

**Market data**

EPIC/TKR	CMH
Price (p)	60.0
12m High (p)	176.0
12m Low (p)	55.5
Shares (m)	8.3
Mkt Cap (£m)	5.0
EV (£m)	11.8
Free Float*	40%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

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

Key shareholders

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

Diary

June-18	2017/18 finals
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Analysts

Paul Singer	020 7194 7622
	ps@hardmanandco.com

Chamberlin

Trading healthy, technical issues improving

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

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

Financial summary and valuation

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

Source: Hardman & Co Research

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Hardman & Co Research Limited (trading as Hardman & Co)
35 New Broad Street
London
EC2M 1NH

+44 (0) 20 7194 7622
Follow us on Twitter @HardmanandCo

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

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Hardman & Co team

Management team

+44 (0)20 7194 7622

John Holmes	jh@hardmanandco.com	+44 (0)20 7194 7629	Chairman
Keith Hiscock	kh@hardmanandco.com	+44 (0)20 7194 7630	CEO
David Banks	db@hardmanandco.com	+44 (0)20 7194.7622	Corporate Advisory/Finance

Investor engagement and marketing

+44 (0)20 7194 7622

Richard Angus	ra@hardmanandco.com	+44 (0)20 7194 7635
Max Davey	md@hardmanandco.com	+44 (0)20 7194 7622
Antony Gifford	ag@hardmanandco.com	+44 (0)20 7194 7622
Ann Hall	ah@hardmanandco.com	+44 (0)20 7194 7622
Gavin Laidlaw	gl@hardmanandco.com	+44 (0)20 7194 7627
Vilma Pabilionyte	vp@hardmanandco.com	+44 (0)20 7194 7637

Analysts

+44 (0)20 7194 7622

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com

Bonds / Financials

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Consumer & Leisure

Steve Clapham	sc@hardmanandco.com
Mike Foster	mf@hardmanandco.com
Jason Streets	js@hardmanandco.com

Life Sciences

Martin Hall	mh@hardmanandco.com
Dorothea Hill	dmh@hardmanandco.com
Grégoire Pavé	gp@hardmanandco.com

Media

Derek Terrington	dt@hardmanandco.com
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Mining

Paul Mylchreest	pm@hardmanandco.com
-----------------	---------------------

Oil & Gas

Angus McPhail	if@hardmanandco.com
---------------	---------------------

Property

Mike Foster	mf@hardmanandco.com
-------------	---------------------

Services

Mike Foster	mf@hardmanandco.com
-------------	---------------------

Special Situations

Steve Clapham	Brian Moretta
Paul Singer	Chris Magennis
Yingheng Chen	yc@hardmanandco.com

Tax Enhanced Services

Brian Moretta	bm@hardmanandco.com
Chris Magennis	cm@hardmanandco.com

Technology

Milan Radia	mr@hardmanandco.com
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Utilities

Nigel Hawkins	nh@hardmanandco.com
---------------	---------------------

Hardman & Co

35 New Broad Street
London
EC2M 1NH

Tel: +44(0)20 7194 7622

www.hardmanandco.com

