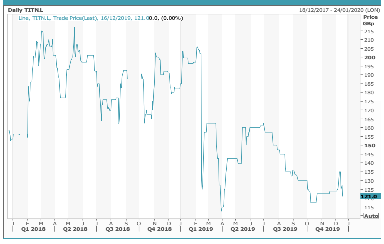
Construction & Materials



Source: Refinitiv

Market data

EPIC/TKR	**TON**
Price (p)	127.5
12m High (p)	208.0
12m Low (p)	112.5
Shares (m)	11.1
Mkt Cap (£m)	14.1
EV (£m)	11.0
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

Feb'20	AGM
May'20	Interims

Analysts

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TITON HOLDINGS PLC

Electiton

'Tis rare that a company reports on the same day as a general election. Okay, Titon's gestation was the longer – but the conclusions are the same. "It's over and yet it has only just begun". For Boris Johnson, this means actually 'getting Brexit done' and running the country. For Titon, it has just reported its full year in which it coped manfully with a number of travails; and now has to do the same in the next one and 'win the peace'. Boris's skill-set to deal with in-coming remains the subject of speculation. Not so Titon's.

- **Vote 1:** On 12 December, the UK voted in a general election and Titon reported its final results. The notice period for the election was shorter than Titon's but the celebration longer for a majority of voters. Yes, it was a difficult year for the group amid a perfect storm in its largest profit generator, South Korea.
- **Vote 2:** Net revenue was off 9%, at £27.2m, with underlying PBT dropping by more than a fifth to £2.15m. The UK (56% of revenue) was sound with a 5% rise in its contribution to £1.1m. South Korea, however, saw its profits fall by almost 40% to £1.2m. Here, an economic slowdown and undulating product choice did the harm.
- **Vote 3:** As is its wont, though, Titon's housekeeping was exemplary with a net cash inflow of £1.2m to make a year-end tally of £4.6m; and its quick ratio was above 2.0. The group also turned its capital over more than twice. Note, too, that Titon maintained its dividend. And, yes, it has been operating since 1972.
- **Vote 4:** Fiscal 2020 will not be a banner year; and we have had to take out the red pencil, i.e. reduce our PBT forecast this year and next by an average of £700,000. Not even Titon can push water up-hill. But, South Korea, will turn and, empirically, a number of commentators expects long-term annual growth above 3%.
- **Electiton:** The Hardman UK Building Materials Sector comprises 23 companies worth £9.8bn (+14% in past two months) and 9.9x EV/EBITDA on a trailing 12-month basis (priced 13 December) or 13.9x weighted by market value. Titon is on just 4.3x (okay, rising to 4.9x in 2020E). At the same time, the sector's TSR over 12 months is 21% actual (with only six negatives) or 47% weighted. Titon is adrift at -28%; remember, though, in 2016 through 2018, it averaged a 31% TSR p.a. It will return.

Financial summary and valuation

Year-end Sep (£m)	2019	2020E	2021E	2022E
Net revenue	27.2	26.7	27.5	30.0
EBITDA	2.58	2.22	2.63	3.09
Underlying EBIT	1.81	1.34	1.64	1.97
Underlying PBT	2.15	1.55	1.95	2.39
Underlying EPS (p)	14.5	11.7	14.0	16.7
Statutory EPS (p)	12.8	11.7	14.0	16.7
Net (debt)/cash	4.6	4.5	4.6	5.0
Shares issued (m)	11.1	11.1	11.1	11.1
P/E (x)	8.8	10.9	9.1	7.6
EV/EBITDA (x)	4.3	4.9	4.1	3.4
DPS (p)	4.75	4.75	4.75	4.75
Dividend yield	3.7%	3.7%	3.7%	3.7%

Source: Hardman & Co Research

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Prologue

On Friday 13 December, FTSE 250 and UK Housebuilding Sector hit new record levels

It was a date, 12 December, then it was a day, Thursday. Then it was the day after the general election. No hangover, though, nor triskaidekaphobia (fear of Friday the 13th). Instead, it was Blue Friday as cerulean Conservatives rejoiced and share prices surged to the extent that City inkwells ran dry. The FTSE 250 closed at a new all-time high (21,508) on the day as did the UK Housebuilding Sector.

No one wanted to be a party pooper, either, although Ray O'Rourke, CEO of Laing O'Rourke added a whiff of utilitarianism in the pages of Building magazine: "so, it's over and yet it has only just begun". To be fair, Boris Johnson said something similar on election night. Yes, he was jubilant ("Cripes, I've won") but he also said that the hard work starts tomorrow. In fact, given that it was already after midnight, he quickly corrected himself: "the hard work starts today".

A coincidence in time but a divergence of mood and festivity

Titon unwittingly reported its final figures on 12 December; it always does so around this date. And, while, we have had three general elections in four years, the last time one was in December was 1923. For Titon, it was a coincidence in time, yes, but a divergence of mood and festivity; and perhaps three cheers versus one.

In fiscal 2013, Titon made around half-a-bar of PBT. In 2018, PBT was £2.8m marking a five- and-a-half-fold increase. It entered the South Korea market in 2008 and it has had a great run. However, in the fiscal year to 30 September 2019, South Korea's revenue declined 27% and its PBT dropped 37%. Domestic GDP slowed and the residential market (Titon's core) slowed at a faster rate than expected. In addition, consumers sought mechanical ventilation in greater number than passive units due to shifting climes.

South Korean economy can look after itself

The South Korean economy can look after itself and Statista is forecasting 2.2% GDP growth this year and 2.8% in 2021. Empirically, too, a number of commentators, including the Asian Development Bank, has forecast average long-term growth in excess of 3.3%. Indeed, a rational man would bet on this economy – eleventh in the World and fourth in Asia. At a micro-level, too, Titon has a suite of new products ready for market, which will hit the shelves in H2 of this fiscal year.

Housebuilders' share prices are discounting a brighter future

The UK would dream about GDP growth in this South Korea's neighbourhood. Yet, even with the overhang of Brexit uncertainty, the domestic economy has been growing at just over 1% p.a.; and Titon increased profits by 5% here. The UK also accounted for 56% of revenue in fiscal 2019. No, the slate that is the Brexit uncertainty is not yet wiped clean but there is a popular government and leader (mostly) with a very workable majority in the House of Commons. The FTSE 250 and its brethren, too, are forward-looking indicators. And, prior to the general election, Experian was forecasting Private Housing Output to rise 2% this year, 2% in 2020 and 4% in 2021; at the same time, the much-smaller public sector is set for a per annum average of 4% growth over the same three years. Housing is Titon's core UK market. As above, too, housebuilders' share prices at a new record level are discounting a brighter future.

Elsewhere in the world, the US and Continental Europe accounted for some 14% of group revenue in fiscal 2019. They were ostensibly loss making as regions but because products sold there are made in the UK, there is a flow-back contribution to group income. And, from fiscal 2020, we are also forecasting a modest actual contribution here too.

We talked earlier about the Titon exemplar finance management where our personal favourites are a two times quick ratio and capital turn. We also spoke about the maintained dividend, which we expect to continue across the forecast period; and at the group's earnings' nadir in fiscal 2020, dividend cover is 2.5x.

"Let the healing begin"

In the three years, 2016, 2017 and 2018, Titon generated a TSR of 23%, 52% and 18%, respectively. "Let the healing begin".

Final results to 30 September 2019

Income statement

Net revenue rose 9% and the gross margin edged upwards to 30.2%

In the 12 months ending 30 September, both Titon's gross and net revenue declined by 8% and 9%, respectively, and rounded up to £27.7m and £27.2m, respectively (and the £496,000 difference is derived from inter-segment trading exclusively in the UK). Note, too, there has been a restatement of the 2018 comparatives, which is discussed later.

At the same time, the gross margin by 130bps to 30.2%.

Administrative expenses as a percentage of net revenue ticked up from 15.8% to 16.3% whilst distribution costs also rose, on the same basis, from 4.9% to 5.5%, as did R&D by 40 bps to 1.9%.

At EBITDA line, it reduced 3.4% to £2.58m with EBIT off 10% at £1.81m. In turn, this meant that EBIT margins were eased a tad to 6.7% (2018: 6.8%). Note, too, these two metrics are on an underlying basis, i.e. they exclude a one-off £181,000 exceptional debit (see below).

Underlying pre-tax profit was £2.15m

Net interest contributed £12,000 (2018: £13,000) while the group's South Korean 49%-owned Associate, Browntech Sales Co. Limited (BTS) contributed profit of £329,000, which was half that of the previous year.

In turn, underlying pre-tax profit was also off by ca.20% at £2.15m with statutory pre-tax profit at £1.97m (2018: £2.77m).

The taxation rate as a percentage was 280bps lower at 8.6% due to "origination and reversal of temporary differences".

South Korea had a tough year

Titon Korea, the group's 51%-owned eponymous business had a tough (see later section), which meant that the 'non-controlling interest' or the minority debit was sharply lower at £361,000 (2018: £448,000). Note, too, that Titon Korea accounts for 100% of the minorities. Unsurprisingly, too, group net profit also fell 20% with basic underlying EPS off 21% at 14.47p.

The dividend for the year was maintained 4.75p with cover of 3.1 times (2018: 3.8x).

Restatement

A one-off adjustment of some £200,000 was made to income

In an announcement on 19 March 2019, the group explained that certain costs associated with products sold by Titon Korea in earlier accounting periods, up to and including 30 September 2018, had, in error, not been wholly taken into account in the relevant periods.

This related to the incorrect accounting apportionment of costs and revenues between first and second fix installations of products manufactured by its 51%-owned subsidiary Titon Korea and sold by BTS (the 49% associate). In turn, this led to the total equity attributable to equity holders of Titon as at 30 September 2018 being reduced £826,000 (or 5.1%) from the figure previously shown in the 2018 Annual Report. Subsequently, too, this and other comparative 2018 numbers, where they were affected by the adjustment, have been restated. For example, in terms of the audited income statement for the fiscal year to 30 September 2018, revenue has been reduced by £172,000 to £29.8m and PBT has been reduced by £209,000 to £2.77m.

Income statement			
12 months to 30 September (£m)	2019	2018	chg.
Gross revenue	27.653	30.203	-8%
Inter-segment	-0.496	-0.429	
Net revenue	27.157	29.774	
Cost of sales	-18.959	-21.170	
Gross profit	8.198	8.604	-5%
Administration	-4.415	-4.707	
Distribution	-1.489	-1.454	
R&D	-0.504	-0.446	
Other income	0.020	0.019	
EBIT	1.810	2.016	-10%
Net interest	0.012	0.013	
Associate	0.329	0.741	
PBT	2.151	2.770	-22%
Tax	-0.186	-0.315	
Post-tax profit	1.965	2.455	
Minorities	-0.361	-0.448	
Net profit	1.604	2.007	
Dividends	-0.526	-0.495	
Other	0.000	0.019	
Retained profit	1.078	1.537	
Basic EPS (p)	14.47	18.21	-21%
DPS (p)	4.75	4.75	N/C
No. of shares (m)	11.084	11.024	

Source: Company data, Hardman & Co Research;
EBITDA, EBIT, PBT tax and earnings are gross of a £181,000 exceptional charge in 2019

Ratios		
Margins	**2019**	**2018**
Gross	30.2%	28.9%
EBITDA	9.5%	9.0%
EBIT	6.7%	6.8%
PBT	7.9%	9.3%
Net	7.2%	8.2%
Retained	4.0%	5.2%
Tax (% rate)	*-8.6%*	*-11.4%*
DPS cover (x)	3.1	3.8
EBITDA (£m)		
EBIT	1.810	2.016
Depreciation	0.543	0.448
Amortisation	0.228	0.209
Total	**2.581**	**2.673**

Source: Company data, Hardman & Co Research

Exceptional item

The debit of £181,000 relates to a potential acquisition, which was under consideration in the half-year but did not proceed; and it is shown separately in the formal income statement. The target was a ventilation business, which would have been a good fit with Titon. Subsequently, the group embarked on due diligence. However, ultimately, it decided not to proceed, which was based on a number of factors but primarily one of timing. As noted above, this resulted in a one-off charge of £181,000 relating to legal and accounting costs, which have been separated out as transaction-related expenses.

Geographical analysis

UK revenue nudged up 2%

The UK, with £15.1m of revenue, accounted for 56% of the group total in 2019 (2018: 50%) and it showed a gain of 2% annualised, which actually was not bad given the degree of uncertainty prevailing in and around Brexit.

Pre-tax profit in the group's home market also inched upwards, by 5% to £1.06m, which also meant that profitability was 20bps higher at 7.0%.

Branded door and window products showed growth of 20%

Revenue from the Hardware business, comprising the traditional trickle vents plus window and door hardware, was slightly lower in the year. Export sales fell (by 19%) and the PVCu, Timber and Aluminium sectors of the UK market were flat. However, sales of Titon branded door and window hardware products continued to show growth of 20% in the year.

In the Ventilation Systems business, the revenues from mechanical ventilation products increased by 4%, with sales in the UK up 7% despite a slowdown in London and the South East markets where projects were delayed. Mechanical ventilation sales in continental Europe, though, were slightly down on 2018 as a number of major economies slowed and normal purchasing patterns were disrupted.

The residential market in South Korea slowed much faster than anticipated

On 14 February 2019, Titon issued an unscheduled trading update in respect of its South Korean business, which cautioned the market about is businesses there; and two factors were highlighted. Firstly, the domestic residential development market had slowed much faster than anticipated, which was reflected in a near 14% decline in the number housing permits in calendar 2018. At the same time, virulent dust-based air pollution, largely from China, intensified. The latter effect meant that demand for mechanical ventilation units rose at the expense of natural ventilation products. In turn, this meant that the trading performance of Titon Korea was set to be affected substantially year-on-year.

For example, BTS, the group's associate company, which primarily distributes ventilation products in South Korea, recorded lower sales in the year. As noted earlier, too, the profit recognised in respect of associates (which is all BTS) halved in 2019. In addition to its trading activities, there have been no changes in the status of BTS's investments and developments in the residential real estate market in Seoul. Currently, three projects are active and at various stages of evolution from simply funding to marketing and sale.

South Korean revenue declined 27%

In terms of the segmental contribution from South Korea, the two businesses, Titon Korea and BTS are added together. The revenue is solely Titon Korea (because the group's share of BTS's profits is accounted for as an associate) and it was 27% lower at £8.3m (2018: £11.4m). The profit contribution for South Korea was also significantly affected and it fell 37% to £1.2m. Note, however, that South Korea remains the largest contributor to group underlying PBT tax with a 55% in fiscal 2019 (2018: 68%).

The group has continued to take steps to re-design its existing natural ventilation products (where it is market leader with in excess of a 75% market share) and to introduce new products for the South Korean market. Titon expects that that these will be available for sale in the second half of 2020; and will include a new natural ventilation product with increased filtration.

US revenue surged 50%

Finally, the group's level of activity in the US has improved significantly in the period with revenue surging more than 50% to £983,000. At the same time, Titon Inc. made no statutory profits in the full year; it generates a return for the UK manufacturing business and makes a contribution to group income.

'Other' nations (largely in Continental Europe) saw revenue dip 6% to £2.8m, which is 10% of the group total. Yes, it was loss-making but this was less than £100,000 (2018: loss of £1,000). This is all about building a market presence and position for the future.

Operating segment revenue and profit

12 months to 30 September 2019 (£m)	2019	2018
Revenue		
UK (net)*	15.071	14.792
South Korea	8.329	11.389
North America	0.983	0.652
Other	2.774	2.941
Total*	**27.157**	**29.774**
Segment profit (pre-tax)		
UK	1.059	1.005
South Korea**	1.186	1.875
North America	0.000	-0.109
Other	-0.094	-0.001
Total	**2.151**	**2.770**
% changes in revenue**		
UK	2	6
South Korea	-27	20
North America	51	-
Other	-6	8
Total	**-9**	**6**
% margins**		
UK	7.0	6.8
S. Korea***	14.2	16.5
North America	-	-
Other	-	-
Total	**7.9**	**9.3**
**ex-inter-segment revenue*	0.496	0.429

Source: Company data; Hardman & Co Research
Notes:
** inter-segment revenue pertains to UK only and UK includes net interest received;*
***2018 was restated; and*
****South Korea profit includes group share of associate BTS.*

Balance sheet

Net cash jumped to £4.6m

Net assets, including minorities (*aka* non-controlling interest), increased 4% in the year to 30 September 2019 from £17.1m to £17.7m; and this included a surge in net cash from £3.4m to £4.59m i.e. 26% of NAV (2018: 20%).

RONA, however, dipped from 16.2% to 12.1% and, on an adjusted basis, from 21.3% to 17.2%. The latter excludes intangibles (at £737,000 and £719,000, respectively) and net cash (as above) from the denominator.

Capital turn of 2.2x

ROCE on an adjusted basis (as above) was also lower at 13.1% (2018: 15.5%) with annualised capital turn (revenue divided by capital employed) at 2.2x (2018: 2.3x) on the same basis. As is our wont, we like the relatively neglected capital turn ratio because it measures how efficiently capital is utilised. For the uninitiated, there are two ways to make a profit: maximise revenue and constrain costs on the one hand, i.e. raise profitability; or use your capital efficiently/limit its extent on the other. Preferably, a combination of both. Capital turn can also be used to focus management and employees on using capital efficiently, avoiding waste and the like.

Quick ratio of 2.1

Turning to liquidity, we highlight the current and quick ratios, which are calculated by dividing current assets by current liabilities ('current') and current assets less stocks divided by current liabilities ('quick' – and where above 1.0 is good). The former was 3.10 (2018: 2.39), while the quick ratio was 2.09 (2018: 1.59). This is exemplary behaviour Titon in what was difficult fiscal year.

Capital employed		
@ 31 March 2019 (£m)	**2019**	**2018**
Ordinary shares	1.113	1.113
Share premium account	1.049	1.049
Revaluation reserve, etc.	0.056	0.056
Profit & loss account	13.669	12.728
Other	0.375	0.475
Shareholders' funds	16.262	15.421
Minorities	1.459	1.706
Provisions for liabilities	0.000	0.000
Preference shares	0.000	0.000
Other loans/leases	0.000	0.000
Bank loans & ODs	0.000	0.000
Capital employed	**17.721**	**17.127**
Fixed assets	3.799	3.655
Investments	2.894	2.586
Stocks/WIP	4.884	5.667
Corporation tax	-0.012	-0.142
Trade debtors	5.446	7.799
Other debtors	0.000	0.000
Deferred tax	0.198	0.311
Accruals/accrued income	0.000	0.000
Trade creditors	-4.793	-6.901
Other creditors	0.000	0.000
Intangibles/Other	0.719	0.737
Cash	4.587	3.415
Capital employed	**17.721**	**17.127**
Metrics:		
ROCE 1	9.2%	11.8%
ROCE 2*	13.1%	15.5%
Capital turn 1 (x)	1.5	1.7
Capital turn 2 (x)*	2.2	2.3
RONA 1	12.1%	16.2%
RONA 2*	17.2%	21.3%
Current ratio	3.10	2.39
Quick ratio	2.09	1.59
Stocks as % of revenue	18%	19%
Creditors as % of revenue	-18%	-23%
(Net debt)/cash (£,000)	4.587	3.415
Net assets (£,000)	17.721	17.127
Gearing (-ve)/+ve	26%	20%

Source: Company data, Hardman & Co Research;
**adjusted for intangibles and net cash; numerators include associates.*

Cashflow

Cash generated from operating activities was £3.27m in 2019 (2018: £1.94m) despite lower profits but backed up control of working capital, particularly debtors

Cashflow statement		
12 months to 30 September (£m)	**2019**	**2018**
PBT	1.970	2.770
Interest, etc.	0.000	0.000
Depreciation, etc.	0.771	0.657
Provisions	0.000	0.000
Asset sales	0.000	-0.016
Share issued/sold	0.063	0.122
Other	-0.329	-0.741
Sources	**2.475**	**2.792**
Capex	0.694	0.578
Disposals	-0.007	-0.046
Acquisitions	0.000	0.000
Inventories	-0.690	0.836
Debtors	-2.153	0.890
Creditors	2.033	-0.964
Tax	0.203	0.132
Dividends	1.014	0.905
Other	0.209	0.315
Uses	**1.303**	**2.646**
Surplus/(deficit)	**1.172**	**0.146**
Adjustment	0.000	0.000
Movement (debt)/cash)	**1.172**	**0.146**
Reconciliation & analysis of balance sheet debt:	**2019**	**2018**
(Net debt)/cash	**4.587**	**3.415**
Net assets	17.721	17.127
Gearing (negative denotes net cash)	-26%	-20%
Movement in (debt)/cash	**1.172**	**0.146**

Source: Company data, Hardman & Co Research; PBT is net of £181,000 exceptional

In the table above, the shift in debtors by more than £3m is a highlight, inventories were also a source of cash, albeit creditors shifted negatively by some £3m too.

A net cash inflow of £1.2m

In sum, then, there was a net cash inflow of £1.17m in the half year (2018: inflow of £146,000), which took net cash to £4.58m (2018: £3.42m). This is equivalent to 26% of net assets and includes a dividend paid by Titon Korea worth £480,000 too (2018: nil).

Forecasts

South Korea will have difficult years in fiscal 2020 and 2021

Fiscal 2019 was a tough year and 2020 will be unrelenting due to the well-documented issues which Titon has faced in South Korea. Last year, revenue fell in the nation by 27% to £8.3m and we expect that figure to be more than £1m lower (-15%) in fiscal 2020. Thereafter, we expect the micro and macro climate for Titon to stabilise with forecast growth of 4% in fiscal 2021 and 10% in 2022 to more than £8m. Profitability was affected last year (i.e. 16.5% to 14.2%) and will be flattened this year to an estimated 3%. Pre-tax margins in fiscals 2021 and 2022 will recover, however, to 6.1% followed by 8.1%.

In terms of contribution, South Korea will contribute little more than £200,000 of total pre-tax profit this year before doubling in 2021 and then adding almost 50% in 2022 to £656,000. Fiscal 2018 was South Korea's peak year with income of £1.9m.

South Korea is forecast to grow GDP at 2.2% and 2.8%, respectively, in 2020 and 2021

For the record, South Korea is the world's 11th largest economy and calendar GDP growth in 2019 looks set to have been trend at just under 2.0%. Statista forecasts that it will grow by 2.2% in 2020 and by 2.8% in 2021 as the Government continues its expansionary fiscal stance. At the same, Titon is introducing a super new range of products from H2 of fiscal 2020.

In the UK, revenue rose by 2% last year to £15.1m (56% of the total) with a pre-tax margin of 7% (2018: 6.8%). We are forecasting 3% revenue growth in 2020 and 2021 before a return to a double-digit rate in 2022. Margins will be held this year before recovering on both product mix and expansion to 7.8% in 2021 and 8.3% in 2022.

Elsewhere, the US underwent a step change in revenue with a 50% rise to just under £1m; and we expect it to be profitable in fiscal 2020 (2018: breakeven) and beyond with a margin of 10% and a low six-figure contribution.

Finally, 'Other countries' (largely Continental Europe) accounted for 10% of revenue last year at £2.8m. This dipped year-on-year but we expect it to grow over the forecast period and, like the US, move from loss to profit with a margin of around 5% and, again, a low six-figure contribution. Both the US and Continental Europe and the US hold great potential for Titon as markets per se and loading factors for UK manufacturing capacity.

A perfect storm of slower economic growth and undulations in product preference

Winding this through to the income statement, we have taken the knife to pre-tax profits and earnings in both fiscal 2020 (especially) and 2021 (see table over). This is driven principally by South Korea, where Titon has had a super run for a number of years. But what can one do? It is a perfect storm of slower economic growth and undulations in product preference. As noted above, the economy will return to trend growth and Titon is working fiendishly hard with the business; and it knows what it is doing.

In terms of the balance sheet, Titon is as zealous a financial housekeeper as Mrs Beeton is a practical chef. Check out its quick ratio last year above 2.0 and the generation of £1.2m net cashflow to conclude with £4.6m; and it maintained the annual dividend. We are also forecasting a net cash tally of £5m at the end of the forecasting period in 2022.

Segmental revenue and profit (£m)				
Revenue	**2019**	**2020E**	**2021E**	**2022E**
UK	15.1	15.5	16.0	17.6
South Korea	8.3	7.1	7.4	8.1
Other	3.8	4.0	4.1	4.3
Total	**27.2**	**26.6**	**27.5**	**30.0**
Pre-tax profit				
UK	1.059	1.084	1.239	1.453
South Korea	1.186	0.212	0.449	0.656
Other	-0.094	0.254	0.263	0.280
Total	**2.151**	**1.550**	**1.951**	**2.389**

Source: Company data, Hardman & Co Research; UK includes net interest received

The impact on the group is outlined below:

Changes to forecasts (revisions shown in red)				
(£m)	**2019**	**2020E**	**2021E**	**2022E**
Net revenue	27.2	30.1	31.8	
		26.6	27.5	30.0
PBT	2.15	2.30	2.60	
		1.55	1.95	2.39
EPS (p)	14.5	16.7	18.9	
		11.7	14.0	16.7

Source: Company data, Hardman & Co Research; 2022 appears for first time

Chairman's statement

""It has been a more challenging year for Titon with revenue lower by 9% at £27.2 million, year-on-year and, whilst the gross margin rose and underlying EBITDA was just 3% lower, underlying profit before tax declined by 22% to £2.15 million. The prime factor in this performance was the slow-down in South Korea, which I reported on earlier in the year. During the year, too, Titon was profitable and cash generative; and the dividend for the year is maintained.

The UK economy continues to grow at between 1% and 2% which is below trend. However, it continues to be positive during what has been a prolonged period of political and economic uncertainty. In South Korea, the Group's largest net profit contributor, 2019 saw growth in GDP of about 2.0%, which is also below trend. In 2020 and 2021, GDP is forecast to grow by 2.2% and 2.3% respectively3 as the Government continues its expansionary fiscal stance together with two interest rate cuts by the Bank of Korea. For Titon, it will be a year of transition for its natural ventilation products in South Korea as economic growth recovers and new products are launched. Revenue at Titon Korea in fiscal 2020 will be lower than in 2019.

Our business model is robust but we continue to face political and economic uncertainties which have contributed to a challenging first two months of the fiscal year. Titon builds and delivers popular products across a unique geographical spread and a number of core market positions. We have good people, a strong balance sheet and continue to seek new growth opportunities in our target markets".

As announced in early 2019, a slowdown in trading coupled with changing product preferences towards mechanical ventilation units in South Korea has resulted in a reduction in the group's underlying profit before tax of 22%. Our UK, European and US operations have, however, traded satisfactorily and the total dividend for the year has been maintained. At the same time, our balance sheet has continued to strengthen as net cash increased significantly to £4.6m.

Profit and loss

As noted below, all 2018 amounts, where relevant, have been restated. In the year ended 30 September 2019, the group's net revenue (which excludes inter-segment activity) reduced by 9% to £27.2m (2018: £29.8m). On a constant currency basis, there was no material change to the 2019 net revenue (2018: an increase of 8%).

The group's gross margin increased from 28.9% to 30.2% as a result of changes in the geographical mix of sales. Underlying operating profit[1] fell 10.2% to £1.8m (2018: £2.0m) and the group realised an underlying operating profit margin[1] of 6.7% (2018: 6.8%).

Net interest contributed £12,000 (2018: £13,000) while the share of profits from the group's South Korean associate fell from £741,000 to £329,000 resulting in underlying profit before tax[1] of £2.15m (2018: £2.77m). On a constant currency basis, there was no material change to the 2019 or the 2018 profit before tax.

Underlying EBITDA[1] was 3.4% lower at £2.58m (2018: £2.67m) and underlying earnings per share[1] for the year was 14.5p (2018: 18.2p). The underlying effective rate of taxation[1] of the group fell to 10.2% (2018: 15.5%).

The Directors are proposing a final dividend of 3.0p per share (2018: 3.0p). When added to the interim dividend of 1.75p, paid on 21 June 2019 (2018: 1.75p), this represents a total dividend for the year of 4.75p (2018: 4.75p). If approved by shareholders at the forthcoming Annual General Meeting on 18 February 2020, the dividend will be payable on 21 February 2020 to shareholders on the register at 16 January 2020. The ex-dividend date is 17 January 2020.

Statement of financial positions and cash flows

The group benefits from a robust and liquid balance sheet. Net assets, including non-controlling interests, rose by £0.63m to £17.7m in the year to 30 September 2019, at which point net cash stood at £4.59m (2018: £3.41m), which is equivalent to 25.9% of net assets (2018: 20.0%). Inventory levels at the year-end fell by £783,000 on 2018 due to a reduction in stock levels in South Korea. This, along with a reduction in the level of other working capital required in South Korea, has contributed to cash generated from operations increasing to £3.28m (2018: £1.94m). Capital expenditure increased slightly to £902,000 (2018: £893,000) and the group paid dividends to the shareholders of Titon Holdings Plc of £526,000 (2018: £489,000). During the course of the year Titon Korea paid a further dividend to Titon Holdings Plc and non-controlling shareholders, resulting in £480,000 of cash being paid to Titon Holdings Plc and a cash outflow from the group to Non-Controlling Interests of Titon Korea of £488,000 (2018: £416,000). The overall effect has been a net increase in the group's cash reserves in the period of £1.17m (2018: £146,000). Net current assets at 30 September 2019 were £10.1m (2018: £9.8m) with a quick ratio[2] of 2.1 (2018: 1.6). Underlying ROCE3 was 14.6% (2018: 15.5%).

Segment analysis

The Directors look initially at geographical areas to evaluate the group's performance and then consider product splits at the secondary level.

UK and Europe

Overall, revenue from the UK and Europe increased by 1% in fiscal 2019.

Revenue from the Hardware business, comprising sales of our traditional trickle vents plus window and door hardware, was slightly lower in the year as export sales fell by 19% and sales into the PVCu, Timber and Aluminium sectors of the UK market were flat as markets weakened. Sales of Titon branded door and window hardware products continued to show growth of 20% in the fiscal year.

In our Ventilation Systems business, the revenues from mechanical ventilation products increased by 4%, with sales in the UK up 7% despite a slowdown in our key London and South East markets where delays in projects are being experienced. Mechanical ventilation sales in mainland Europe were slightly down on 2018 as a number of the major European economies slowed and the uncertainty caused by Brexit led to customers' normal purchasing patterns being disrupted.

Titon continues to invest in research and development which, in turn, yields a continuing number of new products for both the Ventilation Systems and Hardware businesses; and this will continue in 2020. A focus on the importance of air quality, both outdoors and indoors, continues to sharpen as the impact of poor-quality air on health is better understood by the medical profession, governments and consumers. For our part, we continue to work with our trade associations to promote ventilation and specifically with Beama (British Electrotechnical & Allied Manufacturers Association), which represents manufacturers of electro-technical products, such as ventilation products, to promote the benefits of good indoor air quality. Beama also continues to sponsor the Healthy Homes and Buildings All Party Parliamentary Group and the Air Pollution All Party Parliamentary Group.

In October 2019, the Ministry of Housing, Communities and Local Government (MHCLG) published "The Future Homes Standard", which includes a consultation on changes to Part L (Conservation of fuel and power) and Part F (Ventilation) of the Building Regulations for new dwellings. Both of these Building Regulations are important to the sale of our ventilation products in the UK. We will be commenting on the proposed changes to both sets of Building Regulations before the closing date in January 2020. MHCLG have indicated that they hope to bring into force the proposed changes by mid/late 2020 although this date will, of course, be subject to the usual parliamentary priorities. Our initial view is that the proposals may alter the mix of ventilation products supplied to the market. We await proposals from MHCLG on the refurbishment sector, non-domestic buildings and over-heating in due course.

The value of UK private and public housebuilding output is forecast to increase in 2019 by 2.3% against calendar 2018 according to Experian's most recent UK Construction forecast, and by a further 2.3% in 2020. At the same time, the expected value of repair, maintenance and improvement (RMI) in the private and public residential sectors is forecast to be down by 1% in 2019 against 2018, although it is then expected to rise by 2.3% in 2020.

South Korea

In South Korea, the group's subsidiary, Titon Korea (51% owned), manufactures natural window ventilation products and remains the national market leader with an estimated market share in this core sub-sector in excess of 75%. In February 2019, we issued a trading update in respect of our South Korean business identifying a slowdown in the domestic residential development market and the presence of dust-based air pollution, largely from China. The latter impact increased the relative demand for mechanical ventilation products which, in turn, reduced the demand for natural ventilation products. These factors have resulted in a reduction in revenue to £8.3m (2018: £11.4m) whilst the contribution to group profit before tax declined to £0.82m (2018: £1.1m).

The group's associate company (49% owned), Browntech Sales Co. Limited ('BTS'), which principally distributes Titon Korea's natural ventilation products, was accordingly impacted by the downturn experienced by Titon Korea. The profit recognised in respect of associates (which is all BTS) was 56% lower in 2019 at £329,000 (2018: £741,000). In addition to distributing ventilation products in South Korea, BTS invests in and develops schemes in the domestic residential real estate market. There have been no further changes to the status of BTS's investments in the South Korean residential real estate market since the 2019 Interim Results. Despite the reduction in profits from South Korea that we have experienced this year and taking Titon Korea and BTS together, South Korea remains the largest contributor to the group's profit before tax at £1.15m for the year (2018: £1.84m). We have continued to commit resources to designing new products for the South Korean market and a new natural ventilation product with increased filtration has been designed by our Research & Development team in the UK and it is now in the process of being tooled up in Korea. The product will be on sale in the second half of fiscal 2020.

United States

Finally, as I noted in the 2019 Interim Results Statement, results from our US business have improved significantly in the period. Sales for the 12 months increased by 51% to £983,000 (2018: £652,000) and, while Titon Inc. made no statutory profits in the full year, it generates a return for our UK manufacturing business and makes a contribution to group income.

Board

As noted in the Interim Report, we appointed Mr Bernd Ratzke to the Titon Board as an independent Non-executive Director and he has immediately made a contribution to the Board's discussions and to other legal matters impacting the day-to-day activities of the Group. There have been no other changes to the Board during the fiscal year.

Employees

As ever, I offer my sincere thanks to all of the employees of Titon as the success of the Group is down to their hard work and talents. Although the business has not grown this year as we would have liked, this is not down to their contribution which, as usual, has been substantial.

Restatement

As reported in the 2019 Interim Results Statement, we announced in March 2019 that certain costs and revenues associated with products sold by Titon Korea in earlier accounting periods, up to and including 30 September 2018, had, in error, not been correctly accounted for in the relevant periods. This related to the incorrect accounting apportionment of costs and revenues between first and second fix installations of products manufactured by our 51% subsidiary, Titon Korea and sold by Browntech Sales Co. Ltd., our 49% owned associate company. The result of this error was a non-cash reduction of total equity attributable to equity holders of Titon by £826,000 from the figure shown in the 2018 Annual Report. In this Statement the total equity and other comparative 2018 numbers have been restated. For the fiscal year to 30 September 2018, revenue has been reduced by £172,000 to £29.8m and profit before tax has been reduced by £209,000.

Investors

We have now been listed on the AIM market for one year since our move from the Main Market of the London Stock Exchange and I hope that shareholders have benefited from this move.

We have continued to engage the corporate research house Hardman & Co., which regularly writes and distributes investment research on Titon and which we believe has both widened interest in the group and continues to have a positive impact in the share price over the past four years. Shore Capital, our Nominated Adviser and broker, has initiated research coverage on Titon during the year by publishing a research note on the Group in August 2019 entitled "Improving the air that we breathe", a sentiment we share. Finally, I would like to mention again the group's dividend reinvestment programme (DRIP), which has operated for a number of years. This represents a straightforward and cost-effective way for shareholders to increase their holdings in Titon should they wish to do so.

Outlook

Despite the previously reported challenges in the Korean market, the group remained profitable and cash-generative. The dividend for the year was maintained at the same level as 2018, whilst our net cash reserves also increased significantly, further strengthening the group's balance sheet.

The UK economy continues to grow, albeit at a slower rate than forecast at this time last year. How much of this slower growth is down to Brexit is difficult to say but sentiment amongst many consumers and businesses in the UK (and within the wider EU) is that uncertainty about Brexit has hit confidence and impacts adversely on trading. At Titon, we increased the buying of stock in advance of a possible Brexit date twice in 2019, to no benefit. We urge our politicians, of whichever party wins the General Election, to give certainty to the country. Without it, of course, it is difficult to plan and commit funds to new investments. As a business and sector, too, we are subject to amendments to the current UK regulatory regime for ventilation and conservation of fuel and power, which could change demand for our passive and powered ventilation products.

In South Korea, the group's largest net profit contributor, 2019 saw modest growth in GDP throughout the year of about 2.0%, which is below trend. The South Korean economy should continue to grow in 2020 with Focus Economics forecasting a rise in

GDP in 2020 of 2.2% and 2.3% in 2021 as the Government continues its expansionary fiscal stance together with the impact of two interest rate cuts by the Bank of Korea. As noted above, we are in a transitionary period for our natural ventilation products in South Korea as market requirements change. Whilst we will be launching new products for this market in the second half of 2020, we expect adoption over a period of time. As a result, we anticipate that sales in Titon Korea in fiscal 2020 will be lower than in 2019.

Our business model is robust but we continue to face political and economic uncertainties which have contributed to a challenging first two months of the fiscal year. Titon builds and delivers popular products across a unique geographical spread and a number of core market positions. We have good people, a strong balance sheet and continue to seek new growth opportunities in our target markets.

Notes

1. *Underlying operating profit, underlying profit before tax, underlying EBITDA and underlying EPS in the period are non-IFRS measures, which are calculated by adding back an exceptional item of £181,000, which relates to transaction-related costs in respect of a potential acquisition, which did not proceed.*

2. *The quick ratio measures liquidity and is calculated by dividing Current Assets-less-Stocks divided by current liabilities.*

3. *Underlying ROCE is calculated by dividing underlying EBIT by capital employed (capital employed being the sum of shareholders' funds, non-controlling interests and all debt less intangible assets and cash).*

Profit & Loss account

Year-end Sep (£m)	2019	2020E	2021E	2022E
Sales	**27.157**	**26.587**	**27.466**	**30.030**
COGS	-18.959	-18.972	-19.344	-20.962
Gross profit	8.198	7.615	8.122	9.068
SG&A	-5.133	-4.911	-4.989	-5.434
R&D	-0.504	-0.505	-0.522	-0.571
Depreciation and amortisation	-0.771	-0.885	-0.999	-1.113
Licensing/royalties	0	0	0	0
Other income	0.020	0.021	0.023	0.023
Underlying EBIT	**1.810**	**1.335**	**1.635**	**1.973**
Share-based costs	0	0	0	0
Exceptional items	0	0	0	0
Statutory operating profit	1.810	1.335	1.635	1.973
Finance income	0	0	0	0
Finance cost	0	0	0	0
Associates	0.329	0.200	0.300	0.400
Net financial income	0.012	0.015	0.016	0.016
PBT	2.151	1.550	1.951	2.389
Exceptional items	-0.181	0	0	0
Reported pre-tax profit	**1.970**	**1.550**	**1.951**	**2.389**
Reported taxation	-0.186	-0.155	-0.195	-0.238
Minorities	-0.361	-0.100	-0.200	-0.300
Underlying net income	1.604	1.295	1.556	1.851
Statutory net income	1.423	1.295	1.556	1.851
Period-end shares (m)	11.1	11.1	11.1	11.1
Weighted average shares (m)	11.1	11.1	11.1	11.1
Fully diluted shares (m)	11.2	11.5	11.5	11.5
Underlying basic EPS (p)	14.5	11.7	14.0	16.7
Underlying fully diluted EPS (p)	14.3	11.3	13.5	16.1
Statutory basic EPS (p)	12.8	11.7	14.0	16.7
Statutory fully diluted EPS (p)	12.7	11.3	13.5	16.1
DPS (p)	**4.75**	**4.75**	**4.75**	**4.75**

Source: Hardman & Co Research

HARDMAN&CO.

Balance sheet				
@ 30 Sep (£m)	**2019**	**2020E**	**2021E**	**2022E**
Shareholders' funds	17.721	18.309	19.518	21.023
Cumulated goodwill	0	0	0	0
Total equity	**17.721**	**18.309**	**19.518**	**21.023**
Share capital	1.113	1.118	1.123	1.128
Reserves	15.100	16.000	17.100	18.500
Capitalised R&D	0	0	0	0
Minorities	1.459	1.198	1.298	1.398
Provisions	0	0	0	0
Deferred tax	-0.198	-0.030	-0.040	-0.050
Long-term loans	0	0	0	0
Bank overdrafts	0	0	0	0
less: cash & securities	-4.587	-4.500	-4.622	-5.026
less: marketable securities	0	0	0	0
less: non-core investments	0	0	0	0
Invested capital	**12.936**	**13.779**	**14.856**	**15.947**
Fixed assets	6.693	6.000	6.600	7.000
Intangible assets	0.718	0.800	0.900	1.000
Capitalised R&D	0	0	0	0
Goodwill	0	0	0	0
Stocks	4.884	5.000	5.500	6.000
Trade debtors	*5.446*	*5.000*	*4.000*	*3.000*
Other debtors	*0.000*	*1.134*	*1.051*	*1.186*
Trade creditors	*-4.793*	*-4.000*	*-3.000*	*-2.000*
Tax liability	*-0.012*	*-0.155*	*-0.195*	*-0.239*
Other creditors	*0.000*	*0.000*	*0.000*	*0.000*
Debtors less creditors	0.641	1.979	1.856	1.947
Invested capital	**12.936**	**13.779**	**14.856**	**15.947**
Net cash/(debt)	4.6	4.5	4.6	5.0
Net debt/equity	25.9%	24.6%	23.7%	23.9%
After-tax ROIC	12.4%	9.4%	10.5%	11.6%
Interest cover (x)	-	-	-	-
Dividend cover (x)	2.7	2.4	2.8	3.4
Capex/depreciation (x)	1.6	1.6	1.6	1.6
Capex/sales (%)	3.7%	3.8%	3.6%	3.3%
Net asset value/share (p)	159.9	165.2	176.1	189.7

Source: Hardman & Co Research

Cashflow

Year-end Sep (£m)	2019	2020E	2021E	2022E
PBT	2.151	1.550	1.951	2.389
Depreciation	0.543	0.638	0.733	0.828
Amortisation	0.228	0.247	0.266	0.285
Stocks	0.690	-0.116	-0.500	-0.500
Working capital	0.120	-0.347	0	0.000
Exceptionals/provisions	-0.181	0	0	0
Disposals	0	0	0	0
Other	-0.329	-0.350	-0.400	-0.450
Company operating cashflow	**3.222**	**1.622**	**2.050**	**2.552**
Net interest	0	0	0	0
Tax	-0.203	-0.155	-0.195	-0.239
Operational cashflow	3.019	1.467	1.855	2.134
Capital expenditure	-0.694	-0.700	-0.800	-0.900
Capitalised R&D	0	0	0	0
Sale of fixed assets	0	0	0	0
Free cashflow	**2.325**	**0.767**	**1.055**	**1.414**
Dividends	-1.014	-1.054	-1.132	-1.210
Acquisitions, etc.	-0.209	-0.100	-0.200	-0.300
Disposals	0.007	0	0	0
Other investments	0	0	0	0
Cashflow after investments	**1.109**	**-0.387**	**-0.277**	**-0.096**
Share repurchases	0	0	0	0
Share issues	0.063	0.300	0.400	0.500
Currency effect	0	0	0	0
Borrowings acquired	0	0	0	0
Change in net debt	1.172	-0.087	0.123	0.404
Opening net cash	3.415	4.587	4.500	4.622
Closing net cash	**4.587**	**4,500**	**4.622**	**5.026**

Source: Hardman & Co Research; PBT in 2019 is gross of a £181,000 exceptional, which is debited further down

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

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