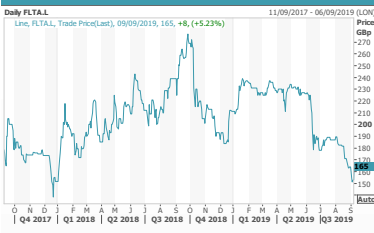




Support Services



Source: Refinitiv

Market data

EPIC/TKR	FLTA
Price (p)	157
12m High (p)	282
12m Low (p)	146
Shares (m)	29
Mkt Cap (£m)	46
EV (£m)	44
Free Float*	33%
Market	AIM

*As defined by AIM Rule 26

Description

Filta Group provides cooking oil filtration, fryer and drain management services in North America and Europe to commercial kitchens.

Company information

CEO	Jason Sayers
CFO	Brian Hogan
Chairman	Tim Worledge
	+44 1788 550100
	www.filtapl.com

Key shareholders

Directors	66.4%
Gresham House	12.6%
Blackrock	5.6%
Cannacord Genuity	4.5%

Diary

Apr'20	Prelims
Sep'20	Interims

Analyst

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FILTA GROUP

FY19 interim results

Filta Group (Filta) provides cleaning services to commercial kitchens in North America, the UK and, more recently, mainland Europe. The company reported EBITDA for 1H19 marginally below our expectations – it has taken a little longer to get the benefit of cost savings following the Watbio acquisition. Our EBITDA expectations for 2020 are scarcely altered. At the EPS level, we have put through some additional non-cash related costs: share-based payments, IFRS16 impacts and higher amortisation than expected.

- **Forecast changes:** We have cut our FY19E EBITDA expectations from £4.85m to £4.2m and trimmed FY20E from £5.35m to £5.25m. The cuts to EPS – FY19E 5.1p (from 9.9p) and FY20E 8.1p (11.2p) – are more substantial, taking account of higher non-operating costs below the EBITDA line. The cuts do not reflect any weakening in the business prospects, which we still see as very attractive.
- **1H19 results and outlook:** Filta delivered adjusted EBITDA of £1.7m, up on £1.3m in 1H18. PBT was £0.5m down from £1m last year due to higher growth-related costs and before the full benefits of the Watbio acquisition have begun to flow. The 1p interim dividend was up 39% and reflects management's confidence in the prospects for the business.
- **Valuation:** Filta has no directly comparable companies. We have used a DCF to derive a value range of 219p to 285p per share, using a 10% discount rate and a mid-term (2021-25) growth rate of between 6% and 12%. Our central estimate is 262p. No account is taken of future added-value acquisitions.
- **Risks:** In addition to normal commercial risks, Filta is dependent on the behaviour of its franchisees, which it cannot control but can help to influence by means of thorough training. The risks in the Watbio acquisition are now fully understood but any future deals will inevitably involve managing some unknowns. It is exposed to FX risk, too, although most costs are local.
- **Investment summary:** Filta is an attractive business, in our view, combining the capital-light franchise model in North America and Europe with company-owned operations in the UK. With only a tiny proportion of the market currently served and with little or no competition, we see potential for years of profitable growth ahead.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	7,925	8,469	11,547	14,213	25,000	27,500
EBITDA	594	1,193	2,116	2,642	4,200	5,250
Underlying EBIT	450	1,011	2,059	1,941	2,200	3,300
Reported EBIT	450	(249)	1,699	1,782	1,900	3,300
Underlying PTP	376	932	1,968	1,900	1,900	3,100
Statutory PTP	376	(329)	1,608	1,742	1,600	3,100
Underlying EPS (p)	1.39	3.66	5.05	5.39	5.07	8.11
Statutory EPS (p)	1.39	-1.51	3.85	4.88	4.05	8.11
Net (debt)/cash	-619	3,271	2,992	2,040	1,435	3,487
Shares issued (m)	22	23	27	29	29	29
P/E (x)	113.1	42.9	31.1	29.1	31.0	19.4
EV/EBITDA (x)	58.6	27.1	18.8	16.4	10.5	8.0

Source: Hardman & Co Research

Interims

Organic revenue grew 21%, which, added to the £4.2m contributed by Watbio, led to an 86% increase in reported revenue to £12.2m. Watbio is a lower margin business so gross profit grew at a more modest 50% to £5.0m. Adjusted EBITDA rose to £1.7m from £1.3m a year earlier. And, adjusted PBT increased 14% to £1.3m. The interim dividend was raised from 0.72p to 1p per share.

The original Filta business, Fryer Management, continued its strong growth while the less important Franchise Sales had a slow start to the year but has subsequently picked up. The European franchise business continued to grow with five new franchises added in 1H19 bringing the total to 17.

Watbio has now been fully integrated and the savings should start to flow through fully in the fourth quarter. One non-profit making business was shut, which lowered the revenue below our expectations. Filta has introduced more efficient business practices – both in buying and scheduling – and reduced the number of premises.

The enlarged business is now well positioned to grow on the back of tighter hygiene regulations and natural organic expansion.

Forecasts

Our forecasts are largely unchanged at the EBITDA level. The FY19E shortfall is effectively all in 1H19 and was mostly down to the slower-than-expected Watbio savings benefits coming through. We trim our FY20E EBITDA from £5.35m to £5.25m.

There are, however, more significant changes below the EBITDA line. These effectively fall into three categories. The first is share-based payments. We had not previously allowed a significant sum for these. All new Watbio employees have been issued with shares. The US employee shares have to be marked to market too. We now expect this to total £550k each year.

The second is acquisition costs, which we treat as exceptional; we now estimate £300k (from £150k).

Thirdly, the amortisation charge is significantly higher by approximately £400k, which is mostly due to the treatment of leases under IFRS16. This is obviously ongoing.

The impact of these changes (combined with the reduced EBITDA estimate for FY19E) is to cut our PBT estimates for FY19 to £1.9m (from £3.75m) and for FY20 to £3.1m (from £4.3m) and our EPS numbers (fully-diluted, adjusted for exceptional costs) for FY19E to 5.1p (from 9.9p) and for FY20E to 8.1p (from 11.3p).

Profit & Loss

Income statement, 2015-20E						
Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	7,925	8,469	11,547	14,213	25,000	27,500
Cost of sales	-4,208	-4,449	-5,870	-7,131	-14,250	-15,300
Gross profit	3,718	4,019	5,677	7,083	10,750	12,200
Other income	36	25	38	25		
Distribution costs	-84	-80	-125	-151	-200	-200
Admin. expenses	-3,220	-2,953	-3,532	-5,015	-8,350	-8,700
Operating profit	450	1,011	2,059	1,941	2,200	3,300
<i>EBITDA</i>	<i>594</i>	<i>1,193</i>	<i>2,116</i>	<i>2,642</i>	<i>4,200</i>	<i>5,250</i>
Finance expenses	-74	-80	-91	-40	-300	-200
PBT	376	932	1,968	1,900	1,900	3,100
Exceptional costs		-1,261	-360	-159	-300	
Tax	-74	-101	-590	-422	-400	-700
PAT	302	-430	1,017	1,320	1,200	2,400
Discontinued ops.		87	33	19		
Net profit	302	-343	1,050	1,339	1,200	2,400
Exchange differences	-45	-186	-94	-29		
Comprehensive income	257	-528	956	1,309	1,200	2,400
Avg. no. of shares (fully-dil., m)	21.8	22.7	27.3	27.4	29.6	29.6
EPS (p)	1.4	-1.5	3.9	4.9	4.14	8.28
Statutory EPS (fully-dil., p)	1.4	-1.5	3.9	4.9	4.05	8.11
Underlying EPS (fully-dil., adj., p)	1.4	3.7	5.1	5.4	5.07	8.11
DPS (p)			1.3	1.6	3.30	3.80
GP margin	47%	47%	49%	50%	43%	45%
Admin. as % of revenue	41%	35%	31%	35%	34%	31%
EBIT margin	6%	12%	18%	14%	9%	12%
Tax rate	20%	11%	30%	22%	21%	23%
Growth YoY						
Revenue	20%	7%	36%	23%	76%	10%
Operating profit	45%	125%	104%	-6%	13%	50%
PBT	64%	148%	111%	-3%	0%	63%
EPS	63%	164%	38%	7%	-6%	60%

Source: Hardman & Co Research

Balance sheet

Balance sheet, 2015-20E						
@ 31 Dec (£000)	2015	2016	2017	2018	2019E	2020E
Non-current assets						
Property, P&E	1,121	1,191	1,216	1,493	1,043	643
Intangible assets	90	167	485	7,186	6,586	5,986
Goodwill			631	1,640	3,640	3,640
Contract acquisition costs	170		157	343	343	343
Deposits	2	3	2	2	2	2
Trade receivables	215	379	302	325	357	393
Deferred tax assets	520	756	652	755	905	1,105
Total non-current assets	2,117	2,495	3,446	11,744	12,876	12,112
Current assets						
Trade receivables	1,591	1,961	2,311	4,821	5,544	6,376
Contract acquisition costs			38	52	52	52
Inventories	299	288	438	1,386	1,525	1,678
Cash	979	4,392	4,031	6,790	5,185	6,337
Total current assets	2,870	6,641	6,818	13,049	12,306	14,442
Assets held for sale		88	74			
Total assets	4,987	9,224	10,339	24,793	25,182	26,554
Current liabilities						
Trade payables	-1,726	-1,990	-2,143	-6,510	-7,161	-7,878
Borrowings	-597	-104	-108	-841	-841	-841
Due to directors/deferred consideration	-1,522					
Deferred income	-194	-401	-533	-869	-869	-869
Total current liabilities	-4,039	-2,495	-2,783	-8,220	-8,871	-9,587
Non-current liabilities						
Borrowings*	-1,001	-1,018	-932	-3,909	-2,909	-2,009
Deferred income	-1,555	-2,310	-2,405	-2,791	-2,991	-2,991
Deferred tax			-95	-1,291	-1,291	-1,291
Total non-current liabilities	-2,556	-3,328	-3,432	-7,992	-7,192	-6,292
Liabilities held for sale		-33	-66			
Total liabilities	-6,595	-5,856	-6,281	-16,211	-16,063	-15,879
Net assets	-1,609	3,368	4,057	8,582	9,120	10,676
Equity						
Share capital	380	2,695	2,713	2,892	2,892	2,892
Share premium		3,480	131	3,372	3,522	3,722
Accumulated losses/profits	-1,914	-2,257	1,863	2,711	3,099	4,455
Other reserves	-75	-551	-650	-394	-394	-394
Total equity	-1,609	3,368	4,057	8,582	9,120	10,676

* Note: the "borrowings" do not include the lease liabilities

Source: Hardman & Co Research

Cashflow

Cashflow, 2015-20E						
Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Operating activities						
PBT	376	-218	1,641	1,760	1,600	3,100
Finance costs	74	80	91	42	300	200
Depreciation	90	119	110	187	650	600
Amortisation	54	63	100	212	800	800
Other	9	49	97	310	-150	-200
Working capital changes	17	-53	-197	-490	-243	-304
Cash from operations	620	40	1,842	2,021	2,957	4,196
Tax paid	-54		-510	-1,216	-400	-700
Net cash from operations	566	40	1,332	805	2,557	3,496
Investing activities						
Purchase of P,P&E	-180	-43	-113	-316	-200	-200
Purchase of intangibles	-60	-154	-55	-105	-200	-200
Sales of assets	64		25	49		
Acquisitions			-1,138	-3,738	-1,800	
Net investing cash	-176	-197	-1,281	-4,110	-2,200	-400
Financing activities						
Issue of shares		3,999	149	2,870	150	200
Net borrowings	291	-146	-47	3,538	-1,000	-900
Interest paid	-70	-105	-91	-42	-300	-200
Dividends paid			-226	-372	-812	-1,044
Net financing cash	221	3,748	-215	5,994	-1,962	-1,944
Net change in cash	611	3,591	-165	2,689	-1,605	1,152
Cash at beginning of year	452	979	4,392	4,031	6,790	5,185
FX	-84	-178	-196	70		
Cash at end of year	979	4,392	4,031	6,790	5,185	6,337

Source: Hardman & Co Research

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