



HARDMAN & CO.

THE MONTHLY

November 2018

Table of contents

About November's feature article	3
Disruptive Markets.....	4
Background	5
Company research	10
1pm plc.....	11
Advanced Oncotherapy.....	12
Allergy Therapeutics.....	13
Alliance Pharma.....	14
Arbuthnot Banking Group.....	15
AVACTA.....	16
bigdish plc.....	17
Bionomics	18
Burford Capital.....	19
Chamberlin.....	20
City of London Investment Group.....	21
civitas social housing	22
Diurnal group.....	23
DP Poland.....	24
GATELEY (HOLDINGS) PLC	25
genedrive plc	26
Haydale	27
Koovs plc	28
Morses Club PLC.....	29
MURGITROYD.....	30
Non-Standard Finance	31
Oxford Biomedica	32
Primary Health Properties.....	33
r.e.a. holdings.....	34
Redx pharma.....	35
Surface transforms.....	36
The 600 Group	37
Titon holdings plc	38
Valirx.....	39
VOLTA FINANCE.....	40
Warpaint London plc.....	41
Disclaimer	43
Status of Hardman & Co's research under MiFID II	43

About November's feature article

Disruptive Markets

In addition to Hardman's monthly analysis of client stocks, the thorny issue of market disruption – a popular theme currently – is also addressed.

In a wide-ranging article, Hardman's utilities analyst, Nigel Hawkins, assesses the impact that market disruption has already made. In some sectors, notably telecoms and aviation, market disruption has been apparent for many years, as the rise of Vodafone, Ryanair and easyJet demonstrates.

However, in some sectors, such as oil and housebuilding, structural changes have been modest – the dominance of the big players endures.

For investors, there is real interest in those sectors where changes are underway. The UK groceries market, which may shortly become a duopoly, is a case in point.

And, intriguingly, who knows if there is a company currently languishing in AIM, which will attain a £50bn market valuation within the next decade?

Disruptive Markets

By Nigel Hawkins, Hardman & Co Analyst

Disruption, Disruption, Disruption

- ▶ Disruption activities have been a key feature of stock markets for many years – this has been a central element in the marked changes in the membership of the FTSE-100 over the last generation. Undoubtedly, the arrival of the internet and the sharp growth of online selling have been key factors recently.
- ▶ Back in the 1980s and 1990s, major changes overtook the telecoms market, with mobile telephony seemingly emerging from nowhere, and – in aviation – with the rise of Ryanair and easyJet.
- ▶ Some sectors have, to date, seen relatively little change. In the oil sector, Shell and BP remain dominant, along with the other majors. To be sure, operating costs have fallen markedly of late, but the industry structure has barely changed. Housebuilding, too, is seeing little new momentum, with the ‘big three’ volume housebuilders – Barratt, Persimmon and Taylor Wimpey – very much in control.
- ▶ However, there are other sectors that are currently undergoing significant change – a phenomenon that this article examines. At the forefront of this transformation are retailers where the growth of online activities has been very pronounced – Next, for example, recently reported higher online sales than those from its shops. As for food retailing, notably through the arrival of Aldi and Lidl, the sector is undergoing a structural shift – with far lower operating margins, as Tesco has found to its cost.
- ▶ In both the banking and electricity supply sectors, there are similar developments, as the Government seeks to stimulate further competition – and to generate lower charges for consumers. In both cases, the emerging competitors are still very small undertakings compared with the incumbent players. Some minor inroads are, though, being made.
- ▶ The estate agency sector is having to cope with very low house sales, due partly to the high levels of stamp duty being levied, at the same time as Purplebricks’ model has shaken up the struggling market.
- ▶ For the discerning investor, the key is to recognise that major structural changes are likely, although not in every sector, and to anticipate when a putative competitor is able to report a major improvement in its financial returns. The growth of Vodafone, from the late 1980s to its status as the world’s fourth most valuable company by 2000, is an obvious example – its impact on British Telecom’s share price rating has been profound.
- ▶ Perhaps there is a company, currently languishing in the lower echelons of AIM, with the potential to generate a £50bn valuation in coming years.

Background

General Electric – the decline of a behemoth

Historically, the stock market has seen wide-ranging changes in the membership of the FTSE-100 over the years. However, over the last generation, the pace has picked up, and there have been far-reaching changes to its membership and to the valuations of leading companies. Much of this transformation is attributable to the disruption affecting individual sectors.

At the turn of the last century, General Electric was both the bell-weather and the third most valuable stock in the US market, although, at that time, its capitalisation was below that of Microsoft and Cisco. Its valuation has subsequently plummeted, with its share price falling by almost 80% from its high; its UK bell-weather counterpart, ICI, was subsumed into Akzo Nobel back in 2008.

Such trends reflect how some companies are prospering, while others are struggling – a process that is widely attributable to the impact of disruption in some, although not in all, sectors.

It should be emphasised that the disruption element does not apply to every sector – some have resisted it, while certain others have been unable to do so.

Of course, for the discerning investor, the key is to anticipate whether sector disruption will occur and, if it does, what its consequences will be on market valuations.

Major disrupted markets

In the 1980s and 1990s, there were two obvious high-profile cases of market disruption; they affected the nascent telecoms and aviation markets.

Mobile telephony seriously disrupted BT

In the case of telecoms, British Telecom (BT) was partly privatised in 1984; it owned virtually every major telecoms network in the UK, with the exception – for quaint historical reasons – of the network in Hull. Almost all its lines were fixed-line connections. To be sure, the Government did license a Cable & Wireless subsidiary to provide some competition – it turned out to be a token gesture – to BT, whose prospects at the time looked very rosy. However, the development of mobile telephony increasingly supplanted BT's fixed-line network.

Vodafone's startling rise over one generation

Indeed, Vodafone – founded as a minor subsidiary of Racal Electronics in the early 1980s – had become the world's fourth most valuable company in history by the turn of the century, on the back of its extensive mobile – not fixed-line – offering.

Ryanair's astonishing growth

On a similar timeline, the dominant role of British Airways (BA) in operating European flights was rapidly overtaken by both the Irish-based Ryanair, now Europe's most valuable aviation business, and easyJet, which was founded as recently as 1995. The former's passenger growth numbers, in particular, have been mightily impressive, as the table below indicates.

Ryanair passenger numbers	
Year	Number
1985/86	5,000
1990/91	745,000
1995/96	2,260,000
2000/01	7,002,000
2005/06	34,768, 813
2010/11	72,062,659
2015/16	106,431,130
2016/17	119,977,801

Source: Ryanair, Hardman & Co Research

Such a major shake-up of the UK aviation market was attributable mainly to deregulation of the highly constraining aviation legislation within the EU at the time. The disruptive impact from the rise of the low-cost carriers, notably Ryanair and easyJet, on flag-carrier, BA, has been far-reaching.

Major undisrupted markets

While the telecoms and aviation markets have undergone fundamental reform, some markets have seen comparatively little structural change in recent years.

Topsy-turvy oil prices

The oil industry is a case in point, despite an oil price that fluctuated between a record \$147 per barrel in July 2008 to below \$29 per barrel in January 2016. For generations, Shell and BP have dominated the UK oil sector, with the overwhelming majority of their earnings coming from overseas. Note also that both remain key dividend providers to millions of UK pension fund members. With a depressed oil price, both majors experienced difficult times a few years ago, especially BP, which was recovering from the massive setback of the Deep Horizon blow-out – and its vast financial ramifications.

BP's costs and sales KFI's

Arguably, the greatest change in recent years, outside the prevailing oil price itself, has been the pronounced reduction in operating costs. Bob Dudley, BP's Chief Executive, confirmed as much last year, saying "The focus on standardisation, simplification and discipline on cost has contributed to our average production costs in the North Sea coming down from a peak of \$30 a barrel in 2014 to less than \$15 a barrel today. Heading towards 2020, with all our major new developments coming into production, we expect that to come down below \$12 a barrel in the North Sea".

BP confirmed that global production costs per barrel in 2014 were \$12.8, compared with just \$8.7 in 2016. Shell also reported a decline over the same period, although at a lower rate.

Clearly, operating costs of \$15 per barrel in an era of an \$80 per barrel selling price compare very favourably with \$30 per barrel costs against the 2015 low price of under \$30 per barrel – admittedly, a very short-term and somewhat notional analysis.

Despite major pharmaceutical sector corporate activity in the US, its UK counterpart has been relatively stable. The share price of sector leader, GlaxoSmithKline, has fallen by ca.8% over the last five years as its quest for new 'block-busting' drugs continues to disappoint. However, Shire, a star performer in recent years, is now set to be acquired by the Japanese-based Takeda.

The UK housing sector also continues without major disruption, despite the Government's perennial pleas to build more houses. The fact remains that small

housebuilders – mainly as a result of the credit crisis in 2008/09 – now have a market share of just 12%; this compares with 40% back in 1988.

The volume housebuilders' cosy KFI's

While there have been some notable acquisitions, particularly by Persimmon, the sector remains dominated by the 'big three' volume housebuilders – Barratt, Persimmon and Taylor Wimpey. All three – and their shareholders – remain happy with the recent annual scenario of more houses being built, higher unit selling prices, rising dividends and – until quite recently – very robust share price ratings.

Market disruption, along with innovation, has not been readily apparent in the sector – a scenario that seems unlikely to change – but the northern-based Bellway is catching up with the leading trio, whose total house-build is approaching 50,000 units per year, almost a quarter of the sector's annual new house-build, but a far higher proportion of the new £200,000+ homes segment.

Engineering shake-up overdue?

Of course, there are other sectors where stagnation is noticeable, including parts of the engineering sector, although the controversial acquisition by Melrose of the long-established GKN may herald a somewhat overdue shake-up.

Markets in the throes of disruption

There are several sectors in the UK market where change is certainly afoot; most notably, the High Street is undergoing a major transformation – with a large number of bankrupt businesses and closed shops – as the impact of online shopping kicks in.

Next leading the online assault

In the last few weeks, leading retailer, Next, has confirmed that its monthly online revenues have, for the first time, exceeded its traditional retail revenues. Previously, Next had reported half-year revenues up to July 2017 of £1,914m, of which £764m – 40% – arose from online sales; the figures up to July 2018 were £1,986m, £892m and 45%, respectively.

Compared with Marks & Spencer, whose online sales are modest, Next's figures are impressive; they explain, too, why Next's very aggressive share price rating is way in excess of that of Marks & Spencer, for generations the bastion of the UK High Street.

Margins, margins, margins

In the groceries sector, the advent of challengers to the 'big four' existing players has been evident for some years – and, especially, from the activities of the German-based pair, Aldi and Lidl, who now account for ca.14% of the UK market. Significantly, their impact has been felt painfully by the pronounced cut in the operating margins of the 'big four' – the main reason for the near halving of Tesco's share price since 2011.

The table below, based on Kantar data, shows how disrupters have impacted the groceries market: over the last six years, the market share of the 'big four' has fallen from 76% to 68% – irrespective of the operating margin implications.

UK groceries market				
Market share (%)	August 2012	August 2014	August 2016	August 2018
Tesco	31	29	28	27
Sainsbury	16	16	16	16
ASDA	18	17	16	15
Morrison	11	11	11	10
Aldi	3	5	6	8
Lidl	3	4	5	6
Others	18	18	18	18

Source: Kantar, Hardman & Co Research

A groceries duopoly being created?

The Competition and Markets Authority (CMA) is currently reviewing the planned Sainsbury/ASDA tie-up. If approved – and assuming no material store disposals are required – Tesco would no longer command the leading market share. Furthermore, the combined Sainsbury/ASDA business and Tesco would be responsible for a near 60% market share; this would present a formidable challenge for any disrupters.

Ironically, the banks and the electricity supply sectors have several features in common. Both have challengers, albeit represented by distinctly smaller companies, and both are also impacted by the Government's resolve to nurture potential competitors with a long-term vision.

Incipient competition in retail banking

In the banks' case, post the trauma of the credit crisis of 2008/09 and the shocking £45.5bn cash injection into the beleaguered Royal Bank of Scotland (RBS), the Government has been very anxious to create new competitors. We note that Metro Bank and Virgin Money have developed a High Street presence – they are capitalised at £2.2bn and £1.7bn, respectively.

Furthermore, Aldermore, another bank challenger, was recently acquired by South Africa's First Rand for £1.1bn. While, in many sectors, £1bn+ capitalisations are very material, this figure pales beside the current market capitalisation of the UK's leading bank, HSBC, which is currently valued by the market – despite share price weakness of late – at almost £128bn.

New energy suppliers are still 'minnows'

The Government's drive to create competition is also evident in the utilities sector, and especially in the electricity supply market, which is often quoted as being 'broken'. Indeed, price controls on the popular Standard Variable Tariff (SVT) are now being imposed. Many competitors have emerged recently in the competitive supply market, to challenge the incumbent dominance of the 'big six'. Some challengers have gone bust, as they have lacked market share or the financial backing to cover the many supply risks – and costs – inherent within the market.

As recently as 2010, the 'big six' controlled virtually the entire market; the latest figures from Ofgem show that they now account for below 80%. The table below shows how the market share of the 'big six' since 1Q 2005 – shortly to become the 'big five' on the back of the now approved SSE supply business/npower merger – has declined.

GB electricity market										
Market share (%)	BG	EdF	E.ON	npower	SP	SSE	Co-Op	Ovo	First Utility	Utilita
1Q 2005	24	14	21	15	11	14	0	0	0	0
1Q 2010	24	13	18	14	12	20	0	0	0	0
1Q 2015	24	13	16	11	11	16	1	3	2	1
1Q 2016	23	12	14	9	11	15	2	3	2	2
1Q 2017	22	12	14	9	11	15	2	3	2	2
1Q 2018	20	11	13	9	10	14	1	3	3	2

Source: Ofgem, Hardman & Co Research

Shell plans to be on pole for EV servicing

In time, the challenger electricity supply companies are expected to gain more market traction. In particular, First Utility, recently bought by Shell, is likely to be a pivotal player. Of course, for Shell, First Utility is a very minor part of its business but, as electric vehicles become more widespread, Shell plans to be in pole position to provide charging points and other related services.

Market disruption is also being experienced in the fragile estate agents' market, where the volume of housing transactions, due partly to high stamp duty levels, has been falling – and has caused real problems for sector leader, Countrywide, and its strained finances. The disruption element has been provided by Purplebricks, which

has been offering a hybrid online/local agent service to house buyers and sellers; it is still early days, but Purplebricks has reported some success, especially in the UK and Australian housing markets.

Conclusion

Market disruption has become a distinct feature in recent years, building on the startling successes of companies such as Vodafone and Ryanair. For the discerning investor, anticipating these trends – and their wide-ranging impact – is key.

A 'mould-breaker' from the depths of AIM?

And, in the fullness of time – perhaps from the lower echelons of AIM – a £50bn company may emerge to 'break the mould' of its chosen sector.

About the author



Nigel Hawkins is the Utilities sector analyst at Hardman & Co.

Nigel is responsible for analysing the UK Utility companies, including those prioritised in the 1980s and 1990s, as well as newer arrivals in the sector. He has been involved in the Utilities sector since the late 1980s, as a feature writer at Utility Week magazine and as an analyst at Libertas Capital. Prior to that, he was the Telecoms analyst at Williams de Broë. Between 1989 and 1995, he worked at Hoare Govett as the Water and Electricity analyst.

Between 1984 and 1987, Nigel was the Political Correspondence Secretary to Lady Thatcher at 10 Downing Street.

Nigel joined Hardman & Co in February 2016. He holds a BA (Hons) in Law, Economics and Politics from the University of Buckingham. He is an associate of the Institute of Chartered Secretaries and Administration and a senior fellow of the Adam Smith Institute.

Company research

Priced at 26 October 2018 (unless otherwise stated).

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OPM
Price (p)	44.2
12m High (p)	60.0
12m Low (p)	42.0
Shares (m)	87.6
Mkt Cap (£m)	38.7
EV (£m)	37.8
Free Float*	51%
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

+44 1225 474230

www.1pm.co.uk

Key shareholders

Lombard Odier	19.3%
Ronald Russell (director)	12.2%
Sapia Partners	10.2%
Mike Nolan (director)	6.3%
Charles Stanley	4.9%
(31/05/18)	

Diary

Early December	Trading update
----------------	----------------

Analyst

Mark Thomas	020 7194 7622
mt@hardmanandco.com	

1PM PLC

Continuing the good work

We reviewed the results to-end May in our note, *Group synergies coming through*, published on 12 September 2018. The company gave an update with its 25 October AGM, confirming it was trading in line with market expectations this year (we are forecasting double-digit revenue and profit growth for both FY'19 and FY'20). The Begbies Traynor red flag alert reported 1% fewer corporates in distress in 3Q'18 than in 2Q'18, suggesting that the recent favourable credit environment is continuing. The implied May 2019E P/E of 5.5x and P/BV of 0.7x appear an anomaly given the downside risk scenarios detailed in our notes and the forecast base-case earnings growth.

- **Company news:** We believe the 25 October *trading statement*, "in line with market expectations", represents broadly-based double-digit growth in origination, revenue and profits. On 22 October, 1pm announced that Positive Cashflow had met all its first-year earn-out targets, indicating that the acquisition will add value.
- **Market news:** The Begbies Traynor red flag alert reported a 5% increase in businesses in significant financial distress compared with 3Q'17, but a 1% reduction on 2Q'18. Despite headlines, general retailers in distress were down 2% on 2Q. We expect credit to worsen over time, but it has not happened yet.
- **Valuation:** We detailed the assumptions in our valuation approaches in our note of 12 Sept 2017, *Financing powerhouse: A lunchtime treat*. The GGM indicates 116p and the DDM 70p (DDM normal payout 78p). The 2019E P/E (5.5x) and P/B (0.7x) appear an anomaly with 1pm's profitability, growth and downside risk.
- **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. Funding is widely diversified and at least matches the duration of lending. Acquisitions would appear well priced, and delivery of synergies provides earnings upside.
- **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)	2015	2016	2017	2018	2019E	2020E
Revenue	5,534	12,554	16,944	30,103	33,503	36,854
Cost of sales	-2,503	-4,480	-6,094	-10,118	-11,264	-12,672
Admin. expenses	-1,394	-4,290	-6,469	-12,183	-13,603	-14,419
Operating profit	1,637	3,418	4,121	7,966	8,914	9,763
Pre-tax profit	1,620	3,346	4,080	7,850	8,708	9,537
Adj. EPS (p)	3.7	6.5	6.5	7.9	8.1	9.0
Total receivables	24,991	56,061	73,955	126,069	141,197	155,317
Eq. to receivables	49%	43%	39%	38%	40%	41%
Shares in issue (m)	36.9	52.5	54.9	86.2	88.4	90.5
P/adj. earnings (x)	11.9	6.8	6.8	5.6	5.5	4.9
P/B (x)	1.3	1.0	0.9	0.8	0.7	0.6
Dividend yield	0.8%	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)	64.8
12m Low (p)	25.0
Shares (m)	169.6
Mkt Cap (£m)	64.45
EV (£m)	57.4
Free Float*	48%
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

+44 203 617 8728

www.advancedoncoterapy.com

Key shareholders

Board & Management	13.0%
Yantai CIPU	26.5%
Brahma AG	5.3%
AB Segulah	3.8%
Hargreaves Lansd.	3.6%
Handelsbanken	3.5%

Diary

2Q'19	Finals
1H'19	Harley Street ready

Analysts

Martin Hall	020 7194 7631	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

ADVANCED ONCOTHERAPY

Proton beam recorded at 52MeV

AVO's goal is to deliver an affordable and novel proton therapy (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 overcome technical challenges. The proton beam has been recorded at an energy of 52MeV, sufficient to treat superficial tumours. With the distribution agreement in place for SE Asia, partnerships with both RaySearch and the STFC, and strengthening of its financing structure, AVO is now on a much firmer footing.

- **Strategy:** AVO is developing a compact and modular 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 the CERN and ADAM, Geneva, and relies on a base of world-class suppliers.
- **Major milestone achieved:** The biggest technical challenge for the proton accelerator has been overcome, with the integration of all the four components at CERN's testing facility in Geneva, significantly de-risking the whole project. The accelerator performs as predicted, generating a proton beam to 52MeV.
- **Interims:** Investment in LIGHT during 2018 has been broadly in line with our forecasts. To date in fiscal 2018, AVO has raised ca.£40m, which has left the balance sheet debt-free and with net cash of £3.3m, boosted subsequently by a Placing of £6.4m gross and a tax credit of £2.9m, providing flexibility.
- **Risks:** With funding secured, AVO's ability to maintain the fast pace of its development plan has improved. Execution risk remains, but the more complex technical challenges have now been overcome. Integration of the remaining CCL units is a technically easy step towards getting a fully functional accelerator.
- **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 partners, and discussions with potential customers are advancing. Progress at the 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

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	AGY
Price (p)	17.4
12m High (p)	35.9
12m Low (p)	17.3
Shares (m)	636.2
Mkt Cap (£m)	110.6
EV (£m)	98.1
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%
Invesco	4.5%

Diary

Nov'18	AGM
2H'18	Ph.III PQ Birch trial

Analysts

Martin Hall	020 7194 7631	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

ALLERGY THERAPEUTICS

2018 full-year results: solid growth

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Pollinex Quattro (PQ) Grass, the subcutaneous allergy immunotherapy (AIT), continues to gain market share, despite being available in the EU only on a 'named-patient' basis. The Phase III trial, designed to obtain approval for PQ Birch as a biologic in Europe, is well advanced and will report data by the end of 2018. As discussed at the interim stage, underlying sales growth was affected by a low pollen season in central Europe. Full-year results suggest that this has remained a difficult market, but one in which AGY has continued to gain market share.

- **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.
- **FY'18 results:** Underlying sales growth in the year to end-June 2018 was 3.5%, which was boosted to 6.6% on a reported basis to £68.3m (£64.1m). Given a weak and short pollen season in spring/summer 2018 and a correspondingly tough market, this was a good performance, with 1ppt market share growth.
- **Profit:** Careful control of marketing and operational costs, combined with timing of R&D, resulted in stronger net cash of £12.5m (£18.8m) at 30 June 2018. As a result, pre-tax profit emerged at -£6.5m in 2018, compared with our forecast of -£9.1m. Excluding R&D, operating profit improved 26% to -£9.6m..
- **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 going through an exciting period. It has a clear vision, is gaining market share from competitors, and is leading the race to have its 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 2018 will provide the next major value inflection point.

Financial summary and valuation

Year-end June (£m)	2015	2016	2017	2018	2019E	2020E
Sales	43.2	48.5	64.1	68.3	73.0	78.4
R&D investment	-3.1	-16.2	-9.3	-16.0	-18.0	-20.0
Underlying EBIT	2.9	-12.3	-2.9	-6.4	-7.8	-8.9
Reported EBIT	1.4	-12.5	-2.6	-7.4	-8.8	-9.9
Underlying PBT	2.8	-12.5	-3.0	-6.5	-8.1	-9.2
Statutory PBT	0.7	-12.2	-2.7	-7.5	-9.1	-10.2
Underlying EPS (p)	0.5	-2.4	-0.5	-1.1	-1.2	-1.6
Statutory EPS (p)	0.0	-2.3	-0.4	-1.3	-1.4	-1.6
Net (debt)/cash	20.1	20.0	18.8	12.5	13.8	1.7
Capital increase	20.1	11.0	0.0	0.0	10.4	0.3
P/E (x)	36.0	-7.4	-37.0	-15.8	-19.6	-15.4
EV/sales (x)	2.3	2.0	1.5	1.4	1.3	1.3

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	APH
Price (p)	66.4
12m High (p)	102.5
12m Low (p)	56.2
Shares (m)	515.1
Mkt Cap (£m)	342.0
EV (£m)	428.3
Free Float*	89%
Market	AIM

*As defined by AIM Rule 26

Description

Alliance Pharma (APH) acquires, markets and distributes medical and healthcare brands in the UK and Europe (direct sales), and in the RoW (via a distributor network), through a buy-and-build strategy, generating relatively predictable and strong cashflows.

Company information

CEO	Peter Butterfield
CFO	Andrew Franklin
Chairman	David Cook

+44 1249 466 966

www.alliancepharmaceuticals.com

Key shareholders

Directors	11.0%
Fidelity	9.4%
MVM Life Sci.	7.5%
Slater Inv.	7.2%
Blackrock	6.0%

Diary

Jan'19	Trading update
Mar'19	Finals
Apr'19	AGM

Analysts

Martin Hall	020 7194 7631	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

ALLIANCE PHARMA

International brands driving performance

APH is continuing with its successful buy-and-build strategy, having evolved through 35 acquisitions over a period of 20 years into a profitable, cash-generative, specialty pharma business. The proportion of sales generated from higher-margin international star brands is rising rapidly, and will be boosted by the recent approval of Xonvea for nausea and vomiting in pregnancy, where conservative management has failed. Investment behind these brands, together with compliance with new regulatory directives, will limit short-term growth. APH is cash-generative, allowing it to pay down debt, and it offers a 2.2% yield.

- **Strategy:** Since inauguration, APH has adopted a buy-and-build model, with 35 deals over 20 years, assembling a portfolio of more than 90 products and establishing a strong track record. It is accelerating growth through investing in multi-market brands, with infrastructure supported by its 'local' brands.
- **Interims:** Underlying sales, excluding acquisitions, grew 4% to £54.5m (£49.4m), driven by international brands, Kelo-cote (+88%) and MacuShield (+23%). Operating costs were impacted by some regulatory and external factors, leaving underlying EBITDA and EBIT in line with 1H'17. Net debt at 30 June was £86.3m.
- **Growth brands:** APH is continuing to evolve, and will now report on 'international star' brands and 'local' brands (formerly 'bedrock' and 'local heroes'). In 1H'18, the international stars represented 32% of sales, and they will be boosted from 2H'18 by the acquisition of Nizoral and Xonvea.
- **Risks:** APH is working with its partners to ensure that all products are compliant with new regulations that are being introduced over the next two years. This, combined with Brexit-related items, is expected to increase costs annually by £0.7m. Also, rising inventories for these items will increase working capital by ca.£3.5m.
- **Investment summary:** Recent acquisitions look set to boost APH's underlying CAGR to 16% in sales and 10% in EPS over the next three years. On the back of this strong performance, the company is expected to continue with its progressive dividend policy. The shares are trading on a 2018E P/E of 14.1x, falling to 12.7x in 2019E, and carry a prospective dividend yield of 2.2%.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Reported sales	48.3	97.5	101.3	117.7	131.5	143.8
EBITDA (underlying)	13.6	26.7	28.2	33.6	37.4	40.6
Reported PTP	15.2	22.2	*28.4	**22.3	31.8	35.2
Underlying EPS (p)	4.0	4.0	4.2	4.7	5.1	5.7
Reported EPS (p)	4.7	3.9	*6.1	**3.3	4.9	5.4
DPS (p)	1.1	1.2	1.3	1.5	1.6	1.8
Net (debt)/cash	-71.5	-76.1	-72.3	-85.7	-66.3	-49.7
Net debt/EBITDA (x)	5.3	2.8	2.6	2.6	1.8	1.2
P/E (x)	17.6	17.6	16.5	14.1	12.7	11.5
EV/sales (x)	9.2	4.6	4.4	3.6	3.2	2.9
EV/EBITDA (x)	31.2	15.8	15.0	12.6	11.3	10.4
Dividend yield	1.7%	1.8%	2.0%	2.2%	2.5%	2.7%

*Includes £5.0m warranty settlement for Kelo-stretch; **Profit on disposal of 60% share of Unigreg JV
Underlying numbers exclude exceptional items and share-based payments

Source: Hardman & Co Life Sciences Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ARBB
Price (p)	1,355
12m High (p)	1,640
12m Low (p)	1,285
Shares (m)	15.3
Mkt Cap (£m)	207
EV (£m)	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.£40m to invest in new organic or acquired businesses.

Company information

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

+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
	mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

Positive third-quarter trading update

The 17 October trading update showed that the new business lines are already delivering excellent franchise growth. The Asset Based Lending division is ahead of plan, the Specialist Finance Division should write its first deals in 4Q, and the direct deposit platform has completed its testing phase. Group lending is up 28% YoY, and originations are up 18%. Deposit growth has been strong, with the group reporting record surplus liquidity. The change in the STB stake accounting treatment is likely to see a ca.£25m 2018 discontinued businesses loss (minimal impact on regulatory capital, as already a deduction). Ongoing underlying profits are down, as the dividends received are less than the accrual of associate earnings, despite no change in the economic outturn.

- **Company news:** We have changed our forecasts to reflect the revised treatment of STB, including i) a capital loss on the valuation of shares against their book value, partially offset by associate earning accrued (net loss £25.1m), and ii) dividends on a received basis accrual (£600k in 2018), partially offsetting lost associate income.
- **Peer news:** STB's 17 October update reported trading in line with management expectations, including profit growth, improved new customer origination credit quality and reduced impairment charges under IFRS9. STB welcomed the CAB super-complaint, arguing it has a long-standing culture of treating customers fairly.
- **Valuation:** The range of our capital deployed valuation methodologies is now £13.60 (DDM), £22.91 (sum-of-the-parts) and £22.98 (GGM). These are down from previous valuations reflecting lower equity post the change in STB. The current share price is around 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 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
Adj. 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
Adj. 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/adj. earnings (x)	100.4	79.2	28.5	37.8	23.2
P/BV (x)	1.68	0.88	0.88	1.00	0.99

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	AVCT
Price (p)	23.5
12m High (p)	72.0
12m Low (p)	21.0
Shares (m)	115.5
Mkt Cap (£m)	27.1
EV (£m)	12.0
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

Jan'19	AGM
1H'19	PD-L1/LAG-3 drug candidate selection

Analysts

Martin Hall	020 7194 7631	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

AVACTA

Affimer reagent licensing deal

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. A co-development partnership has been signed with Bach Biosciences (Tufts) for development of a new type of Affimer drug conjugate (AfDC) that combines Affimer technology with drugs developed at Tufts.

- **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.
- **Finals:** There were no major surprises in the 2018 results. Management has delivered on a three-year plan to gain acceptance that Affimers have distinct advantages. Validating this, fiscal 2019 is expected to be characterised by a number of licensing deals for the technology. Net cash at year-end was £5.2m.
- **Reagent deal:** In October, a commercial licence was announced with New England Biolabs, a global leader in enzymes for molecular biology, for a product using Affimer technology for use in research and diagnostics assays. No financial terms were disclosed, but AVCT will receive a royalty on product sales.
- **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 its own proprietary Affimer-based drugs and growing a profitable reagents business. By itself, the company has identified potential leads and completed both in vitro and in vivo pharmacokinetic pre-clinical, efficacy and immunogenicity tests. Awareness of the potential of Affimers is also being enhanced through the rising number of collaborative deals being signed.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018	2019E	2020E
Sales	1.81	2.17	2.74	2.76	3.17	4.69
R&D spend	-0.03	-1.50	-2.60	-3.78	-4.50	-5.50
EBITDA	-2.28	-4.79	-6.66	-9.15	-8.88	-8.72
Underlying EBIT	-2.85	-5.39	-7.60	-10.12	-9.85	-9.69
Reported EBIT	-5.51	-5.66	-7.98	-10.43	-10.19	-10.07
Underlying PBT	-2.83	-5.29	-7.51	-10.08	-9.82	-9.67
Statutory PBT	-5.48	-5.57	-7.89	-10.39	-10.16	-10.05
Underlying EPS (p)	-4.38	-6.46	-8.75	-13.07	-7.42	-7.12
Statutory EPS (p)	-9.72	-6.86	-9.31	-13.55	-7.72	-7.44
Net (debt)/cash	7.33	19.52	13.17	5.22	7.75	-0.74
Capital increase	0.02	21.05	0.01	0.05	10.92	0.00
EV/sales (x)	13.0	10.9	8.6	8.5	7.4	5.0

Source: Hardman & Co Life Sciences Research

Software & Computer Services



Source: Eikon Thomson Reuters

Market data

	DISH
EPIC/TKR	
Price (p)	2.8
12m High (p)	5.6
12m Low (p)	2.3
Shares (m)	285.8
Mkt Cap (£m)	7.9
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 Pouncer.

Company information

Chairman	Aidan Bishop
CEO	Joost Boer
CFO	Stuart Kemp

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

Yingheng Chen 020 7194 7638
yc@hardmanandco.com

BIGDISH PLC

Launch of upgraded Merchant App

BigDish Plc, the early-stage yield management technology company, has launched a Merchant App that provides restaurants with the flexibility to modify any deal on any given day in real time. The Merchant App will also allow restaurants to receive booking notifications and enable them to modify capacity and pricing of their deal periods. This adds significant flexibility for the restaurants and consumers compared with BigDish's existing app, which allows restaurants to fill capacity only in the 'last-minute' market and where consumers were able to book only up to 48 hours in advance. With the appointment of Sanj Naha to the UK strategy team, BigDish should be able to accelerate the rate of restaurant sign-ups in the southwestern region of the country, starting in Bath.

- **New appointment:** BigDish has recently appointed Sanj Naha to assist in developing the UK strategy. He has 25+ years' experience in hospitality and over 10 years' experience in hospitality technology. Before joining BigDish, Sanj Naha worked as Head of B2B Marketing and Sales Enablement in the Fork, a restaurant booking platform acquired by TripAdvisor in 2014.
- **Focus on increasing brand recognition and growth:** BigDish currently has operations in the Philippines (Manila), Indonesia (Jakarta) and Hong Kong, as well as in the UK, where Pouncer operates. With the funds raised in the IPO, it is planning to make a heavy push on its marketing and advertising effort in order to increase its brand recognition and accelerate its growth path.
- **Valuation:** Valuing an early-stage tech company such as BigDish is inevitably difficult in the absence of historical financials. We have therefore benchmarked BigDish against other relevant recent transactions in the sector, and this indicates a potential valuation of £24.5m-£35m.
- **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 Pouncer 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.

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	BNO
Price (p)	0.16
12m High (p)	0.64
12m Low (p)	0.15
Shares (m)	482.9
Mkt Cap (£m)	77.3
EV (£m)	73.8
Free Float*	90%
Market	ASX

*As defined by ASX Rule 1.1 Condition 7

Description

Bionomics (BNO) is an Australian biopharmaceutical company specialising in development of ion channel drugs for disorders of the central nervous system and for cancers. In addition to a strong proprietary pipeline that includes ion channel allosteric modulators for anxiety, the company offers contract drug development services.

Company information

CEO	Deborah Rathjen
CFO	Steven Lydeamore
Chairman	Errol De Souza
	+618 8354 6100
	www.bionomics.com.au

Key shareholders

Directors	0.7%
BVF Partners	9.8%
Ausbil Investment	9.0%
PPM	4.8%

Diary

14 Nov	AGM
1H'19	Agitation trial data
2H'18	Merck Phase I trial data

Analysts

Martin Hall	020 7194 7631	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

BIONOMICS

Disappointment for BNC210 in PTSD

BNO is an Australian biopharmaceutical company specialising in ion channel drug discovery for central nervous system (CNS) disorders such as anxiety and post-traumatic stress disorder (PTSD). It also offers contract and partnered discovery based on its proprietary technology platforms: MultiCore and ionX. The group sales model includes fees-for-service, licensing income and royalties from successful partnered products. In accordance with its newly updated group strategy, BNO has been focused on the development of its lead candidate, BNC210. Unfortunately, the 2 October results showed that the Phase II RESTORE trial in PTSD had not met its primary and secondary end-points.

- **Strategy:** BNO's recently refined strategy is to focus on development of its ion channel drug candidates, particularly allosteric modulators. It intends to partner its priority CNS candidate for late-stage development and commercialisation, and to monetise its clinical-stage, non-ion channel oncology programmes.
- **RESTORE trial results:** BNC210, a negative modulator of an ion channel involved in anxiety, was being tested in PTSD as part of the RESTORE trial. A positive outcome would have paved the way for regulatory submission in the US. Unfortunately, BNC210 was found to have no overall effect on PTSD symptoms.
- **BNC210 going forward:** Although there was no conclusive evidence of an effect on symptoms of PTSD, previous Phase I and II studies have shown encouraging results in helping with anxiety-related symptoms and behaviours. There is an ongoing trial in agitation in elderly patients, which reads out in 1H'19.
- **Risks:** There are inherent risks in clinical development and commercialisation of medicines, with CNS drug development being notoriously difficult. BNO's strategy is contingent on partnering its candidates for late-stage development and commercialisation, and on the monetisation of its clinical oncology assets.
- **Investment summary:** BNO has a clear strategy to invest in developing its drug candidates to a stage that both interests big pharma and generates good potential returns for shareholders. Hardman & Co estimates a sum-of-the-parts valuation of A\$406.8m for the group – a reduction following removal of the PTSD programme. The next inflection point is likely to be the BNC210 data in agitation in CY 1H'19.

Financial summary and valuation

Year-end June (A\$m)	2015	2016	2017	2018	2019E	2020E
Sales	6.79	7.14	5.53	3.95	3.60	3.40
R&D investment	-23.18	-24.77	-24.22	-25.25	-20.20	-12.12
Other income	1.35	2.59	14.62	1.36	47.56	34.46
EBITDA	-22.65	-24.95	-10.99	-25.20	25.45	20.01
Underlying EBIT	-24.37	-26.88	-12.73	-26.87	23.79	18.34
Reported EBIT	-24.35	-27.42	-13.23	-27.43	23.25	17.80
Underlying PBT	-24.28	-26.28	-13.50	-28.35	22.42	17.47
Statutory PBT	-24.27	-26.82	-13.13	-32.82	21.89	16.93
Underlying EPS (¢)	-4.06	-3.51	-1.48	-4.28	5.57	4.14
Statutory EPS (¢)	-3.27	-3.42	-1.43	-5.10	5.56	4.14
Net (debt)/cash	11.78	23.14	24.26	3.50	31.81	52.24
Capital increase	0.27	28.22	0.14	0.41	0.00	0.00

Source: Hardman & Co Life Sciences Research

Financials



Market data

EPIC/TKR	BUR
Price (p)	1551.0
12m High (p)	2040.0
12m Low (p)	1022.0
Shares (m)	218.6
Mkt Cap (£m)	3,391
Total Assets (\$m)	1,653
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, as well as 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	15.4%
Woodford Investments	9.5%
Old Mutual	5.0%

Diary

12 Nov	Capital markets day
5 Dec	Interim dividend payment

Analysts

Brian Moretta	020 7194 7622
bm@hardmanandco.com	

BURFORD CAPITAL

Equity issue ensures growth is not adjourned

Burford has placed 10.41m new shares with institutional investors through an accelerated bookbuild. The price per share was 1850p, making a total of £192.6m (\$251.2m) raised before expenses. The funding will be applied to business expansion, with new geographies, such as parts of the United States that have not been addressed properly yet, Australia and Germany, specifically mentioned, as well as adding to the team in existing locations. The announcement also mentions new products, which have been the topic of recent press releases, and it is clear that Burford has every intention of pushing its growth further.

- **Issue:** The 10.41m shares represent approximately 5% of the share capital prior to the issue. The issue was filled quickly and was oversubscribed. Burford has benchmarked the share price discount against the share price since the interim results, with the price having risen 3% on the day before the announcement.
- **Future fundraisings:** While a fundraising was well flagged at the time of the interim results, Burford's sustained growth means that it will continue to require capital to fund investments. The statement indicates that further debt and private funds will be raised in the near future.
- **Valuation:** Hardman & Co has made minor adjustments to its earnings estimates, with the most significant being the increased number of shares. The prospective 2019 P/E of 18.8x is not excessive for a growth company, with a 22.3% RoE giving strong metrics all round.
- **Risks:** The investment portfolio is still diversified, with exposure to more than 900 claims, but 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	370.4	501.4
Operating profit	77.2	124.4	285.1	263.0	295.2	412.3
Reported net income	64.5	108.3	249.3	216.2	241.5	349.6
Underlying net income	64.5	114.2	264.8	227.9	253.2	361.3
Underlying RoE	16.0%	22.1%	35.9%	24.6%	22.3%	25.6%
Underlying EPS (\$)	0.32	0.55	1.27	1.04	1.16	1.65
Statutory EPS (\$)	0.32	0.53	1.20	1.03	1.10	1.60
Dividend per share (\$)	0.08	0.09	0.11	0.13	0.15	0.17
Dividend yield	0.4%	0.4%	0.5%	0.6%	0.7%	0.8%
NAV per share (\$)	2.12	2.22	3.19	3.92	4.90	6.50
P/E (x) (underlying)	68.9	39.6	17.1	20.8	18.8	13.1
Price/NAV (x)	10.3	9.8	6.8	5.5	4.4	3.3

Source: Hardman & Co Research

Industrial Engineering



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	CMH
Price (p)	70
12m High (p)	176
12m Low (p)	55
Shares (m)	8.3
Mkt Cap (£m)	5.8
EV (£m)	14.5
Free Float*	40%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	Kevin Nolan
CFO	David Roberts
Chairman	Keith Butler-Wheelhouse

+44 1922 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

Nov'18	Interims
--------	----------

Analyst

Paul Singer 020 7194 7622
ps@hardmanandco.com

CHAMBERLIN

Trading still strong, technical issues largely resolved

Chamberlin remains on track strategically, and the technical problems at the new machine shop are now largely resolved. Prospects are most encouraging, and the group continues to develop its product offering to the automobile turbocharger industry through expansion of its main operational facilities. The shares remain attractively valued against the peer group on most methodologies.

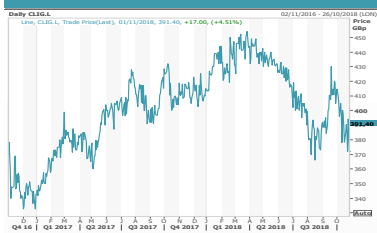
- **AGM statement:** 'Revenues for the first three months of the current financial year are in line with management expectations. Demand at the Walsall foundry continues to be strong, driving increased production volumes.' The company has reaffirmed market estimates, but profitability will be weighted towards 2H.
- **Outlook:** We are maintaining our 2018/19 forecasts. Demand for petrol engine turbocharger components is strong, and new products for machining are also being introduced into the market. The group is well positioned to deliver a further improvement in performance during the year, as margins recover.
- **Risks:** Potential risks include developments with the automotive industry, foreign currency and raw material price fluctuations. From a financial standpoint, we note that 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 2019E EV/sales and EV/EBITDA of 0.3x and 4.1x, respectively, compared with sector averages of 1.0x and 7.0x. 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)	2017	2018	2019E	2020E
Sales	32.1	37.7	40.8	41.9
Gross profit	6.9	6.9	8.5	8.9
EBITDA	2.0	1.9	3.5	3.9
Underlying EBIT	0.7	0.4	1.6	2.0
Reported EBIT	0.4	0.1	1.6	2.0
Underlying PBT	0.57	0.0	1.3	1.7
Underlying EPS (p)	4.5	-5.5	13.0	16.5
GAAP EPS (p)	-11.7	-10.2	13.0	16.5
Net (debt)/cash	-6.8	-8.9	-8.3	-7.2
P/E (x)	-	-	6.2	4.8
EV/sales (x)	0.47	0.40	0.3	0.3
EV/EBITDA (x)	-	8.2	4.1	3.7

Source: Hardman & Co Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	CLIG
Price (p)	372.0
12m High (p)	454.0
12m Low (p)	366.0
Shares (m)	26.9
Mkt Cap (£m)	100.1
EV (£m)	80.4
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	16.3%
Blackrock	9.9%
Cannacord Genuity	7.9%
Eschaton Opportunities	
Fund Management	4.7%
Polar Capital	4.1%

Diary

16 Jan	2Q FUM announcement
18 Feb	Interim results
7 Mar	Interim ex-dividend date

Analyst

Brian Moretta	020 7194 7622
	bm@hardmanandco.com

CITY OF LONDON INVESTMENT GROUP

Solid FUM update offset by margin changes

City of London has released its trading update for 1Q FY'19. The statement shows a continuation of the trends seen in recent statements. Aggregate inflows into the newer strategies were largely offset by rebalancing outflows from the Emerging Markets strategy, resulting in a small amount of net inflows of \$8m. Market movements were mixed, with only developed markets rising during the quarter and the MSCI EM index declining 1%. Fund performance was slightly behind benchmarks, with manager performance and widening discounts hampering different strategies. In aggregate, FUM declined slightly, from \$5.11bn to \$5.01bn.

- **Operations:** The changing mix of the assets continues to affect the revenue margin. Both Developed Markets and Opportunistic Value are lower-margin than the existing Emerging Market business. Their rising proportion led to a decline in the revenue margin to 77bps, from the 80bps previously indicated.
- **Costs:** The costs were largely in line with those indicated at the time of the full-year results. The EIP charge has increased a little, to 4%, from 3% at the full-year results. Estimated earnings for the first quarter will be £2.2m, down from the previous year's figure of £2.5m.
- **Valuation:** The prospective P/E of 10.4x is at a significant discount to the peer group. The historical yield of 7.3% 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, unless there is significant market disruption, more should follow in the next few 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	5.29	5.69
Revenue	25.36	24.41	31.29	33.93	31.95	33.30
Statutory PTP	8.93	7.97	11.59	12.79	11.27	11.91
Statutory EPS (p)	26.4	23.3	36.9	39.5	35.8	37.8
Dividend (p)	24.0	24.0	25.0	27.0	30.0	33.0
P/E (x)	14.1	16.0	10.1	9.4	10.4	9.8
Dividend yield	6.5%	6.5%	6.7%	7.3%	8.1%	8.9%

Source: Hardman & Co Research

Real estate



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	CSH	CSHC
Class	Ord.	C share
Price (p)	109	101
12m High (p)	113	106
12m Low (p)	96	95
Shares (m)	350.0	302.0
Mkt Cap (£m)	381.0	305.0
EV (£m)	473.0	305.0
Market	LSE	LSE
	premium	standard

Description

Civitas is a REIT investing in English and Welsh social housing. Over 75% (100% to date and near 100% likely ongoing) is invested in supported living assets. Management targets a 5% dividend yield on full deployment.

CHA (Investment Advisor) information

CEO (Advisors)	Paul Bridge
Director (Advisors)	Andrew Dawber
CFO (Advisors)	Graham Peck
	+ 44 203 058 4840
	www.civitasocialhousing.com

Key ordinary shareholders

Investec Wealth	15.8%
East Riding Yorkshire	5.7%
Close Asset Mgt.	3.3%
Killik & Co	3.0%

Diary

Start Nov'18	Quarterly fact sheet
Nov'18	Latest date C shares convert to Ordinary
Nov'18	Interim results

Analyst

Mike Foster	020 7194 7633
	mf@hardmanandco.com

CIVITAS SOCIAL HOUSING

Housing security

Floated in November 2016 and raising further equity in November 2017, with a 5% dividend target, this was the first LSE-listed REIT dedicated to investing in regulated social housing, principally supported living. The REIT is designed to provide secure income streams for investors, which it is doing. To date, Civitas has invested £628m in specially configured supported social housing for adults. Current equity resources enable at least £1bn investment. Civitas has purchased £87m of assets since we initiated research at the end of August 2018. This has been through C shares, which are expected to convert into Ordinary shares, as scheduled. Civitas's secure income prospects are based on long CPI-linked leases.

- **Strategy:** Central government pays the tenant rents and other costs to the property's relevant housing association, which has entered into long leases with Civitas. Civitas purchases tenant-bespoke assets, whose tenants pay rents that are no more than the median for the location.
- **Deployment of capital:** The £302m November 2017 C class share issue is £217m invested, excluding purchase costs (£108.5m end-June). We model C shares to be fully invested by this November, when conversion to Ordinary is due. Latest acquisitions include three portfolios – so acquisition targets are all on track.
- **Valuation:** Average net initial yields of 5.9% have been achieved at acquisition, a level commensurate with the assets being in an emerging real estate class, leaving potential for future positive revaluation. The dividend yield remains slightly above the average for the secure income sector.
- **Risks:** We are encouraged that, when one lessee encountered difficulties, all leases were reallocated on the same terms in a short number of weeks, showing Civitas's strong due diligence on the sustainability of the rent income supporting the leases. This issue is well and truly in the distant rear view. Valuation risk is dependent on investor appetite for secure income streams.
- **Investment summary:** IPO dividend projections (5.0p DPS this year) are well on track, and should grow ca.3%-4% p.a. for some years. A strong, experienced team is proving its worth. Re-assignment of certain leases on unchanged terms strongly validates Civitas's due diligence on long-term income sustainability.

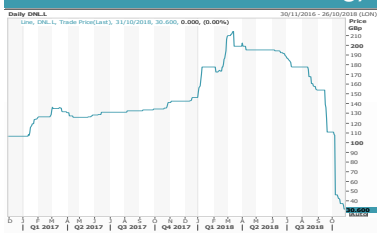
Financial summary and valuation (Ordinary shares)

Year-end Mar (£m)	2018*	2019E	2020E	2021E	2022E
Income	18.6	34.5	49.3	53.2	54.8
Operating profit	9.7	25.3	39.6	43.3	44.8
Finance	-3.4	-2.5	-6.7	-9.6	-10.1
Revaluation	30.6	10.0	17.0	17.0	17.0
Profit declared	36.9	32.8	49.9	50.7	51.7
EPRA profit	6.3	22.8	32.9	33.7	34.7
EPRA EPS (p)	1.8	5.0	5.2	5.3	5.5
DPS (p)	3.00	5.00	5.20	5.35	5.50
IFRS NAV (p)	105.5	109.5	112.2	114.9	117.6
Property assets	516.2	830.7	1012.7	1036.7	1060.7
Dividend yield	n.a.	4.8%	4.9%	5.0%	5.2%

* Whole period since float – not representative

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	DNL
Price (p)	31.2
12m High (p)	215.8
12m Low (p)	30.0
Shares (m)	61.3
Mkt Cap (£m)	19.1
EV (£m)	5.9
Free Float*	19%
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

3Q'18	US Phase III Chronocort
4Q'18	EU Ph III Chronocort readout
4Q'18	Alkindi US reg.

Analysts

Martin Hall	020 7194 7631	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

DIURNAL GROUP

Chronocort and Alkindi updates

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, DNL has received the headline data from its European Phase III trial in CAH, which showed that Chronocort was not superior to standard-of-care, thereby failing to meet its primary end-point. Given the strong Phase II data, this outcome was unexpected. The full data set is now being analysed.

- **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 US, the long-term vision is to expand DNL's product offering to other related conditions.
- **Phase III results:** Headline data indicated that Chronocort did not meet its primary end-point – superiority over the standard-of-care – in 122 CAH patients enrolled in a European Phase III trial. This was due to the level of androgens being well controlled in the control arm of the study.
- **Action points:** The full data set is now being analysed to try and understand such an outcome. While DNL intends to request a Scientific Advice meeting with EMA for Marketing Authorisation Application for Chronocort in 4Q'19, the US Phase III trial, which started enrolling CAH patients in October, is on hold.
- **Alkindi:** In the meantime, the Scottish Medicines Consortium has approved Alkindi as a first-line treatment. Also, the US New Drug Application (NDA) is now completed, and DNL is seeking an end-of-Phase III meeting with the FDA for a planned NDA submission for 3Q'19.
- **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 June (£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

Consumer & Leisure



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	DPP.L
Price (p)	27
12m High (p)	45.2
12m Low (p)	24.5
Shares (m)	153
Mkt Cap (£m)	41
EV (£m)	39
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

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

Analyst

Jason Streets	020 7194 7622
	js@hardmanandco.com

DP POLAND

Fully proven model rolls out

DP Poland (DPP) has proved that the Domino's formula works as well in Poland as it does elsewhere in the world; its mature stores are substantially profitable. With 60 stores now open in Poland but only seven mature corporately owned stores, the strength of the operation does not show up in the group profit figures. The remarkable thing about the Domino's franchise is the seemingly endless growth in same-store sales. DPP has laid the foundations of a very substantial business but, so far, there is little showing above the surface. We believe it will – in time.

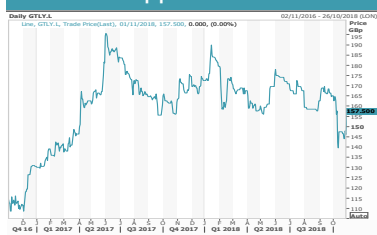
- **Strategy:** DPP has spent the first few years of its existence proving the Domino's Pizza model in Poland and honing its operations. With the new commissary up and running, it has scope to double the number of operations over the next few years. As the stores mature, the success should show up in reported profits.
- **Competitive market:** DPP has neither the pizza market nor the food delivery market to itself in Poland. Both are established, but current evidence shows that the Domino's formula of focusing on high-quality pizza, delivered swiftly, is as hard to beat in Poland as it is in the rest of the world.
- **Valuation:** We are not expecting reported profits for the next few years, so we have looked at valuing DPP on a per-store basis. We value stores of different maturity separately, and also look at the value of future stores. We derive a central value of around £80m, or 52p per share.
- **Risks:** In the short term, DPP faces cost pressures, especially on labour, but so do its competitors. Finding franchisees and finance for them is a hurdle. Longer term, we see general competitive behaviour as the biggest threat to our forecasts. There is also some country political risk.
- **Investment summary:** The story for DPP is quite simple: it has a powerful retail consumer franchise in a fast-developing economy. The share price has reflected the ups and downs of any startup business that would typically be sheltered from public scrutiny. DPP seems to have it all running smoothly now, and we believe the profits will follow as the existing stores mature.

Financial summary and valuation

Year-end Dec (£000)	2016	2017	2018E	2019E	2020E
Revenue	7.557	10.378	13.853	18.433	23.592
Store EBITDA	1.526	0.715	0.866	1.836	2.767
Group EBITDA	-1.580	-1.785	-1.700	-0.400	0.450
EBIT	-2.546	-2.703	-2.776	-1.516	-0.716
Finance costs	0.053	0.068	0.012	-0.009	-0.023
PBT	-2.493	-2.635	-2.765	-1.525	-0.739
PAT	-2.493	-2.635	-2.765	-1.525	-0.739
EPS (p)	-1.93	-1.85	-1.81	-1.00	-0.48
EPS adjusted (p)	-1.81	-1.85	-1.76	-0.94	-0.42
Net cash	6.0	4.1	1.4	-0.9	-2.3
Shares issued (m)	129	142	153	153	153
EV/Sales (x)	5.2	3.8	2.8	2.1	1.7

Source: Hardman & Co Research

Business Support Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	GTLY
Price (p)	148
12m High (p)	193
12m Low (p)	132
Shares (m)	108
Mkt Cap (£m)	164
EV (£m)	165
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	Nigel Payne
(non-exec)	

+44 121 234 0000

www.gateleyplc.com

Key shareholders

Directors	5.5%
Liontrust	10.6%
Miton	7.2%
Premier	3.9%

Diary

Dec'18	Interims
--------	----------

Analysts

Steve Clapham	020 7194 7622
sc@hardmanandco.com	

GATELEY (HOLDINGS) PLC

Strong results and industry opportunity

Gateley delivered final results ahead of market expectations, leading to upward revisions for this year. A broad-based law-led professional services group, it 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 FY18 results were notable for strong cash generation, strong organic revenue growth and the maintenance of high margins. The announcement of a significant consolidation move in the industry highlights the opportunity for long-term growth at Gateley – the group has already made two highly complementary acquisitions this year, for shares and cash.

- **Current trading:** Full-year results showed a strong performance, with EBITDA (pre- share-based costs) of £16.5m vs. our £16.0m expectation – a useful “beat”. The dividend was in line with, while EPS was slightly ahead of, our forecasts, and there was strong organic revenue growth across all service lines. Staff numbers rose 11% to meet increasing demand, demonstrating attractiveness to new joiners.
- **News:** Gordon Dadd recently announced a merger with Ince. We understand that Ince has been lagging some of its peers, and hence the deal looks to have been done at quite a low valuation, although we await further details of the deal. However, this highlights to us the opportunity in the sector, and we expect further deals to happen. This can only benefit Gateley.
- **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 where we forecast continued growth.
- **Valuation:** The 2019E P/E is 12.9x, falling to just 11.2x in 2020E, on conservative numbers. We forecast the dividend yield to reach over 5% next year, and it should continue to grow. In addition, the group 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, 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	100.1	110.0
EBITDA*	12.9	14.9	16.5	18.9	21.9
PBT adjusted	12.0	13.8	14.1	15.9	18.3
EPS (adjusted, p)	9.1	9.4	10.6	11.5	13.2
DPS (p)	5.6	6.6	7.0	7.5	8.1
Net cash	-4.2	-4.8	-0.7	-1.0	6.4
P/E	16.3	15.7	13.9	12.9	11.2
EV/EBITDA	12.4	10.9	9.6	8.7	7.2
Dividend yield	3.8%	4.5%	4.7%	5.1%	5.5%

*Pre-share-based costs

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	GDR
Price (p)	24.5
12m High (p)	42.0
12m Low (p)	21.5
Shares (m)	18.9
Mkt Cap (£m)	4.6
EV (£m)	7.0
Free Float*	48%
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	8.2%
Calculus	16.1%
M&G	13.0%
Odey	12.8%
Hargreave Hale	6.9%
River & Merc.	5.6%

Diary

Nov'18	Finals
--------	--------

Analysts

Martin Hall	020 7194 7631	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

GENEDRIVE PLC

Final results – due November

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 infectious disease diagnosis. Rapid analysis of patient samples greatly aids clinical and public health decision-making, with field testing particularly important in emerging markets. GDR has been awarded a £550k grant from the UK's National Institute for Health Research (NIHR) to develop a diagnostic to prevent hearing loss resulting from adverse reactions to gentamicin.

- **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 diagnosis of infectious diseases, signing two important commercial agreements with Sysmex, a major global player.
- **Trading update:** GDR reported diagnostic sales in fiscal 2018 of £1.9m (£2.6m), marginally below our £2.0m forecast. The (expected) decline was due to the successful completion of its US Department of Defense contract, which will be lower again in 2019. Cash at 30 June was £3.5m, vs. our forecast of £3.3m.
- **FIND study:** GDR has entered into a study agreement with the Foundation for Innovation of New Diagnostics (FIND) to evaluate the diagnostic accuracy of its HCV test kit across diverse genotypes in Cameroon and Georgia. FIND will lead the studies, with GDR supplying product in-kind to support the study.
- **Risks:** The platform technology has been de-risked through the receipt of CE Marking for its first two assays (hepatitis C and tuberculosis). The main risk is commercial, given that it often takes time for new technologies to be adopted. However, partnering with major global and local players reduces this risk.
- **Investment summary:** Genedrive technology ticks all the boxes described for an 'ideal' in vitro diagnostic that satisfies the need for powerful molecular diagnostics outside the hospital setting. The hepatitis C market is a global opportunity, which is very large, 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, there is, in our opinion, a valuation anomaly.

Financial summary and valuation

Year-end June (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	4,517	5,063	5,785	4,869	3,447	4,826
Underlying EBIT	-3,858	-5,259	-4,812	-4,664	-3,681	-2,709
Reported EBIT	-4,040	-5,426	-7,292	-4,784	-3,837	-2,927
Underlying PBT	-3,242	-6,330	-5,007	-4,994	-4,146	-3,180
Statutory PBT	-3,424	-6,497	-7,487	-5,114	-4,302	-3,399
Underlying EPS (p)	-28.3	-54.6	-21.4	-21.5	-15.9	-9.1
Statutory EPS (p)	-30.1	-56.2	-34.9	-22.2	-16.6	-10.0
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	903	-3,877	-70	-2,362	-5,175	-6,947
Capital increases	80	0	6,023	0	1,250	0
P/E (x)	-0.9	-0.4	-1.1	-1.1	-1.5	-2.7
EV/sales (x)	1.5	1.4	1.2	1.4	2.0	1.4

Source: Hardman & Co Life Sciences Research

Speciality Chemicals



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	HAYD
Price (p)	28
12m High (p)	120
12m Low (p)	28
Shares (m)	27.2
Mkt Cap (£m)	7.6
EV (£m)	3.4
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	Matt Wood
COO	Keith Broadbent
Interim Executive 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

Dec'18	AGM
--------	-----

Analysts

Paul Singer	020 7194 7622
	ps@hardmanandco.com

HAYDALE

Exuberance, reality; enlightenment now to follow

Haydale is competitively well positioned within the nanomaterial industry, with a unique patented functionalisation process – currently focused on, but not limited to, graphene. Commercial developments for graphene and silicon carbide are progressing well and, while timings of commensurate news releases may be lagging, 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.

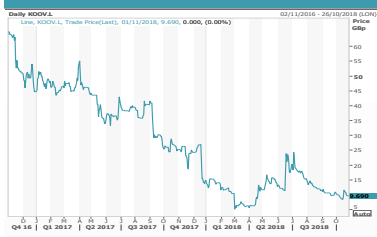
- **Recent news:** Haydale has recently received an R&D grant (£0.12m) to develop graphene composite tooling and automotive body panels. While the focus is on the automotive sector, there is also the opportunity to look at tooling materials across several markets. The company will work with licensees to develop commercialisation.
- **Competitive position/strategy:** Haydale is competitively well positioned within the nanomaterial industry, with a unique process for graphene functionalisation, addressing a diverse range of industries and geographies. The group's key strategic objective is now to further accelerate the transition of the business into a sales and marketing organisation. It plans to further commercialise its functionalisation process by providing solutions to both raw material producers and industrial corporations, initially in non-regulated markets.
- **Management changes:** Recent senior management changes and expansion, including the appointment of Keith Broadbent as COO, should be deemed positive, and will allow experienced and key personnel to concentrate fully on the principal activities of business development and monetisation of commercial deals.
- **Investment summary:** Commercial traction is good, and the group has entered FY19 with a healthy order book, which was increased post year-end, and cautious optimism. We believe our forecasts are conservative for FY19, with strong growth expected in FY20. The shares have performed poorly recently, largely reflecting the difficulties in revealing the positive commercial news. The risk/reward balance remains favourable on a long-term basis, with net cash at £4.2m, and with additional debt facilities of £1.4m. 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 June (£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	1.9	1.2

Source: Hardman & Co Research

Consumer & Leisure



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	KOOV
Price (p)	10
12m High (p)	57
12m Low (p)	6
Shares (m)	356
Mkt Cap (£m)	37
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

Dec'18	Interims
--------	----------

Analyst

Jason Streets	020 7194 7622
	js@hardmanandco.com

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.

- **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 net promoter score (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 that 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	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

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MCL
Price (p)	140.0p
12m High (p)	174.0
12m Low (p)	123.0
Shares (m)	129.5
Mkt Cap (£m)	181.3
EV (£m)	160.9
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-Ex	Stephen Karle
Chairman	

+44 330 045 0719

www.morsesclubplc.com

Key shareholders

Hay Wain	36.82%
Woodford Inv. Mgt.	9.33%
Milton Asset Mgt.	9.03%
Artemis Inv. Mgt.	6.95%
JO Hambro	6.74%
Majedie Asset Mgt.	5.34%
Blackrock	4.15%
Legal and General	3.22%

Diary

End-Feb/ early March	Trading update
-------------------------	----------------

Analyst

Mark Thomas	020 7194 7622
	mt@hardmanandco.com

MORSES CLUB PLC

Results confirm focus on quality, sustainable growth

The 4 October results confirmed steady growth, controlled risk and delivery in line with expectations (see our recent note: *Sustainable growth from focus on quality*). Double-digit underlying revenue and earnings growth was generated from stable customer numbers, achieved more efficiently and with fewer agents. With the Provident Financial opportunity now embedded, management can focus on new growth initiatives. We reviewed MCL's focus on quality in our 19 July 2018 note, *Quality Street*, highlighting how conservatism runs throughout MCL's lending, accounting, agents, customer selection and new product development. Our absolute valuation range is now 179p to 223p.

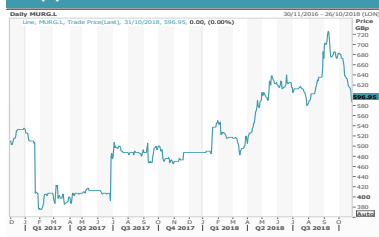
- **Company news:** On a like-for-like, pro-forma basis, revenue was up 12%, the loan book rose 8% and impairments were 21.9% of revenue (21.5%). The cost:income ratio fell from 59.6% to 58.5%. Adjusted profits rose from £9.2m to £10.5m. Customer numbers were stable at 230k. The dividend was increased by 18%.
- **Peer news:** Provident Financial's 19 October *trading update* reported its recovery plan was substantially complete, although collections remain ca.10% worse than historical levels, notably from credit originated pre 4Q'17. Its customer numbers continue to fall (end-Sep 449k vs. 464k end-Jun), as do relationship managers.
- **Valuation:** We detailed a range of valuation approaches and sensitivities in our notes, *Building a profitable and sustainable franchise*, and *Bringing Home Collect into the 21st Century*, and updated these in our results note. The range is now 179p (DDM) to 223p (GGM). On average, peers are trading on higher multiples than MCL.
- **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 9.2x February 2020 P/E and a 6.4% 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
Adj. EPS (p)	8.1	10.2	10.8	11.7	13.4	15.2
P/adj. earnings (x)	17.3	13.7	13.0	11.9	10.4	9.2
P/BV (x)	1.9	3.3	3.0	2.7	2.6	2.4
P/tangible book	2.1	4.0	3.5	3.1	3.0	2.7
Dividend yield	n/m	n/m	4.6%	5.0%	5.7%	6.4%

Source: Hardman & Co Research * IFRS9 basis

Support Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MUR
Price (p)	580
12m High (p)	730
12m Low (p)	470
Shares (m)	9.0
Mkt Cap (£m)	52.0
EV (£m)	50.0
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	Full-year results

Analyst

Mike Foster	020 7194 7633
	mf@hardmanandco.com

MURGITROYD

Strong cash, resilient outlook

For some time, the market has been increasingly competitive – but growing in volume and complexity – thus Murgitroyd has invested to ensure its prospects. As the Chairman stated in the results: “Four years of significant investment in our pan-European footprint, software and business development, as well as back-office efficiencies, have put us in a strong competitive position to help offset any weakness in individual markets and to remain at the cutting edge of client-service and productivity.” 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.

- **Strategy:** We look for group-wide margins to start to expand again and a broadening of support functions sold to clients, albeit this revenue will probably be a lower gross margin generator. The benefit to the group's large client retention and overall expansion is clear.
- **FY'18 results:** Underlying EPS rose 21%, underlying PBT was up 7%, and tax fell. PBT was in line, but sales fell 1%, whereas we had estimated a rise of 4%. Note that 2017 organic, constant currency sales fell modestly. DPS rose 24%. Note also that we exclude a one-off, non-cash, provision of £0.5m on a single trade receivable.
- **Valuation:** The shares have made a robust recovery from when the downgrades to 2017 profit estimates became apparent. At the time, these were presented as the final leg in a protracted period of margin erosion, and the most recent two sets of results confirm a much more robust outlook, which is beginning to be priced in.
- **Risks:** The offer of a broad suite of services to a broad customer base, in focused markets, balances out any weakness in individual markets. There are, however, pricing pressures, so the ever-increasing offer of support functions (even including web-based) can add revenue and also add to 'stickiness' with large clients.
- **Investment summary:** While the shares have recovered well this year (even after the recent understandable part retracement) from an oversold position, the prospects are for good cashflow from a secure market. Therefore, ongoing strong dividend growth and free cashflow are supportive. After a downward trend, margins are on a more resilient trend.

Financial summary and valuation

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 (adj.)	4.2	4.2	4.3	3.9	4.1
EPS (adj.) (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)	17.2	16.7	16.4	20.2	18.8
EV/Sales (x)	1.3	1.2	1.2	1.1	1.1
EV/EBITDA (x)	10.9	11.3	10.9	11.9	11.1
FCF yield	6.1%	5.5%	7.0%	6.0%	5.6%
Dividend yield	2.2%	2.6%	2.8%	2.9%	3.6%

Source: Hardman & Co Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	NSF
Price (p)	62.2
12m High (p)	78.75
12m Low (p)	52.6
Shares (m)	312.7
Mkt Cap (£m)	194.5
EV (£m)	382.8
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. (4/9)	23.9%
Aberforth Partners (28/8)	12.3%
Marathon Asset Mgt.	10.7%
Quilter Cheviot AM	4.1%
ToscaFund	3.8%

Diary

Early	
December	Capital Markets Day

Analyst

Mark Thomas	020 7194 7622
	mt@hardmanandco.com

NON-STANDARD FINANCE

Delivery of returns increasingly visible

We reviewed the 1H'18 results in our note, *Jam today, more tomorrow*, published on 9 August 2018. NSF delivered payback on prior and current investments, with normalised operating profits up 79% (statutory operating profit moved from a loss of £1.1m to a profit of £7.0m). In the short term, pre-tax profits were held back by the group locking in long-term, more expensive funding but, as these funds are deployed, pre-tax profits are expected to rise. We note that consensus 2020 estimates are for EPS of 10p (2017 actual 3.4p) and an implied 2020 P/E of 6.2x. We also believe that the re-pricing and volume opportunities that NSF has in a downturn provide material counter-cyclical.

- **Company news:** With MiFID II impacting transparency of forecasts, NSF now includes on its website *consensus estimates*. These indicate 2018E adjusted pre-tax profit growth of 15% to £15.2m (range £13.3m to £16.0m), 70% growth in 2019E to £26.1m (range £21.8m to £28.6m) and 2020E consensus of £38.4m.
- **Peer news:** Provident Financial's 19 October trading update reported that its recovery plan was substantially complete, collections remain ca.10% worse than historical levels, and that customer numbers continue to fall, as do relationship managers. Morses Club's results reported double-digit underlying profit growth.
- **Valuation:** Our absolute valuation measures for NSF range from 91p to 101p per share. With the IPO of Amigo, there is now a market comparator for the GLD business, and so we have introduced a sum-of-the-parts model (implied valuation 87p). Peer comparators reach up to 76p.
- **Risks:** Credit risk remains the biggest threat to profitability, and NSF's model accepts higher credit risk where a higher yield justifies it. NSF is innovative, and may incur losses piloting new products, customers and distribution. 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 six-year debt funding, 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 9.7x 2019E P/E and getting a 5.1% 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
Adj. prof. before tax	13,056	13,203	14,660	24,725
Stat. prof. before tax	-9,342	-13,021	-4,850	11,275
Pro-forma EPS (p)	3.37	3.44	3.78	6.41
DPS (p)	1.20	2.20	2.60	3.20
P/adj. earnings (x)	18.4	18.1	16.4	9.7
P/BV (x)	0.8	0.8	0.9	0.9
P/tangible book (x)	2.0	2.6	3.1	2.9
Dividend yield	1.9%	3.5%	4.2%	5.1%

Source: Hardman & Co Research * IFRS9 basis

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OXB
Price (p)	715.3
12m High (p)	1064
12m Low (p)	415
Shares (m)	66.0
Mkt Cap (£m)	472.4
EV (£m)	467
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%

Diary

Mar'19	FY'18 results
1H'19	Initial data AXO-Lenti-PD

Analysts

Martin Hall	020 7194 7631	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

OXFORD BIOMEDICA

Parkinson's gene-therapy: first patient dosed

OXB is a specialist advanced therapy viral-vector biopharmaceutical company. It offers vector manufacturing and development services, while retaining proprietary drug candidates. OXB will receive royalties on commercial products developed with its LentiVector® platform. The first half of 2018 delivered significant growth in gross income, primarily through licensing income on signing new partnership deals with Axovant Sciences (AXON) and Bioverativ (BIVV). AXON has dosed the first patient in the Phase I/II trial of the gene-therapy AXO-Lenti-PD, which OXB has out-licensed to AXON in a potential total \$842.5m deal.

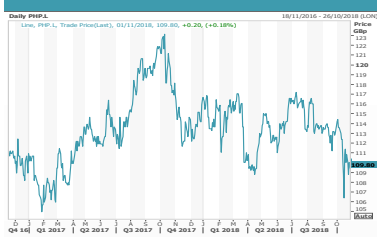
- **Strategy:** OXB has four strategic objectives: delivery of process development (PD) services that embed its technology in partners' commercial products; commercial manufacture of lentiviral vector; out-licensing of proprietary candidates; and investment in R&D and the LentiVector platform.
- **Patient dosed:** Following administration of AXO-Lenti-PD to the first patient in the trial, there were no complications related to the surgery (injection to the brain) or to administration of the vector (a lentiviral system derived from equine infectious anaemia virus). The patient was discharged home as planned.
- **About the trial:** The trial is a Phase I/II study, with safety and tolerability primary endpoints; data on the efficacy of the therapy on mobility are being collected as a secondary endpoint. The trial is being carried out at the NIHR UCLH Clinical Research Facility in London, with initial data expected in the first half of 2019.
- **Risks:** The mid-term sales model and the ability to pay off debt are dependent on successful progress of partners' clinical trials and commercialisation of LentiVector-enabled products, for receipt of bioprocessing milestones and royalty payments. All gene-therapy candidates are subject to significant clinical risk.
- **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 supply agreements with Novartis, BIVV, AXON, and in cystic fibrosis, on top of existing partnerships – positioning the group on the road to significant bioprocessing service income, milestones and royalties.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	15.91	27.78	31.49	46.21	60.80	80.30
EBITDA	-11.73	-6.78	-2.63	15.45	15.93	25.78
Underlying EBIT	-13.35	-10.45	-7.00	11.03	11.08	20.47
Reported EBIT	-14.08	-11.32	-5.67	12.30	9.92	19.20
Underlying PTP	-16.25	-15.34	-16.38	6.67	7.18	16.64
Statutory PTP	-16.98	-20.31	-11.76	7.94	6.02	15.38
Underlying EPS (p)	-23.91	-21.00	-21.99	15.74	15.82	31.96
Statutory EPS (p)	-25.33	-29.95	-14.56	17.63	14.05	30.04
Net (debt)/cash	-17.90	-19.05	-22.54	-2.28	-1.27	12.21
Shares issued (m)	0.14	17.50	0.39	19.40	0.10	0.10
P/E (x)	-	-	-	-	-	28.2
EV/sales (x)	-	-	-	-	-	18.1

Source: Hardman & Co Life Sciences Research

Real Estate



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	PHP
Price (p)	109
12m High (p)	118
12m Low (p)	105
Shares (m)	730
Mkt Cap (£m)	794
EV (£m)	1420
Market	Main, LSE

Description

Primary Health Properties (PHP) is a REIT acquiring and owning modern primary medical properties in the UK, and is expanding into the Republic of Ireland (RoI).

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Steven Owen

+44 20 7451 7050

www.phpgroup.co.uk

Key shareholders

Directors	2.5%
BlackRock	5.5%
Investec Wealth	4.9%
Charles Stanley	4.5%
Unicorn Asset Mgt.	4.2%
Troy	3.9%

Diary

Feb'19	Full-year results
Apr'19	AGM
Jul'19	Interim results

Analysts

Mike Foster	020 7194 7633
mf@hardmanandco.com	

PRIMARY HEALTH PROPERTIES

Growing the footprint; optimising income and NAV

PHP's dividend growth is set to accelerate. We also see a number of drivers to NAV growth. PHP invests in Government-income-backed, long leases. Two years ago, PHP extended into the Republic of Ireland (RoI), and has invested €101m in assets in newly built primary medical centres in that jurisdiction. UK assets are attractive to investors seeking low-risk assets and covenants, with upward-only rents on long leases. Notwithstanding possible rising bond yield valuations, we believe PHP's UK assets will see an element of upward revaluation. The RoI assets have similar characteristics but trade off higher yields. We see an ongoing trend of a narrowing down of the RoI asset valuation discount vs. the UK.

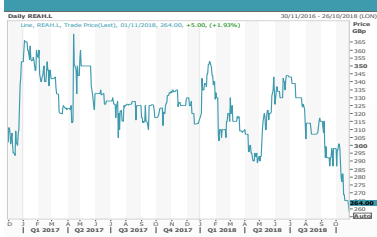
- **Strategy:** PHP's UK assets are attractive, but we believe the focus should be on RoI, where there is a stronger income yield and a good pipeline of assets to be acquired. RoI is still a relatively new market for modern centres, but, as awareness grows, valuations should rise. Before then, PHP will have expanded its exposure further.
- **Further expansion in RoI:** On 5 September 2018, PHP acquired three modern, purpose-built primary healthcare centres for €38.6m. Since the first RoI acquisition, in 2016, ca.30% of PHP's total asset purchases have been in RoI, as PHP uses its expertise to expand, ahead of likely solid revaluations of the asset class.
- **Valuation:** The secure income REIT sector (and thus PHP) should be judged by i) dividend yield, ii) sustainable growth of DPS, and iii) the underlying assets' attractions to future tenants. PHP's yield is in line, and we consider the assets to bring relatively superior attractions. Modest DPS growth is set to accelerate.
- **Risks:** Debt maturity has lengthened YoY (5.9 years' average), reducing refinance risk YoY, while also still lowering cost of debt. Were rent growth to remain subdued, DPS growth should remain at ca.3%. 2018 dividends, cash paid, are fully covered, but cover builds to over 100% under any macroeconomic scenario.
- **Investment summary:** PHP is in its 22nd year of stockmarket listing and its 22nd year of dividend rises. Investment, including the now fast-growing, higher-yielding market in RoI, added to deployment of equity and ongoing cost optimisation, all underpin good support for dividend growth for some years to come.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Income	67.4	72.5	78.0	84.0	91.0
Finance cost	-32.5	-31.6	-29.8	-27.9	-28.5
Declared profit	43.7	91.9	67.2	73.0	80.0
EPRA PBT (adj. pre-revaluation)	26.7	31.0	37.2	44.5	50.0
EPS reported (p)	7.8	15.3	9.6	9.4	10.0
EPRA EPS (fully-diluted) (p)	4.7	5.1	5.3	5.7	6.2
DPS (p)	5.12	5.25	5.40	5.55	5.70
Net debt	-663.2	-726.6	-709.0	-742.7	-837.8
Dividend yield	4.7%	4.8%	5.0%	5.1%	5.2%
Price/EPRA NAV	1.20	1.08	1.04	1.01	0.97
NAV (p)	83.5	94.7	100.2	103.8	108.1
EPRA NAV (p)	91.1	100.7	104.9	108.1	112.5

Source: Hardman & Co Research

Food Producers



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	RE.
Price (p)	259.0
12m High (p)	360.5
12m Low (p)	258.0
Shares Ord (m)	40.5
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	104.9
Mkt Cap Prefs (£m)	72.0
EV (£m)	439.9
Free Float	30%
Market	Main

Description

R.E.A. 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
Jun'19	AGM

Analyst

Yingheng Chen 020 7194 7638
yc@hardmanandco.com

R.E.A. HOLDINGS

Record 3Q FFB production; sales of coal stockpile

REA's interims showed signs that the group's high-quality palm oil estates in East Kalimantan are returning to normal production levels, following the difficult operating conditions created by the post-El Niño weather conditions. We can now see the effects of the new management team's efforts in bringing the operations back on track. An existing coal stockpile has been sold at the company's Kota Bangun concession for ca.\$1.5m. We expect some of the proceeds will be re-invested to help get the concession ready for mining.

- **Production:** REA saw a record FFB production level across its estates in 3Q, registering a total of some 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.
- **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, 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:** We note agricultural risk (El Niño weather pattern in 2015/16) and commodity price risk (downward trend of palm oil price since 1Q'17). Net debt at end-June 2018 was \$192.3m (1H'17: \$214.5m). We expect this to reduce further towards the end of 2018, but it could rise again as REA aims for the completion of its plantations.
- **Investment summary:** REA has scope to develop a planted estate of ca.50,000ha. We believe the group's financial performance will undergo significant change from 2019. We are assuming some 34,000ha of mature plantations for end-2019, coupled with stronger agricultural production across the estates, and a firmer CPO price. If these factors align as anticipated, then this will mark the point at which the business becomes self-sustaining.

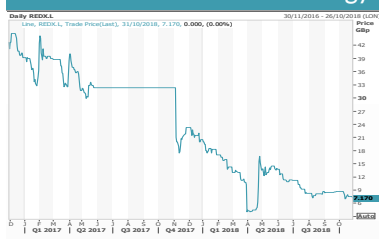
Financial summary and valuation

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	Forecasts
EPS (c)	-59.0	-48.2	-67.0	under	under
DPS (p)	0.0	0.0	0.0	review	review
P/E (x)	-	-	-	pending	pending
Net (debt)/cash	-196.7	-205.1	-211.7	guidance	guidance
Planted hectares (ha)	37,097	42,846	44,094		
EV/planted hectare (\$/ha)*	11,858	10,868	10,542		
CPO production (mt)	161,844	127,697	143,916		

*EV/planted ha includes mkt. cap. of 9% pref. shares, excludes 15% DSN shares; R=restated.

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	REDX
Price (p)	8.6
12m High (p)	28.6
12m Low (p)	3.5
Shares (m)	126.5
Mkt Cap (£m)	10.9
EV (£m)	3.9
Free Float*	69%
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	0.5%
Jon Moulton	18.2%
Seneca Partners	12.5%
AXA	9.8%
Aviva	8.4%
Paul & Thelka Blackmore	4.0%

Diary

Dec'18	Full-year results
1H'19	Resume Ph. I with RXC004

Analysts

Martin Hall	020 7194 7631	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

REDX PHARMA

ROCK2 data poster presentation

REDX's new management team is continuing to focus its financial resources on progressing lead candidates in oncology and fibrotic disease into the clinic. An extensive internal review, led by the new CEO Lisa Anson, has reinforced the vision of a streamlined pipeline in these two disease areas, with the aim of progressing drug candidates to deliver clinical proof-of-concept, a key value inflection point. 2019 is expected to be a busy year for REDX, with several major milestones due. Meanwhile, REDX has taken the opportunity to present a poster at the American Society of Nephrology (ASN) in San Diego on the effect of ROCK2 inhibition on chronic kidney disease (CKD).

- **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.
- **Poster presentation:** REDX presented a poster at the ASN in San Diego on its ROCK2 inhibitor, entitled "ROCK2 inhibitors for the treatment of chronic kidney disease". *In vivo* data showed selective modulation of markers of fibrosis pathways through ROCK2 inhibition.
- **ROCK2 programme:** REDX is primarily investigating the effect of ROCK2 inhibition in fibrotic diseases (including IPF), with CKD an area of secondary interest. The ROCK2 programme is expected to enter pre-clinical development in 2H'19 in non-alcoholic steatohepatitis (NASH), and then the clinic in 2H'20.
- **Risks:** After a difficult period, REDX has emerged in much better shape. While all early-stage pharma/biotech companies carry substantial risks and are capital-intensive, the rewards can be substantial, as evidenced by the successful disposal of the company's BTK programme for \$40m in cash in 2017.
- **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 (£000)	2015	2016	2017	2018E	2019E	2020E
Milestones/royalties	0	0	0	0	0	0
Other income	2,648	2,380	1,291	1,000	1,000	1,000
R&D investment	-9,463	-14,315	-13,000	-6,528	-11,078	-11,410
SG&A (corp. cost)	-2,008	-2,212	-5,698	-3,150	-3,276	-3,407
Underlying EBIT	-8,823	-14,147	-17,407	-8,678	-13,354	-13,817
Underlying PBT	-9,112	-14,606	-17,737	-8,648	-13,327	-13,817
Statutory PBT	-8,825	-15,407	1,646	-9,240	-13,547	-14,057
R&D tax credit	650	637	-118	392	665	685
Underlying EPS (p)	-14.6	-17.8	-15.8	-6.5	-8.8	-8.2
Statutory EPS (p)	-14.1	-19.8	1.4	-7.0	-9.0	-8.4
Net (debt)/cash	7,436	3,758	23,806	5,595	2,718	-10,382
Capital increase	13,447	9,296	11,066	0	10,000	0

Source: Hardman & Co Life Sciences Research

Automobiles & Parts



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	SCE
Price (p)	15
12m High (p)	21
12m Low (p)	14
Shares (m)	123
Mkt Cap (£m)	18
EV (£m)	16
Free Float*	86%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

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

+44 151 356 2141

www.surfacettransforms.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

SURFACE TRANSFORMS

Recent results and progress

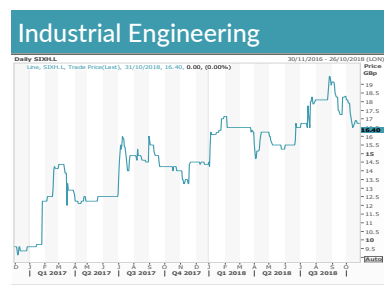
The 17 September results were in line with expectations, as is the outlook. The share price driver is the wait for the first big OEM order; one is in place, and delivery begins in 1H'19 (calendar). This is a £2m revenue (plus possibly more, for spares) spread over 18 months – for this one order to Aston Martin. Initially, this covers just a 300 car series (on the Valkyrie model), and Surface Transforms will become cashflow-positive immediately production starts. The SCE factory investment has been made (2017 and 2018), and it has a proven record of delivery of technically very demanding product into its existing retro-fit and 'near OEM' clients. To date, these last two have provided the entire revenue.

- **Strategy:** The company is finalising the understandably exhaustive performance- testing bespoke to each potential client. The factory is on the path to readiness for sales of ca.£16m, which will enable a number of OEMs to become strong customer partners to Surface Transforms.
- **Capacity allocation model:** OEM production cell 1 is potentially completely allocated to Aston Martin – OEM 3 and OEM 5. OEM 2 and OEM 4 will follow in the wake of OEM 3, and will require additional capacity. Once an OEM announces a model, volumes are virtually assured.
- **Valuation:** Current orders take Surface Transforms to cashflow-positive territory. Down the line, when cell 1 fills up, cell 2 can be readily commissioned next to cell 1, costing £7m, and generating £16m-plus sales per cell, on gross margins that are well over 60%. We estimate that EV/EBITDA will fall below 7x 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. Surface Transforms receives revenue from a number of sources, but is still in cash burn. The larger modern factory has been commissioned – a further major de-risking in the past year.
- **Investment summary:** This is a large, growing market, 99% supplied by one player – a fact that gives great support to Surface Transforms' prospects. This is a waiting game, we suggest. Surface Transforms is currently still slightly cashflow-negative, but the firm order in place turns that to breakeven, and then cashflow-positive in the first half of calendar 2019. After this, key will be timing on the product passing the rigorous ongoing testing for several world-player OEMs before a game-changer order arrives. Given the 99% supply by the one competitor, we are highly confident.

Financial summary and valuation

Year-end May (£m)	2017	2018	2019E
Sales	0.7	1.4	2.5
EBITDA	-2.4	-1.7	-1.1
EBITA	-2.5	-2.2	-1.7
PBT	-2.5	-2.3	-1.7
PAT	-2.2	-1.8	-1.3
EPS (adj.) (p)	-2.4	-1.7	-1.1
Shareholders' funds	4.0	5.8	5.8
Net (debt)/cash	1.5	0.9	1.7
P/E (x)	loss	loss	loss
EV/sales (x)	22.5	11.5	6.4
EV/EBITDA (x)	n.a.	n.a.	n.a.
DPS (p)	nil	nil	nil

Source: Hardman & Co Research



Market data

EPIC/TKR	SIXH
Price (p)	17.0
12m High (p)	18.5
12m Low (p)	13.25
Shares (m)	113.1
Mkt Cap (£m)	19.3
EV (£m)	32.4
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 1924 415000

www.600group.com

Key shareholders

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

Diary

19 November	Interims
-------------	----------

Analyst

Paul Singer	020 7194 7622
	ps@hardmanandco.com

THE 600 GROUP

Trading healthy; senior management appointments

The 600 Group remains competitively well positioned, with a world-class reputation in machine tools and laser marking. 65% of sales are in the US. Business momentum is healthy, 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 now offer an appealing yield.

- **Recent news:** The recent trading update was positive, with management confirming that trading is in line with expectations, reflecting the healthy operating environment. The new senior management appointments – Chief Operating Officer and Managing Director of Development – strengthen the management team and reflect the new opportunities for the group.
- **Pension buyout/dividend restored:** As previously announced, the buyout of the group's pension scheme was agreed at \$266m, with the cash surplus, estimated at \$4m-\$5m, used to pay down group debt. The group restoring its dividend at 0.5p per share reflects this resolution, as well as the good operational performance and the favourable commercial outlook. The group's future dividend policy is based upon stability, with growth largely in line with earnings.
- **Prospects:** Order books are healthy, and our 2018/19 forecasts are broadly maintained. Growth will be driven primarily organically, with new product developments in both business areas and new geographical market entry continuing. The group is undertaking a UK restructuring programme to reduce capex requirements and to further improve margins in the medium term.
- **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.
- **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. Cyclical stock 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 March (\$m)	2017	2018	2019E	2020E
Sales	58.8	66.0	69.9	74.1
Gross profit	20.5	23.0	24.6	25.9
EBITDA	4.5	4.9	5.6	6.1
Underlying EBIT	3.8	4.2	5.0	5.5
Underlying PTP	2.7	3.1	3.9	4.5
Underlying EPS (c)	2.7	3.2	3.2	3.6
Statutory EPS (c)	2.7	3.7	7.1	3.6
Net (debt)/cash	-17.1	-15.6	-10.1	-7.7
Dividend (p)	0.00	0.50	0.60	0.72
P/E (x)	6.4	6.9	7.0	6.1
Dividend yield		3.0%	3.5%	4.2%

Source: Hardman & Co Research

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	TON
Price (p)	167.5
12m High (p)	217.0
12m Low (p)	137.5
Shares (m)	11.1
Mkt Cap (£m)	18.6
EV (£m)	17.3
Free Float*	97%
Market	MAIN

*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 locks for doors and windows. "The home of domestic ventilation systems and doors and window hardware".

Company information

Chairman	Keith Ritchie
CFO	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	6.9%

Diary

Dec'18	Move to AIM
Dec'18	Final results

Analyst

Tony Williams	020 7194 7622
tw@hardmanandco.com	

TITON HOLDINGS PLC

A Good Year

"Forgive my lips. They find joy in the most unusual places" is the immortal phrase spoken between the leading protagonists in Ridley Scott's peerless movie about a 12-month French idyll; and starring Russell Crowe. A romantic Titon is equally idiosyncratic given that its largest earner is, yes, South Korea – and it is spectacularly conspicuous in its industry with a 23% Total Shareholder Return (TSR) over 12 months (its peers are at minus 12%). It had 'A Good Year' and fiscal 2017 premieres in early December.

- **Title:** For the 12 months to 30 September 2018, we expect 14% growth in EBITDA, and 17% growth in both pre-tax profit and dividend per share. Our cast of numbers also includes positive cashflow and a tidy sum of net cash (£3.7m). In December, Titon will also wisely shift its listing from London's Main Market to AIM.
- **Best actor:** South Korea is the most prominent player within Group net profit (74% at the last edit) and it places 11 among world cinemas. The Nation is also forecast to grow GDP by 2.8% in both 2018 and 2019, says FocusEconomics. Yes, the 2018 number was trimmed 0.1% in 3Q, but this is more a re-focus than a cut.
- **In a supporting role:** The UK accounted for 36% of Segment Profit last time. No, Titon's home market is not without its filming challenges, including a possible 'no deal' Brexit. Yet even the most errant cinema goer has read about consensus box-set GDP growth forecast at between 1% and 2% in 2018 through 2020.
- **Storyboard:** UK construction output is set to lose a touch this year i.e. minus 0.7% in real terms (+7.1% in 2017) says prominent film reviewer Experian. The volume of Private Housing Output, however, is forecast to increase 3% this year and next; and by 4% in 2020. Housing is a key protagonist in Titon's movie of the year.
- **Shoo-in for the Oscars:** The Hardman UK Building Materials Sector comprises 23 members with an academy value of £7.3bn and an average 8.1x EV/EBITDA on a trailing 12-month basis. Titon is low in the credits at 7.0x – despite the best Total Shareholder Return (TSR) at 23.1% over the past 12 months, in a Sector where the average is a turkey of minus 12.2%.

Financial summary and valuation

Year-end September (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	22.3	23.7	28.0	28.6	30.2	31.9
EBITDA	2.13	2.33	2.46	2.81	3.04	3.26
Underlying EBIT	1.56	1.77	1.85	2.13	2.29	2.43
Statutory PBT	1.87	2.14	2.49	2.91	3.20	3.50
Underlying EPS (p)	12.6	15.2	16.3	18.0	19.5	21.0
Statutory EPS (p)	12.6	15.2	16.3	18.0	19.5	21.0
Net (debt)/cash	2.9	2.4	3.3	3.7	4.1	4.6
Shares issued (m)	10.8	10.9	11.1	11.1	11.1	11.1
P/E (x)	13.3	11.0	10.2	9.3	8.6	8.0
EV/EBITDA (x)	7.9	7.7	7.0	6.1	5.5	5.1
DPS (p)	3.00	3.50	4.20	4.90	5.75	6.00
Dividend yield	1.8%	2.1%	2.5%	2.9%	3.4%	3.6%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Market data

EPIC/TKR	VAL
Price (p)	1.6
12m High (p)	7.8
12m Low (p)	0.9
Shares (m)	531.6
Mkt Cap (£m)	8.61
EV (£m)	7.02
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%
-----------	------

Diary

2H'18	Read-out VAL201
2H'18	Phase I VAL301

Analysts

Martin Hall	020 7194 7631	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

VALIRX

VAL401: completion of the Phase II trial

VAL is a clinical-stage biopharmaceutical company focused on the development of therapeutics for the treatment of cancer. The company's two leading assets are in clinical trials: 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, in trials for lung cancer. Both drugs are targeted at multi-billion-dollar markets that are inadequately served by current drugs. New funds of £1.15m gross have been raised to progress the clinical asset VAL201 and also to advance the pre-clinical programmes towards the clinic.

- **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.
- **Interims:** Phase II with VAL401 has been completed, and progress regarding VAL's clinical asset is going apace, with top-line results expected for VAL201 around year-end. In the meantime, both pre-clinical assets approach key decision points. Cash at 30 June of £0.52m has been boosted by a Placing of £1.15m gross.
- **VAL401:** The main event is the completion of the Phase II trial with VAL401 in patients with late-stage lung cancer. The data confirmed the palliative effect and improvement of quality of life in the patients treated. VAL is currently in discussions with potential partners for starting a Phase III trial, expected next year.
- **Risks:** New and/or first-in-class drugs carry the risk that they might fail in clinical trials. However, the substantial safety history of the active ingredient in VAL401 and the consistent safety record in the VAL201 trial mitigate these risks. More capital will be needed to further its proprietary assets along the value chain.
- **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

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	VTA .NA, VTA.LN VTAS LN *
Price (€)	6.88/6.83/600p
12m High (€)	7.80/7.40/655p
12m Low (€)	6.74/6.74/600p
Shares (m)	36.6
Mkt Cap (€m)	221
Trail 12-mth. yld.	9.1%
Free Float*	70%
Market	AEX, LSE

* Listing 03 September 2018

Description

Volta 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	Serge Demay
AXA IM Paris	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%
-----------	-------

Analyst

Mark Thomas	020 7194 7622 mt@hardmanandco.com
-------------	---

VOLTA FINANCE

THIS DOCUMENT IS NOT AVAILABLE TO 'U.S. PERSONS', NOR TO PARTIES WHO ARE NOT CONSIDERED 'RELEVANT PERSONS' IN THE UNITED KINGDOM, NOR SHOULD IT BE TAKEN, TRANSMITTED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO EITHER OF THESE CATEGORIES.

Volta Finance 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.

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.

Personal Products



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	W7L
Price (p)	124
12m High (p)	274.8
12m Low (p)	112.5
Shares (m)	76.7
Mkt Cap (£m)	95.2
EV (£m)	90.6
Free Float*	37.0%
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

Yingheng Chen	020 7194 7638
	yc@hardmanandco.com

WARPAINT LONDON PLC

Trading update: softening UK market

Warpaint has released a trading update for the year ending 31 December 2018. The company has prudently signalled that group sales for FY2018 are likely to be lower than previously indicated, in the range of £48m-£52m, with adjusted PBT of £8.5m-£10m. The company says that trading conditions in the UK remain challenging but that it has seen strong growth in its overseas markets. The share price responded negatively to this trading announcement, plunging by over 45% to 112.5p on the day, from the 206.5p closing price on 26 October. We have lowered FY18E revenue to £50.0m, from £55.1m, with adjusted PBT of £9.1m, from £12.4m, but we retain a dividend forecast of 5.5p.

- **UK trading conditions:** During the interim results announcement in September, Warpaint stated that "trading conditions in the UK remain challenging, because of the UK high-street slowdown and ongoing Brexit anxiety." The company has seen a further softening in the past six weeks, with retailers reducing stock levels and delaying Christmas orders.
- **International operations:** Given the weak retail market in the UK, Warpaint's management has been putting specific emphasis on its international operations. Benefiting from the recent acquisition of Leeds Marketing, Warpaint saw a 60% increase in group sales in the US for the nine-month period to end-September 2018. The company has also reported its first sales to mainland China, as well as to Russia.
- **Valuation:** Despite the reduction in revenue and PBT forecasts highlighted above, Warpaint will still be profitable for FY18. 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:** As shown in this trading update, Warpaint's success depends partly on the growth in the discount retail sector. Following the acquisition of Retra, which has significant exposure to the gifting market, Warpaint has better visibility in revenue forecasting, but Retra also increases 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	50.0	56.8	62.3
EBITDA (adj.)	6.3	8.0	9.8	11.6	13.5
Operating profit (adj.)	6.2	7.3	6.8	8.6	10.6
PBT (adj.)*	6.1	7.7	9.1	11.3	13.3
Basic EPS (adj.) (p)*	7.9	9.7	10.2	12.6	14.7
DPS (p)	1.5	4.0	5.5	6.6	7.9
P/E (x)*	15.7	12.8	12.2	9.8	8.5
EV/EBITDA (x)	14.4	11.4	9.3	7.8	6.7
Dividend yield	1.2%	3.2%	4.4%	5.3%	6.4%
RoE	-	20.0%	12.6%	15.8%	18.1%

*excludes amortisation of intangible assets

Source: Hardman & Co Research

Notes

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/legal/research-disclosures>. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, photocopying, recording or otherwise, without prior permission from Hardman & Co. By accepting this document, the recipient agrees to be bound by the limitations set out in this notice. This notice shall be governed and construed in accordance with English law. Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the FCA under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259.

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

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>

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

