THE MONTHLY

October 2019

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Feature article

Water – PR19

By Nigel Hawkins, Hardman & Co Analyst

- Since their privatisation in 1989, the 10 water companies have faced a periodic review every five years; it is undertaken by Ofwat, and prescribes customer prices, along with the investment requirements.
- As part of the ongoing review, PR19, Ofwat will publish its Final Determination numbers on 11 December 2019; they will apply as from April 2020, although water companies do have the option to seek a reference to the CMA.
- The three quoted water companies – Severn Trent, South West and United Utilities – have been fast-tracked, so their numbers are broadly known.
- The other seven are facing tough regulatory scrutiny, with several seriously considering appealing Ofwat's Final Determination via the CMA – Southern, Thames and Anglian are the most likely to do so.

Background

Privatisation in 1989

In 1989, the 10 water companies in England and Wales were floated – their shares were heavily over-subscribed. The water companies in Scotland and Northern Ireland were not included, and they remain in the public sector to this day.

Quinquennial periodic reviews

Every five years (beginning with 1990), the water companies face a periodic pricing review, which determines the charges that they can levy on their customer base: there is minimal competition at the retail level.

PR19

11 December is "D Day"

Ofwat has been working on the current review, PR19, for several years. It will announce details of the Final Determination Ofwat on 11 December 2019, with the new pricing formulas applying as from April 2020 and lasting until March 2025.

Few water companies – South West's parent company, Pennon, with its Viridor waste business, is an exception – have material non-core revenues; the regulatory outcome is therefore key in determining their finances, their ongoing debt levels and their capacity to pay dividends.

Of the 10 privatised water companies, five – Anglian, Northumbrian, Southern, Thames and Yorkshire – are under private equity ownership, while Wessex is owned by YPL, a Malaysian power company. Dwr Cymru, in Wales, is a not-for-profit company.

Highly indebted private equity-owned quintet

All five water companies in private equity have comparatively high debt levels. With PR19 set to be far tougher than its predecessors, these companies face major risks to their long-term financial models.

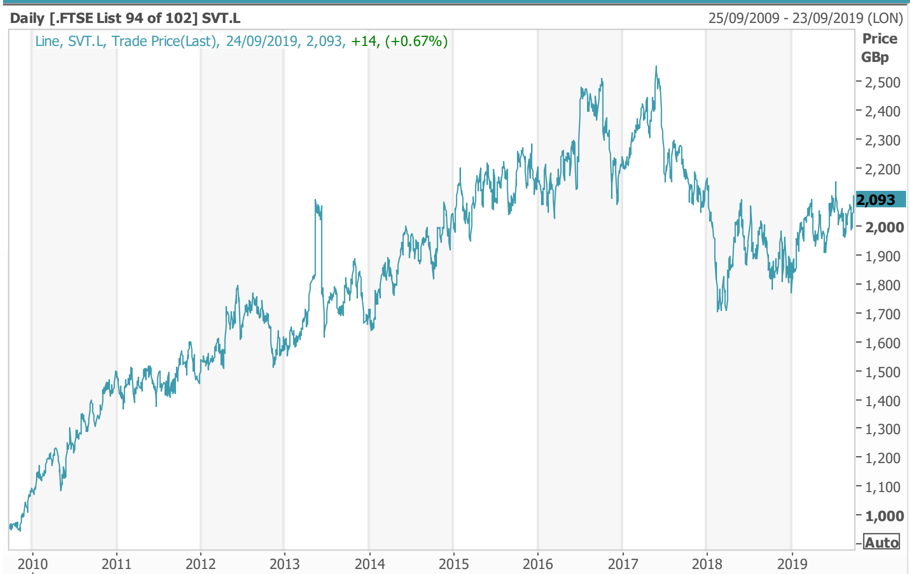
The quoted trio

Marked outperformance since 1989

The three quoted companies – Severn Trent, United Utilities and Pennon, the owner of South West – have prospered since 1989; they have markedly outperformed the market.

The two graphs below show, respectively, the 10-year share price performances of Severn Trent and United Utilities – both are FTSE 100 companies.

Severn Trent – quoted share price



Source: Refinitiv

United Utilities – quoted share price

Source: Refinitiv

All three quoted stocks are "fast-trackers"

For these two water companies and South West, all of which have been accorded "fast-tracker" status by Ofwat – and therefore a more favourable regulatory settlement – future dividend payment capacity is crucial.

Over the past five years, Severn Trent and United Utilities have both increased their annual dividend. In Severn Trent's case, its 2014/15 payment was 84.9p, while its 2015/16 payment was re-based at 80.7p; by 2018/19, its dividend had risen to 93.4p. For United Utilities, the figures were 37.7p and 41.28p for 2014/15 and 2018/19, respectively.

Dividend cuts post 2019/20?

For Severn Trent and United Utilities, underlying dividend cover for the 2018/19 financial year was 1.4x and 1.3x, respectively. As such, both may be able to avoid a dividend cut, although they could choose to switch to a lower divided base and pay higher annual dividend increases subsequently.

Price-setting methodology

RCVs crucial for price-setting process

Ofwat's price-setting methodology is based on using the Regulatory Capital Values (RCVs) for each water company as the denominator in the equation. RCVs rise each year, based on that year's investment, net of depreciation. Details of the RCVs, as at March 2019, are set out below.

RCVs (end-March 2019)

£m	
Anglian	7,981
Dwr Cymru	5,672
Northumbrian	4,272
Severn Trent	9,166
Southern	5,035
South West	3,505
Thames	14,274
United Utilities	11,404
Wessex	3,233
Yorkshire	6,687

Source: Ofwat

Price adjustments via K factor movements

The numerator is effectively the operating profit – calculated from the rate of return that Ofwat judges is appropriate – which should accrue from an efficiently-run regulated water business. Retail price rises/cuts are imputed, via the adjustment of the K factor, to the projected revenue base.

Test Area Assessments

To differentiate more clearly – and fairly – between the 10 water companies, Ofwat recently undertook a wide range of Test Area Assessments (TAAs), which examined key parts of each company's water and waste-water provision.

Sector did badly

Few companies did well in these TAAs. By far the worst performers were Southern and Thames, both of which received D ratings – the lowest level. In all, nine categories were assessed by Ofwat.

Sector finances

Mainly debt-free balance sheets in 1989

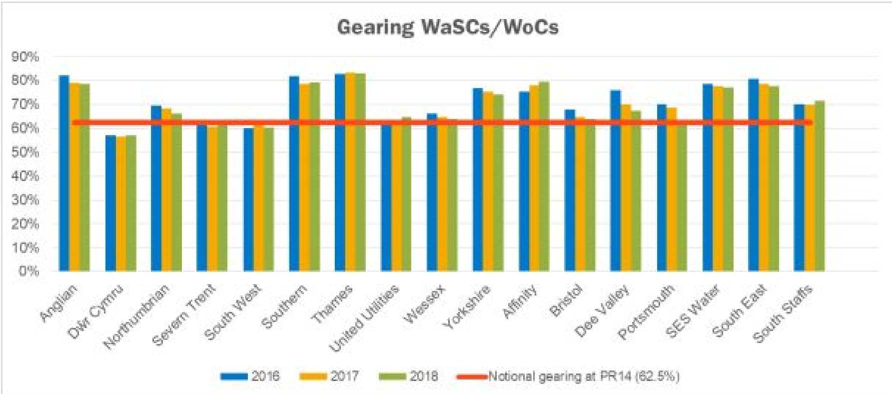
At flotation in 1989, in the light of the massive backlog of investment, most water companies were allocated debt-free balance sheets. In the intervening years, net debt levels have risen very appreciably – and are now more redolent of a traditional utility.

Thames's £11bn+ net debt

In the case of the five private equity-owned water companies, net debt levels have increased far more steeply than the sector average – Thames's net debt now exceeds £11bn.

The graph below, published by Ofwat, shows the gearing levels – as a percentage of RCV – of all 10 water companies under review, along with those water companies that were not part of the original privatisation process in 1989.

Gearing levels



Source: Ofwat

Sharp cut to Ofwat's WACC assumption

So far, PR19 has been known for its much more robust assumption by Ofwat of the pivotal Weighted Average Cost of Capital (WACC). Its indicative 2.4% figure is around a third lower than the comparable figure that Ofwat adopted for the PR14 review.

Not surprisingly, several water companies are very concerned about the very low WACC figure, although Ofwat would argue that the current yield on 10-year gilts is among the lowest for many decades.

Ofwat's "don't go there" implication

Indeed, in its TAA, Wessex raised the WACC issue. In its conclusions, Ofwat gave Wessex a pointed reminder – "there is limited and unconvincing evidence in support of Wessex's proposed uplift to the 'early view' cost of capital".

Credit ratings

Overall, with the sector starting out with much higher net debt levels and set to face far tighter finances than previously, PR19 is crucial – and, inevitably, of major interest to the credit rating agencies.

De facto regulatory floor

For the highly geared companies, however, there will be some comfort in the belief that, whatever Ofwat throws at them, they must be allowed to retain investment-grade status with the credit agencies in order to be able to fund their formidable capital investment programmes. In effect, a regulatory floor is in place.

Draft Determinations

Southern and Thames in "significant scrutiny" group

In preparation for publishing its Final Determination on 11 December, Ofwat has recently announced its Draft Determinations for both the designated "fast-trackers" – the three quoted stocks, Severn Trent, United Utilities and Pennon's South West – and for the other water companies, which were designated as either "slow-trackers" or the small group requiring "significant scrutiny"; Southern and Thames were both placed in the latter group.

The table below shows Ofwat's average household price projections for 2024/25, based on Ofwat's Draft Determinations and on the actual figures submitted by the water companies as part of their business plans. All the figures in the table are quoted in real terms.

Draft Determinations (£)

Water company	2019/20 Bill	2024/25 Company Bill	2024/25 Ofwat Bill	Cut between 2019/20 and Ofwat Bill
Anglian	421	416	370	-12.1%
Dwr Cymru	439	417	378	-13.9%
Northumbrian	429	337	319	-25.6%
Severn Trent*	343	325	327	-4.7%
Southern	422	392	362	-14.2%
South West*	527	454	450	-14.6%
Thames (ex TTT)**	382	373	344	-9.9%
United Utilities*	427	382	378	-11.5%
Wessex	457	430	390	-14.7%
Yorkshire	380	379	342	-10.0%

** Fast-tracked*
***Thames Tideway Tunnel*
Source: Ofwat, Nigel Hawkins Associates

Anglian's meagre offering

It is clear from the above table that several water companies proposed decidedly modest price reductions, including Anglian, with an offer of just 1.2% in real terms over the five years; Ofwat's Draft Determination sought a 12.1% cut. Bridging this gap, without a CMA referral, will require major backdowns by at least one party, if not both.

Ofwat's 26% cut for Northumbrian

The gap between what most water companies – excepting the "fast-trackers" – have offered and what Ofwat is seeking remains large, especially in the case of Northumbrian, where Ofwat is seeking a 26% real price cut by 2024/25, over 80% of which Northumbrian seems ready to accept.

CMA appeals

Given the sizeable gaps discussed above, some water companies are expected to use their right to appeal Ofwat's ruling to the CMA – unless Final Determination day on 11 December provides evidence of a substantial softening in Ofwat's stance.

Poor record of concessions from CMA

Given that the record of water companies securing material concessions from the CMA is not good, any appeal should be carefully analysed by the water company concerned.

Three approaches, including TAA "hornet's nest"

There are probably three approaches that water companies can use whereby they have a decent chance of getting change from the CMA:

- To argue that the overall deal they have been given by Ofwat is simply unacceptable – on several counts. Some of the harsh price cuts being proposed by Ofwat would underpin this viewpoint.

- To contest Ofwat's 2.4% WACC assumption. After all, it is around a third lower than the comparable 3.6% WACC that was used by Ofwat back in 2014. Wessex, in particular, is known to feel strongly about Ofwat's aggressive WACC.

- The TAAs may have opened up a "hornet's nest", especially given Ofwat's somewhat dismissive approach in summarising many complex issues. Company lawyers will undoubtedly scrutinise the validity of some of these broad-brush judgments, and may test them before the CMA.

Political developments

General election widely expected shortly

It is also pertinent that PR19 is taking place against the background of major political uncertainty, with a general election widely expected shortly – subject to Parliamentary approval.

Labour's threat to the water sector

Given the Labour Party's declared – and unequivocal – policy to establish publicly-owned regional water authorities, the impact of any general election result is very relevant to the sector and, more specifically, to its valuation.

Railtrack precedent

While, in our opinion, a resounding Labour Party majority – sufficient to pursue a wide-ranging re-nationalisation policy – is unlikely, discerning investors accept that any shareholder compensation is likely to be way below current market values. The controversial Railtrack re-nationalisation settlement could provide a precedent in this respect.

Conclusion

Critical six months

The next six months will be critical for the water sector. PR19 should be complete by early next year, subject to any CMA referrals, and its financial implications across many fronts will become far clearer.

Undoubtedly, the UK's political system is in considerable disarray, primarily as a result of the deep divisions caused by Brexit and the Government's aim, which may or may not be achievable, to leave the EU on 31 October, either with an acceptable deal or, more likely, without one.

Interesting times for water sector

The water sector is living in interesting times.

About the author

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

Nigel is responsible for analysing the UK Utility companies, including those privatised 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, which specialised in the renewable energy sector. 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 25 September 2019 (unless otherwise stated).

Financials

Source: Refinitiv

Market data

EPIC/TKR	**AJB**
Price (p)	**411**
12m High (p)	482
12m Low (p)	162
Shares (m)	408
Mkt Cap (£m)	1,667
EV (£m)	1,610
Free Float*	36.5%
Market	LSE full listing

As defined by LR 6.14 of the Listing Rules

Description

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

Company information

CEO	Andy Bell
CFO	Michael Summersgill
Chairman	Les Platts

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

Key shareholders

Invesco Perpetual	14%
Andy Bell	25%
Management and other	23%
Michael Spencer	3%

Diary

24 Oct	4Q trading update
05 Dec	FY'19 results

Analyst

Jason Streets 020 7194 7622
js@hardmanandco.com

AJ BELL

Platform for growth

AJ Bell is one of the largest and fastest-growing investment platforms in the UK. It serves both the adviser market and the DIY investor. Having transitioned to updated technology in 2014, it is well placed to ride the growth in the market and pick up disaffected clients from competitor platforms that are only now upgrading. We anticipate strong profit growth on the back of higher revenues and positive operational gearing. The 3Q trading update confirmed the positive trading in the interim results, which were accompanied by a very confident outlook statement.

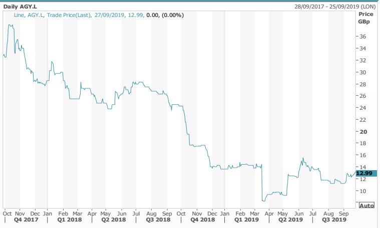
- **Strategy:** AJ Bell intends to be the easiest platform for investors and advisers to use, and to offer exceptional value – but not at the expense of service levels. It charges noticeably less than many of its competitors, putting it in a strong position as charges take a higher profile.
- **Scope for expansion:** Platforms are a good way to put the administration and custody of investments in one place, while offering a huge variety of investment choice, and freeing investors and advisers to focus on what they do best. Plenty of assets are not yet corralled, and there is significant underlying growth too.
- **Valuation:** We value the business on a DCF basis. At the current price, it is effectively assuming a discount rate of 7%, putting it over the top end of our wide range. Our central valuation of £953m would put it on a FY'19E P/E of 33x, which compares with Transact at 35x and Hargreaves Lansdown at 38x.
- **Risks:** There are inevitably market risks – revenue is linked to the value of assets and, to a lesser extent, the amount of trading on the platform. The business is also sensitive to tax and savings policies, which can have major impacts on investors' behaviour. The robustness of the technology is also critical.
- **Investment summary:** AJ Bell is a very attractive business, in our view. It is well positioned to benefit from the expected continuing growth in savings and the ever- higher proportion of those savings held on platforms. The business is highly cash-generative and holds significant net cash. These positive characteristics would seem to be well reflected in the current price.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
AuA (£bn)	32	40	46	49	55	61
Revenue	64.5	75.6	89.7	104.0	116.0	130.0
Net finance income	0.0	-0.1	0.1	0.0	0.0	0.0
PBT	16.8	21.7	30.1	37.0	41.0	47.0
Tax	-3.5	-4.2	-5.7	-6.7	-7.4	-8.5
Net profit	13.3	17.5	22.6	28.5	33.6	38.6
No. of shares (fully-diluted, m)	394	396	402	408	408	408
EPS (fully-diluted, p)	3.4	4.4	6.1	7.4	8.2	9.5
DPS (p)	2.7	2.9	3.7	4.5	5.4	6.1
P/E (x)	113.2	86.4	62.9	55.4	49.9	43.5
Dividend yield	0.7%	0.8%	1.0%	1.1%	1.3%	1.5%
Dividend cover (x)	1.3	1.5	1.6	1.6	1.5	1.5

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data	
EPIC/TKR	AGY
Price (p)	13.0
12m High (p)	24.5
12m Low (p)	8.3
Shares (m)	636.2
Mkt Cap (£m)	82.7
EV (£m)	57.7
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%
SkyGem	15.6%
Invesco	4.5%

Diary	
Nov'19	AGM
Jan'20	Trading update
Mar'20	Interim 2020 results

Analysts

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ALLERGY THERAPEUTICS

Growing market share

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. The Pollinex Quattro (PQ) platform, the ultra-short course subcutaneous allergy immunotherapy (AIT), continues to gain market share, despite its availability in the EU only on a "named-patient" basis. Several products are in clinical development, with the aim of moving the platform to full registration under the new regulatory frameworks in both the EU and the US. Management has the plan and resources to achieve the ultimate goal: to be the first to launch a fully-regulated subcutaneous immunotherapy product in the US market.

- **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.

- **2019 results:** Underlying sales grew 8% to £73.7m (£68.3m) in a flat market, equating to a market share gain of ca.0.6ppts to 14.1%. The product profit margin (pre-R&D) increased 3.0ppts to 38.4% (35.4%). The net cash position was £25.0m, boosted subsequently by a $4.1m/£3.3m settlement of legal costs.

- **R&D update:** AGY is still analysing why the subjective primary endpoint in the Phase III Birch trial was not met, while there was a significant effect observed with the objective secondary endpoint. The findings will be used to tighten the US Phase III Grass MATA MPL trial protocol, due to start in 2H calendar 2020.

- **Risks:** The risks inherent in subjective clinical trial outcomes were clear in the Phase III Birch trial. However, AGY prudently included an objective secondary endpoint of activity, which will be used in EU regulatory discussions about the way forward, and to adjust the pending US trial protocol.

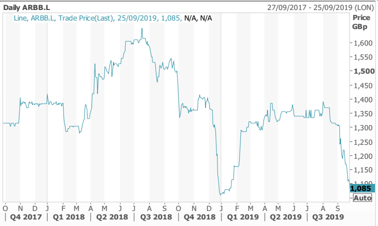
- **Investment summary:** The strong trading updates, coupled with positive settlement of the outstanding litigation, have seen some share price recovery from the low caused by the PQ Birch trial outcome in March. Despite the recovery to date, AGY is trading on an EV/sales of only 0.72x 2020E, reducing to 0.67x 2021E. In our view, this is too low for a company with a long and profitable product history, and well below the multiples commanded by direct competitors.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	64.1	68.3	73.7	80.0	86.0	92.0
R&D investment	-9.3	-16.0	-13.0	-16.0	-28.0	-15.0
Underlying EBIT	-3.6	-7.4	-2.2	-4.7	-16.2	-2.9
Reported EBIT	-2.6	-7.4	3.8	-1.4	-16.2	-2.9
Underlying PBT	-3.7	-7.5	-2.3	-4.8	-16.3	-3.1
Statutory PBT	-2.7	-7.5	3.7	-1.5	-16.3	-3.1
Underlying EPS (p)	-0.6	-1.3	-0.4	-0.9	-2.7	-0.6
Statutory EPS (p)	-0.4	-1.3	0.5	-0.2	-2.5	-0.5
Net (debt)/cash	18.8	12.5	25.0	20.6	1.7	-4.2
Equity issues	0.0	0.0	10.2	0.3	0.3	0.3
P/E (x)	-22.1	-10.3	-32.0	-14.9	-4.8	-20.8
EV/sales (x)	0.90	0.84	0.78	0.72	0.67	0.63

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	ARBB/ARBN
Price (p)	1,085/1,100
12m High (p)	1,640
12m Low (p)	1,065
Shares (m)	15.4
Mkt Cap (£m)	167
Loans to deposits 2020E	80%
Free Float*	42%
Market	AIM/NEX

*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 a 9.85% stake in Secure Trust Bank (STB).

Company information

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

+44 20 7012 2400
www.arbuthnotgroup.com

Key shareholders

Sir Henry Angest	56.1%
Liontrust	6.5%
Miton Asset Mgt.	4.4%
Slater Investments	4.0%
R Paston	3.6%
M&G IM	3.5%

Diary

Oct'19	3Q trading update
Feb'20	Pre-close trading update

Analyst

Mark Thomas 020 7194 7622
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ARBUTHNOT BANKING GROUP

Growth, strength and flexibility

ABG is well funded and has surplus group capital of ca.£70m (core equity Tier 1 surplus in excess of £30m). The recently completed mortgage portfolio acquisition is one example of the strategic flexibility this strength provides. In our note, *1H'19 results: diversified, low-risk growth continues*, we highlighted the value created from the other option of strong organic growth. Net interest income rose 15%, as loans grew 16% to £1,275m, and deposits rose 18% to £1,829m. New businesses continue to show strong growth. Commercial Banking generated profit of £3m (1H'18 loss £0.8m). The shares trade at 0.85x 2019E book value – anomalous for a profitable growing business, we think.

- **ABG News:** On 10 September, ABG announced it had purchased 7,408 non-voting shares (total in treasury now 11,310). We understand this is a "clean-up" exercise, rather than a strategic deployment of capital. Following a competitive tender process, Mazars has replaced KPMG as auditor.

- **Peer news:** STB announced, on 5 September, that Ennismore now has a 3% holding. Brewin Dolphin also announced a change of auditor in September. Brooks MacDonald's results, on 12 September, saw no share price reaction on the day. The charter Court/One Savings Bank merger received FCA/PRA approval.

- **Valuation:** The average of our valuation approaches is £17.89 (previously £17.91), 1.4x 2020E NAV. Since our latest report, there has been a small change in the STB share price, affecting the SoTP model. The current share price of 1,085p is 85% of the 1H'19 NAV (1,321p), an anomalous rating, in our view.

- **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, historically, has 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 at book value appears anomalous.

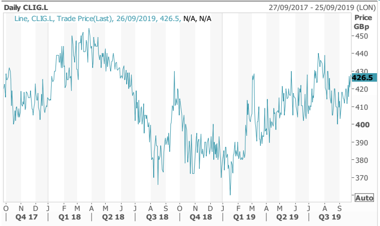
Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E*	2020E*
Operating income	34,604	41,450	54,616	67,905	77,574	90,340
Total costs	-35,926	-46,111	-54,721	-64,982	-71,595	-79,157
Cost:income ratio	104%	111%	100%	96%	92%	88%
Total impairments	-1,284	-474	-394	-2,731	-2,877	-2,965
Reported PBT	-2,606	-1,966	2,534	6,780	7,299	12,000
Adjusted PBT	2,982	1,864	3,186	7,416	9,299	14,000
Statutory EPS (p)	86.3	1,127.3	43.9	-134.5	40.3	65.9
Adjusted EPS (p)	13.5	17.1	47.5	40.3	50.9	76.5
Loans/deposits	82%	76%	75%	71%	79%	80%
Equity/assets	5.5%	18.5%	12.8%	9.0%	7.7%	7.2%
P/adjusted earnings (x)	80.4	63.5	22.8	26.9	21.3	14.2
P/BV (x)	1.36	0.71	0.71	0.85	0.85	0.83

*IFRS9 basis; Source: Hardman & Co Research

CITY OF LONDON INVESTMENT GROUP

Financials



Source: Refinitiv

Market data

EPIC/TKR	**CLIG**
Price (p)	427.0
12m High (p)	440.0
12m Low (p)	360.0
Shares (m)	26.6
Mkt Cap (£m)	113.4
EV (£m)	99.6
Market	LSE

Description

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

Company information

CEO	Tom Griffith
CFO	Tracy Rodrigues
Chairman	Barry Aling

+44 207 860 8346
www.citlon.com

Key shareholders

Directors & staff	17.2%
Blackrock	10.1%
Cannacord Genuity	8.0%
Eschaton Opportunities Fund Management	4.8%
Polar Capital	4.1%

Diary

9 Oct	1Q FUM announcement
10 Oct	Ex-div. date for final
14 Jan	2Q FUM announcement
17 Feb	Half-year results

Analyst

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Another solid year

City of London recently announced its results for FY2019. The headline figures of £11.4m PTP and undiluted EPS of 34.9p were in line with July's trading statement, meaning the interest for investors was in the details. Although FUM ended the year up by more than 5%, at $5.39bn, average FUM for fee collection was slightly lower ($5.1bn in FY2019 compared with $5.2bn in FY2018). Combined with the ongoing decline in fee rates from the increase in the diversification areas, revenue declined almost 6% to $31.9m. Staff costs increased with the recruitment of the new REIT team, with offsets from reduced commissions and other administrative costs.

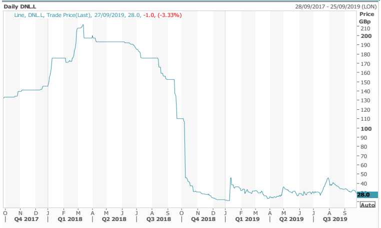
- **EM strategy:** Market performance gave a slight boost to FUM, although the EM strategy outperformance was more significant. More detail on flows shows that EM is still attracting new funds, but rebalancing remains a hurdle to growing FUM in this area.
- **Cash:** Cash conversion was, as usual, excellent, at 114% of earnings (boosted by working capital changes). Cash on the balance sheet declined due to REIT strategy seed funding, the special dividend and buybacks. At £13.8m, it is still more than adequate, and there remains scope for further return of capital.
- **Valuation:** The prospective P/E of 9.7x is at a discount to the peer group. The historical yield for the ongoing dividend of 6.3% 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)	2016	2017	2018	2019*	2020E	2021E
FUM ($bn)	4.00	4.66	5.11	5.39	5.79	6.21
Revenue	24.41	31.29	33.93	31.93	35.76	37.94
Statutory PTP	7.97	11.59	12.79	11.40	13.72	14.79
Statutory EPS (p)	23.3	36.9	39.5	34.9	43.9	47.3
DPS (p)	24.0	25.0	27.0	27.0	27.0	27.0
Special dividend (p)				13.5		
P/E (x)	18.3	11.6	10.8	12.2	9.7	9.0
Dividend yield	5.6%	5.9%	6.3%	9.5%	6.3%	6.3%

**2019 figures include a special dividend of 13.5p; Source: Hardman & Co Research*

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**DNL**
Price (p)	**29.0**
12m High (p)	111.0
12m Low (p)	21.1
Shares (m)	84.6
Mkt Cap (£m)	24.5
EV (£m)	15.4
Free Float*	40%
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 already 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	2.4%
IP Group	40.7%
Finance Wales	13.6%
Polar Capital	7.8%
Richard Griffiths	5.9%
Oceanwood Capital	3.7%

Diary

4Q'19	DITEST study read-out
4Q'19	Alkindi US NDA
4Q'19	Chronocort EMA MAA

Analysts

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Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

DIURNAL GROUP

Focus on near-term milestones

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'. Recent results confirmed the launch phase of its first commercial product, Alkindi, in Europe using its own commercial infrastructure. The next few months will be characterised by a number of important value inflection points, including the read-out of the DITEST, and the regulatory submissions of Alkindi in the US and Chronocort in Europe. The net cash position at 30 June was £9.1m.

- **Strategy:** DNL aims to create a valuable 'Adrenal Franchise' that can treat patients with chronic cortisol deficiency diseases from birth through to old age. Once Alkindi and Chronocort are established in the EU and the US, the long-term vision is to expand DNL's product offering to other related conditions.

- **2019 results:** The underlying EBIT loss of £14.5m (-£17.0m) was lower than expected due to the pause in the US Phase III with Chronocort. This fell through the cashflow statement, leaving the company with net cash at the end of June of £9.1m, which includes the £5.6m (net) Placing of shares in June.

- **First sales:** DNL provided the first full-year sales figure for Alkindi in Europe, at £1.0m. Additional countries will be added in a staged rollout following conclusion of pricing negotiations on a country-by-country basis. Alkindi became available in the UK in September 2018 and generated 30% of the sales.

- **4Q'19 milestones:** Important value inflection points are due before the end of calendar 2019, including i) headline data for the US Phase I DITEST study, ii) the MAA for Chronocort in Europe; and iii) the NDA for Alkindi in the US. The company is also in US partnering discussions for Alkindi (to include Chronocort).

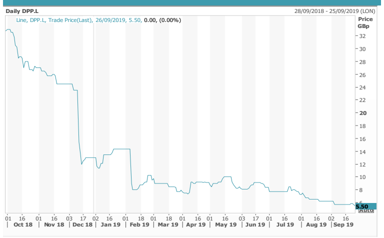
- **Investment summary:** Alkindi, a cortisol replacement therapy designed for children under 18 years of age, is DNL's first drug on the market. It is expected to be followed by Chronocort for adults – a larger market – which now has a clear regulatory pathway in both Europe and the US. Despite this, the share price is still languishing well below valuations determined by peer group and DCF (225p) analyses, possibly due to the need for more capital in 2020.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	0.00	0.07	1.04	2.14	5.56	15.99
SG&A	-3.23	-6.21	-5.83	-7.47	-9.12	-10.78
R&D	-8.34	-10.02	-8.69	-9.43	-8.96	-11.20
EBITDA	-12.07	-16.97	-14.50	-15.96	-14.16	-8.60
Underlying EBIT	-12.08	-16.98	-14.53	-15.98	-14.18	-8.62
Statutory EBIT	-12.08	-16.98	-14.53	-15.98	-14.18	-8.62
Underlying PBT	-12.16	-17.11	-14.40	-15.93	-14.18	-8.68
Statutory PBT	-12.16	-16.91	-14.40	-15.93	-14.18	-8.68
Underlying EPS (p)	-18.04	-27.16	-14.54	-12.84	-11.19	-5.56
Statutory EPS (p)	-18.04	-26.78	-19.70	-12.84	-11.19	-5.56
Net (debt)/cash	16.37	17.28	9.15	1.05	-13.02	-27.03
Equity issues	0.05	13.40	5.53	5.57	0.00	0.00

Source: Hardman & Co Life Sciences Research

Consumer & Leisure



Source: Refinitiv

Market data

EPIC/TKR	**DPP.L**
Price (p)	5.5
12m High (p)	34
12m Low (p)	5.25
Shares (m)	250
Mkt Cap (£m)	14
EV (£m)	11
Free Float*	64%
Market	AIM

As defined by AIM Rule 26

Description

DP Poland (DPP) has the master franchise for Domino's Pizza in Poland. It has 69 stores, of which 42 are corporately owned. It is rolling out steadily and has a partnership with takeaway.com.

Company information

General Manager	Iwona Olbrys
CFO	Maciej Jania
Chairman	Nicholas Donaldson

+44 20 3393 6954
www.dppoland.com

Key shareholders

Directors	5.2%
Cannacord Genuity	13%
Pageant Holdings	17%
Fidelity	10%
Octopus Investments	5%

Diary

Dec'19	FY trading update
Mar'20	Final results

Analyst

Jason Streets 020 7194 7622
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DP POLAND

Like-for-like growth resumes

Growth has been restored following tricky comparisons with January/February last year. System sales, like-for-like, were positive in the first three months of 2H, and 1H'19 performance was in line with management expectations. Four new stores have opened, with two more in the pipeline, and three corporate stores have been sold to sub-franchisees. The partnership with the aggregator Pyzszne is said to be positive. The company's stated growth focus is on splitting territories and finding more sub-franchisees. A new General Manager has been appointed.

- **Strategy:** DPP has now reached 69 stores and, despite aggressive competition from food delivery aggregators, has proven that the concept works in Poland. It now needs to see immature stores reach profitability and focus its growth on splitting territories and finding more sub-franchisees.

- **Competitive market:** The new food delivery aggregators continue to pursue aggressive (and possibly unsustainable) marketing activity. DPP has partnered with takeaway.com (Pyzszne) and has found that its incremental contribution to stores (especially new ones and those outside Warsaw) is positive.

- **Valuation:** With no reported profits expected for the next few years, we value DPP on a per-store basis, which is explained in our initiation note of 18 September 2018, *Fully proven model rolls out*. To reflect the delay in the maturing of the business, in March this year, we discounted the value further, to £72m, or 29p per share.

- **Risks:** The biggest short-term risk to DPP is the deep pockets of the new disruptors. This has already affected DPP's growth, as it struggles to get its message across, against competitors spending 20x, or even 25x, what DPP is spending. Food prices and wage inflation are also a constant threat to margins.

- **Investment summary:** DPP has a powerful retail consumer franchise in a fast-developing economy. A Domino's Pizza franchise takes time to reach profitability, leaving management with a choice between growth and short-term losses. Disruptive competitive activity pushes the path to profitability further into the future, but also grows the delivery market. The model remains sound, in our view.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Revenue	7.6	10.4	12.4	12.7	16.3
Store EBITDA	1.5	0.7	0.7	0.4	0.6
Group EBITDA	-1.6	-1.8	-1.9	-2.1	-1.6
EBIT	-2.5	-2.7	-3.9	-3.2	-2.8
Finance costs	0.1	0.1	0.1	0.0	0.0
PBT	-2.5	-2.6	-3.8	-3.2	-2.8
PAT	-2.5	-2.6	-3.8	-3.2	-2.8
EPS (p)	-1.9	-1.9	-2.5	-1.4	-1.1
EPS (adjusted, p)	-1.8	-1.9	-2.6	-1.4	-1.1
Net cash	6.0	4.1	1.7	3.2	-0.2
Shares issued (m)	129	142	150	230	250
EV/sales (x)	3.6	2.6	1.1	0.9	0.7

Source: Hardman & Co Research

Support Services

Source: Refinitiv

Market data

EPIC/TKR	**FLTA**
Price (p)	222
12m High (p)	282
12m Low (p)	146
Shares (m)	29
Mkt Cap (£m)	64
EV (£m)	46
Free Float*	33%
Market	AIM

**As defined by AIM Rule 26*

Description

Filta Group (Filta) 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 Worlledge

+44 1788 550100
www.filtaplc.com

Key shareholders

Directors	67%
Gresham House	12.5%
Blackrock	5.6%
Ennismore FM	5.0%
Cannacord Genuity	3.7%

Diary

Apr'20	Preliminary results
Sep' 20	Interim results

Analyst

Jason Streets 020 7194 7622
js@hardmanandco.com

FILTA GROUP

FY'19 interim results posted

Filta provides cleaning services to commercial kitchens in North America, the UK and, more recently, mainland Europe. The company reported EBITDA for 1H'19 marginally below our expectations – it took 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-than-expected amortisation.

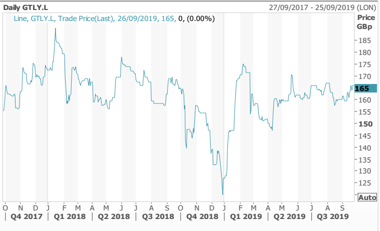
- **Strategy:** Filta provides a professional service, via franchisees, to kitchens to filter their cooking oil – improving taste and saving money. Grease emanating from commercial kitchens also causes problems and needs managing. There is scope for Filta to become the major player in the UK grease management business.
- **1H'19 results and outlook:** Filta delivered adjusted EBITDA of £1.7m (£1.3m). PBT was £0.5m, down from £1m last year, due to higher growth-related costs and before the full Watbio benefits beginning to flow. The 1p interim dividend was up 39%, reflecting 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 226p to 282p 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:** As well as normal commercial risks, Filta is dependent on its franchisee behaviour, which it can influence via training. The Watbio acquisition risks 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. Please see our initiation report here, published on 3 April 2019.

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)	159.9	60.7	43.9	41.2	43.8	27.4
EV/EBITDA (x)	82.4	39.5	27.2	23.5	15.0	11.6

Source: Hardman & Co Research

Business Support Services



Source: Refinitiv

Market data

EPIC/TKR	**GTLY**
Price (p)	**164**
12m High (p)	177
12m Low (p)	118
Shares (m)	110.8
Mkt Cap (£m)	183
EV (£m)	182
Free Float*	>40%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

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

+44 121 234 0000
www.gateleyplc.com

Key shareholders

Executive Directors	4.9%
Liontrust	10.3%
Unicorn	5.8%
Miton	4.4%

Diary

Nov'19	Trading update
Jan'20	Interim results

Analyst

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sc@hardmanandco.com

GATELEY (HOLDINGS) PLC

Excellent results – continued progress

Last month, Gateley's AGM statement confirmed the positive start to the year, which was highlighted at the final results. The group reported another strong set of results, again beating market expectations, underlining its consistent and predictable performance. A broad-based, legal and professional services group, Gateley is a leader in serving the UK mid-market. It continues to deliver on its pre-IPO plan, growing revenue, profit, breadth of service offering and geographical footprint since flotation. Gateley made two strategic acquisitions last year, for shares and cash, which are adding to the excellent organic growth. A recent placing improved liquidity.

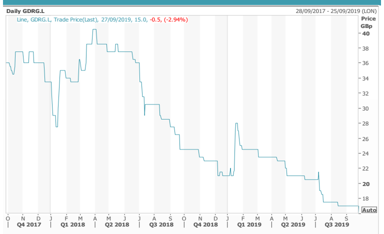
- **Current trading:** The AGM (19/09) statement read, "Board is pleased to report that the good start to the year reported at the time of our full year results in July has continued, with strong trading momentum leaving us well placed at this stage of the current financial year". Gateley has also surpassed the 1,000 employee milestone.
- **News:** The £1.2m earnout payment relating to the Kiddy acquisition leaves a further payment outstanding of up to £365k. In its first year, Kiddy has beaten internal expectations by 37% – significant, not in quantum but in principle, as it confirms the validity of the group's acquisition strategy – a confidence builder.
- **Sector:** The legal sector is growing profitably, with more firms (notably DWF recently) coming to the market, following Gateley's lead. A larger sector is a positive, improving investor understanding and ability to compare. It should favour Gateley (48th to 44th in latest industry rankings), for which we forecast continued growth.
- **Valuation:** The 2020E P/E is 14.6x, falling to 12.6x in 2021E, on hopefully conservative numbers, and the 2021E dividend yield is 5.3%, which should continue to grow. Professional service companies like this have limited capex; although working capital grows with revenue, this creates strong returns and high free cashflow generation.
- **Investment summary:** Gateley is a fully invested, consistent performer in a new and exciting space, which is likely increasingly to attract investor attention. It is a high-quality professional services group with significant growth potential, an excellent track record of delivery, a strong management team, and a strategy to diversify further in complementary professional services.

Financial summary and valuation

Year-end Apr (£m)	2017	2018	2019	2020E	2021E
Sales	67.1	77.6	86.1	102.7	112.9
EBITDA*	12.9	14.9	16.5	19.5	22.1
PBT (adjusted)	12.0	13.8	14.1	16.0	18.5
EPS (adjusted, p)	9.1	9.4	10.6	11.3	13.0
DPS (p)	5.6	6.6	7.0	8.0	8.8
Net cash	-4.2	-4.8	-0.7	-0.5	6.8
P/E	18.1	17.4	15.5	14.6	12.6
EV/EBITDA (x)	13.7	12.1	10.7	9.4	7.9
Dividend yield	3.4%	4.0%	4.3%	4.9%	5.3%

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

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**GDR**
Price (p)	**15.0**
12m High (p)	30.0
12m Low (p)	15.0
Shares (m)	34.0
Mkt Cap (£m)	5.1
EV (£m)	9.7
Free Float*	51%
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	1.7%
Calculus	19.4%
M&G	15.2%
BGF	12.8%
Odey	5.5%
River & Merc.	5.4%

Diary (calendar year)

3 Oct	Fiscal 2019 results
1H'20	WHO decision on HCV-ID prequalification

Analysts

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GENEDRIVE PLC

2019 full-year results – due 3 October

genedrive plc (GDR) is a commercial-stage company focused on point-of-care molecular diagnostics. Its Genedrive® molecular diagnostic platform is at the forefront of this approach, offering a rapid, low-cost, simple-to-use device with high sensitivity and specificity in diagnosis of infectious diseases. Rapid analysis of patient samples greatly aids clinical and public health decision-making. In the July trading update, it was apparent that there had been little growth in HCV-ID kit sales in fiscal 2019, despite clear utility in diagnosis of hepatitis C virus (HCV) infections. Publication of full results on 3 October should provide a clearer picture.

- **Strategy:** Now that the Genedrive technology platform has received CE marking, management has completely re-focused the company onto the commercialisation pathway for gene-based diagnostics in Hepatitis C, tuberculosis, Bio-threats and Antibiotic-Induced Hearing Loss (AIHL), after divesting its services unit in 2018.

- **Trading update:** Sales grew 25.6% to £2.4m (£1.9m) in the 12 months to June, the first full year without the services business. The mix of sales was considerably more balanced than prior periods, with product sales of ca.£1.0m (£0.1m), which included ca.£0.9m from the US Department of Defense (DoD).

- **HCV product:** Management has been very open on the difficulties encountered in commercialisation of the HCV-ID kit. The process for obtaining in-country registrations has been slower than anticipated, and uptake in registered countries has been frustrated by low demand due to a lack of funding for HCV drugs.

- **Risks:** Genedrive platform technology has been validated by the CE marking of its assay for detection of HCV infection and by recurrent work from the US DoD. The main risks are commercial, given that it often takes time for new technologies to be adopted. Partnering with major global and local experts reduces this risk.

- **Investment summary:** Genedrive technology ticks all the boxes of an 'ideal' *in vitro* diagnostic that satisfies the need for powerful molecular diagnostics at the point of care/need. The hepatitis C market is a very large global opportunity, and, should market factors improve, the HCV-ID test has excellent potential. With strong partners being signed for different countries, such as the NHS (UK), and several product lines in development, GDR has a solid growth strategy in place.

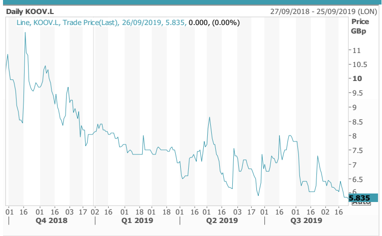
Financial summary and valuation

Year-end Jun (£000)	2016	2017	2018	2019E	2020E	2021E
Group sales	5,063	5,785	1,938	2,434	3,040	5,089
Underlying EBIT	-5,259	-4,812	-5,276	-4,559	-4,177	-1,871
Reported EBIT	-5,426	-7,292	-7,375	-3,944	-4,207	-1,914
Underlying PBT	-5,828	-5,316	-5,794	-5,171	-5,019	-2,737
Statutory PBT	-6,497	-7,487	-7,788	-4,232	-5,050	-2,780
Underlying EPS (p)	-49.8	-23.1	-26.9	-16.3	-13.0	-6.6
Statutory EPS (p)	-56.2	-34.9	-31.9	-12.9	-13.1	-6.7
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-3,877	-70	-2,096	-3,370	-6,740	-8,033
Equity issues	0	6,023	0	3,318	0	0
P/E (x)	-0.3	-0.6	-0.6	-1.1	-1.4	-2.8
EV/sales (x)	1.9	1.7	5.0	4.0	3.2	1.9

Source: Hardman & Co Life Sciences Research

HARDMAN&CO.

General Retailers



Source: Refinitiv

Market data

EPIC/TKR	**KOOV**
Price (p)	**5.8**
12m High (p)	12
12m Low (p)	5.6
Shares (m)	402
Mkt Cap (£m)	23
EV (£m)	20
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.)	11%
Future Lifestyle Fashion	26%
Hindustan Times Media	11%
Dragon Asia	7%
Michinoko	5%
Anant Nahata	3%

Diary

Sep'19	AGM
Dec'19	Interim results

KOOVS PLC

Koovs refinanced for the future

Trading since the company secured its additional financing saw Gross Order Value (GOV) up 104% in 1Q'20: Koovs is once more showing the sort of growth associated with online success. FY'19 itself was a lost year, as the company conserved cash while it successfully sought new investors; they eventually arrived – not only with money but with important synergistic benefits too. The GOV data are a function of being able to finance growth again. The benefits of the Future Lifestyle (FLFL) tie-up are still to come in additional distribution and improved buying.

- **Strategy:** Koovs' plan to become the ASOS of India is back on track. The impact of the lack of resources in FY'19 showed up in the low growth in reported revenue (+9%). With the tap turned back on, GOV has doubled in 1Q'20, and web traffic is up 148% (and this not achieved at the expense of the trading margin: up to 21%).

- **Forecasts:** Effectively, we have shifted our forecasts one year later. The expected revenue in FY'20 is roughly what we were anticipating for FY'19, had the funding arrived straightaway. The base is slightly lower, but we would expect that the benefits from the FLFL tie-up should accelerate growth prospects.

- **Valuation:** Our valuation has changed – under the old estimates, the value should have risen, as the growth came through and the discount unwound. By delaying for a year, this has not happened, and there has been some dilution. Our central estimate of value suggests that Koovs is worth £300m today, or 74p per share.

- **Risks:** We see the two key risks as 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. It will need further funding in FY'21 to achieve its plans.

- **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)	2018	2019	2020E	2021E	2022E	2023E
Visits (m)	66	76	100	160	260	340
Conversion	1.37%	1.14%	1.40%	1.70%	2.50%	3.00%
No. of orders (m)	0.91	0.86	1.40	2.72	6.50	10.20
AOV (£)	16.37	14.99	14.90	15.00	15.50	16.00
GOV (£m)	14.5	12.8	22.6	49.0	135.2	249.8
Net sales	9.6	8.5	13.8	30.4	85.9	159.9
Weighted margin	47%	49%	52%	57%	61%	62%
Trading profit	1.2	0.1	3.3	10.3	39.0	73.9
Trading margin	11%	1%	24%	34%	45%	46%
EBITDA	-14	-14	-18	-18	1	21
Avg. no. of shares (m)	175	313	359	402	402	402
EV/sales (x)	0.7	1.1	1.3	0.6	0.2	0.1

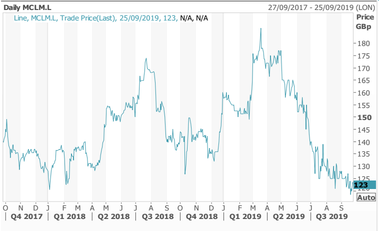
Source: Hardman & Co Research

Analyst

Jason Streets 020 7194 7622
js@hardmanandco.com

HARDMAN&CO.

Financials



Source: Refinitiv

Market data

EPIC/TKR	MCL
Price (p)	119.0
12m High (p)	186.0
12m Low (p)	119.0
Shares (m)	129.8
Mkt Cap (£m)	154.1
EV (£m)	160.3
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	Andrew Hayward
Non-Exec. Chairman	Stephen Karle

+44 330 045 0719
www. morsesclubplc.com

Key shareholders (16 July 2019)

Hay Wain	36.74%
Miton Asset Mgt.	10.13%
JO Hambro	6.93%
Majedie Asset Mgt.	4.66%
Artemis Inv. Mgt.	4.30%
Legal and General	4.04%
Canaccrod Genuity	3.52%
Woodford Inv. Mgt.	<5%

Diary

10 Oct	Interim results

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

MORSES CLUB PLC

Transforming the business in FY'20 and FY'21

With the acquisitions of CURO Transatlantic (see our note, *Home collect and online lending acquisitions,* published on 15 March) and the current account provider U Holding (see RNS announcement of *24 June*), and the work on its customer portal (see our 3 June note, *Steady, reliable core, growth in new business lines*), MCL is now much more than a Home Collect (HCC) lender. It now offers non-standard customers a broad range of products delivered by different channels. While this generates diversification, the core of the business is unchanged – knowing non-standard customers well. We see the HCC business as a profit and cash engine, rather than a growth driver.

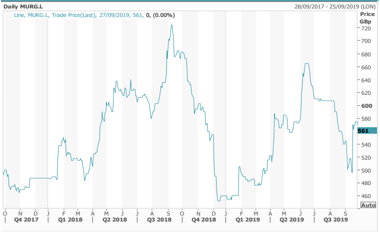
- **MCL trading update:** The 5 September *trading update* reported trading in line with expectations, with total credit issued remaining broadly the same as in 1H'19 and impairments expected to remain within the company's IFRS9 guidance range. We have modestly revised our above-consensus estimates.
- **Peer news:** Non-Standard Finance's (NSF) interim *results,* on 20 August, were driven by company-specific factors. The read-across for MCL was of continued robust market asset quality and muted demand. Amigo's *results,* on 29 August, saw the shares fall 53%, with lower company-specific growth expectations.
- **Valuation:** We detailed our valuation approaches in *Bringing home collect into the 21st century*, published on 2 February 2017. The range in absolute measures is 176.5p to 224.5p (previously 176.5p to 226.1p). The DDM is unchanged (same 2021E dividend), but the GGM sees a small reduction with lower 2019E profit.
- **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 self-employed agent network is the competitive advantage over remote lenders. We forecast a February 2021 P/E of 8.0x and an 8.4% February 2021 dividend yield, with 1.6x cover (adjusted earnings).

Financial summary and valuation

Year-end Feb (£m)	2016	2017	2018*	2019*	2020E*	2021E*
Reported revenue	90.6	99.6	110.4	117.0	143.0	158.8
Total impairments	-18.8	-24.3	-24.7	-26.2	-37.3	-46.6
Total costs	-53.4	-56.7	-65.6	-67.1	-83.6	-85.5
EBITDA	19.3	19.9	20.1	23.7	22.1	26.7
Adjusted PBT	16.8	17.7	18.6	22.0	20.0	24.1
Statutory PBT	10.4	11.2	15.5	20.2	17.6	21.7
Statutory EPS (p)	6.1	6.6	9.7	12.5	11.2	13.7
Adjusted EPS (p)	10.2	10.8	11.4	13.6	12.4	14.9
P/adjusted earnings (x)	11.6	11.0	10.5	8.8	9.6	8.0
P/BV (x)	2.8	2.5	2.3	2.2	2.0	1.9
P/tangible book	3.4	3.0	2.6	2.5	2.5	2.2
Dividend yield	N/M	5.4%	5.9%	6.6%	6.9%	8.4%

*IFRS9 basis (2018 pro-forma); Source: Hardman & Co Research

Support Services



Source: Refinitiv

Market data	
EPIC/TKR	MUR
Price (p)	555
12m High (p)	730
12m Low (p)	450
Shares (m)	9.0
Mkt Cap (£m)	50.0
EV (£m)	53.7
Free Float*	53%
Market	AIM

*As defined by AIM Rule 26

Description

Murgitroyd (MUR) offers a global service to clients on patents, trademarks, etc. It operates from 15 offices worldwide, and more than 50% of its revenues are from the US.

Company information

CEO	Edward Murgitroyd
CFO	Keith Young
Chairman	Ian Murgitroyd

+44 141 307 8400
www.murgitroyd.com

Key shareholders

Directors (total)	31.0%
Ian Murgitroyd (director)	26.7%
Liontrust Inv.	11.3%
Schroder Inv.	11.0%
Close Brothers	5.0%
G. E. Murgitroyd (director)	4.3%

Diary

Oct'19	AGM
Apr'20	Interim results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

MURGITROYD

Good 2019 results

Results were strong, with revenue and margin expansion. Sales rose 7.5% and PBT 16.4%. The small Chapman acquisition is included for just over three months, but both metrics rose at the organic level also. With 18 offices in 10 countries, a well-integrated acquisition and forward-looking metrics, this is a defensive, as well as a growth, business. Cash generation remains decent and should expand from here; investment in the platform was particularly strong in FY'19. The market is competitive, and sales growth has been modest recently, but Murgitroyd is on the front foot. Note: our financials, below, are after adjusting back for a £0.5m FY'18 exceptional cost and modest intangible amortisations.

- **Margins**: MUR invests strongly in expanding the range of services supporting its larger-client relationships. Such services tend to see lower margins. Gross margins increased to 56.4% from 54.3%, despite MUR's growth path, including the lower-margin work in the faster-growing service division.

- **Market growth**: Long-term scope for a range of growing applicants is clear, as artificial intelligence and MUR's Fortune 500 clients embed with the company attorneys and support services divisions. The US holds ca.25% of the global market; the Murgitroyd exposure is double that – which is a positive factor.

- **Valuation:** Although the recent pace of DPS growth per share may appear slow, this is about secure growth, and hence we consider the dividend yield to be back into most attractive territory. Note that we expect to reinstate our forecasts before the company's AGM in October.

- **Risks:** The offer of a broad suite of services to a broad customer base, in focused markets, balances the group. MUR operates in a reasonably stable, growing global market, with some ongoing pricing pressure. This is not new, and the company's global strategy is designed around this given feature, delivering cash well.

- **Investment summary:** Expansion in the Services division continues and was 18% in FY'19. It now represents 40% of group revenue. Less than half of revenue is in Sterling. Cashflow remains a strong feature. Ex the acquisition, cash outflow post financing was sub-£0.1m, and that being after £1.1m invested in the technology platform (£0.7m prior year). This is a company investing in growth.

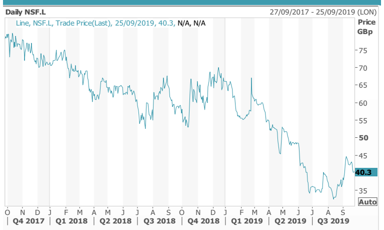
Financial summary and valuation (NB forecasts under review)

Year-end May (£m)	2015	2016	2017	2018	2019
Sales	39.8	42.2	44.3	43.9	48.0
EBITDA	4.5	4.6	4.2	4.5	4.8
PBT (adjusted)	4.2	4.3	3.9	4.1	4.4
EPS (adjusted, p)	34.8	35.3	28.7	35.2	35.2
DPS (p)	14.8	16.0	17.0	21.0	22.0
Net (debt)/cash	0.7	2.8	2.2	2.8	(3.7)
Net debt/EBITDA (x)	cash	cash	cash	cash	0.8
P/E (x)	15.9	15.3	19.4	15.9	15.9
EV/sales (x)	1.3	1.3	1.2	1.2	1.1
EV/EBITDA (x)	10.6	10.4	11.2	10.6	11.2
FCF yield	4.6%	6.4%	4.8%	4.6%	3.3%
Dividend yield	2.5%	2.7%	2.9%	3.7%	3.9%

FY'18 sales restated to £43.9m per IFRS15, prior years not adjusted; Source: Hardman & Co Research

HARDMAN&CO.

Financials



Source: Refinitiv

Market data

EPIC/TKR	NSF
Price (p)	40.3
12m High (p)	75.0
12m Low (p)	32.45
Shares (m)	312.0
Mkt Cap (£m)	126
EV (£m)	378
Free Float	99%
Market	Main

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%
Alchemy	19.3%
Aberforth Partners	13.1%
Marathon Asset Mgt.	12.7%
Tosca Fund	3.9%
Woodford Inv. Mgt. (08/07/19) [update?]	<5%

Diary

Nov'19	Trading statement

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

NON-STANDARD FINANCE

Woodford overhang gone at premium

As we outlined in our results note, *Now is the time for profit*, NSF has reached the turning point in its strategic development. Having invested heavily in infrastructure, controls and people over the past four years, it has substantially built the franchise. From here, the pace of further investment is expected to slow, and payback from historical investment will be more visible. Assuming NSF is successful in securing additional lower-cost funding, we expect funding costs to relatively reduce, and the funding mix to improve. On 3 September, the shares rose 12%, when NSF reported that the Woodford Holding had reduced from 24% to under 5%, with Alchemy Special Situations taking a 19% holding in the company.

- **1H'19 highlights:** Normalised revenue was up 12% to £88.3m (1H'18: £78.9m). Normalised operating profit rose 28% to £19.5m. Normalised PBT increased 12% to £6.3m. Exceptional charges were £25.3m (around half bid fees and half a goodwill writedown). DPS was up 17% to 0.7p.

- **Peer news:** Amigo's results, on 29 August, saw the shares fall 53%. We believe any read-across for NSF is limited, as it has lower levels of impairment, collects less from guarantors, is less reliant on top-ups and was, anyway, dwarfed by the removal of the Woodford overhang. MCL's 5 September trading update contained no surprises.

- **Valuation:** Our absolute approaches now indicate a range of 92p to 109p. The highest valuation is from the DDM. The peer-rating-driven SoTP is 67p. The consensus 2020 P/E is under 5x and the yield is over 10%, and, importantly, these estimates have not changed materially in recent months.

- **Risks:** Credit risk remains the biggest threat to profitability (although this is mitigated through high risk-adjusted margins), and NSF's model accepts higher credit risk where a higher yield justifies it. Regulation is a market issue; management is taking appropriate action to mitigate this risk.

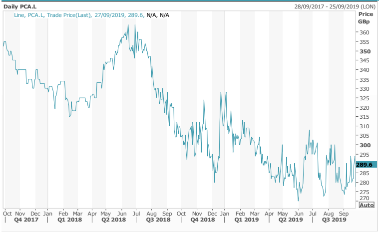
- **Investment summary:** Substantial value should be created, as i) competitors have withdrawn, ii) NSF is well capitalised, with committed debt funding until 2023, iii) macro drivers are positive, and iv) NSF has a highly experienced management team, delivering operational efficiency without compromising the key F2F model. Targets of 20% loan book growth and 20% EBIT RoA appear credible, and investors are paying 7.1x 2019E P/E and getting a dividend yield of 7.9%.

Financial summary and valuation

Year-end Dec (£000)	2017	2018	2019E*	2020E*	2021E*
Reported revenue	121,682	168,128	189,346	216,831	247,048
Total impairments	-28,795	-42,688	-45,767	-52,511	-59,796
Total costs	-67,706	-87,792	-94,666	-101,776	-110,400
EBITDA	25,181	37,648	48,913	62,543	76,852
Adjusted PBT	13,203	14,769	21,744	30,163	38,872
Statutory PBT	-13,021	-1,590	-13,913	27,034	37,341
Pro-forma EPS (p)	3.44	3.70	5.64	7.97	10.34
DPS (p)	2.20	2.60	3.20	4.00	5.00
P/adjusted earnings (x)	11.7	10.9	7.1	5.1	3.9
P/BV (x)	0.5	0.6	0.7	0.6	0.6
P/tangible book (x)	1.7	2.2	2.4	1.9	1.4
Dividend yield	5.5%	6.5%	7.9%	9.9%	12.4%

** IFRS9 basis; Source: Hardman & Co Research*

Real Estate



Source: Refinitiv

Market data	
EPIC/TKR	PCA
Price (p)	290
12m High (p)	350
12m Low (p)	270
Shares (m)	45.9
Mkt Cap (£m)	132.7
EV (£m)	229.3
Market	Main, LSE

Description

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

Company information	
Chairman	Stanley Davis
CEO	Neil Sinclair
CFO	Stephen Silvester
Executive director	Richard Starr

+44 20 3301 8330
www.palacecapitalplc.com

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

Diary	
Nov'19	Interim results
Jun'20	Final results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PALACE CAPITAL

A range of strong opportunities

PCA is investing well for the future, as evidenced not only by the Hudson Quarter development inside York city walls but also a range of other asset-enhancing programmes. These typically comprise rolling refurbishment enhancement, designed specifically with a view to maximising tenant appeal. PCA is well placed strategically and via its value-added management of assets. These work through, over time. We note the trend that NAV rose from 357p per share at end-2014 to 434p at end-2017. More recently, PCA has issued equity. While this dampens NAV per share initially, it provides capital for a strong and clearly-visible pipeline of asset construction and enhancement.

- **Hudson Quarter development, central York:** The Hudson Quarter (HQ) sales suite has recently opened, upon physical commencement of the site. Information on sales rates is at an early stage, but we believe it is encouraging. This is a strong market, right by the centre of the city.

- **Regional office focus:** The HQ site is a mixed development, but PCA's strategy focus is the acquisition of standing assets, and working them up through attention to leases and a modest amount of refurbishment where it directly enhances letting. Half of its assets are regional, centrally-located offices – a robust market.

- **FY'22E:** FY'22 will see HQ apartment sales proceeds and an income stream from HQ commercial assets. Therefore, we expect FY'22 to see profits and cash from HQ boosting reported returns significantly. Returns thereafter should be enhanced as and when the freed development cash is reinvested in yielding assets.

- **A track record of outperformance**: Property return was strong in FY'19 – beating the benchmark, as did rents. A number of refurbishment, redevelopment and tenant-enhancement projects are under way. We expect EPRA profits to grow significantly further in FY22, with the completion of HQ.

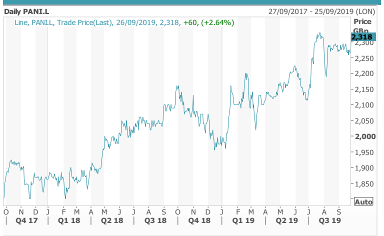
- **Risks:** The normal risks of real estate apply. The weighted average length of unexpired lease to break is 4.5 years. Generally, covenants are good. Retail exposure (bar Wickes and Booker) is minimal. The group is currently £106.2m drawn (a 34% LTV), with facilities now of £154.6m. HQ will absorb some cash, and management has previously stated an intention to keep LTV below 40%.

Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019	2020E	2021E
Net income	12.2	14.9	16.4	19.2	16.8
Finance cost	-3.0	-3.4	-4.6	-4.0	-4.0
Declared profit	12.6	13.3	6.4	11.2	14.8
EPRA PBT (adj. pre-revaluation)	6.4	7.5	8.6	11.2	8.8
EPS reported (diluted, p)	36.5	35.8	11.3	25.4	33.3
EPRA EPS (p)	21.2	18.7	16.5	23.6	19.1
DPS (p)	18.5	19.0	19.0	19.0	19.0
Net cash/debt	-68.6	-82.4	-96.5	-108.6	-123.1
Dividend yield	6.3%	6.4%	6.4%	6.4%	6.4%
Price/EPRA NAV	65.4%	69.8%	71.2%	70.6%	68.2%
EPRA NAV (p)	443.0	414.8	406.6	411.8	425.0
LTV	37.3%	29.9%	33.8%	36.3%	38.5%

Source: Hardman & Co Research

Closed-Ended Investments



Source: Refinitiv

Market data

EPIC/TKR	**PIN**
Price (p)	2,330
12m High (p)	2,330
12m Low (p)	1,960
Shares (m)	54.089
Mkt Cap (£m)	1,258
NAV p/sh (p)	2,949
Discount to NAV	21%
Market	Premium equity closed-ended inv. funds

Description

The investment objective of Pantheon International PLC (PIP) is to maximise capital growth by investing in a diversified portfolio of private equity (PE) assets and directly in private companies.

Company information

Chairman	Sir Laurie Magnus
Aud. Cte. Chr.	Ian Barby
Sen. Ind. Dir.	Susannah Nicklin
Inv. Mgr.	Pantheon
Managers	Andrew Lebus/Helen Steers
Contact	Vicki Bradley +44 20 3356 1725 www.piplc.com

Key shareholders (31 May 2109)

USS	8.15%
Old Mutual	7.03%
Esperides SA SICAV- SIF	5.75%
East Riding of Yorkshire	4.70%
APG Asset Mgt.	4.44%
Investec Wealth	4.37%
Private Syndicate pty	3.76%
Brewin Dolphin	3.45%

Diary

End'Oct	September monthly update

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

PANTHEON INTERNATIONAL

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Pantheon International Plc (PIP) is an investment trust that invests in a diversified portfolio of private equity (PE) assets managed by third-party managers across the world. PIP is the longest-established PE fund-of-funds on the London Stock Exchange, and has outperformed the FTSE All-Share and MSCI World indices since its inception in 1987.

PIP is managed by Pantheon, one of the world's foremost PE specialists. Founded in 1982, with assets under management of $43bn (as at 31 March 2019), and a team of over 85 investment professionals globally, Pantheon is a recognised investment leader, with a strong track record of investing in PE funds over various market cycles in both the primary and secondary markets, as well as a track record of co-investments.

PIP actively manages risk by the careful selection and purchase of high-quality PE assets in a diversified and balanced portfolio, across different investment stages and vintages, by investing in carefully selected funds operating in different regions of the world.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Pantheon can be accessed through our website, *Hardman and Co Research*. Our initiation report, published on 6 September 2019, can be found on the same site.

Mining

Source: Refinitiv

Market data

EPIC/TKR	**PXC**
Price (p)	**17.10**
12m High (p)	36.0
12m Low (p)	10.1
Shares (m)	50.01
Mkt Cap (£m)	8.55
EV (£m)	8.54
Free Float*	84.30%
Market	AIM

**As defined by AIM Rule 26*

Description

Phoenix Copper Ltd (PXC) is developing the former Empire deposit and the surrounding area in central Idaho into a potentially world-class copper and polymetallic mine. First production is expected in late 2021.

Company information

Chairman	M. Edwards-Jones
CEO	Dennis Thomas
COO	Ryan McDermott
CFO	Richard Wilkins

+44 7590 216 657
www.phoenixcopperlimited.com

Key shareholders

Cheviot Capital	15.70%
JIM Nominees	12.03%
Directors & Mgt.	10.12%
Lynchwood Nominees Ltd	6.36%

Diary

May'20	Final results

Analyst

Paul Mylchreest 020 7194 7622
pm@hardmanandco.com

PHOENIX COPPER LTD

Developing a potential world-class copper mine

PXC continued to maintain strict control of costs in 1H'19, as it advances its strategy for the staged development of the potentially world-class copper mine in mining-friendly Idaho, US. The recently-published economic model for the open pit "starter mine" showed a cut in capital and cash operating costs by 25% and 7%, respectively, with minimal production impact. This mine will provide cashflow to explore far more extensive mineralisation in the deeper sulphide ore body and adjacent land package. Our estimated DCF valuation for the first mine is 32p per share, and 49p per share using the company's base-case assumptions.

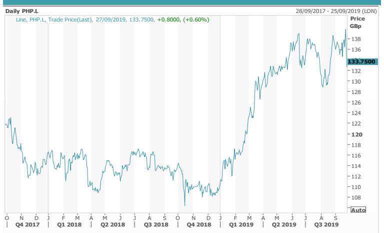
- **Strategy:** PXC focuses on near-term cashflow. It will maximise returns/minimise risk to shareholders by developing a potentially world-class copper-zinc-gold deposit in stages. Empire was formerly a (very) high-grade underground copper mine. Access to historical workings will cut exploration costs significantly, e.g. drilling.
- **Interim results:** The 2019 interims were noteworthy for the success in maintaining cost control, as the Empire project advances towards a Feasibility Study for the open pit "starter mine" in 2Q'20. The net loss for the period of \$0.67m was marginally lower than the \$0.68m reported in 1H'18.
- **Upside potential:** Empire produced 694,000 tonnes of ore in 1901-42, recovering 3.64% of copper (very high grade vs. ca.0.5% average for new mines). Only 1%-2% of PXC's potential ore system has been explored, including three other former mines, Empire, the Navarre Creek gold zone and the "Red Star" polymetallic discovery.
- **Risks:** PXC is subject to normal risks for a junior mining company. These include volatility in copper and zinc prices, operational risks in executing the mining plan, running downstream processing facilities and funding risks. We believe that jurisdictional risk is significantly reduced in PXC's case, due to the Idaho location.
- **Investment summary:** Our DCF valuation is 32p per share – based solely on the starter oxide mine and more conservative (vs. the company) assumptions of an 8% discount rate, and long-term copper and zinc prices of \$3.10/lb and \$1.25/lb, respectively. At this stage of development, PXC's share price is highly geared to the "supply crunch" upside thesis for copper (\$0.25/lb = ca. 19p/share).

Financial summary and valuation

Year-end Dec ($m)	2017	2018	2019E	2020E	2021E	2022E
Sales	0	0	0	0	0	48,800
Underlying EBIT	-1.058	-1.654	-1.371	-1.762	=2.082	0.787
Reported EBIT	-1.058	-1.654	-1.371	-1.762	=2.082	0.787
Underlying PTP	-1.056	-1.652	-1.366	-2.747	-5.069	-2.913
Statutory PTP	-1.056	-1.652	-1.366	-2.747	-5.069	-2.913
Underlying EPS (c)	-8.20	-5.82	-2.41	-3.16	-5.76	-3.32
Statutory EPS (c)	-8.20	-5.82	-2.41	-3.16	-5.76	-3.32
Net (debt)/cash	1.904	0.113	0.598	-22.899	-54.596	-36.846
Average shares (m)	16.498	28.273	45.242	69.452	87.633	87.633
P/E (x)	n/a	n/a	n/a	n/a	n/a	n/a
Dividend yield	n/a	n/a	n/a	n/a	n/a	n/a
FCF yield	n/a	n/a	n/a	n/a	n/a	96.2%

Source: Hardman & Co Research

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	PHP
Price (p)	134
12m High (p)	139
12m Low (p)	106
Shares (m)	1,220
Mkt Cap (£m)	1,635
EV (£m)	2,670
Market	Premium, 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	1.0%
Blackrock	6.7%
CCLA	5.3%
Investec Wealth	5.0%
Vanguard Group	2.7%
Troy Asset	2.3%

Diary

Feb'20	Final results
Apr'20	AGM

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PRIMARY HEALTH PROPERTIES

A busy and encouraging month

September has been a busy time in the capital markets for the REIT. As we have stated, the March 2019 merger with MedicX Fund was a major milestone, not simply operationally, but also regarding liquidity in the shares and the cohort of investors likely to participate in the PHP journey. Now, liquidity has been further enhanced by a £100m equity placing. Encouragingly, this was a £75m proposal – with scope to be enlarged to £100m. Investor demand expanded the fund raise to its £100m maximum. Funding of the pipeline was already in place, but this gives greater visibility – as does a new €70m debt facility. This debt bears an interest cost of 1.51%, in part replacing a 3.0% rate € debt.

- **Rental outlook is encouraging:** PHP is progressing, generating secure income streams, and it is important to note that – unlike many sectors in the UK currently – rents are rising in this sector. Evidence of this is sector-wide and, at the two most recent sets of results, PHP has demonstrated rising prospects on the rental front.

- **Growth in 2019 sees step-jump expansion with the March merger:** The merger added well over £800m of investment, in addition to the strong PHP combined pipeline. We estimate investment assets of £2.64bn by end-2020 compared with £1.50bn at end-2018.

- **Balance sheet:** The PHP loan-to-value (LTV) ratio on our model pre the equity raise grew to 50.0% by end-2020. This is well within the range management has outlined as a comfortable target. With the new equity, the end-2020 ratio falls to 46.4%, which gives high visibility to funding the pipeline in 2021 and beyond.

- **Risks:** No development risk is taken on the forward-funding, and the strategy focuses tightly on this one sector. These are long-lease assets rented to top-quality covenant tenants. Undrawn facilities exceeded £200m pre the £100m equity placing and the €70m debt facility of September 2019.

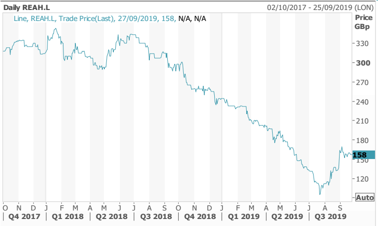
- **Investment summary:** In addition to 23 years of unbroken dividend growth, expansion into higher cash-generating RoI assets and a falling debt cost enhance EPRA EPS. Incremental management fees are below portfolio averages. Given these items, the enlargement through the merger, and the asset yield, recent acquisitions have been EPS-accretive. The merger led to strong upgrades.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Income	66.5	71.3	76.4	118.0	135.5
Finance costs	-32.5	-31.6	-29.7	-43.7	-47.0
Declared profit	43.6	91.9	74.3	-51.0	115.5
EPRA PBT (operating)	26.7	31.0	36.8	61.7	75.5
EPS reported (p)	7.8	15.3	10.5	-4.8	9.4
EPRA EPS (diluted, p)	4.7	5.1	5.2	5.8	6.2
DPS (p)	5.12	5.25	5.40	5.60	5.85
Net debt	-663.2	-726.6	-670.2	-1,113.5	-1,234.7
Dividend yield	3.7%	3.9%	4.0%	4.1%	4.3%
Price/EPRA NAV (x)	1.48	1.34	1.28	1.26	1.21
NAV per share (p)	83.5	94.7	102.5	106.4	109.9
EPRA NAV per share (p)	91.1	100.7	105.1	108.1	111.6

Source: Hardman & Co Research

Food Producers



Source: Refinitiv

Market data

EPIC/TKR	**RE.**
Price (p)	**158.0**
12m High (p)	305.0
12m Low (p)	90.0
Shares Ord (m)	40.4
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	63.8
Mkt Cap Prefs (£m)	51.7
EV (£m)	360.2
Free Float	30%
Market	MAIN

Description

R.E.A. Holdings (REA) is engaged in the operation and further development of palm oil plantations in East Kalimantan, Indonesia. The group also owns stone quarrying rights and concessions, and coal mining concessions that are being 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	28.6%
M & G Investment Mgt.	15.0%
Alcatel Bell Pension Fund	10.1%
Artemis UK	8.8%
Aberforth Partners	7.3%

Diary

Apr'20	Full-year results

Analyst

Yingheng Chen 020 7194 7638
yc@hardmanandco.com

R.E.A. HOLDINGS

1H'19 interim results

REA's 1H'19 results showed a small 3.1% increase in own-crop production levels to 335,177 mt, and a 7.7% increase in CPO production to 96,514 mt. Revenue for the period was up 17.5% to \$56.6m (1H'18: \$48.2m), despite a more than 20% plunge in the CIF palm oil price compared with 1H'18. The increase was due partly to the sale of excess inventory carried forward from the end of 2018. REA continues to focus on improving its oil extraction efficiency, with an average OER of 22.9% in 1H'19; OER reached 24%-25% in two of its three mills in August.

- **FY production:** Weather patterns remained stable; however, the group predicts a slowdown in FFB production against its budget, as the oil palm trees enter into a resting phase, following a highly productive year in 2018. REA now expects FFB production to fall short of its original expectation of ca.900,000mt in FY'19.

- **Preference share dividend to resume in 2020E:** Owing to the ongoing weakness in commodity prices, REA has implemented a series of cost-saving measures. REA is deferring its preference share dividend payments for both June and December 2019, but expects to resume the payment in 2020.

- **Financing:** The management team recognises the need to deleverage REA's indebtedness. Net debt was \$209.0m at end-1H'19, compared with \$189.6m in FY'18. We expect the \$11m refinancing loan to be in place before the end of 2019. A further reduction in cost of borrowings should help reduce some funding risk.

- **Dollar notes and issue of equity:** REA announced the issue of an additional \$3m of dollar notes 2022, which were subscribed by one of the group's customers, along with a supply agreement. REA has also announced the issuance of 3.441m new ordinary shares, at 145p per share, raising a further £4.9m.

- **Investment summary:** For investors attracted by palm oil assets, now could be an opportunistic time to review this sector, with the sector valuation down ca.19.9% since the recent peak in February 2019. We expect REA to have ca.33,423 mature ha by end-2019, as well as stronger agricultural production across the estates, and the plantations to be fully planted by end-2025.

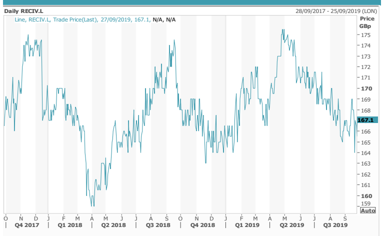
Financial summary and valuation

Year-end Dec (\$m)	2016	2017	2018	2019E	2020E	2021E
Sales	79.3	100.2	105.5			
EBITDA	16.8	20.7	12.8			
Reported EBIT	-5.0	-2.2	-10.7			
Adjusted PBT	-18.4	-18.3	-20.3	Forecast	Forecast	Forecast
EPS (c)	-48.2	-67.7	-54.4	pending	pending	pending
DPS (p)	0.0	0.0	0.0	guidance	guidance	guidance
P/E (x)	-	-	-			
Net (debt)/cash	-205.1	-211.7	-189.6			
Planted hectares (ha)	42,846	44,094	36,500	36,700	36,700	36,700
Adj. EV/planted ha (\$/ha)*	7,376	7,152	8,418			
CPO production (mt)	127,697	143,916	217,721			

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

REAL ESTATE CREDIT INVESTMENTS

Diversified Financial Services



Source: Refinitiv

Market data

EPIC/TKR	**RECI**
Price (p)	167.0
12m High (p)	175.5
12m Low (p)	162.5
Shares (m)	199.2
Mkt Cap (£m)	332.7
NAV p/sh. (p)	164.0
Premium/Disc	1.8%
Market	Premium Equity Closed-Ended Inv. Funds

Description

Real Estate Credit Investments (RECI) is a closed-ended investment company that aims to deliver a stable quarterly dividend via a levered exposure to real estate credit investments, primarily in the UK, France and Germany.

Company information

Chairman	Bob Cowdell
NED	Susie Farnon
NED	John Hallam
NED	Graham Harrison
Inv. Mgr.	Cheyne Capital
Head of Team	Ravi Stickney
Main contact	Richard Lang
	+44 207 968 7328
	www.recreditinvest.com

Key shareholders

AXA SA	8.4%
Close Bros	8.2%
Canaccord Genuity Group	8.1%
Fidelity	7.7%
Premier AM	7.1%
Smith and Williamson	6.0%
Bank Leumi	4.5%

Diary

Early Oct'19	Sep Factsheet

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

RECI is a closed-ended investment company. To achieve the investment objective, the company invests, and will continue to invest, in real estate credit secured by commercial or residential properties in Western Europe, focusing primarily in the United Kingdom, France and Germany ("Real Estate Credit Investments").

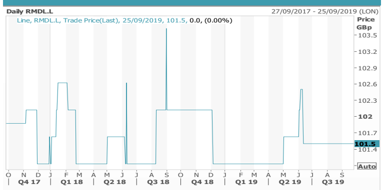
The Real Estate Credit Investments may take different forms but are likely to be:

- Secured real estate loans, debentures or any other forms of debt instruments (together "Secured Debt"). Secured real estate loans are typically secured by mortgages over the property or charges over the shares of the property-owning vehicle. Individual Secured Debt investments will have a weighted average life profile ranging from six months to 15 years. Investments in Secured Debt will also be directly or indirectly secured by one or more commercial or residential properties, and shall not exceed a loan to value ("LTV") of 85% at the time of investment.
- Listed debt securities and securitised tranches of real estate-related debt securities; for example, residential mortgage-backed securities and commercial mortgage-backed securities (together "MBS"). For the avoidance of doubt, this does not include equity residual positions in MBS.
- Other direct or indirect opportunities, including equity participations in real estate, save that no more than 20% of the total assets will be invested in positions with an LTV in excess of 85% or in equity positions that are uncollateralised. On specific transactions, the company may be granted equity positions as part of its loan terms. These positions will come as part of the company's overall return on its investments, and may or may not provide extra profit to the company, depending on market conditions and the performance of the loan. These positions are deemed collateralised equity positions. All other equity positions in which the company may invest are deemed uncollateralised equity positions.

RECI is externally managed by Cheyne Capital Management (UK) LLP, a UK investment manager authorised and regulated by the FCA. As at 31 July 2019, Cheyne had 153 employees, of which 30 were in the Real Estate Team, and AUM of $7.1bn, of which $3.2bn was managed by the Real Estate Team. It has offices in London, New York, Bermuda and Zurich. Cheyne invests across the capital structure – from the senior debt to the equity positions. It has expertise in the structuring, execution and management of securitisation transactions, involving a broad range of assets, including portfolios comprised of traditional asset classes, such as commercial and residential mortgages, as well as mortgage-backed securities and the management of commercial real estate portfolios, focused on Europe and the UK.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RECI can be accessed through our website, *Hardman and Co Research*. Our initiation report, published on 5 June 2019, and our report, *Defensive qualities in uncertain times*, can be found on the same site.

Premium Equity Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	**RMDL/RMDZ**
Price (p)	**101.5/106**
12m High (p)	104.0
12m Low (p)	100.2
Shares (m)	112.20
Mkt Cap (£m)	114
NAV p/shr (p)	99.00
Free Float	100%
Market	LSE Equity Inv. Instrmt.

Description

RM Secured Direct Lending (RMDL) aims to generate attractive and regular dividends through investment in debt instruments that are backed by real assets, led by exceptional management teams, and that usually demonstrate high cashflow visibility.

Company information

Chairman	Norman Crighton
NED	Guy Heald
NED	Marlene Wood
Inv. Mgr.	RM Funds
CIO	James Robson
Co. Manager	Pietro Nicholls
AIFM	IFM

(RM) +44 131 6037060
rmdl.co.uk

Key shareholders

CCLA	18%
Quilter	18%
MerianGlobal	13%
Brooks MacDonald & Hawksmoor	5%
CG AM & Jupiter	4%
Sarasin & Charles Taylor & PAM & Seneca & Blankstone Sington	3%
RM (Inv. Mgr.)	1%

Diary

Mid'Oct	September factsheet

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

RM SECURED DIRECT LENDING

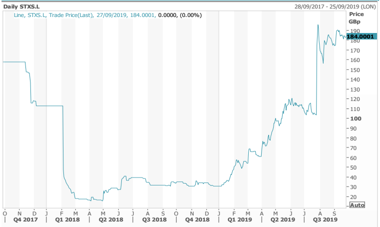
RMDL will seek to meet its investment objective by making investments in a diversified portfolio of loans to UK SMEs and mid-market corporates, and/or to individuals. These loans will generally be, but are not limited to, senior, subordinated, unitranche and mezzanine debt instruments, documented as loans, notes, leases, bonds or convertible bonds. Such loans will typically have a life of two to 10 years. In certain limited cases, loans in which the company invests may have equity instruments attached; ordinarily, any such equity interests would come in the form of warrants or options attached to a loan. Typically, the loans will have coupons that may be fixed, index-linked or LIBOR- linked. For the purposes of this investment policy, UK SMEs include entities incorporated outside of the UK, provided their assets and/or principal operations are within the UK. RMDL is permitted to make investments outside of the UK to mid-market corporates.

The investment manager for RMDL's assets is RM Funds. RM Funds is a specialist in fixed income, being part of RM Capital, a diversified fixed-income firm. Headquartered in Edinburgh, with offices in London, RM Funds has a team of analysts focused on bottom-up, bespoke credit and lending work, with a focus on secured lending over physical assets or contracted cashflows. RM Funds provides both public and private strategies to allow investors to participate in secure debt investments, aiming to provide above-average returns on a risk-adjusted basis.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RMDL can be accessed through our website, *Hardman and Co Research*. Our initiation report, published on 5 June 2019, and our report, *Defensive qualities in uncertain times*, can be found on the same site.

HARDMAN&CO.

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**STX**
Price (p)	**184.5**
12m High (p)	202.0
12m Low (p)	28.0
Shares (m)	117.2
Mkt Cap (£m)	216.2
EV (£m)	206.6
Free Float*	33%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

+44 207 186 8500
www.shieldtherapeutics.com

Key shareholders

Directors	9.0%
W. Health	47.8%
MaRu AG	10.7%
R. Griffiths	6.8%
C. Schweiger	4.8%
USS	4.4%

Diary

4Q'19E	Accrufer deal
Apr'20	2019 final results
Mid-2020	Accrufer launch

Analysts

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

SHIELD THERAPEUTICS

H2H study data to be presented this month

STX is a commercial-stage pharmaceutical company delivering specialty products that address patients' unmet medical needs, with an initial focus on treating iron deficiency (ID) with Feraccru®/Accrufer®. The broad label FDA approval of Accrufer opens up a US market currently worth more than $1bn in intravenous iron alone. STX is in discussions with a number of potential partners for US commercialisation. In the meantime, additional data from the head-to-head (H2H) study will be presented at the United European Gastroenterology Week meeting (19-23 October), allowing promotional use of the data.

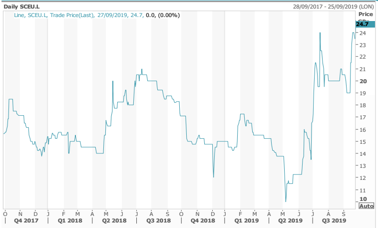
- **Strategy:** STX's strategy is to out-license the commercial rights to its products to partners with marketing and distribution expertise in target markets. These deals allow STX to retain its intellectual property (IP) and to keep investing in its R&D pipeline, while benefiting from immediate and long-term value.
- **H2H study:** The AEGIS-H2H study demonstrated Feraccru's non-inferiority to the market-leading intravenous (IV) iron therapy, Ferinject, in patients with iron deficiency anaemia in inflammatory bowel disease. This has supported STX's commercial partners in generating pricing and reimbursement proposals.
- **Data:** Presentation of the data at a medical conference will mean that the study has been officially "published", and can be used by sales representatives and in promotion materials for Feraccru in the UK and Germany. We expect a discussion of effect size, giving a guide to efficacy in the trial.
- **Risks:** All drug companies carry development risk. However, the risks with STX are limited because of Feraccru/Accrufer's simplicity and clinical profile. Given the FDA approval, the main risk relates to achieving the most appropriate commercial partner and executing on its global commercialisation strategy.
- **Investment summary:** The approval of Accrufer reinforces our view that STX is at an exciting juncture. It has delivered on all goals set at the time of its IPO in 2016. Feraccru/Accrufer has been validated by regulatory approval in both the EU and the US, and the commercial deal in Europe looks set to be repeated in the US. Announcement of its commercial partner, together with the terms of any deal, represent the next valuation inflection point.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019E	2020E	2021E
Gross revenues	**0.64**	**11.88**	**2.93**	**2.15**	**3.15**
Sales	0.64	0.86	0.63	2.15	3.15
R&D	-4.71	-4.30	-3.31	-4.64	-3.89
Other income	0.00	11.03	2.30	0.00	0.00
EBITDA	-18.48	-2.47	-5.45	-9.19	-8.68
Underlying EBIT	-18.90	-3.26	-6.24	-9.98	-9.47
Reported EBIT	-20.95	-5.17	-8.15	-11.89	-11.38
Underlying PBT	-18.91	-3.26	-6.24	-10.02	-9.51
Statutory PBT	-20.99	-5.16	-8.14	-11.93	-11.42
Underlying EPS (p)	-15.58	0.09	-4.49	-7.96	-7.62
Statutory EPS (p)	-17.43	-1.55	-6.12	-9.58	-9.25
Net (debt)/cash	13.30	9.63	6.20	-1.27	-8.46

Source: Hardman & Co Life Sciences Research

Automotive



Source: Refinitiv

Market data

EPIC/TKR	SCE
Price (p)	25
12m High (p)	25
12m Low (p)	9
Shares (m)	136
Mkt Cap (£m)	34.0
EV (£m)	32.0
Free Float*	86%
Market	AIM

*As defined by AIM Rule 26

Description

Surface Transforms is 100% focused on the manufacture and sales of carbon ceramic brake discs. It has recently announced a number of OEM contracts.

Company information

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

www.surfacetransforms.com
+ 44 151 356 2141

Key shareholders

Directors	14.0%
Canaccord	14.8%
Unicorn	12.3%
Richard Gledhill esq. (director)	9.9%
Richard Sneller esq.	8.2%
Hargreaves Lansdown	4.5%

Diary

29/30 Oct	Capital markets day
30 Oct	AGM
Apr'20	Report for seven months to Dec'19

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

SURFACE TRANSFORMS

A profitably busy time

Surface Transforms' recent results were in line with expectations. They did not reflect substantial new contracts won, post year-end. The latest three-month period of contract awards – since the financial year-end – has been transformational in the development of the company. It now has multi-year, multi-million, recurring income contracts from European-based global original equipment manufacturers (OEMs). Revenue from one commences in October 2021, with start of production (SOP) for the other towards the end of calendar 2021. These will support cash-breakeven during 2020, moving to EBITDA-positive (post-tax credit) in fiscal 2021 and profitability in 2022.

- **Surface Transforms' potential is clearly set:** It has now won its first major contracts in an OEM market worth £150m today but growing fast. We consider the company has the potential to win a strong market share. The potential market should be £2bn p.a. in Europe alone.

- **Year to May 2019**: Numbers showed a well-flagged revenue fall, due largely to minor delays and demand volatility from aftermarket distributors. This was part of the journey to recent contract wins. Our forward estimates reflect only existing contracts. Pre-tests for prospective clients are progressing well.

- **Capacity allocation model:** Surface Transforms' capacity-in-place is £17m sales p.a. Scope for expansion is significant, and – typical for new automotive components – as volumes rise, production efficiencies also rise. Prices can thus fall, with maintained profit margins, expanding market demand exponentially.

- **Risks:** Surface Transforms has invested ahead of these new orders, so is well ahead in terms of capital investment. These contracts benefit from set-pricing and highly predicable timings of off-take, with the production start date set. Only one competitor exists, and no more are envisaged for many years.

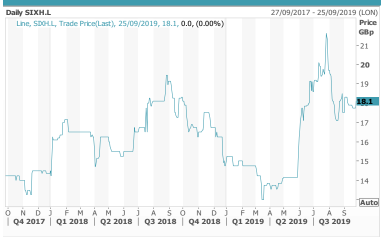
- **Investment case:** This is a large, growing market, 99%-supplied by one, highly-profitable player. This single supply was a most anomalous position for an auto OEM market – now Surface Transforms also supplies. June/July contract wins de-risk the business, and both open and expand the target market. The path to the company's discs being designed-in to many more models is clear.

Financial summary and valuation

Year-end May*/ Dec**(£m)	2019*	7 months 2019E**	2020E**	2021E**	2022E**
Sales	1.00	1.10	3.30	4.10	5.80
Gross profit	0.65	0.65	2.50	2.90	4.00
EBITDA	-2.63	-1.25	-0.50	-0.10	1.00
EBITA	-2.97	-1.45	-1.30	-0.80	0.30
PBT	-2.98	-1.45	-1.30	-0.80	0.30
PAT	-2.06	-1.15	-0.75	-0.30	0.80
EPS (adjusted, p)	-1.64	-0.85	-0.55	-0.22	0.58
Net (debt)/cash	1.37	1.10	0.75	1.20	2.45
P/E (x)	loss	N.A.	loss	N.A.	32.7
EV/sales (x)	32.0	N.A.	9.7	7.8	5.5
EV/EBITDA (x)	loss	N.A.	loss	loss	32.0
DPS (p)	nil	nil	nil	nil	nil

*May year-end, **the company has announced its change of year-end to December.
Source: Surface Transforms accounts, Hardman & Co Research estimates

Industrial Engineering



Source: Refinitiv

Market data

EPIC/TKR	**SIXH**
Price (p)	**18.1**
12m High (p)	21.9
12m Low (p)	12.5
Shares (m)	117.1
Mkt Cap (£m)	21.3
EV (£m)	32.9
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 industrial laser systems. The US represents around 65% of group sales.

Company information

Executive Chairman	Paul Dupee
CFO	Neil Carrick

+44 1922 707110

www.600group.com

Key shareholders

Haddeo Partners	20.0%
Mr D Grimes	3.7%
Mr A Perloff and Maland	8.5%
Mr T Miller	3.8%
Miton Group	3.3%
Others	59.6%

Diary

Dec'19	Interim results

Analyst

Paul Singer 020 7194 7622

ps@hardmanandco.com

THE 600 GROUP

AGM trading update still positive

Trading remains good, with growth enhanced by acquisitions, new product launches and new market entry. The acquisition of Control Micro Systems Inc (CMS) is strategically attractive, providing a platform for further growth. The group remains competitively well positioned, with a world-class reputation and its financial position enhanced by the pension scheme buyout. The shares stand at a discount to the peer group and to a DCF valuation, and offer an appealing yield, in our view.

- **Trading comment**: The recent AGM trading update remained positive: "Whilst most of our markets remain subject to current global economic and political uncertainty, trading in the current financial year continues to be in line with the Board's expectations."

- **Strategy:** The strategic objective is to grow the business into a global industrial concern. The recent US acquisition of CMS significantly strengthens the competitive position of the group's TYKMA industrial laser systems subsidiary, being complementary and adding significant engineering expertise.

- **CMS integration:** As part of the CMS integration process, the management team has been strengthened, and its sales and marketing functions significantly enhanced through the combination with the group's established sales and marketing platform.

- **Competitive position:** The 600 Group is regarded as well positioned within highly competitive industries. The group has undertaken a UK restructuring programme to reduce capex requirements and further improve margins. In addition, opportunities are available for operational and distribution synergy benefits.

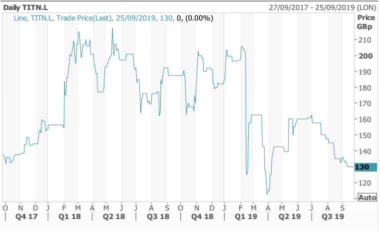
- **Investment summary:** The shares continue to offer the opportunity to invest in a de-risked cyclical stock with strong operational leverage, enhanced by new product launches and new market entry. Cyclicality has been de-risked through further development of high-margin repeat/recurring business. The risk/reward profile is favourable, and the shares stand at a discount to the peer group, offering an appealing yield, in our view.

Financial summary and valuation

Year-end Mar ($m)	2018	2019	2020E	2021E
Sales	63.9	65.2	76.4	82.5
Gross profit	21.6	23.6	27.5	30.3
EBITDA	2.4	5.8	6.6	7.3
Underlying EBIT	1.8	5.2	5.7	6.4
Underlying PTP	0.6	4.0	4.5	5.4
Underlying EPS (c)	1.0	3.5	3.6	4.1
Statutory EPS (c)	1.5	3.5	3.6	4.1
Net (debt)/cash	-15.6	-14.5	-13.6	-11.0
DPS (p)	0.50	1.00	1.10	1.32
P/E (x)	22.8	6.6	6.5	5.7
EV/EBITDA (x)	19.7	8.2	6.8	6.2
Dividend yield	2.8%	5.5%	6.1%	7.3%

Source: Hardman & Co Research

Construction & Materials



Source: Refinitiv

Market data

EPIC/TKR	**TON**
Price (p)	130.0
12m High (p)	208.0
12m Low (p)	112.5
Shares (m)	11.1
Mkt Cap (£m)	14.4
EV (£m)	12.7
Free Float*	97%
Market	AIM

As defined by AIM Rule 26

Description

Titon designs, manufactures and supplies a comprehensive range of passive and powered ventilation products; plus, handles, hinges and locking for doors and windows. "The home of domestic ventilation systems and door and window hardware".

Company information

Executive Chairman	Keith Ritchie
Chief Executive	David Ruffell

+44 1206 713 800
www.titonholdings.com

Key shareholders

Rights & Issues IT	11.4%
MI Discretionary UF	7.2%
Chairman	8.9%
Other Directors	7.9%
Founder/NED	15.7%
Family	6.8%

Diary

Dec'19	Preliminary results

Analyst

Tony Williams 020 7194 7622
tw@hardmanandco.com

TITON HOLDINGS PLC

Low & Behold

Commonly seen in Middle English texts as early as the 18th Century, "lo and behold" (original orthography) means "look and see"; and it is always used as an imperative, Ergo, Low & Bonar, the 116-year-old British business – and constituent of the Hardman UK Building Materials Sector – has been bid for by German technology group Freudenberg. Often an unsung hero, the building materials industry is nonetheless a vital contributor to economic activity. Titon is also a constituent of our uniquely defined Sector and it, too, has value to behold – recognised by peers but not always by investors.

- **Low & Bonar:** It manufactures advanced, high-performance materials created from polymer-based yarns and fibres used in the building and industrial markets. It was founded in Scotland in 1903 before gathering momentum with the partnership between John Low and George Bonar in 1912; and it was listed on the LSE in 1947.
- **The Freudenberg Group**: This is a groß family-owned global technology group based in Weinheim, Germany. It makes nonwoven fabrics and technical textiles for the automotive, building and consumer products industries. In 2018, it generated revenue of €9.5bn and an operating profit of €910.3m.
- **Agreed** 15.5p per share acquisition values Low & Bonar at £107m: In turn, 15.5p represents a 119% premium to Low & Bonar's average, volume-weighted share price for the 30 trading days ended 19 September (bid was announced 20 September). Already, too, a majority of Low & Bonar shareholders say they support the bid.
- **Fiscal** 2018-19 is a testing time for Titon: But it passed with flying colours regarding its remedial actions i.e. the Group has been around since 1972 and has proven acumen to deal with the troughs – and the peaks. After a sharp dip this year at the PBT line, we expect gentle progress in fiscal 2020 with momentum building in 2021.
- **The Hardman UK Building Materials Sector: This** comprises 23 companies worth £8.3bn (+5% in a month) and 8.6x EV/EBITDA on a trailing 12-month basis (priced 25 September); or 12.2x weighted by Teutonic market capitalisation. Titon is on just 4.8x (albeit rising to 5.4x in 2019E). At the same time, the Sector's Total Shareholder Return (TSR) over 12 months is -3% actual or +11% weighted. For Titon, it is way adrift at -29%, having returned an average TSR of +31% p.a. in 2016, 2017 and 2018.

Financial summary and valuation

Year-end Sep (£m)	2018	2019E	2020E	2021E
Net revenue	29.9	28.3	30.1	31.8
EBITDA	2.67	2.42	2.47	2.75
Underlying EBIT	2.02	1.71	1.69	1.89
Underlying PBT	2.77	2.21	2.30	2.60
Underlying EPS (p)	18.2	16.1	16.7	18.9
Statutory EPS (p)	18.2	14.5	16.7	18.9
Net (debt)/cash	3.4	3.0	3.7	4.5
Shares issued (m)	11.1	11.1	11.1	11.1
P/E (x)	7.1	8.1	7.8	6.9
EV/EBITDA (x)	4.8	5.4	5.1	4.3
DPS (p)	4.75	4.75	5.00	5.50
Dividend yield	3.7%	3.7%	3.8%	4.2%

Source: Hardman & Co Research

URBAN LOGISTICS

6% dividend yield, plus rising NAV

SHED owns "mid-box", "last stage" distribution warehouse assets on well-configured sites with good access, and thus the ability to fulfil the evolving needs of tenants. Supply is strictly constrained by the dominant trend – that the cost of new-build is generally above the current valuations placed on assets in SHED's category (last-mile logistics). SHED acquires assets that may have short leases (ca.30% sub three years), and its subsequent re-gears not only add investor appeal but also tend to be done above or well ahead of ERV (estimated market rental value). Tenants typically have been in place for many years, as the cost of moving is significant compared with rental occupancy costs.

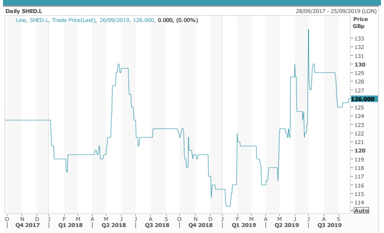
- **Recent acquisitions:** On 20 September, contracts were exchanged to pay £9.9m for six depots on a net initial yield of 7.0%, plus two DHL-tenanted logistics warehouses for £5.3m, on a 5.9% yield. The former will be leased back to Tuffnells for 20 years. Note, numbers in the table do not reflect this earnings-enhancing acquisition.
- **Strategy:** SHED owns quality assets let to strong tenants, with income and capital growth embedded. The Connect portfolio's 20-year lease-back to its subsidiary, Tuffnells, is a case in point. Re-gearing to a long lease with capped and collared RPI uplifts adds value. SHED also undertakes a modest amount of forward-funding.
- **Valuation:** Post 37% NAV growth since float, the shares stand at the widest discount to NAV since flotation. In part, this is due to the rapid NAV rise, but we contend that there is insufficient understanding among investors of mid-sized, last-step logistics supply-chain assets. This is becoming a mainstream asset class.
- **Risks:** 5.5-year leases mean there are reversionary rent rises to come, but also that new leases must be secured. In the past ca.20 years, aggregate rent rises have been minimal. Physical reduction in supply, new demand from omni-channel supply-chain and assets trading at below replacement cost all mitigate downside.
- **Investment track record:** SHED listed on AIM in April 2016. Management has achieved 17% compound accounting (NAV plus dividend) returns p.a. in the three full years since float. All asset disposals (recycling capital) have been at or above book value, achieving total (ungeared) property returns of 25.2%. Market rents have risen to ca.25% above SHED's current £4.83 sq. ft. level.

Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019	2020E
Rental income	2.28	5.56	10.80	12.40
Finance costs	-0.60	-0.93	-2.20	-2.80
EPRA operating profit	1.76	4.06	8.30	10.00
Declared profit	4.89	9.86	18.88	18.00
EPS reported (p)	34.12	19.50	22.29	20.52
EPRA EPS (diluted, pre-LTIP, p)	7.82	6.12	7.20	8.21
DPS (p)	6.23	6.32	7.00	7.50
Net debt	16.52	44.39	61.64	67.23
Dividend yield	4.8%	4.9%	5.5%	5.9%
Price/EPRA NAV (x)	1.06	1.02	0.91	0.86
NAV per share (p)	118.23	123.64	137.37	147.54
EPRA NAV per share (p)	116.11	122.49	138.18	148.00

Note: we plan to initiate FY21E and FY22E shortly; Source: Hardman & Co Research

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	SHED
Price (p)	125
12m High (p)	133
12m Low (p)	113
Shares (m)	87.8
Mkt Cap (£m)	110
EV (£m)	172
Market	AIM

Description

Urban Logistics (SHED) focuses on strategically located (e.g. urban "last mile"), smaller (typically ca.70,000 sq. ft.) single-let industrial and logistics properties, servicing high-quality tenants. The market is in strategic under-supply.

Company information

CEO	Richard Moffitt
Chairman	Nigel Rich

+44 20 7591 1600
www.urbanlogisticsreit.com

Key shareholders

Directors	1.2%
Allianz	11.8%
Rathbone	11.0%
Janus Henderson	10.5%
Sir John Beckwith	8.0%
Premier	7.9%
GLG	4.4%

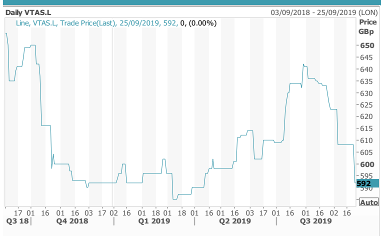
Diary

Late Oct'19	Investor update
Nov'19	Interim results
May'20	Final results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

Financials



Source: Refinitiv

Market data

EPIC/TKR	VTA .NA, VTA.LN VTAS LN*
Price (€)	6.72/6.76/608p
12m High (€)	7.32/7.28/655p
12m Low (€)	6.44/6.52/585p
Shares (m)	36.6
Mkt Cap (€m)	246
Trail. 12-mth. yield	9.2%
Free Float	70%
Market	AEX, LSE

*Listing 03 September 2018

Description

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

Company information

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

BNP: +44 1481 750853
www.voltafinance.com

Key shareholders

Axa Group	30.4%

Diary

Mid'Oct	Sep estimated NAV

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

VOLTA FINANCE

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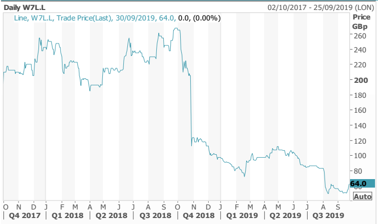
Volta is a closed-ended, limited liability company registered in Guernsey. Its investment objectives are to seek to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends that it expects to distribute on a quarterly basis. The rolling 12-month dividend is €0.62 per share (with €0.15/€0.16 per share paid quarterly). The assets in which Volta may invest, either directly or indirectly, include, but are not limited to, corporate credits, sovereign and quasi-sovereign debt, residential mortgage loans, commercial mortgage loans, automobile loans, student loans, credit card receivables, leases, and debt and equity interests in infrastructure projects. The current underlying portfolio risk is virtually all to corporate credits. The investment manager for Volta's assets is AXA Investment Managers Paris, which has a team of experts concentrating on the structured finance markets.

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

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Volta Finance can be accessed through our website, *Volta Finance Ltd Research*. Our initiation report, published on 5 September 2018, can be found on the same site, as can our notes on the manager's March and June presentations, as well as links to our Directors Talk interviews on the company.

Personal Products



Source: Refinitiv

Market data

EPIC/TKR	**W7L**
Price (p)	62.5
12m High (p)	266.7
12m Low (p)	48.3
Shares (m)	76.7
Mkt Cap (£m)	48.0
EV (£m)	46.0
Free Float*	36.1%
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 67 countries.

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%
Schroders	12.9%
Blackrock	4.8%
BI Asset Mgt.	4.6%
Canaccord	3.1%

Diary

Apr'20	Full-year results

Analyst

Yingheng Chen 020 7194 7638
yc@hardmanandco.com

WARPAINT LONDON PLC

1H'19 interim results

Warpaint's goal is to deliver creative, design-focused and high-quality cosmetics at affordable prices to its global customer base. 1H'19 results saw a 2.9% increase in revenue, to £18.9m (£18.4m). The gross margin fell to 34.9% (36.5%), due to the lower margin from the US. Having acquired its US distributor, LMS, in 2018, Warpaint is well placed to continue its American market growth. 1H'19 results, though, were dampened by a weak UK retail market, particularly among small high-street retailers. The group has lowered its FY'19 revenue expectation to ca.£50m, and PBT to a £6m to £7m range. Management remains focused on implementing its growth strategy, especially in the US.

- **Strategy:** In the near term, Warpaint will continue to focus on developing its own brands, W7 and Technic, and on optimising operations in both Retra and LMS. In the UK, the group continues to grow with its top retail customers, and it is trying to compensate the smaller end of the market by targeting bigger UK retail groups.
- **International operations:** International sales rose 7.8% to £11.1m (£10.3m), chiefly in the EU and US, which posted growth of over 12% and 45% (US figure: on a like-for-like basis) YoY, respectively. The gross margin from the US operation was only 11.5%, but this should improve as the pre-acquisition stock holding is sold through.
- **Valuation:** Warpaint remains profitable and cash-generative, despite a challenging trading environment in the UK. Cashflow from operations for the period was £2.0m, despite some £6.1m of investment in inventory in the UK. The group has declared an interim dividend of 1.5p per share.
- **Risks:** The biggest short-term risk for Warpaint is the ongoing decline in the retail market, particularly in the smaller end of the UK retail segment. The group is addressing this by actively expanding its flagship brand, W7, to a number of new UK retailers.
- **Investment summary:** The Warpaint story is quite simple. The group's flagship brand, W7, was created to fulfil the ever-increasing demand for creative, design-focused and high-quality cosmetics at affordable prices. The company deploys a similar strategy to its other own-brand products, with a quick product development time and on-trend products, meaning that Warpaint is well positioned for growth in a fast-growing colour cosmetics sector.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Sales	22.5	32.5	48.5		
EBITDA (adjusted)	6.3	8.0	8.9		
Operating profit (adjusted)	6.2	7.3	5.3	Forecasts	Forecasts
PBT (adjusted)*	6.1	7.7	8.2	pending	pending
Basic EPS (adjusted, p)*	7.9	9.6	9.1	guidance	guidance
DPS (p)	1.5	4.0	4.4		
P/E (x)*	7.9	6.5	6.9		
EV/EBITDA (x)	7.3	5.8	5.1		
Dividend yield	2.4%	6.4%	7.0%		
RoE	-	20.0%	8.8%		

**adjusted for amortisation relating to acquisitions, exceptional costs and acquisition-related impairments*
Source: Hardman & Co Research

Notes

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(Disclaimer Version 8 – Effective from August 2018)

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

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

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