec. Chairman	Michael Sinclair
CEO	Nicolas Serandour

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Key shareholders	
Board & Management	11.4%
Liquid Harmony Ltd	23.1%
DNCA Investment	6.2%
Brahma AG	4.1%
Barrymore Investments Ltd	4.1%
AB Segulah	3.3%

Diary	
2Q'19	Final results
1H'19	Harley Street ready

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ADVANCED ONCOTHERAPY

First step towards regulatory submission

AVO's goal is to deliver an affordable and novel PT system, based on state-of-the-art technology developed originally at the CERN. Achievement of major technical milestones has boosted confidence, and the group remains on track with its strategy. AVO has integrated successfully the four types of structure that constitute the LIGHT accelerator and has recorded the proton beam at an energy of 52MeV, sufficient to treat superficial tumours. Following the capital increase of £10m, AVO has achieved an important regulatory milestone by receiving ISO 13485 accreditation, demonstrating its commitment to safety and high quality, and further endorsing the team's ability to meet its objectives.

- **Strategy:** AVO is developing a compact and modular proton therapy (PT) system at an affordable price for the payor, financially attractive to the operator, and generating superior patient outcomes. AVO benefits from the technology know-how developed by CERN and ADAM, Geneva, and relies on a base of world-class suppliers.
- **ISO approval:** ISO 13485 is an internationally agreed standard that sets out the requirements for a quality management system specific to the medical devices industry. It can also be used by internal and external parties, such as certification bodies, to help them with their auditing processes.
- **Development update:** Infrastructure to support the installation and assembly of the full LIGHT system has already started at STFC's Daresbury Laboratory. Once the complete system has been installed and validated, it will be used to support AVO's submission for CE marking, prior to first patients in 2020.
- **Funding update:** In December 2018, AVO raised £10.0m gross through the issue of 25.0m new Ordinary shares at 40p per share, via a Subscription with existing and new shareholders. The Subscription was led by DNCA Investments, which is investing £4.8m, representing 6.2% of the enlarged share capital.
- **Investment summary:** Demand for PT is increasing worldwide, and the need for a small, flexible, affordable and close-to-patient system is desirable. AVO has attracted strong manufacturing partners, and discussions with potential customers are advancing. Progress at its flagship Harley Street site has been substantial, and installation of the first LIGHT system is planned to start in mid-2019. The latest technical update has brought further assurance and boosted confidence.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	0.0	0.0	0.0			
Administration costs	-6.6	-11.2	-12.9			
Milestones/upfronts	0.0	0.0	0.0			
EBITDA	-6.4	-10.8	-12.6			
Underlying EBIT	-6.6	-11.2	-12.9			
Reported EBIT	-8.5	-13.1	-14.5	Forecasts under review		
Underlying PBT	-6.7	-11.3	-14.9			
Statutory PBT	-8.6	-13.2	-16.5			
Underlying EPS (p)	-7.1	-13.9	-15.6			
Statutory EPS (p)	-12.3	-14.4	-18.9			
Net (debt)/cash	8.0	0.9	-9.2			
Capital increase	21.1	13.5	7.3			

Source: Hardman & Co Life Sciences Research

AJ BELL

Platform for growth

AJ Bell is one of the largest and fastest-growing investment platforms in the UK. It serves both the adviser market and the DIY investor. Having transitioned to updated technology in 2014, it is well placed to ride the growth in the market and pick up disaffected clients from competitor platforms that are only now upgrading. We anticipate strong profit growth on the back of higher revenues and positive operational gearing. The new asset management business should add further momentum, and higher UK savings rates could be the icing on the cake.

- **Strategy:** AJ Bell intends to be the easiest platform for investors and advisers to use, and to offer exceptional value – but not at the expense of service levels. It charges noticeably less than many of its competitors, putting it in a strong position as charges take a higher profile.
- **Plenty of scope for platform expansion:** Investment platforms are an obviously good way to concentrate the administration and custody of investments in one place, while offering a huge variety of investment choice, and freeing investors and advisers to focus on what they do best. There are still plenty of assets not yet corralled, as well as significant underlying growth.
- **Valuation:** We value the business on a DCF basis. At the current price, it is effectively assuming a discount rate of 8%, putting it at the top end of our wide range. Our central valuation of £912m would put it on a FY19E PER of 32x, which compares with Transact on 28x and Hargreaves Lansdown on 33x.
- **Risks:** There are inevitably market risks – revenue is linked to the value of assets and, to a lesser extent, the amount of trading on the platform. The business is also sensitive to tax and savings policies, which can have major impacts on investors' behaviour. The robustness of the technology is critical too.
- **Investment summary:** AJ Bell is a very attractive business, in our view. It is well positioned to benefit from the expected continuing growth in savings and the ever- higher proportion of those savings held on platforms. The business is highly cash-generative and holds significant net cash. These positive characteristics would seem to be well reflected in the current price.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
AuA (£bn)	32	40	46	49	55	61
Revenue	64.5	75.6	89.7	104.0	116.0	130.0
Net finance income	0.0	-0.1	0.1	0.0	0.0	0.0
PBT	16.8	21.7	30.1	37.0	41.0	47.0
Tax	-3.5	-4.2	-5.7	-6.7	-7.4	-8.5
Net profit	13.3	17.5	22.6	28.5	33.6	38.6
No. of shares (fully-diluted, m)	394	396	402	408	408	408
EPS (fully-diluted, p)	3.4	4.4	6.1	7.4	8.2	9.5
DPS (p)	2.7	2.9	3.7	4.5	5.4	6.1
PER (x)	79.4	60.6	44.2	36.1	32.6	28.4
Dividend yield	1.0%	1.1%	1.4%	1.7%	2.0%	2.3%
Dividend cover (x)	1.3	1.5	1.5	1.5	1.5	1.5

Source: Hardman & Co Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**AJB**
Price (p)	**268**
12m High (p)	299
12m Low (p)	162
Shares (m)	407
Mkt Cap (£m)	1,090
EV (£m)	1,035
Free Float*	36.5%
Market	LSE full listing

**As defined by LR 6.14 of the Listing Rules*

Description

AJ Bell is one of the largest investment platforms in the UK. It serves both DIY and advised customers, and offers SIPPs, ISAs and general accounts. It aims to be easy to use and very competitively priced.

Company information

CEO	Andy Bell
CFO	Michael Summersgill
Chairman	Les Platts

+44 345 40 89 100
www.ajbell.co.uk

Key shareholders

Invesco Perpetual	25%
Andy Bell	25%
Management and other	23%
Michael Spencer	3%

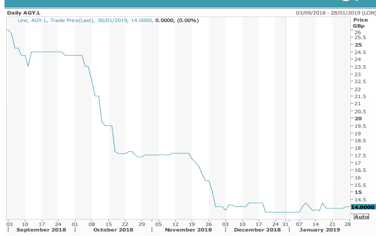
Diary

26 Apr	2Q trading update
23 May	Interim results
25 Jul	3Q trading update

Analyst

Jason Streets 020 7194 7622
js@hardmanandco.com

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	AGY
Price (p)	14.0
12m High (p)	32.0
12m Low (p)	13.5
Shares (m)	636.2
Mkt Cap (£m)	89.1
EV (£m)	76.6
Free Float*	39%
Market	AIM

*As defined by AIM Rule 26

Description

Allergy Therapeutics (AGY) provides information to professionals related to prevention, diagnosis and treatment of allergic conditions, with a special focus on allergy vaccination. The emphasis is on treating the underlying cause and not just the symptoms.

Company information

CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen

+44 1903 845 820
www.allergytherapeutics.com

Key shareholders

Directors	0.7%
Abbott Labs	37.8%
Southern Fox	22.7%
Odey	6.9%
Blackrock	5.3%

Diary

1Q'19	Ph.III PQ Birch trial
Mar'19	Interim results
1H'19	Ph.I Acarovac trial

Analysts

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ALLERGY THERAPEUTICS

Gaining market share

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. The Pollinex Quattro (PQ) platform, the ultra-short course subcutaneous allergy immunotherapy (AIT), continues to gain market share, despite its availability in the EU only on a 'named-patient' basis. 2019 is expected to deliver progress in several areas, notably PQ Birch, for which top-line Phase III data are due in 1Q'19. A trading update has confirmed strong market share gains and cash generation in the traditionally strong 1H period. AGY also has important meetings scheduled with both the EU and US regulators during 1Q'19 regarding PQ grass trials.

- **Strategy:** AGY is a fully-integrated pharmaceutical company focused on the treatment of allergies. There are three parts to its strategy: continued development of its European business via investment or opportunistic acquisitions; the US PQ opportunity; and further development of its pipeline.

- **Trading update:** Underlying product sales were particularly strong in 1H'19, rising 10.6% to £46.7m (£42.2m), compared with our forecast of 7.0% growth, suggesting further market share gains. The cash position at the period-end was modestly below forecasts at £31.6m, representing £5.5m cash generation.

- **Clinical/regulatory update:** The statement also highlighted a wave of clinical and regulatory activity during 1H calendar 2019. Key will be the headline data from the European Phase III PQ Birch trial, expected in 1Q'19. In addition, meetings with both the FDA and the German regulators have been scheduled.

- **Risks:** AGY's primary risk lies in the timings of the regulatory approval process, mostly outside of its control, related to the PQ Birch immunotherapy and the European TAV process for full approval. Ongoing trials do represent a risk, but this is limited by the products' use on a named-patient basis.

- **Investment summary:** AGY is approaching an exciting period. It has a clear vision, is gaining market share from competitors, and is leading the race to have its subcutaneous-administered products fully approved and regulated as biologicals – first in Europe and then in the US, where the regulators are demanding change. Read-out from the EU Phase III PQ Birch trial in 1Q'19 will provide the next major value inflection point.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	48.5	64.1	68.3	73.0	78.4	85.5
R&D investment	-16.2	-9.3	-16.0	-18.0	-20.0	-15.0
Underlying EBIT	-12.3	-2.9	-6.4	-7.8	-8.9	-2.0
Reported EBIT	-12.5	-2.6	-7.4	-8.8	-9.9	-3.0
Underlying PBT	-12.5	-3.0	-6.5	-8.1	-9.2	-2.4
Statutory PBT	-12.2	-2.7	-7.5	-9.1	-10.2	-3.3
Underlying EPS (p)	-2.4	-0.5	-1.1	-1.2	-1.6	-0.5
Statutory EPS (p)	-2.3	-0.4	-1.3	-1.4	-1.6	-0.5
Net (debt)/cash	20.0	18.8	12.5	13.8	1.7	-29.0
Capital increase	11.0	0.0	0.0	10.4	0.3	0.3
P/E (x)	-5.9	-29.8	-12.7	-11.5	-9.0	-28.5
EV/sales (x)	1.6	1.2	1.1	1.0	1.0	0.9

Source: Hardman & Co Life Sciences Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ARBB
Price (p)	1,160
12m High (p)	1,640
12m Low (p)	1,033
Shares (m)	15.3
Mkt Cap (£m)	177
Loans to deposits	80%
Free Float*	42%
Market	AIM

**As defined by AIM Rule 26*

Description

Arbuthnot Banking Group (ABG) has a well-funded and capitalised private bank, and has been growing commercial banking very strongly. It holds an 18.6% stake in Secure Trust Bank (STB) and has ca.£25m-£30m to invest in new organic or acquired businesses.

Company information

Chair/CEO	Sir Henry Angest
COO/CEO Arb. Latham	Andrew Salmon
Group FD, Deputy CEO AL	James Cobb

+44 20 7012 2400
www.arbuthnotgroup.com

Key shareholders

Sir Henry Angest	56.1%
Liontrust	7.5%
Prudential plc	4.0%
R Paston	3.5%

Diary

Late Feb'19	Trading statement
Late Mar'19	FY'18 results

Analyst

Mark Thomas 020 7194 7622
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ARBUTHNOT BANKING GROUP

Expect a positive trading statement

We expect ABG to issue a trading statement in late February. Announcements on new business won over the past three months, and the *third quarter trading update*, would suggest strong growth, especially in new business lines (3Q'18 group loan balances 28% up on 3Q'17). We also expect strong deposit growth and an update on the direct deposit pilot offering. Given its history in private banking and its tiny market shares in commercial lending, we believe this growth can be achieved without compromising credit quality. While ABG has material surplus capital, it has previously indicated that it is exploring non-equity capital options, but we would only expect an update on that with its results.

- **Company news: On 19 December,** Banking Competition Remedies Ltd announced that ABG was one of 11 banks eligible to be part of the RBS Incentivised Switching Scheme. In January 2019, Arbuthnot Commercial Asset Based Lending announced three major funding facilities totalling over £10m. The strong growth in new business lines appears to be continuing in 2019.
- **Peer news:** Secure Trust Bank's (STB) 16 January *trading statement* noted that 2018 results were anticipated to be in line with expectations, together with its expected reduction in risk profile. Metro Bank's 23 January *results preview* and sharp share price correction were due to company-specific capital and impairment issues, and we see no read-across to ABG.
- **Valuation:** The range of our capital deployed valuation methodologies is now £13.60 (DDM), £22.50 (SoTP) and £22.98 (GGM). The SoTP is up ca.30p from our previous valuations, reflecting the STB market price. The current share price is around 85% of 2018E NAV (1,359p).
- **Risks:** As with any bank, the key risk is credit. ABG's existing business should see below-market volatility, and so the main risk lies in new lending. We believe management is cognizant of the risk, and has historically been very conservative. Other risks include reputation, regulation and compliance.
- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly growing bank priced around 80% book value is an anomaly.

Financial summary and valuation (after change in STB treatment)

Year-end Dec (£000)	2015	2016	2017	2018E	2019E
Operating income	34,604	41,450	54,616	66,431	80,300
Total costs	-35,926	-46,111	-54,721	-63,686	-75,629
Cost:income ratio	104%	111%	100%	96%	94%
Total impairments	-1,284	-474	-394	-562	-675
Reported PBT	-2,606	-1,966	2,534	4,445	8,160
Adjusted PBT	2,982	1,864	3,186	6,445	10,160
Statutory EPS (p)	86.3	1,127.3	43.9	-143.3	47.7
Adjusted EPS (p)	13.5	17.1	47.5	35.9	58.4
Loans/deposits	82%	76%	75%	74%	80%
Equity/assets	5.5%	18.5%	12.8%	10.1%	9.0%
P/adjusted earnings (x)	85.9	67.8	24.4	32.3	19.9
P/BV (x)	1.43	0.76	0.75	0.85	0.85

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	AVCT
Price (p)	44.5
12m High (p)	70.5
12m Low (p)	21.0
Shares (m)	115.5
Mkt Cap (£m)	51.4
EV (£m)	36.4
Free Float*	78%
Market	AIM

*As defined by AIM Rule 26

Description

Avacta (AVCT) is a pre-clinical biotechnology company, developing biotherapeutics based on its proprietary Affimer protein technology. It benefits from near-term revenues from research and diagnostic reagents.

Company information	
CEO	Alastair Smith
CFO	Tony Gardiner
Chairman	Eliot Forster

+44 1904 217 046
www.avacta.com

Key shareholders	
Directors	3.9%
IP Group	18.2%
Baillie Gifford	8.5%
JO Hambro	7.5%
Carlton Intl.	7.3%
Fidelity	5.9%

Diary	
1H'19	PD-L1/LAG-3 drug candidate selection
Apr'19	Interim results

Analysts

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AVACTA

Very upbeat AGM statement

AVCT is a pre-clinical biotechnology company and the proprietary owner of Affimer technology. Affimers represent a radical alternative to the established antibody technology, which continues to dominate the drug industry, despite its limitations. The significant technical and commercial benefits of Affimers are being recognised increasingly through corporate and academic interest, ongoing evaluations and deal flow. Towards the end of 2018, AVCT signed a number of licensing deals, including an Affimer therapeutics development and commercial agreement with the global pharma company, LG Chem, worth up to $310m.

- **Strategy:** AVCT is aiming to commercialise its Affimer technology through licensing for research and diagnostics, and by identifying and developing its own proprietary therapeutic pipeline for partnering. The company has sufficient cash resources to identify an Affimer lead to be ready for first-in-man trials in 2020.

- **AGM statement:** At its AGM on 21 January, the company issued an informative and upbeat trading statement highlighting the enormous progress over the last year, culminating in its first discovery and development licensing agreement for Affimer therapeutics with a pharma major, LG Chem, potentially worth up to $310m.

- **Change of year-end:** The Board has decided to change the company's reporting reference date from 31 July to 31 December, bringing it into line with the industry norm. While this might cause some short-term disruption, it will be good for the long term, and it is easier to do this at an early stage in a company's development.

- **Risks:** Affimers represent a new disruptive technology, and the potential customer base might take time to recognise their advantages. While all new drug development carries a high risk, AVCT has hit a number of important milestones over the last two years, which have reduced the risk profile greatly.

- **Investment summary:** AVCT has made considerable progress towards its goal of having a number of commercial partnerships for its Affimer technology, as well as developing its own proprietary Affimer-based drugs and growing a separate profitable reagents business. The rising number of collaboration deals being discussed and signed is a clear indication of the long-term value of its Affimer technology, which the market is only just beginning to recognise.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	2.17	2.74	2.76	3.17	4.69	8.60
R&D spend	-1.50	-2.60	-3.78	-4.50	-5.50	-6.50
EBITDA	-4.79	-6.66	-9.15	-8.88	-8.72	-7.00
Underlying EBIT	-5.39	-7.60	-10.12	-9.85	-9.69	-7.97
Reported EBIT	-5.66	-7.98	-10.43	-10.19	-10.07	-8.38
Underlying PBT	-5.29	-7.51	-10.08	-9.82	-9.67	-7.99
Statutory PBT	-5.57	-7.89	-10.39	-10.16	-10.05	-8.40
Underlying EPS (p)	-6.46	-8.75	-13.07	-7.42	-7.12	-5.48
Statutory EPS (p)	-6.86	-9.31	-13.55	-7.72	-7.44	-5.83
Net (debt)/cash	19.52	13.17	5.22	7.75	-0.74	-7.32
Capital increase	21.05	0.01	0.05	10.92	0.00	0.00
EV/sales (x)	20.6	16.3	16.1	14.1	9.5	5.2

Source: Hardman & Co Life Sciences Research

Software & Computer Services

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	DISH
Price (p)	2.15
12m High (p)	5.6
12m Low (p)	1.4
Shares (m)	285.8
Mkt Cap (£m)	6.1
Free Float	34.7%
Market	Main Market

Description

BigDish Plc is an early-stage revenue-generating tech company that has developed a yield management platform for the restaurant industry. The company currently has operations in the Philippines, Indonesia and Hong Kong, and in the southwest of the UK following the recent acquisition of TablePouncer.

Company information

Chairman	Aidan Bishop
CEO*	Sanj Naha
CPO	Joost Boer
CFO	Stuart Kemp

effective from mid-Feb'19

www.bigdishplc.com

Key shareholders

Directors	29.4%
Oyster Trust Sarl	14.0%
LAC Venture	13.6%
Neil Norman	3.5%

Diary

Jun'19	Full-year results

Analyst

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yc@hardmanandco.com

BIGDISH PLC

Launch in Bournemouth and new CEO

Early-stage yield management tech company, BigDish Plc, has officially launched the BigDish app in Bournemouth and integrated all TablePouncer's restaurants onto the company's app from mid-January. BigDish's platform now has over 50 of Bournemouth's most popular restaurants, and the company expects this number to increase in the near term. On 31 January, it also rolled out its platform in Bristol, and it plans to launch in Bath imminently, which is currently in beta phase, with only a limited number of restaurants available. With the appointment of UK-based Sanj Naha as CEO from mid-February, BigDish aims to accelerate the rate of restaurant sign-ups in the southwest of the country.

- **New appointment:** Mr Sanj Naha joined BigDish in October 2018 to assist in developing the company's UK strategy. He has 25+ years' experience in hospitality and 10+ years' experience in hospitality technology. Before joining BigDish, Sanj Naha worked as Head of B2B Marketing and Sales Enablement at TheFork, a restaurant booking platform acquired by TripAdvisor in 2014.
- **Focus on increasing brand recognition and UK market:** BigDish has operations in the Philippines (Manila), Indonesia (Jakarta) and Hong Kong, as well as in the UK, now with the fully integrated TablePouncer business. Following a strategic review, management concluded that it should focus all resources on the UK market, where there are more growth opportunities.
- **Acceleration in 2019:** The BigDish app could potentially be a disruptive technology to the traditional UK dining sector, and the company has the first-mover advantage in this market. It expects to accelerate growth through the launches in new cities and also via the number of restaurant offerings across its platforms.
- **Risks:** As an early-stage technology company with a limited proven track record, BigDish might need to compete with other, more established market players in the restaurant reservation and discounting sector. BigDish and TablePouncer have yet to reach breakeven, given their early development stage.
- **Investment summary:** BigDish has developed a value-added service for the restaurant industry. With operations in three countries, the company is at an inflection point where we would expect growth to gather pace, as investment in marketing and advertising campaigns accelerates. BigDish's model is easily saleable across cities and countries. It is worth noting that tech platforms such as BigDish have attracted significant interest from major players in the global consumer technology sector.

HARDMAN&CO.

BURFORD CAPITAL

Limited news in close period

With Burford in its close period, news flow from the company has been very limited. The annual results will be announced on 13 March and, in the absence of notifiable events, it seems likely that there will be limited company-specific news. Burford has continued to generate some positive PR. The CEO, Chris Bogart, was interviewed by the Australian Broadcasting Corporation on Burford's entrance into the Australian market. Of particular interest was the funding of the shareholder class action against AMP Ltd.

- **2018 Litigation Finance Survey:** While it is now several months since this was published, it continues to gain positive coverage, with BRG's Business Vision using the survey to assert how litigation finance is becoming increasingly important for in-house legal teams.
- **Valuation:** In December 2018, Hardman & Co made significant upgrades to its earnings estimates on Burford. The prospective 2019 P/E of 19.2x is not excessive for a growth company, with a 25.1% 2019E RoE giving strong metrics all round.
- **Risks:** The investment portfolio is very diversified, with exposure to more than 900 claims. However, it retains some very large investments, which means revenue could be volatile. As the company matures, we would expect that to decrease, but not to disappear. The Petersen case shows that this volatility is not simply a negative.
- **Investment summary:** Burford has already demonstrated an impressive ability to deliver good returns in a growing market, while investing its capital base. As the invested capital continues to grow, the litigation investment business will continue to produce strong earnings growth.

Financial summary and valuation

Year-end Dec ($m)	2015	2016	2017	2018E	2019E	2020E
Revenue	103.0	163.4	341.2	326.5	398.5	571.6
Operating profit	77.2	124.4	285.1	263.0	323.3	482.5
Reported net income	64.5	108.3	249.3	216.2	275.7	432.3
Underlying net income	64.5	114.2	264.8	227.9	287.4	444.0
Underlying RoE	16.0%	22.1%	35.9%	24.6%	25.1%	30.0%
Underlying EPS ($)	0.32	0.55	1.27	1.04	1.31	2.03
Statutory EPS ($)	0.32	0.53	1.20	1.03	1.26	1.98
DPS ($)	0.08	0.09	0.11	0.13	0.15	0.17
Dividend yield	0.3%	0.4%	0.4%	0.5%	0.6%	0.7%
NAV per share ($)	2.12	2.22	3.19	3.92	5.05	7.03
P/E (x) (underlying)	80.2	46.1	19.9	24.3	19.2	12.5
Price/NAV (x)	11.9	11.4	7.9	6.5	5.0	3.6

Source: Hardman & Co Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**BUR**
Price (p)	1,806.0
12m High (p)	2,040.0
12m Low (p)	1,022.0
Shares (m)	218.6
Mkt Cap (£m)	3,948
Total Assets ($m)	1,904
Free Float*	90%
Market	AIM

**As defined by AIM Rule 26*

Description

Burford Capital is a leading global finance and professional services firm focusing on law. Its businesses include litigation finance and risk management, asset recovery, and a wide range of legal finance and advisory activities.

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
Chairman	Sir Peter Middleton

+1 212 235 6820
www.burfordcapital.com

Key shareholders

Directors	8.2%
Invesco Perpetual	15.0%
Woodford Investments	9.5%
Merian Global Investors	5.0%

Diary

13 Mar	Full-year results

Analyst

Brian Moretta 020 7194 7622
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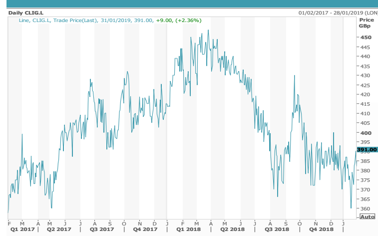
HARDMAN&CO.

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	CLIG
Price (p)	382.0
12m High (p)	454.0
12m Low (p)	360.0
Shares (m)	26.9
Mkt Cap (£m)	102.8
EV (£m)	83.1
Market	LSE

Description

City of London (CLIG) is an investment manager specialising in using closed- end funds to invest in emerging and other markets.

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	David Cardale

+44 207 860 8346
www.citlon.com

Key shareholders

Directors & staff	16.7%
Blackrock	10.0%
Cannacord Genuity	8.0%
Eschaton Opportunities Fund Management	4.8%
Polar Capital	4.1%

Diary

18 Feb	Half-year results
7 Mar	Interim ex-dividend date
16 Apr	3Q FUM announcement
16 Jul	Pre-close trading statement

Analyst

Brian Moretta 020 7194 7622
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CITY OF LONDON INVESTMENT GROUP

Challenging 2018 now history

City of London has released its trading update for 2Q of FY'19. In this period, market weakness dominated movements in FUM: the 7% fall in the MSCI Emerging Markets Index was trumped by a 13% fall in the MSCI ACWI. Fund flows, in contrast, had a quieter quarter, with a net $15m of inflows to the Opportunistic Value strategies offset by net outflows of $62m from Emerging Markets. City of London has indicated that there may be some positive rebalancing, with $125m of net inflows expected to be funded over the next quarter. The MSCI Emerging Markets Index is up 4% so far in 2019, suggesting an improvement since the year-end.

- **Performance:** The Emerging Markets strategy had an inconsistent 2018 in terms of performance, but it finished well, with narrowing discounts and country allocation contributing to outperformance. The other strategies, which had done well earlier in the year, underperformed towards the end of the year.

- **Operations:** Costs were in line with those indicated in the last announcement. The EIP charge has increased a little, to 5%, from 3% at the full-year results. However, falling markets have impacted revenues, and the first-half profit before tax will be around £5.2m, compared with £6.6m in the previous first half.

- **Valuation:** The prospective P/E of 12.0x is at a significant discount to the peer group. The historical yield of 7.1% is attractive and should, at the very least, provide support for the shares in the current markets.

- **Risks:** Although emerging markets can be volatile, City of London has proved to be more robust than some other EM fund managers, aided by its good performance and strong client servicing. Further EM volatility could increase the risk of such outflows, although increased diversification is also mitigating this.

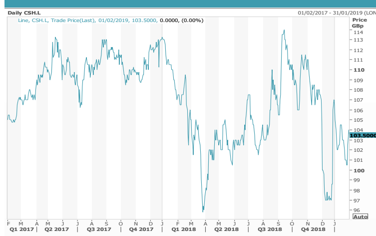
- **Investment summary**: Having shown robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY'17 and FY'18 both saw dividend increases, and further recovery in EM could lead to more in future years.

Financial summary and valuation

Year-end Jun (£m)	2015	2016	2017	2018	2019E	2020E
FUM ($bn)	4.20	4.00	4.66	5.11	4.80	5.18
Revenue	25.36	24.41	31.29	33.93	29.93	30.27
Statutory PTP	8.93	7.97	11.59	12.79	10.00	10.02
Statutory EPS (p)	26.4	23.3	36.9	39.5	31.8	31.8
DPS (p)	24.0	24.0	25.0	27.0	27.0	27.0
P/E (x)	14.5	16.4	10.4	9.7	12.0	12.0
Dividend yield	6.3%	6.3%	6.5%	7.1%	7.1%	7.1%

Source: Hardman & Co Research

Real Estate



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**CSH**
Price (p)	103
12m High (p)	113
12m Low (p)	96
Shares (m)	622.5
Mkt Cap (£m)	641.0
EV (£m)	779.0
Market	LSE Premium

Description

Civitas is a REIT investing in English and Welsh social housing. Over 75% (near 100% likely going forward) is invested in supported living assets.

Company information

CEO (Advisors)	Paul Bridge
Director (Advisors)	Andrew Dawber
CFO (Advisors)	Graham Peck

+ 44 203 058 4840
www.civitassocialhousing.com

Key shareholders

Investec Wealth Investment	9.99%
Fidelity International	5.40%
East Riding Pension Fund	3.21%
Legal & General Investment Management	2.89%
EFG Private Bank Limited	2.89%

Diary

Apr'19	Quarterly fact sheet
Jun'19	Final results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

CIVITAS SOCIAL HOUSING

New 'Fact Sheet' and update on C shares and lessee

The Quarterly Fact Sheet is all as expected, with a small NAV rise and a rent roll rise to £40.5m. Civitas's income derives from 20+year commercial leases, all of which are CPI- linked (a small number CPI +1%). While some of the lease counterparts are not large organisations, all are registered providers (RPs) and are tightly regulated. The RPs' covenants are not the key to the value and risk – rather the underlying income stream of each asset. On 30 November, the Westmoreland Supported Housing Association lessee (WS) announced that it was subject to a "Regulatory Judgement" from the Regulator of Social Housing (RSH). WS trades normally. Its covenant is not substantively changed.

- **Quarterly Fact Sheet to December:** Published on 31 January, the new information was entirely in line with expectations, and we note IFRS NAV at 106.5p (106.1p end-September). The deployment of capital continues on track. 36 properties were bought in the quarter, and rent run rate as of end-December rose to £40.5m.
- **Progress:** Civitas invests in 144 local authorities (99 December 2017) with 98 (59) care providers. Alongside the investment of its November 2017 C-share £302m fund raise, this demonstrates the execution capabilities of the experienced team. IPO dividend projections (5.0p DPS target, 2019) are well on track.
- **WS lessee:** Civitas has highlighted regularly that it buys assets where rents to occupiers are at/below the local median, and directly meets the needs/criteria of the funders of that cashflow – the local authority Commissioner and, ultimately, central government. Civitas, after consultation with JLL (its valuers), takes no NAV impairment; the latest quarterly NAV/share marks a modest increase.
- **Risks:** Central government meets tenant rents and other costs, paid to the property's relevant RP, which has taken long leases with Civitas. Risks relate to possible structural voids (this is an under-provided market where "institutional" alternatives are less attractive) or whether properties are over-rented (Civitas confirms they are not).
- **Investment summary:** It is an important investment attribute that 100% income is CPI-linked. Dividends should grow, in line with inflation. Our estimates assume CPI inflation at sub-2%, and it would appear that this is conservative. A strong, experienced team is proving its worth.

Financial summary and valuation

Year-end Mar (£m)	2018*	2019	2020E	2021E	2022E	2023E
Income	18.6	34.5	49.0	52.4	54.3	55.6
Operating profit	9.7	25.3	39.1	42.6	44.4	45.5
Finance	-3.4	-2.5	-6.6	-9.2	-10.0	-10.2
Revaluation	30.6	7.0	17.0	17.0	17.0	17.0
Profit declared	36.9	29.8	49.5	50.4	51.3	52.2
EPRA profit	6.3	22.8	32.5	33.4	34.3	35.2
EPRA EPS (p)	1.8	5.0	5.2	5.4	5.5	5.6
DPS (p)	3.00	5.00	5.20	5.35	5.50	5.65
IFRS NAV (p)	105.5	110.5	113.3	116.0	118.7	121.5
Property assets	516.2	827.7	1007.7	1031.7	1055.7	1079.7
Loan to value	cash	17.0%	30.0%	30.0%	30.0%	30.0%
Dividend yield **	N/A	4.9%	5.0%	5.2%	5.3%	5.3%

**Reflects full period from float (November 2016)*

Source: Hardman & Co Research

***Based on current share price*

DIURNAL GROUP

Plan for Chronocort

DNL is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead products target rare conditions where medical needs are currently unmet, with the aim of building a long-term 'Adrenal Franchise'. Alkindi is being launched in key EU markets, and this was expected to be followed by Chronocort; however, headline data from its EU Phase III trial in CAH did not show superiority over standard-of-care, thereby failing to meet its primary end-point. DNL is seeking 'Scientific Advice' (SA) from the EMA about how to proceed, which should be available in 2Q'19, with a view to filing for market authorisation in Europe.

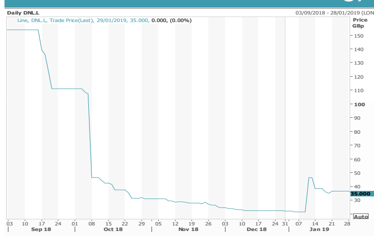
- **Strategy:** DNL's strategic goal is to create a valuable 'Adrenal Franchise' that can treat patients with chronic cortisol deficiency diseases from birth through to old age. Once Alkindi and Chronocort are established in the EU and the US, the long-term vision is to expand DNL's product offering to other related conditions.
- **Phase III results:** The full data set has now been analysed and, despite not meeting its primary end-point of superiority, Chronocort was seen as efficacious and conferring many advantages over standard-of-care, such as improved androgen control in the critical morning period and lower levels of androgen over 24 hours.
- **EMA SA:** A briefing package for Chronocort requesting 'Scientific Advice' has been submitted to the EMA. It includes additional analysis from the trial and the Phase III safety extension currently running, showing the benefits of Chronocort. The meeting is expected to take place in 1Q'19, with feedback in 2Q'19.
- **Risks:** While there is a risk with all drugs in development that they might fail clinical trials or not be approved, DNL had been considered to have unusually low risk, as its products are formulations of well-established drugs. Following Alkindi's approval in Europe, the Chronocort outcome was unexpected.
- **Investment summary:** Alkindi, a cortisol replacement therapy designed for babies and children, is DNL's first product on the market. It had been expected to be followed by Chronocort for adults – a much larger market. The fall in the share price following this unpredictable outcome looks overdone, but the price is likely to languish until there is clarity from the regulators about how to move Chronocort forward.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	0.00	0.00	0.07	1.54	5.53	17.23
SG&A	-1.99	-3.23	-6.21	-7.77	-9.40	-11.13
R&D	-3.89	-8.34	-10.02	-10.83	-7.58	-7.20
EBITDA	-5.87	-11.56	-16.16	-17.28	-11.99	-2.81
Underlying EBIT	-5.88	-11.56	-16.17	-17.29	-12.01	-2.83
Reported EBIT	-6.99	-12.08	-16.98	-18.14	-12.90	-3.76
Underlying PBT	-5.95	-11.64	-16.30	-17.20	-11.99	-2.87
Statutory PBT	-7.06	-12.16	-16.91	-18.05	-12.89	-3.80
Underlying EPS (p)	-12.48	-17.05	-25.68	-22.27	-15.51	-0.83
Statutory EPS (p)	-15.02	-18.04	-26.78	-23.65	-16.96	-2.36
Net (debt)/cash	26.88	16.37	17.28	2.47	-7.79	-11.57
Capital increases	24.52	0.05	13.40	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	DNL
Price (p)	36.5
12m High (p)	215.8
12m Low (p)	21.1
Shares (m)	61.7
Mkt Cap (£m)	22.5
EV (£m)	9.2
Free Float*	20%
Market	AIM

**As defined by AIM Rule 26*

Description

Diurnal (DNL) is a UK-based specialty pharma company targeting patient needs in chronic, potentially life-threatening, endocrine (hormonal) diseases. Alkindi is DNL's first product in the market in Europe for the paediatric population, with first sales started in key countries, while Chronocort is in Phase III trials.

Company information

CEO	Martin Whitaker
CFO	Richard Bungay
Chairman	Peter Allen

+44 29 2068 2069
www.diurnal.co.uk

Key shareholders

Directors	3.0%
IP Group	44.1%
Finance Wales	18.8%
Invesco	11.7%
Oceanwood Capital	5.7%

Diary

Mar'19	Interim results
End-1Q'19	EMA 'SA' meeting
Early 2Q'19	EMA 'SA' feedback

Analysts

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DP POLAND

Fully proven model rolls out

DPP announced in December that, while EBITDA for 2018 would be broadly in line with expectations, revenue would be lower, due to unseasonably warm weather and competitive marketing activity by delivery aggregators. The company is cautious about the impact of the above issues continuing into 2019, and so we cut our forecasts for the next few years, effectively pushing back the path to profitability by a year. This means, in our view, that the company is likely to need some additional funding during 2019.

- **Strategy:** DPP has spent its first few years proving the Domino's Pizza model in Poland. With the new commissary up and running, it has scope to double the number of operations over the next few years. As the stores mature, the success should show up in reported profits. DPP's marketing is smarter than that of its competitors – using digital media, rather than expensive display advertising.
- **Competitive market:** DPP has neither the pizza market nor the food delivery market to itself in Poland. While the Domino's formula of focusing on high-quality pizza, delivered swiftly, is hard to beat, the new food delivery aggregators have money to spend and are impacting DPP's above-the-line promotional activity, with aggressive (and possibly unsustainable) marketing activity.
- **Valuation:** With no reported profits expected for the next few years, we value DPP on a per-store basis. In our initiation research, published on 18 September 2018 (*'Fully proven model rolls out'*), we derived a central value of around £80m, to reflect the delay in the maturing of the business; we now discount that for a further year, to £72m, or 47p per share.
- **Risks:** The biggest short-term risk to DPP is the deep pockets of the new disruptors: the food delivery aggregators. This has already impacted DPP's growth, as it struggles to get its message across, against competitors spending 20x or even 25x what DPP is spending. With additional financing now required, in our view, current shareholders may get diluted if they do not fully participate.
- **Investment summary:** The story for DPP is quite simple: it has a powerful retail consumer franchise in a fast-developing economy. The nature of a Domino's Pizza franchise is that it takes time to get to profitability, which leaves management with a fine line to draw between growth and short-term losses. Disruptive competitive activity pushes the path to profitability further into the future, but also grows the delivery market. The model remains sound, in our view.

Financial summary and valuation

Year-end Dec (£000)	2016	2017	2018E	2019E	2020E
Revenue	7.6	10.4	12.9	15.0	20.0
Store EBITDA	1.5	0.7	0.8	0.8	1.1
Group EBITDA	-1.6	-1.8	-2.0	-1.5	-0.5
EBIT	-2.5	-2.7	-3.1	-2.6	-1.7
Finance costs	0.1	0.1	0.0	0.0	0.0
PBT	-2.5	-2.6	-3.1	-2.6	-1.7
PAT	-2.5	-2.6	-3.1	-2.6	-1.7
EPS (p)	-1.9	-1.9	-2.0	-1.7	-1.1
EPS, adjusted (p)	-1.8	-1.9	-2.0	-1.7	-1.1
Net cash	6.0	4.1	1.1	-2.3	-4.7
Shares issued (m)	129	142	153	153	153
EV/Sales (x)	3.6	2.6	1.5	1.3	0.9

Source: Hardman & Co Research

Consumer & Leisure

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**DPP.L**
Price (p)	14
12m High (p)	42
12m Low (p)	11
Shares (m)	153
Mkt Cap (£m)	21
EV (£m)	19
Free Float*	66%
Market	AIM

**As defined by AIM Rule 26*

Description

DP Poland (DPP) has the master franchise for Domino's Pizza in Poland. It has 60 stores, of which 36 are corporately owned. It is rolling out steadily on the back of very strong revenue performance.

Company information

CEO	Peter Shaw
CFO	Maciej Jania
Chairman	Nicholas Donaldson

+44 20 3393 6954
www.dppoland.com

Key shareholders

Directors	5.2%
Cannacord Genuity	14%
Pageant Holdings	10%
Fidelity	10%
Octopus Investments	5%

Diary

Feb'19	Trading update
Mar'19	Final results
May'19	AGM

Analyst

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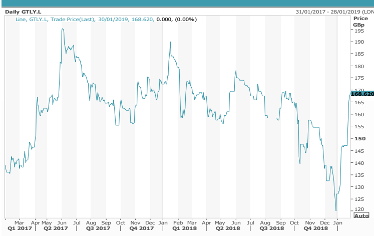
Business Support Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**GTLY**
Price (p)	**168**
12m High (p)	183
12m Low (p)	114
Shares (m)	110.8
Mkt Cap (£m)	186
EV (£m)	187
Free Float*	ca.40%
Market	AIM

*As defined by AIM Rule 26

Description

Gateley provides legal services predominantly through its UK offices. In 2015, it was the first, and remains the only, full-service commercial law firm to float.

Company information

CEO	Michael Ward
Finance Director	Neil Smith
Chairman (non-exec.)	Nigel Payne

+44 121 234 0000
www.gateleyplc.com

Key shareholders

Directors	5.5%
Liontrust	9.2%
Miton	7.2%
Premier	3.8%

Diary

May'19	Trading update

Analyst

Steve Clapham 020 7194 7622
sc@hardmanandco.com

GATELEY (HOLDINGS) PLC

Strong interim results and share price recovery

Gateley's interim results were ahead of market expectations, leading to upward revisions for this year. This has led to a 20% increase in the share price since our last monthly, which went to press in early January. A broad-based law-led professional services group, Gateley is a leader in serving the UK mid-market. It is delivering on its pre-IPO plan, growing revenue, profit, breadth of service offering and geographical footprint since flotation. The interims were notable for strong cash generation, strong organic revenue growth and a significant contribution (10% of revenues) from acquisitions. Gateley has also made two highly complementary acquisitions this year, for shares and cash.

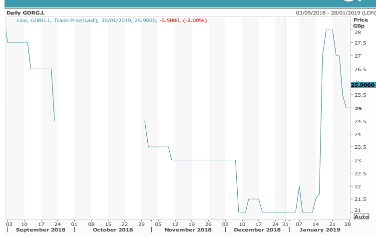
- **Current trading:** Interim results showed a strong performance, with revenue growth of over 20% – half organic and half from acquisitions. The dividend was hiked by 18%, enhancing the yield attractions of the share. In addition, management struck a confident tone at the analysts' meeting, emphasising the progress made since IPO.
- **News:** Gateley has not published an RNS since 8 January, yet its shares are up 20%, suggesting that investors are recognising the quality and resilience of the business and are attracted by the growing dividend. The shares were, in fact, depressed, and have recovered to their summer levels, yet the operational performance has been above expectations.
- **Sector:** The legal sector is growing profitably, and more firms are coming to the market, following Gateley's lead. A larger sector is a positive for the group, as it improves investor understanding, and affords the opportunity for comparison. This should favour Gateley, which has improved from 48th to 44th position in the latest industry rankings, and for which we forecast continued growth.
- **Valuation:** The 2019E P/E is 14.9x, falling to just 12.9x in 2020E, on numbers we believe are conservative. We forecast the dividend yield to surpass 5% in 2020, and it should continue to grow. The group also offers an attractive free cashflow yield with strong cash generation, thanks to limited capex requirements, with working capital being the main cash draw as the business grows.
- **Investment summary:** Gateley is a fully invested, consistent performer in a new and exciting space, which is likely increasingly to attract investor attention. It is a high-quality professional services group with significant growth potential, an excellent track record of delivery, a strong management team, and a strategy to diversify further in complementary professional services.

Financial summary and valuation

Year-end Apr (£000)	2016	2017	2018	2019E	2020E
Sales	67.1	77.6	86.1	102.7	112.9
EBITDA*	12.9	14.9	16.5	19.5	22.1
PBT adjusted	12.0	13.8	14.1	16.0	18.5
EPS (adjusted, p)	9.1	9.4	10.6	11.3	13.0
DPS (p)	5.6	6.6	7.0	8.0	8.8
Net cash	-4.2	-4.8	-0.7	-0.5	6.8
P/E	18.5	17.8	15.8	14.9	12.9
EV/EBITDA	14.0	12.4	10.9	9.6	8.1
Dividend yield	3.4%	3.9%	4.2%	4.8%	5.2%

*Pre-share-based costs
Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	GDR
Price (p)	25.0
12m High (p)	42.0
12m Low (p)	18.0
Shares (m)	34.0
Mkt Cap (£m)	8.5
EV (£m)	8.3
Free Float*	42%
Market	AIM

*As defined by AIM Rule 26

Description

Genedrive is a disruptive platform designed to bring the power of central laboratory molecular diagnostics to the point-of-care/need setting in a low-cost device, offering fast and accurate results, initially for diagnosis of serious infectious diseases such as hepatitis.

Company information

CEO	David Budd
CFO	Matthew Fowler
Chairman	Ian Gilham

+44 161 989 0245
www.genedriveplc.com

Key shareholders

Directors	0.5%
Calculus	19.4%
M&G	15.2%
BGF	12.8%
Odey	5.5%
River & Merc.	3.1%

Diary

28 Mar	Interim results
1H'19	Country registrations
1H'20	WHO decision on HCV-ID

Analysts

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GENEDRIVE PLC

1H'19: new country registrations for HCV-ID kit

genedrive plc (GDR) is a commercial-stage company focused on point-of-care molecular diagnostics. Its Genedrive® molecular diagnostic testing platform is at the forefront of this technology, offering a rapid, low-cost, simple-to-use device with high sensitivity and specificity in the diagnosis of infectious diseases. Rapid analysis of patient samples aids clinical and public health decision-making, with field testing particularly important in emerging markets. The first sales of the HCV-ID kit were achieved in 2H'18. A 1H'19 trading statement suggests that commercialisation is on track, with HCV-ID now registered in its first four countries.

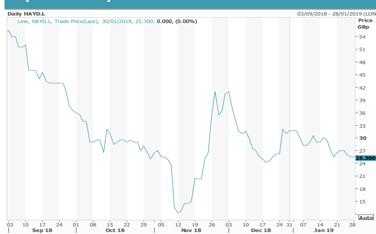
- **Strategy:** Now that the Genedrive technology platform has received CE marking, the new management team has completely re-focused the company onto the commercialisation pathway for gene-based diagnostics, signing three important commercial agreements, and divesting its 'Services' business unit.
- **Trading statement:** Sales in the six months to December 2018 were £1.5m. GDR stated that this was largely composed of the $0.90m (£0.68m) order from the US DoD and of grant income. An additional $0.5m order has been received from the US DoD, acting as good validation of the technology.
- **Commercialisation in 2019:** The signing of three deals with specialist distributers in 2018, and now new registrations for the HCV-ID kit in four countries, positions the company to accelerate sales growth in the near to medium term. Sales usually begin 1-12 months following registration.
- **Risks:** The platform technology has been de-risked through the receipt of CE marking for its assay for detection of HCV infection. The main risk is commercial, given that it often takes time for new technologies to be adopted. However, partnering with major global and local experts reduces this risk.
- **Investment summary:** Genedrive technology ticks all the boxes of an 'ideal' in vitro diagnostic that satisfies the need for powerful molecular diagnostics at the point of care/need. The hepatitis C market is a very large global opportunity, and the HCV-ID test has excellent potential, even in developing countries. With strong partners being signed for different countries, such as the NHS in the UK, and evidence of early sales traction, GDR is at a very interesting inflection point.

Financial summary and valuation

Year-end Jun (£000)	2016	2017	2018	2019E	2020E	2021E
Sales	5,063	5,785	1,938	3,480	4,826	7,055
Underlying EBIT	-5,259	-4,812	-5,276	-3,656	-2,887	-2,986
Reported EBIT	-5,426	-7,292	-7,375	-3,677	-2,918	-3,028
Underlying PBT	-5,828	-5,316	-5,794	-3,874	-3,496	-3,619
Statutory PBT	-6,497	-7,487	-7,788	-3,894	-3,526	-3,662
Underlying EPS (p)	-49.8	-23.1	-26.9	-10.7	-7.4	-7.8
Statutory EPS (p)	-56.2	-34.9	-31.9	-10.8	-7.5	-7.9
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-3,877	-70	-2,096	-3,799	-5,332	-7,879
Capital increases	0	6,023	0	4,547	0	0
P/E (x)	-0.5	-1.1	-0.9	-2.0	-2.9	-2.7
EV/sales (x)	1.6	1.4	4.3	2.4	1.7	1.2

Source: Hardman & Co Life Sciences Research

Speciality Chemicals



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	HAYD
Price (p)	25
12m High (p)	120
12m Low (p)	13
Shares (m)	28.58
Mkt Cap (£m)	7.1
EV (£m)	8.3
Free Float*	100%
Market	AIM

*As defined by AIM Rule 26

Description

Haydale is involved in the production and functionalisation of nanomaterials, predominantly graphene and silicon carbide micro-fibres. Europe represents around 21% of sales, the US 55% and the Far East 20%.

Company information

CEO	To be appointed
CFO	Laura Redman-Thomas
COO	Keith Broadbent
Interim Exec. Chairman	David Banks
	+44 1269 842946
	www.haydale.co.uk

Key shareholders

Lynchwood Nominees	7.8%
Advanced Waste & Water Technology Environ' Ltd *	7.2%
Credit Suisse Group	5.2%
Cheviot Capital	4.5%
Directors	3.4%
Others	71.8%

*Previously Everpower Ltd

Diary

Mar'19	Interim results

Analyst

Paul Singer 020 7194 7622
ps@hardmanandco.com

HAYDALE

Enlightenment stalled but financial issues easing

Financial issues are still likely to affect the shares in the near term, despite the group recently obtaining new working capital funding arrangements. Commercial developments are generally progressing well, and the long-term risk/reward balance remains favourable. The shares are attractively valued compared with their peer group, on P/NAV and EV/sales, and also on a DCF basis.

- **Background:** The group's financing update on 9 November revealed that Haydale was required to seek alternative sources of near-term finance to satisfy its ongoing financial obligations for its short- to medium-term commercial adoption.

- **Financial developments:** On 21 December, Haydale announced that the group had secured £1.00m of new working capital through a new £0.75m 16-month loan facility, carrying 11% p.a. interest, from the Development Bank of Wales, and the issue of £0.25m of new equity. We have adjusted our forecasts accordingly.

- **Cost base reduction programme:** As Haydale is continuing to experience extended lead times from its customers in their adoption of its next-generation products in commercial quantities, management continues to resize its overhead base to reflect the near-term sales focus on its graphene and smart inks, and its SiC products. This should be regarded as positive and has led to a reduction in its annualised SG&A costs by ca.£1.0m, the full benefits of which will come through in early 2019.

- **Investment summary:** While financial uncertainties prevail, commercial traction is good, and the group has entered FY19 with a healthy order book. We believe our forecasts for FY19 are still conservative, with strong growth expected in FY20. The shares have performed poorly recently, but the risk/reward balance remains favourable on a long-term basis. The shares are attractively valued compared with their peer group, on P/NAV and EV/sales, and also on a DCF basis.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019E	2020E
Sales	3.0	3.4	4.0	6.0
Gross profit	2.1	2.0	2.6	4.2
Grant income	0.9	0.8	0.9	0.9
EBITDA	-4.3	-4.9	-4.4	-3.1
Underlying EBIT	-5.0	-5.7	-5.3	-4.0
Reported EBIT	-5.3	-6.0	-5.6	-4.3
Underlying PTP	-5.3	-5.8	-5.2	-3.9
Underlying EPS (p)	-0.3	-22.4	-17.2	-12.8
Statutory EPS (p)	-0.3	-23.7	-18.2	-13.8
Net (debt)/cash	0.8	4.2	-0.2	-3.2
EV/sales (x)	2.8	2.4	2.0	1.2

Source: Hardman & Co Research

General Retailers

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**KOOV**
Price (p)	**8**
12m High (p)	57
12m Low (p)	6
Shares (m)	356
Mkt Cap (£m)	28
EV (£m)	17
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

Koovs is an online retailer of fashion across India. It has an experienced management team, growing brand awareness and the highest Net Promoter Score (NPS) in its vertical.

Company information

CEO	Mary Turner
CFO	Rob Pursell
Chairman	Waheed Alli

+44 20 7151 0170
www.koovs.com

Key shareholders

Waheed Alli (Dir.)	12%
Anant Nahata (Dir.)	11%
Michinoko	5%
Ruffer	5%
Hindustan Times Media	15%
Future Group	16%

Diary

Jun'19	Prelims

Analyst

Jason Streets 020 7194 7622
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KOOVS PLC

Koovs refinanced for the future

Following on from the investment by the Future Group (FLFL), which, when completed, will take its stake up to 29.99%, the subscription for £12m of new shares and the deal with HT Media for £17m-worth of advertising in exchange for shares, Koovs is now well placed to build on the success it has had to date in creating India's leading fashion e-tailer. The cash injection and the support of Future should enable it to resume its growth path and surf the growth of Indian e-commerce. The interims, reported in December, covered the period before the new finance was raised.

- **Strategy:** Koovs sells affordable fashion online in India. It has an established customer base of half a million active users and has been growing brand recognition rapidly. It has achieved the highest NPS across its vertical. Its success will come on the back of the growing Indian economy breeding millions of online shoppers.
- **Partner benefits:** FLFL is a huge, nationwide bricks-and-mortar fashion retailer. It is also a vertically integrated business manufacturing its own brands, as well as selling well-known international labels. With Koovs leveraging FLFL's scale and distribution, its revenue and margins should improve much faster.
- **Valuation:** Conventional valuation metrics are unhelpful. We take our forecast EBITDA for Dec-22, apply a Boohoo/ASOS multiple and discount the value back to today. Even at a 25% discount, the EV comes out at £357m, including the funds to be raised. The current price is a poor indicator of the inherent value.
- **Risks:** Now it is refinanced, we see the two key risks being slower uptake of e-commerce in India than we forecast, and damaging discounting by Koovs' direct and indirect competitors. Koovs also needs to manage the relationship with FLFL successfully to optimise its benefits.
- **Investment summary:** With the money raised and the new partners on board, Koovs becomes an exciting way to play the last big world retail market to move online. The prize, if it gets it right, is a billion-pound company and more. It is likely to be a bumpy, exciting ride, but investors have the reassurance of a highly experienced management team in charge, and the backing of two major Indian corporations straddling both retail and media.

Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019E	2020E	2021E	2022E
Visits (m)	79	66	116	166	246	312
Conversion	1.6%	1.4%	1.4%	2.3%	2.8%	3.5%
No. of orders (m)	1.25	0.92	1.62	3.74	6.75	10.93
AOV (£)	14.75	16.37	16.74	19.00	20.58	23.29
GOV (£m)	18.5	14.8	27.2	71.1	139.0	254.6
Net sales	12.5	9.6	16.9	44.3	86.6	158.6
Weighted margin	43%	46%	49%	53%	57%	61%
Trading profit	0.3	1.3	3.6	12.1	25.8	70.4
Trading margin	2%	14%	21%	27%	30%	44%
EBITDA	-20.0	-14.5	-19.4	-18.9	-7.8	17.2
No. of shares (m)	175	175	356	420	420	420
EV/sales (x)	1.1	1.5	1.0	0.4	0.2	0.1

Source: Hardman & Co Research

HARDMAN&CO.

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MCL
Price (p)	150.0p
12m High (p)	174.0
12m Low (p)	123.0
Shares (m)	129.8
Mkt Cap (£m)	194.3
EV (£m)	173.8
Free Float*	60%
Market	AIM

*As defined by AIM Rule 26

Description

Morses Club PLC (MCL) is number two in UK home credit. It is growing the business organically and by acquisition, and is developing a range of related products, where it has a competitive advantage.

Company information

CEO	Paul Smith
CFO	Andy Thomson
Non-Exec. Chairman	Stephen Karle

+44 330 045 0719
www. morsesclubplc.com

Key shareholders

Hay Wain	36.82%
Woodford Inv. Mgt.	9.33%
Miton Asset Mgt.	9.03%
JO Hambro	6.74%
Majedie Asset Mgt.	5.34%
Artemis Inv. Mgt.	4.98%
Legal and General	3.22%

Diary

End-Feb/early Mar	Trading update

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

MORSES CLUB PLC

Trading statement: steady strategic progress likely

We believe the trading statement at the end of February/early March will i) confirm a conservative corporate culture with credit within target ranges despite book growth, ii) show that the unique franchise opportunity presented by the market-leader's restructuring has now been embedded in the business, and iii) give an update on the new growth businesses of home collect acquisitions, online lending, the Morses Club Card and its customer portal. We do not expect surprises, given the conservative way the group is run and as we detailed in our notes, *Quality street* (19 July) and *Sustainable growth from focus on quality* (23 October). Funding is already in place for further sustained growth.

- **Company news:** On 18 December, MCL's *response to FCA announcement* considered that the proposed changes were unlikely to have an adverse impact on the business. MCL does not need to materially change its home collect practices for regulatory reasons – a contrast to many non-standard products. On 31 January, MCL announced a £1.4m Home Collect book acquisition.
- **Peer news:** Non-Standard Finance (NSF) issued a trading statement advising that performance was in line with expectations. *PFG's 15 January trading update* saw a sharp price correction, which we believe was driven by a profit miss in Vanquis. The MCL read-across is zero, as its practices are different from those in Vanquis, which have had to be amended to be brought in line with regulatory requirements.
- **Valuation:** We detailed a range of valuation approaches and sensitivities in our note, *Building a profitable and sustainable franchise* (October 2017), and updated these in later notes, most recently our results note, *Sustainable growth from focus on quality* (23 October). The range is now 179p (DDM) to 223p (GGM). Average peer multiples are higher than MCL's.
- **Risks:** Credit risk is high (albeit inflated by accounting rules), but MCL adopts the right approach to affordability and credit assessment. Regulatory risk is a factor, although high customer satisfaction suggests a limited need for change. MCL was the first major HCC company to get full FCA authorisation.
- **Investment summary:** MCL is operating in an attractive market. It has a dual-fold strategy that should deliver an improved performance from existing businesses and new growth options. It conservatively manages risk and compliance, especially in new areas. The agent network is the competitive advantage over remote lenders. We forecast a 9.9x February 2020 P/E and a 6.0% February 2020 dividend yield, with 1.7x cover (adjusted earnings).

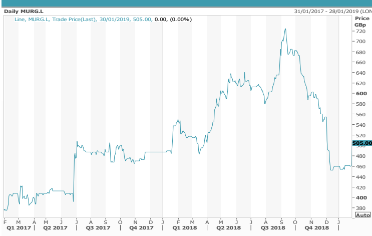
Financial summary and valuation

Year-end Feb (£m)	2015	2016	2017	2018	2019E*	2020E*
Reported revenue	89.9	90.6	99.6	116.6	119.3	129.8
Total impairments	-22.9	-18.8	-24.3	-30.4	-26.0	-29.9
Total costs	-51.4	-53.4	-56.7	-65.6	-69.8	-73.9
EBITDA	16.5	19.3	19.9	22.1	24.8	27.9
Adjusted PBT	13.0	16.8	17.7	19.2	21.8	24.6
Statutory PBT	58.5	10.4	11.2	16.1	18.6	21.7
Statutory EPS (p)	46.5	6.1	6.6	10.1	11.7	13.7
Adjusted EPS (p)	8.1	10.2	10.8	11.7	13.4	15.2
P/adjusted earnings (x)	18.5	14.6	13.9	12.8	11.2	9.9
P/BV (x)	2.0	3.5	3.2	2.9	2.8	2.6
P/tangible book	2.3	4.3	3.8	3.3	3.2	2.9
Dividend yield	n/m	n/m	4.3%	4.7%	5.3%	6.0%

Source: Hardman & Co Research * IFRS9 basis

HARDMAN&CO.

Support Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MUR
Price (p)	470
12m High (p)	730
12m Low (p)	450
Shares (m)	9.0
Mkt Cap (£m)	42.3
EV (£m)	40.3
Free Float*	53%
Market	AIM

*As defined by AIM Rule 26

Description

Murgitroyd offers a global service to clients on patents, trademarks, etc. It operates from 15 offices worldwide, and over 50% of its revenues are from the USA.

Company information

CEO	Keith Young
CFO	Keith Young
Chairman	Ian Murgitroyd

+44 141 307 8400

www.murgitroyd.com

Key shareholders

Directors	32.0%
Ian Murgitroyd (director)	26.7%
Lyontrust Inv.	16.9%
Schroder Inv.	9.9%
Mawer Inv.	4.7%
G. E. Murgitroyd	4.3%

Diary

Feb'19	Interim results
Sep'19	Final results

Analyst

Mike Foster 020 7194 7633

mf@hardmanandco.com

MURGITROYD

Strong cash, resilient outlook

Murgitroyd is a global business selling patent-related services to major corporates. The range of services, particularly support functions (even including web-based) is growing. Interim results are due later this month. We anticipate a continuation of the rebuilding of margins. As a professional services specialist with a global reach, and a record of having invested to flex its products and expand business development, the footing is secure. We consider Murgitroyd to be set for modestly growing profits and EPS, driving higher DPS, but 2017 had seen some disappointment. Cash generation is impressive, as is dividend growth.

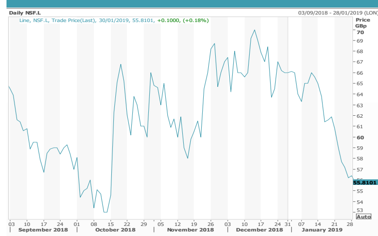
- **Strategy:** The ever-increasing offer of support functions (even including web-based) can add revenue and also add to 'stickiness' with large clients, but this is a complex interplay, as this division is inherently lower-margin and Murgitroyd's focus is on rebuilding margins.
- **Forward numbers**: The last results (finals) in September delivered PBT in line with expectations, but sales fell 1% (or slightly more on constant currency terms, as half of revenue is in US dollars). We see cash generation with modest margin rises and low top-line growth as the likely outcomes in FY19 and FY20.
- **Valuation:** We note the net cash position and good cashflow, which should justify the current EV/EBITDA and maybe more. DPS growth should be safe, highlighting a significant dividend yield premium to the market. The FY18 free cash yield is 6.9%. It is worth noting that, last September, the rating had expanded substantially, and we see no reason for the recent share price falls.
- **Risks:** The offer of a broad suite of services to a broad customer base, in focused markets, balances the group. This is a reasonably stable, growing global market, with pricing pressure as an ongoing feature. This is not new, and Murgitroyd's global strategy is designed around this given feature, delivering cash well.
- **Investment summary:** The shares had recovered well from when 2017 profit downgrades began to emerge. We still estimate these were the final leg in a protracted period of margin erosion, and the most recent two sets of results confirm this. Ongoing strong dividend growth and free cashflow are supportive.

Financial summary and valuation (NB forecasts under review)

Year-end May (£m)	2014	2015	2016	2017	2018
Sales	38.4	39.8	42.2	44.3	43.9
EBITDA	4.6	4.5	4.6	4.2	4.5
PBT (adjusted)	4.2	4.2	4.3	3.9	4.1
EPS (adjusted) (p)	33.6	34.8	35.3	28.7	30.8
DPS (p)	13.3	14.8	16.0	17.0	21.0
Net (debt)/cash	-0.4	0.7	2.8	2.2	2.8
Net debt/EBITDA (x)	0.1	cash	cash	cash	cash
P/E (x)	13.7	13.3	13.0	16.0	14.9
EV/Sales (x)	1.1	1.1	1.0	0.9	0.9
EV/EBITDA (x)	8.5	8.7	8.5	9.2	8.7
FCF yield	7.5	6.8%	8.7%	7.5%	6.9%
Dividend yield	2.7%	3.0%	3.4%	3.6%	4.5%

Source: Hardman & Co Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	NSF
Price (p)	56.0
12m High (p)	75.0
12m Low (p)	52.6
Shares (m)	312.0
Mkt Cap (£m)	174.7
EV (£m)	363.1
Free Float*	99%
Market	Main

*As defined by AIM Rule 26

Description

In the UK non-standard lending market, Non-Standard Finance (NSF) has the market-leading network in unsecured branch-based lending, is number two in guarantor loans and number three in home credit.

Company information

CEO	John van Kuffeler
CFO	Nick Teunon
Exec. Dir.	Miles Cresswell-Turner

+44 20 38699026

www.nonstandardfinance.com

Key shareholders

Invesco	28.7%
Woodford Inv. Mgt. (04/09/18)	25.0%
Aberforth Partners (28/08/18)	12.3%
Marathon Asset Mgt.	10.7%
Quilter Cheviot AM	4.1%
ToscaFund	3.8%

Diary

12 Mar	2018 FY results

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

NON-STANDARD FINANCE

2018: trading update

On 22 January, NSF published its trading update. The 2018 results are expected to be in line with market consensus. In the year to end-December, the Everyday loans book was up 25% (to £182m), with divisional impairments at 21.1% of revenue. Seven new branches are planned to be opened in 1H'19 (total 72). The guarantor loan book was up 62% (to £77m), and divisional impairments were 19.5% of revenue (target range 20%-22%). The home collect book rose 2% (to £41m), with impairments at 32.6% of revenue (target range 33%-37%). We note that, as two divisions have impairments below the target range, management has been focusing on better-quality business in uncertain times.

- **Company news:** The trading update also highlighted improved lead quality in guarantor loans, helping increase conversion rates. It also noted that these loans are now written on a single platform – improving efficiency. In home collect, the unique Provident Financial opportunity prompted a temporary shift towards larger, longer-term loans. As this unwinds, yields should increase.
- **Peer news:** PFG's 15 January trading update saw a sharp price correction, which we believe was driven by a profit miss in Vanquis. The read-across to NSF is minimal, as that business had to change its treatment of persistent debt and payment arrangements, and none of NSF's operations worked in the way Vanquis had.
- **Valuation:** We note that consensus-adjusted EPS forecasts are 3.9p (2018), 6.8p (2019) and 10.1p (2020), compared with 3.4p in 2017. Our absolute valuation measures range from 91p to 101p per share. Our sum-of-the-parts model implies a valuation of 87p. Peer comparators reach up to 79p (average 72p).
- **Risks:** Credit risk remains the biggest threat to profitability (although this is mitigated through high risk-adjusted margins), and NSF's model accepts higher credit risk where a higher yield justifies it. Regulation is a market issue; management is taking appropriate action to mitigate this risk.
- **Investment summary:** Substantial value should be created, as i) competitors have withdrawn, ii) NSF is well capitalised, with committed debt funding until 2023, iii) macro drivers are positive, and iv) NSF has a highly experienced management team, delivering operational efficiency without compromising the key F2F model. Targets of 20% loan book growth and 20% EBIT RoA appear credible, and investors are paying ca.8.7x 2019E P/E and getting a ca.5.7% yield.

Financial summary and valuation

Year-end Dec (£000)	2016	2017	2018E*	2019E*
Reported revenue	94,674	119,756	167,852	200,978
Total impairments	-26,155	-28,795	-39,252	-47,259
Total costs	-49,600	-67,706	-87,246	-94,135
EBITDA	19,369	25,181	37,132	53,192
Adjusted profit before tax	13,056	13,203	14,660	24,725
Statutory profit before tax	-9,342	-13,021	-4,850	11,275
Pro-forma EPS (p)	3.37	3.44	3.78	6.42
DPS (p)	1.20	2.20	2.60	3.20
P/adjusted earnings (x)	16.6	16.3	14.8	8.7
P/BV (x)	0.7	0.8	0.8	0.8
P/tangible book (x)	1.8	2.3	2.8	2.6
Dividend yield	2.1%	3.9%	4.6%	5.7%

Source: Hardman & Co Research * IFRS9 basis

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**OXB**
Price (p)	689.5
12m High (p)	1,064
12m Low (p)	487
Shares (m)	66.1
Mkt Cap (£m)	455.8
EV (£m)	428.6
Free Float	63%
Market	LSE

Description

Oxford BioMedica (OXB) is a UK-based biopharmaceutical company specialising in cell and gene therapies developed using lentiviral vectors – gene-delivery vehicles based on virus particles. In addition to vector development and manufacture, OXB has a pipeline of therapeutic candidates and undertakes innovative pre-clinical R&D in gene-medicine.

Company information

CEO	John Dawson
CFO	Stuart Paynter
Chairman	Lorenzo Tallarigo

+44 1865 783 000
www.oxfordbiomedica.co.uk

Key shareholders	
Directors	0.3%
Vulpes	17.6%
M&G	17.6%
Canaccord Genuity	5.0%
Aviva	3.9%
Hargreaves Lansdown	3.7%
Shah	3.1%

Diary	
Mar'19	FY'18 results

Analysts

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Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

OXFORD BIOMEDICA

Partnered programmes: read-outs approaching

OXB is a specialist advanced-therapy lentivirus vector biopharma company. It offers vector manufacturing and development services, and has a proprietary drug pipeline. In addition to LentiVector® service contracts, OXB receives royalties on commercial therapies developed by its partners using the platform. This approach was established following deals with Novartis for Kymriah between 2014 and 2017, and was solidified in three further partnership and licensing deals in 2018. Two programmes, the Axovant Parkinson's gene-therapy and the Orchard Therapeutics OTL-101 programmes, are due to report data in coming months.

- **Strategy:** OXB has four strategic objectives: delivery of process development (PD) services that embed its technology in partners' commercial products; commercial manufacture of lentiviral vector; out-licensing of proprietary candidates; and investment in R&D and the LentiVector platform.

- **Near-term growth:** OXB's strategy for mid- to long-term growth centres on income from royalties and on out-licensing its gene-based medicine pipeline. In the near term, particularly in 2019, the focus will be on delivering new bioprocessing and process development deals, and on out-licensing the pipeline.

- **Orchard data:** Orchard Therapeutics is expected to report imminently the two-year follow-up data from 20 patients from its study comparing OTL-101 with Strimvelis in ADA-SCID patients. The study completed in August 2018. OXB will receive shares in Orchard on the achievement of additional milestones.

- **Axovant data:** Data is due to be released in March from the first two patients treated with AXO-Lenti-PD, a gene-therapy for treating Parkinson's disease. The SUNRISE Phase I/II trial aims to enrol 30 patients, with dose escalation and sham-surgery controlled phases, to evaluate safety, tolerability and efficacy.

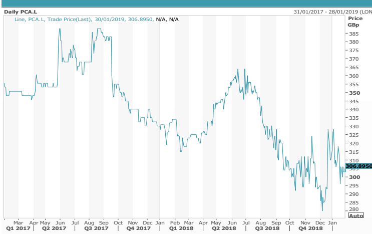
- **Investment summary:** OXB is at a very interesting juncture. Heavy investment in state-of-the-art GMP manufacturing facilities for production of gene-therapy vector has resulted in multiple agreements (e.g. Novartis, Bioverativ, AXON), positioning the group on the road to significant bioprocessing service income, milestones and royalties. Reported numbers for 2018 will benefit from unrealised gains (est. £10.6m) on its shareholding in Orchard Therapeutics to £13.6m.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Gross revenues	18.8	30.8	39.4	74.8	79.2	106.0
Sales	15.9	27.8	31.5	46.2	60.8	80.3
EBITDA	-11.7	-6.8	-2.6	15.5	15.9	25.8
Underlying EBIT	-13.4	-10.5	-7.0	11.0	11.1	20.5
Reported EBIT	-14.1	-11.3	-8.0	10.0	9.9	19.2
Underlying PTP	-16.3	-15.3	-16.4	6.7	7.2	16.6
Statutory PTP	-17.0	-20.3	-14.1	16.2	6.0	15.4
Underlying EPS (p)	-23.9	-21.0	-22.0	15.7	15.8	31.9
Statutory EPS (p)	-25.3	-30.0	-18.3	30.1	14.0	30.0
Net (debt)/cash	-17.9	-19.1	-22.5	-2.3	-1.3	12.2
Shares issued (m)	0.1	17.5	0.4	19.4	0.1	0.1
P/E (x)	-	-	-	-	-	20.2
EV/sales (x)	-	-	-	-	-	16.6

Source: Hardman & Co Life Sciences Research

Real Estate



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	PCA
Price (p)	305
12m High (p)	365
12m Low (p)	280
Shares (m)	45.9
Mkt Cap (£m)	140
EV (£m)	220
Market	Main, LSE

Description

A real estate investor, diversified by sector (office and industrial predominate) and location, but not in London, and with minimal exposure to retail. There is an emphasis on city centres. The York development site comprises 6% of assets.

Company information

Chairman	Stanley Davis
CEO	Neil Sinclair
CFO	Stephen Silvester

+44 20 3301 8330
www.palacecapitalplc.com

Key shareholders

AXA	7.7%
Miton	7.4%
J.O.Hambro	7.3%
Stanley Davis (Chairman)	3.6%

Diary

Apr'19	3Q div. paid
Jun'19	Final results
Jul'19	4Q div. paid

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PALACE CAPITAL

Not just a "Northern Powerhouse"

Palace Capital has a strong track record of rising NAV and attractive, progressive income. A number of assets exhibit the ability to raise not only rental income but estimated rental value (ERV) – the estimated rental achievable on re-letting. Typical of yields is the £14m central Liverpool purchase, bought on a net initial yield (NIY) of 6.75%. Characteristics of "Northern Powerhouse" cities' commercial real estate markets have steadily improved, with both supply/demand and rents for quality stock in prime locations responding well – and should continue to do so. This offers opportunities to enhance value, in our opinion, even before any tightening in NIY valuations.

- **Boulton House, Manchester and Halifax leisure assets:** Hardman & Co visited these large assets last month, and is in the process of compiling a report to be published in due course. The respective markets have strong characteristics, Manchester perhaps better publicised. The rolling refurbishment and letting of space (acquired void, in Manchester) is eminently deliverable. Halifax tenants trade well.
- **Mickola Wilson appointed NED:** Mickola jointly owns Seven Dials, which provides strategic advice and modelling (predictive outcomes) for real estate clients. Prior to this, she was CEO of Teesland plc, a listed property fund and asset management company, with over £5bn of funds under management across the UK and Europe.
- **Liverpool office block December 2018 acquisition for £14.0m:** This is 96% occupied by tenants, with strong covenants. This was purchased on an NIY of 6.75%. 1.15m sq ft of Liverpool office space has been taken out of the market since 2014.
- **Alpha:** Palace Capital is an active manager: in the six months to end-March 2019, there were 22 lease events, 9% ahead of ERV. We anticipate a number of updates in the coming months including lettings progress in Manchester and commencement of marketing for the York development asset.
- **Risks:** Estimates were cut slightly at the November results announcement, due to a disposal (at book value) and small trimming of 2020 income. Palace Capital has been recycling capital, with the major residential disposal shortly to be out of the RT Warren portfolio (NB our EV reflects this as sold). This helps reduce

Financial summary and valuation

Year-end Mar (£m)	2016	2017	2018	2019E	2020E
Income	14.6	14.3	16.7	18.2	19.4
Finance cost	-2.3	-3.0	-3.4	-4.0	-4.7
Declared profit	11.8	12.6	13.3	13.8	12.5
EPRA PBT (adj. pre-revaluation)	8.7	6.3	7.3	9.2	9.5
EPS reported (p)	43.9	36.4	35.9	26.8	24.0
EPRA EPS (p)	31.3	21.2	18.7	16.9	17.5
DPS (p)	16.0	18.5	19.0	19.0	19.2
Net debt	-65.4	-68.6	-82.4	-80.7	-144.0
Dividend yield	5.2%	6.1%	6.2%	6.2%	6.3%
Price/EPRA NAV	73.4%	68.8%	73.5%	73.4%	72.2%
NAV (p)	414.3	434.2	400.2	407.5	414.4
EPRA NAV (p)	414.3	443.0	414.8	415.4	422.2

Source: Hardman & Co Research

Food Producers

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	RE.
Price (p)	233.0
12m High (p)	350.0
12m Low (p)	226.0
Shares Ord (m)	40.5
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	94.4
Mkt Cap Prefs (£m)	70.9
EV (£m)	419.5
Free Float	30%
Market	Main

Description

R.E.A. Holdings (REA) is engaged in the operation and further development of palm oil plantations in East Kalimantan, Indonesia. The group also owns stone quarrying rights and concessions, and coal mining concessions, which have been contracted out to third-party operators.

Company information

Managing Director	Carol Gysin
Chairman	David Blackett

+44 207 436 7877

www.rea.co.uk

Key shareholders

Directors	28.55%
M & G Investment Mgt.	14.97%
Alcatel Bell Pension Fund	10.32%
Artemis UK	8.83%
Aberforth Partners	7.3%

Diary

Apr'19	Full-year results

Analyst

Yingheng Chen 020 7194 7638

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R.E.A. HOLDINGS

Palm oil prices bouncing back

2018 was a tough year for palm oil producers globally, with the palm oil price hitting a 10-year low to $440/mt in November. The CPO price suffered a 17% drop to an average $596/mt for 2018, and the PKO price plunged 27.2% for the year. The FTSE Asian Palm Oil Index lost 13.8% of its value in 2018, and the Asian listed producers (excluding Wilmar) lost an average 15.9% of adjusted EV/planted hectare to ca.$11,091 in the year (Jan'18: $13,186/planted hectare). On 26 November, the Indonesian government announced a temporary suspension of the $50/mt export levy on palm oil and levies on palm-derived products. Palm oil prices have seen some recovery since the beginning of 2019.

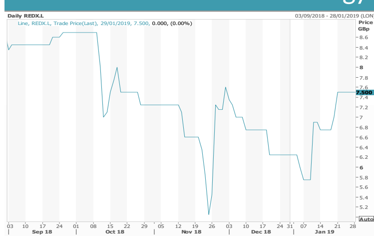
- **Production:** REA saw a record FFB production level across its estates in 3Q, registering a total of ca.252,000mt of own FFB for the quarter. This is partly an indication of the recovery of the FFB production pattern, and partly the result of the group's much-improved harvesting process. We are anticipating the group's FFB production to be over 800,000mt for FY'18.
- **Strategy:** REA Kaltim, the principal division of REA, is developing a land bank of ca.100,000ha. At the current accelerated rate of development, the proprietary plantations should be completed by 2021 or 2022, at ca.50,000ha. With the completion of the sale of PBJ (and hence a much-improved financial position), REA management's focus is now on increasing the estates' productivity and efficiency.
- **Financing:** On 28 August 2018, REA arranged two new medium-term Rupiah loans of ca.$32.5m, with an initial rate of 11% p.a., payable over eight years. The new loans are partly to replace existing IDR loans and revolving credits (ca.$10.2m), which had considerably higher interest rates averaging over 12%, and partly for working capital.
- **Risk:** Agricultural risk, commodity price risk and country risk are constants of palm oil production, as investors have witnessed in the last few years, from the severe El Niño weather pattern that hampered production across the whole of Southeast Asia to the more recent plunge in commodity prices. On the other hand, we expect the debt:equity ratio to be lower in FY'18, following the PBJ transaction, but it could rise again as REA aims for the completion of its plantations.
- **Investment summary:** For investors attracted by palm oil assets, now could be an opportunistic time to review the sector, as commodity prices and demand face a brighter outlook. We are expecting the company to have some 34,000ha of mature plantations by end-2019, coupled with stronger agricultural production across the estates.

Financial summary and valuation

Year-end Dec ($m)	2015R	2016	2017	2018E	2019E
Sales	90.5	79.3	100.2		
EBITDA	14.1	16.8	20.7		
Reported EBIT	-6.6	-5.0	-2.2		
Pre-tax profit	-12.2	-9.3	-21.9	Forecasts	
EPS (c)	-59.0	-48.2	-67.0	under	
DPS (p)	0.0	0.0	0.0	review	
P/E (x)	-	-	-	pending	
Net (debt)/cash	-196.7	-205.1	-211.7	guidance	
Planted hectares (ha)	37,097	42,846	44,094		
EV/planted hectare ($/ha)*	10,171	8,763	8,499		
CPO production (mt)	161,844	127,697	143,916		

**EV/planted ha includes mkt. cap. of 9% pref. shares; R=restated. Source: Hardman & Co Research*

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	REDX
Price (p)	7.5
12m High (p)	22.5
12m Low (p)	3.5
Shares (m)	126.5
Mkt Cap (£m)	9.5
EV (£m)	3.0
Free Float*	81%
Market	AIM

**As defined by AIM Rule 26*

Description

Redx Pharma (REDX) is focused on the discovery and development of proprietary, small molecule therapeutics to address areas of high unmet medical need, in cancer and fibrosis. The aim is to develop putative drugs through early trials and then to partner them for late-stage development and commercialisation.

Company information

CEO	Lisa Anson
CFO	Dominic Jackson
Chairman	Iain Ross

+44 1625 469 900
www.redxpharma.com

Key shareholders

Directors	0.6%
Jon Moulton	18.2%
Seneca Partners	12.6%
AXA	9.7%
Aviva	8.2%
Paul & Thelka Blackmore	4.0%

Diary

1H'19	Resume Ph. I/IIa with RXC004
1H'19	Dev. candidate for NASH

Analysts

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REDX PHARMA

Received confirmation to re-start the clinic

REDX's new management team is continuing to focus its financial resources on progressing lead candidates in oncology and fibrotic disease into the clinic. Following an extensive internal review led by the new CEO Lisa Anson, the vision of a streamlined pipeline has been reinforced, with the aim of progressing drug candidates to deliver clinical proof-of-concept, a key value inflection point. 2019 is predicted to be a busy year for REDX, with several major milestones due. REDX just received the news it was expecting from the MHRA to re-commence the Phase I/IIa trial with RXC004 in patients with advanced solid tumours; the study is expected to resume in 1H'19.

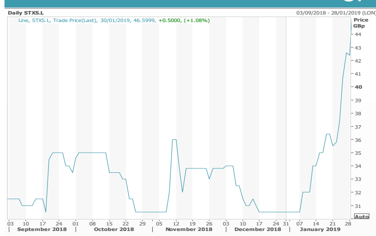
- **Strategy:** REDX is focused on the discovery and early clinical development of small molecule therapeutics in oncology and fibrotic disease. It is also focused on taking assets through proof-of-concept clinical trials and then partnering them for late-stage development and commercialisation.
- **Trial with RXC004 to re-commence:** The news was expected, and it has now been confirmed: REDX has received formal approval from the MHRA to re-start the Phase I/IIa trial with its oral porcupine inhibitor, RXC004, in patients with advanced solid tumours. The study is expected to resume in 1H'19.
- **Revised trial:** REDX learned a significant amount from the first patient dosed with RXC004, and this provides the basis of a revised protocol, at a lower dose. REDX is on track with its development plan. It will assess safety and tolerability of RXC004 as a monotherapy, and then in combination with a checkpoint inhibitor.
- **Fibrosis update:** While RXC006 has been the nominated development candidate for IPF, the anti-fibrotic asset is set to deliver two additional development candidates during 2019: the ROCK2 selective product for NASH and the innovative GI-targeting pan-ROCK1/2 inhibitor aimed at Crohn's disease.
- **Investment summary:** The strengthened management team is moving forward with a revised business plan that focuses cash resources on progressing its drug leads in oncology and fibrotic disease to proof-of-concept early clinical development. Big pharma can be willing to pay handsome prices for novel and/or de-risked assets with clinical data, reinforcing REDX's strategy. This can generate good returns and shareholder value for companies such as REDX.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
Milestones/royalties	2.38	1.29	1.32	1.00	1.00	1.00
Other income	-14.32	-13.00	-7.42	-11.06	-11.29	-13.54
R&D investment	-2.21	-5.70	-2.81	-2.59	-2.74	-2.88
SG&A (corp. cost)	-14.15	-17.41	-8.92	-12.65	-13.03	-15.42
Underlying EBIT	-14.61	-17.74	-8.90	-12.64	-13.02	-15.42
Underlying PBT	-15.41	1.65	-10.15	-12.94	-13.35	-15.76
Statutory PBT	0.64	-0.12	1.30	1.94	1.98	2.37
R&D tax credit	-17.83	-15.80	-6.01	-6.70	-5.72	-3.06
Underlying EPS (p)	-19.81	1.35	-6.99	-6.89	-5.89	-3.22
Statutory EPS (p)	0.00	30.47	0.00	0.00	0.00	0.00
Net (debt)/cash	3.76	23.81	6.47	8.95	-2.56	-16.73
Capital increase	9.30	11.07	0.00	14.10	0.00	0.00

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**STX**
Price (p)	**42.4**
12m High (p)	114.0
12m Low (p)	15.0
Shares (m)	116.4
Mkt Cap (£m)	49.4
EV (£m)	39.1
Free Float*	32%
Market	AIM

**As defined by AIM Rule 26*

Description

Shield Therapeutics (STX) is a commercial-stage pharmaceutical company delivering innovative specialty pharmaceuticals that address patients' unmet medical needs, with an initial focus on anaemia associated with renal and gastrointestinal disorders.

Company information	
CEO	Carl Sterritt
CFO (Interim)	Tim Watts
Chairman	James Karis

+44 207 186 8500
www.shieldtherapeutics.com

Key shareholders	
Directors	8.7%
W. Health	48.1%
MaRu AG	10.8%
R. Griffiths	7.8%
C. Schweiger	4.8%
USS	4.4%

Diary	
Mar'19	FY'18 results
Apr'19	Final results
Jun'19	AGM
27 Jul	Feraccru PDUFA date

Analysts

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SHIELD THERAPEUTICS

Cast-iron investment

STX is a commercial-stage pharmaceutical company delivering specialty products that address patients' unmet medical needs in renal and gastrointestinal disorders. Its initial focus is Feraccru®, a supplement for iron deficiency. Following the IPO and EU approval of Feraccru, both in February 2016, STX has made good progress with its de-risked commercial strategy. Management has secured agreements with three partners with expertise in rare diseases and European market access to accelerate Feraccru's commercialisation. STX is now awaiting a game-changing FDA decision in 3Q'19 that could unlock the US market.

- **Strategy:** STX's strategy is to out-license the commercial rights to its products to expert partners for marketing and distribution in target markets. These agreements allow STX to retain its intellectual property (IP) and to continue to invest in its R&D pipeline, while benefiting from long-term commercial value.

- **Feraccru:** A novel treatment for iron deficiency (ID), Feraccru is approved for use across Europe in adults with or without anaemia. ID results from the depletion of iron stores in the liver, impacting production of red blood cells (which carry oxygen). Compared with other oral therapies, Feraccru is very well tolerated.

- **Coming up in 2019:** There are multiple potential inflection points ahead, not least the FDA approval decision, which would allow Feraccru to launch in the US. Nearer term, results from the AEGIS-H2H (head-to-head) study will provide data to support reimbursement submissions in additional European markets.

- **Risks:** All drug companies carry development risk. However, STX has very limited risk because of the simplicity and low clinical risk of Feraccru, in addition to the fact that it has received regulatory approval in Europe and a decision date for US FDA approval. The main risk is, therefore, commercial execution.

- **Investment summary:** STX is at an interesting juncture. It has delivered on all goals set at the time of its IPO in 2016. Feraccru is a simple product, iron is essential for normal body function, and treatment fits easily into normal clinical practice. Validation by regulatory approval and commercial deals in Europe looks set to be repeated in the US. Given the potential news flow, a market capitalisation of just £49m makes STX a very interesting investment proposition,

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Group sales	0.30	0.64	0.80	0.64	2.00
R&D	-2.03	-4.71	-4.30	-2.50	-2.50
Other income	0.04	0.00	11.10	0.00	0.00
EBITDA	-10.29	-17.95	-0.77	-6.25	-6.37
Underlying EBIT	-10.47	-18.38	-1.26	-6.74	-6.86
Reported EBIT	-12.46	-20.95	-3.73	-9.21	-9.33
Underlying PBT	-10.43	-18.38	-1.25	-6.73	-6.88
Statutory PBT	-15.60	-20.99	-3.72	-9.20	-9.35
Underlying EPS (p)	-9.73	-15.11	0.14	-4.71	-5.58
Statutory EPS (p)	-14.84	-17.43	-1.99	-7.52	-7.64
Net (debt)/cash	20.98	13.30	9.82	4.19	-1.23
Capital increase	33.51	11.88	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

SURFACE TRANSFORMS

Results due this month

ST's interim results, covering the period to end-November, are due to be reported this month. We note the trading update of 4 December, which covered this period, and, on this basis, we still expect a positive update in spring about engineering sign-off for SOP for OEM5, which has only one test left. ST's eligibility as a core component supplier has been approved. We model that cash held will take ST comfortably through to cashflow- positive trading (see section below, "Finances"). Major investment in 2017 in production facilities was an essential and well-executed step. OEM "volume" cell one will be fully operational this summer.

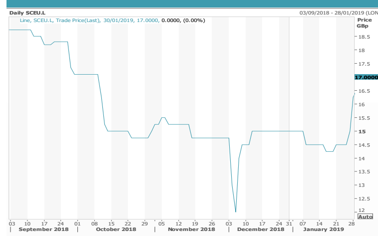
- **4 December trading update:** The update noted: "OEM5 has indicated to Surface Transforms (ST) that it intends to approve, at this stage, a pad/disc combination with a new environmentally friendly pad; this new pad requirement is lengthening the test programme and therefore engineering sign-off is now expected in early 2019."
- **Revenues:** Sales for the six months to November 2018 were stated at £0.51m (vs. £0.52m in previous 1H), due principally to near-OEM retrofits. Momentum there is strong. The previous year was also 2H-weighted.
- **Valuation:** Current orders, including OEM6, take ST to cashflow-positive territory. Manufacturing cell 1 is effectively now complete. Gross margins are stable – in the high 60% levels. EV/EBITDA should fall to 5x before cell 1 is full.
- **Risks:** Investment comes ahead of firm orders and profit. The company has no control over the timeline of auto OEMs' new models. As noted, revenues for the six months to end-November 2018 were £0.51m (down 3% YoY), but retrofit and near OEM auto sales are once again well placed for 2H'19E.
- **Finances:** At end-November, the cash balance was £0.74m, on top of which an R&D tax credit of £0.5m is due. Note that we anticipate £1.1m net cash at end-May 2019. In 2H'19, we anticipate a £0.3m reduction in inventory associated with the roll-out of production efficiency. Our FY19E cash from operations, including tax, is £1.2m outflow, with £0.2m outflow from capex in addition to this.

Financial summary and valuation

Year-end May (£m)	2017	2018	2019E
Sales	0.7	1.4	1.8
EBITDA	-2.4	-1.7	-1.5
EBITA	-2.5	-2.2	-2.0
PBT	-2.5	-2.3	-2.0
PAT	-2.2	-1.8	-1.5
EPS (adjusted) (p)	-2.4	-1.7	-1.2
Shareholders' funds	4.0	5.8	5.6
Net (debt)/cash	1.5	0.9	1.1
P/E (x)	loss	loss	loss
EV/sales (x)	22.5	11.5	8.8
EV/EBITDA (x)	na	na	na
DPS (p)	nil	nil	nil

Source: Hardman & Co Research

Automobiles & Parts



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	SCE
Price (p)	15
12m High (p)	21
12m Low (p)	9
Shares (m)	123
Mkt Cap (£m)	18
EV (£m)	16
Free Float*	85%
Market	AIM

**As defined by AIM Rule 26*

Description

Surface Transforms (ST) is 100%-focused on manufacture and sales of carbon ceramic brake discs. It has recently expanded its manufacturing capacity.

Company information

Non-Exec. Chair.	David Bundred
CEO	Dr Kevin Johnson
Finance Director	Michael Cunningham

+44 151 356 2141

www.surfacetransforms.com

Key shareholders

Hargreave Hale	15.4%
Unicorn Asset Mgt.	13.4%
Richard Gledhill (director)	11.8%
Richard Sneller	5.6%
Hargreaves Lansdown	5.0%
Barclays Wealth	3.3%

Diary

Feb'19	Interim results
Sep'19	Full-year results

Analyst

Mike Foster 020 7194 7633

mf@hardmanandco.com

Industrial Engineering

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	SIXH
Price (p)	15.0
12m High (p)	18.5
12m Low (p)	13.25
Shares (m)	113.1
Mkt Cap (£m)	17.0
EV (£m)	18.7
Free Float*	72.1%
Market	AIM

*As defined by AIM Rule 26

Description

The 600 Group is a designer and manufacturer of industrial products active in machine tools, components and laser marking. The US represents around 65% of group sales.

Company information

Executive Chairman	Paul Dupee
CFO	Neil Carrick

+44 1922 707110

www.600group.com

Key shareholders

Haddeo Partners	20.8%
Mr D Grimes (MD of ILS)	6.6%
Mr A Perloff and Maland Pension Fund	5.8%
Miton Group	3.4%
Others	63.4%

Diary

Jun/Jul'19	Final results

Analyst

Paul Singer 020 7194 7622

ps@hardmanandco.com

THE 600 GROUP

Trading still healthy, with good order book

The 600 Group remains competitively well positioned, with a world-class reputation in machine tools and laser marking. Around 65% of sales are in the US. Business momentum is good, with a healthy order book, and with growth enhanced by new product launches and new market entry. The shares are attractively valued against the peer group on a DCF basis, and offer an appealing yield.

- **2018/19 interims:** The group recently reported interim revenues up 2% at $32.8m (1H'17/18: $32.2m), with underlying operating profit up 20% to $1.98m (1H'17/18: $1.64m). Pre-tax profit before special items was $1.5m (1H'17/18: $1.1m). The Board declared an interim dividend of 0.25p per share.

- **Trading comment**: The trading update was positive, despite the macroeconomic and political uncertainties, reflecting good enquiry and quotational activity, with a healthy order book – up 5%. Our 2018/19 full-year forecasts were broadly maintained.

- **Prospects:** Growth will be driven primarily organically, with new product developments in both business areas and new geographical market entry continuing. The group has undertaken a UK restructuring programme to reduce capex requirements and further improve margins in the medium term. Opportunities are also available for operational and distribution synergy benefits.

- **Competitive position:** The 600 Group has strong global brand recognition, with, as a key differentiator, the provision of high-service/customer support. The group is regarded as well positioned within highly competitive and fragmented industries, where barriers to entry are generally low. Management is looking for targeted acquisition opportunities in both business areas.

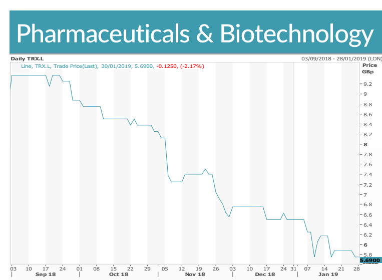
- **Investment summary:** The shares offer the opportunity to invest in a de-risked cyclical stock with good operational leverage, enhanced by new product launches and new market entry. Cyclicality has been de-risked through further development of repeat/recurring business and activities in high-margin, economically less sensitive spares/services operations. The group remains in a solid financial position. The risk/reward profile is favourable, and the shares are attractively valued on most methodologies, now offering an appealing yield.

Financial summary and valuation

Year-end Mar ($m)	2017	2018	2019E	2020E
Sales	58.8	66.0	69.7	73.9
Gross profit	20.5	23.0	24.4	25.8
EBITDA	4.5	4.9	5.4	6.0
Underlying EBIT	3.8	4.2	4.8	5.4
Underlying PTP	2.7	3.1	3.7	4.4
Underlying EPS (c)	2.7	3.2	3.1	3.6
Statutory EPS (c)	2.7	3.7	3.1	3.6
Net (debt)/cash	-17.1	-15.6	(15.7)	(8.9)
Dividend (p)	0.00	0.50	0.60	0.72
P/E (x)	6.8	7.3	6.3	5.5
Dividend yield		2.8%	4.0%	4.8%
EV/EBITDA (x)		6.6	5.8	6.2

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	TRX
Price (p)	5.8
12m High (p)	12.2
12m Low (p)	5.5
Shares (m)	1,171.7
Mkt Cap (£m)	67.4
EV (£m)	63.9
Free Float*	27%
Market	AIM

As defined by AIM Rule 26

Description

Tissue Regenix (TRX) is a medical device company focused on regenerative medicine. Patented decellularisation technologies remove DNA, cells and other material from animal/human tissue and bone, leaving scaffolds that can be used to repair diseased or worn-out body parts. Its products have multiple applications.

Company information

CEO	Steve Couldwell
CFO	Gareth Jones
Chairman	John Samuel

+44 330 430 3052
www.tissueregenix.com

Key shareholders

Directors	4.3%
Invesco	29.0%
Woodford Inv. Mgt.	26.0%
IP Group	13.8%
Baillie Gifford	4.3%

Diary

1Q'19	2018 full-year results
1H'19	Potential EU approval of OrthoPure XT

Analysts

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TISSUE REGENIX

Full-year results due in March

TRX has a broad portfolio of regenerative medicine products for the biosurgery, orthopaedics, dental and cardiac markets. It has two proprietary decellularisation technology platforms for the repair of soft tissue (dCELL) and bone (BioRinse). As part of the integration process of its 2017 acquisition, CellRight Technologies, management embarked upon a revised commercial strategy to increase sales momentum and market penetration. In 2019, TRX is expected to benefit from the US and European commercial distribution agreements made with leading orthopaedic company, Arthrex, in 2018. Full-year 2018 results are due in March.

- **Strategy:** To build an international regenerative medicine business with a portfolio of products using proprietary dCELL and BioRinse technology platforms, underpinned by compelling clinical outcomes. TRX is looking to expand its global distribution network, via strategic partnerships, to drive sales momentum.

- **HTA licence:** A key goal of the CellRight integration process was to obtain a Human Tissue Authority licence to enable importation of CellRight's products into the UK (and, over time, into Europe). This was received in June 2018, allowing TRX to identify global distribution partners for its osteobiologic products.

- **Arthrex:** Having Arthrex as its US and EU distribution partner is a significant achievement for TRX. Being privately owned, there is minimal publicly available financial detail about Arthrex and, as such, it may not be on investors' radars. It has the biggest share of the Sports Medicine market, estimated at ca.33%.

- **Risks:** TRX is exposed to many of the risks common to medical devices companies, including the regulatory hurdles particular to osteobiologics based on animal tissue, and the commercial risks of operating in a highly competitive market. The latter is, however, mitigated by the use of a hybrid sales strategy.

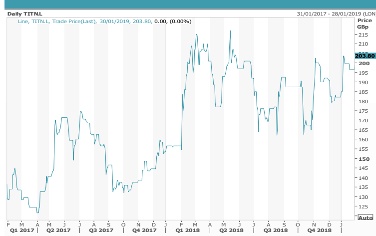
- **Investment summary:** TRX has three value drivers: sales of BioSurgery products in the US; expansion of CellRight and TRX technologies into the orthopaedics/spine and dental markets; and preparation for the OrthoPure XT launch in the EU in 2019. Expansion of its commercial opportunities through established partners is expected to hasten the time to reach a cash-neutral position, now estimated in fiscal 2020.

Financial summary and valuation

Year-end Dec (£m)	*2016	**2016	2017	2018E	2019E	2020E
Sales	0.82	1.44	5.23	11.48	18.96	25.90
EBITDA	-9.86	-10.55	-8.98	-7.92	-2.56	1.54
Underlying EBIT	-10.11	-10.85	-9.69	-9.08	-3.73	0.33
Reported EBIT	-10.24	-11.06	-10.82	-10.08	-4.23	-0.17
Underlying PBT	-9.89	-10.74	-9.64	-9.06	-3.72	0.33
Statutory PBT	-10.03	-10.95	-10.77	-10.06	-4.22	-0.17
Underlying EPS (p)	-1.26	-1.28	-0.90	-0.71	-0.26	0.08
Statutory EPS (p)	-1.28	-1.30	-1.02	-0.79	-0.30	0.04
Net (debt)/cash	19.91	8.17	16.42	6.29	0.58	-0.05
Capital increase	19.02	0.00	37.99	0.00	0.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	12.2	5.6	3.4	2.5

**Year to 31 January. **11 months to 31 December.*
Source: Hardman & Co Life Sciences Research

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	TON
Price (p)	196.5
12m High (p)	217.0
12m Low (p)	148.5
Shares (m)	11.1
Mkt Cap (£m)	21.8
EV (£m)	20.6
Free Float*	97%
Market	AIM

*As defined by AIM Rule 26

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

+44 1206 713 800
www.titonholdings.com

Key shareholders

Rights & Issues IT	11.4%
MI Discretionary UF	7.2%
Chairman	8.8%
Other Directors	7.9%
Founder/NED	15.7%
Family	6.8%

Diary

20 Feb	AGM

Analyst

Tony Williams 020 7194 7622
tw@hardmanandco.com

TITON HOLDINGS PLC

"Signed, sealed, delivered…

…(I'm yours)" is the message from the Group as its Annual Report arrived on front door mats at the end of January. And, given that this follows a 29% Total Return to Shareholders over the past year, it is clear that "love's still strong" for investors. Nonetheless, "you got my future in your hands" in so far as Titon still trades at a significant valuation discount to its Sector (and half that of the most highly rated companies). "Don't be a fool and stay away too long".

- **Wonder:** Christian name Stevie and a co-writer of SSD(IY) would have loved Titon's falsetto in the year to 30 September 2018 when PBT rose 20% to £3m on net revenue up 5% at £30m. The DPS lilted 13% higher to 4.75p with cover at 4.0x. Regionally, too, South Korea soloed more than two-thirds of Group PBT.
- **Middle eight:** RONA was 20.7% on an adjusted basis with Capital Turn swinging around 2.0. Liquidity was melodic, also, with a Quick Ratio near 2.0, while net cash is equivalent to 18% of net assets. We also expect Titon to continue to keep cash-positive time.
- **Chorus: At the time of its preliminary announcement,** we wrote up our profit forecasts and added a 2021 refrain. Assuming Brexit is not spectacularly off-key, Experian says UK GDP will grow at ca.1.6% p.a. in 2019, 2020 and 2021 while, in South Korea, GDP is set to grow at 2.5% in both 2019 and 2020, says FocusEconomics (with the former being shaded by 10 basis points on 22 January).
- **Harmony: With the same Brexit-horn-section as above,** Experian is forecasting annual growth in construction of 2% p.a. through 2021 with Group core activity, private housebuilding, up at 3.3% p.a. Meantime, South Korea continues to possess an enviably strong economic voice with backing singers, 'the other regions', waiting their call. The Group produces both prosaic and truly innovative products, which is a rhythmic combo, and it affords protection and good musical reach.
- **"You set my soul on fire":** The Hardman UK Building Materials Sector comprises 23 companies with a market value of £7.6bn and a valuation of 8.2x EV/EBITDA on a trailing 12-month basis. Titon is a full point lower at just 7.2x despite being number one in Total Shareholder Return (TSR) of 29% over 12 months. Note, too, the Sector average TSR is minus 11%; and only eight stocks, including Titon, have struck a positive chord in the past year.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
Net revenue	23.7	28.0	29.9	31.0	32.9	34.1
EBITDA	2.33	2.46	2.85	2.96	3.27	3.55
Underlying EBIT	1.77	1.85	2.19	2.25	2.49	2.69
Statutory PBT	2.14	2.49	2.98	3.20	3.58	3.89
Underlying EPS (p)	15.2	16.5	19.2	19.4	21.5	22.9
Statutory EPS (p)	15.2	16.5	19.2	19.4	21.5	22.9
Net (debt)/cash	2.4	3.3	3.4	4.0	4.5	5.0
Shares issued (m)	10.9	11.0	11.1	11.1	11.1	11.1
P/E (x)	12.9	11.9	10.3	10.1	9.1	8.6
EV/EBITDA (x)	9.0	8.3	7.2	6.9	6.1	5.6
DPS (p)	3.50	4.20	4.75	4.85	5.25	5.50
Dividend yield	1.8%	2.1%	2.4%	2.5%	2.7%	2.8%

Source: Hardman & Co Research

HARDMAN&CO.

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**VAL**
Price (p)	**0.8**
12m High (p)	4.5
12m Low (p)	0.7
Shares (m)	598.3
Mkt Cap (£m)	4.9
EV (£m)	3.3
Free Float*	100%
Market	AIM

*As defined by AIM Rule 26

Description

ValiRx (VAL) is a clinical-stage biopharmaceutical company focused on novel treatments for cancer. It currently has two products in Phase I/II and completed Phase II clinical trials. Its business model focuses on out-licensing or partnering drug candidates after clinical trials.

Company information	
CEO	Dr Satu Vainikka
CFO	Gerry Desler
Chairman	Oliver de Giorgio-Miller

+44 203 008 4416
www.valirx.com

Key shareholders	
Directors	0.5%
Nicolas Slater	3.8%

Diary	
Apr'19	2018 final results
2H'19	Read-out VAL201

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VALIRX

VAL401: publication in a peer-reviewed journal

VAL is a clinical-stage biopharmaceutical company focused on the development of therapeutics for the treatment of cancer. The company has two leading assets: VAL201 (Phase I/II) – a peptide for advanced prostate cancer and potential to treat other hormone-induced indications; and VAL401 (completed Phase II) – a novel reformulation of risperidone, for advanced lung cancer. Both drugs are targeted at multi-billion-dollar markets that are inadequately served by current drugs. While VAL is actively seeking a partner for VAL401 to conduct the subsequent Phase III trial, a publication on its successful Phase II has just been published in a scientific journal.

- **Strategy:** VAL operates as a virtual business, outsourcing most of its activities. The core strategy is to develop its therapeutic assets through the clinical pathway, and seek a partner/licensing deal to complete the development programme and regulatory submissions to commercialise the products.

- **Scientific publication:** VAL has just published an article in the peer-reviewed *European Journal of Drug Metabolism and Pharmacokineticse*, entitled 'Clinical Pharmacokinetics of a Lipid-Based Formulation of Risperidone, VAL401: Analysis of a Single Dose in an Open-Label Trial of Late-Stage Cancer Patients'.

- **Outcome:** The publication describes the assessment of the pharmacokinetics of the lipid formulation of risperidone VAL401 used in the successful Phase II trial with late-stage lung cancer, confirming its safety and tolerability. It also set the optimal dosing regimen for future studies at 2mg daily.

- **VAL401:** The main event in 2018 was the successful completion of a Phase II trial with VAL401 in patients with late-stage lung cancer. This confirmed its palliative effect and improvement in quality of life in patients. VAL is now in discussions with potential partners with a view to starting a Phase III trial in 2019.

- **Investment summary:** VAL appears to be under-appreciated by the market. Reasons for this include the lack of institutional shareholders and a continuing need for more capital to advance its clinical programmes, thereby building value. Given the clinical progress seen to date, the company should be attracting potential commercial partners and/or institutional investors in order to achieve the real value of its assets.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	83	0	0	0	0	0
SG&A	-1,645	-1,666	-1,467	-1,511	-1,587	-1,587
R&D	-1,543	-2,375	-1,747	-1,834	-2,201	-2,641
EBITDA	-2,877	-3,939	-2,938	-3,158	-3,600	-4,040
Underlying EBIT	-2,888	-3,949	-2,948	-3,345	-3,788	-4,228
Reported EBIT	-3,029	-3,987	-3,125	-3,345	-3,788	-4,228
Underlying PBT	-2,889	-4,288	-3,398	-3,377	-3,829	-4,286
Statutory PBT	-2,567	-5,569	-3,554	-3,377	-3,829	-4,286
Underlying EPS (p)	-7.7	-6.0	-1.9	-0.7	-0.7	-0.8
Statutory EPS (p)	-6.7	-8.2	-2.0	-0.7	-0.7	-0.8
Net cash/(debt)	232	-734	311	-1,583	-4,968	-8,722
Capital increase	2,681	2,615	3,602	1,051	0	0

Source: Hardman & Co Life Sciences Research

VOLTA FINANCE

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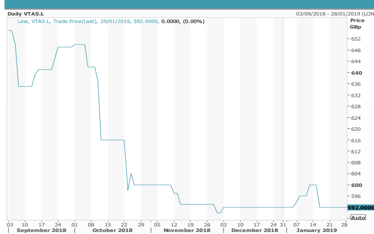
Volta is a closed-ended, limited liability company registered in Guernsey. Its investment objectives are to seek to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends that it expects to distribute on a quarterly basis. The latest quarterly dividend was €0.16 per share (announced 25 October), with the rolling 12-month total at €0.62 per share. The assets in which Volta may invest, either directly or indirectly, include, but are not limited to, corporate credits, sovereign and quasi-sovereign debt, residential mortgage loans, commercial mortgage loans, automobile loans, student loans, credit card receivables, leases, and debt and equity interests in infrastructure projects. The current underlying portfolio risk is virtually all to corporate credits. The investment manager for Volta's assets is AXA Investment Managers Paris, which has a team of experts concentrating on the structured finance markets.

On 11 December 2018, Volta announced that, after due enquiry, it was the opinion of the Board that the company's shares qualified as an "excluded security" under the rules; they are therefore excluded from the FCA's restrictions that apply to non-mainstream pooled investments (NMPIs). The Board therefore believes that independent financial advisers can recommend the company's shares to retail investors, although financial advisers should seek their own advice on this issue.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Volta Finance can be accessed through our website (*Volta Finance Ltd Research*). Our initiation report, published on 5 September 2018, can be found on the same site.

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	VTA .NA, VTA.LN VTAS LN *
Price (€)	6.80/6.75/592p
12m High (€)	7.32/7.28/655p
12m Low (€)	6.46/6.52/590p
Shares (m)	36.6
Mkt Cap (€m)	248
Trail 12-mth. yield	9.1%
Free Float*	70%
Market	AEX, LSE

** Listing 03 September 2018*

Description

Volta Finance is a closed-ended, limited liability investment company that pursues a diversified investment strategy across structured finance assets (primarily CLOs). It aims to provide a stable stream of income through quarterly dividends.

Company information

Independent Chairman	Paul Meader
Independent Non-Executive Directors	Graham Harrison Stephen Le Page, Atosa Moini, Paul Varotsis
Fund Managers AXA IM Paris	Serge Demay A Martin-Min François Touati
Co. sec. /Administrator	BNP Paribas Securities Services SCA, Guernsey Branch

BNP: +44 1481 750853
www.voltafinance.com

Key shareholders

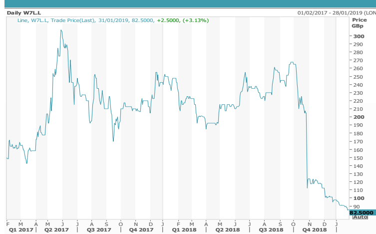
Axa Group	30.4%

Diary

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

Personal Products



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**W7L**
Price (p)	82.9
12m High (p)	274.8
12m Low (p)	75.2
Shares (m)	76.7
Mkt Cap (£m)	63.6
EV (£m)	59.0
Free Float*	37.9%
Market	AIM

**As defined by AIM Rule 26*

Description

Warpaint is a UK-based colour cosmetics specialist that sells creative, design-focused and high-quality cosmetics at affordable prices. The company comprises two divisions: own-brand (W7, Retra and others) and close-out. It has a presence in more than 56 countries worldwide.

Company information

Joint CEO	Sam Bazini
Joint CEO	Eoin Macleod
CFO	Neil Rodol
Chairman	Clive Garston

+44 1753 639 130
www.warpaintlondonplc.com

Key shareholders

Directors*	51.1%
Schroder Inv. Mgt.	12.0%
BlackRock Inv. Mgt.	9.9%
Hargreave Hale	3.1%
J O Hambro Capital Mgt.	2.0%
Columbia Threadneedle	1.8%

**includes shares held by directors' wives*

Diary

Apr'19	Full-year results
Jun'19	AGM

Analyst

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WARPAINT LONDON PLC

Trading update

Warpaint has released a trading update for the year ending 31 December 2018. In November 2018, the company prudently signalled that group sales for FY'18 were likely to be in the range of £48m-£52m, with adjusted PBT of £8.5m-£10m. In the latest trading update, the company has confirmed that its expected revenue for FY'18 will be close to the lower end of the range, at £48.5m, with adjusted profit before tax of £8.25m. Trading conditions in the UK, the biggest geographical region for Warpaint's business, remain challenging, but it has seen strong growth in its overseas markets. We retain a dividend forecast of 5.5p for FY'18. Warpaint will be announcing its FY'18 results in April.

- **UK trading conditions:** In the October trading update, Warpaint stated that trading conditions in the UK remained challenging, because of the UK high-street slowdown and ongoing Brexit anxiety.
- **International operations:** Warpaint's management has been putting further emphasis on its international operations since 4Q'18. Benefiting from the acquisition of Leeds Marketing, Warpaint saw increasing activities in the US. The company is also expecting a further increase in brand recognition in Eastern Europe and Asia.
- **Valuation:** Despite the reduction in its revenue and PBT forecasts, Warpaint will still be profitable for FY'18. With a strong cash position, the management team still intends to pay off the remaining borrowings. The company remains profitable and cash-generative, and it intends to maintain its progressive dividend policy.
- **Risks:** Warpaint's success depends partly on discount retailing growth, and global market conditions remain a significant factor. Post the Retra acquisition (significant exposure to the gifting market), Warpaint has better revenue forecasting visibility, but it has also increased its exposure to the struggling UK high-street retailers.
- **Investment summary:** Warpaint is benefiting from its two acquisitions, Retra and Leeds Marketing, which enable the group to enter the fastest-growing colour cosmetics market (China) and further expand into the largest colour cosmetics market (US) in the world. It offers investors the opportunity to invest in the fast-growing colour cosmetics sector, with a highly experienced management team, an attractive RoE and a high dividend yield.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Sales	22.5	32.5	48.5	56.8	62.3
EBITDA (adjusted)	6.3	8.0	9.2	11.6	13.5
Operating profit (adjusted)	6.2	7.3	6.2	8.6	10.6
PBT (adjusted)*	6.1	7.7	8.6	11.3	13.3
Basic EPS (adjusted) (p)*	7.9	9.7	9.7	12.6	14.7
DPS (p)	1.5	4.0	5.5	6.6	7.9
P/E (x)*	10.5	8.6	8.6	6.6	5.6
EV/EBITDA (x)	9.4	7.4	6.4	7.8	6.7
Dividend yield	1.8%	4.8%	6.6%	8.0%	9.6%
RoE	-	20.0%	11.6%	15.8%	18.1%

**excludes amortisation of intangible assets*
Source: Hardman & Co Research

Notes

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(Disclaimer Version 8 – Effective from August 2018)

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In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public…'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

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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