HARDMAN&CO.

THE MONTHLY

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Feature article:

Share ownership: For the many, not the few – The sequel

Update post publication of ONS survey

We recently published a paper, *Share ownership: For the many, not the few*, based on a statistical survey of share ownership, produced jointly with Argus Vickers, the share analysis service. The Office for National Statistics (ONS) has now issued its equivalent survey. This paper compares its results with ours. Although there are, inevitably, differences in the detail, the two surveys reach the same conclusions.

The two key themes from the surveys are that: i) investors from the Rest of the World (RoW) dominate the main market; and ii) individual investors are becoming more important. Indeed, the ONS work suggests that retail is far more important than even we have given it credit for.

We live in a new world, post-Woodford, where liquidity becomes part of the investment process in a way it never was before

In the post-Woodford (PW) environment (maybe we should divide time into two periods, denoted as BW, Before Woodford, and PW?), liquidity has become critical to professional investors. Companies with low liquidity risk are being forgotten about – they need to engage with the widest investor audience.

The two surveys identify the rise in the percentage of shares held by individuals, and how significant they are outside the FTSE 100 in particular. For example, according to the ONS, they own 20% of the rest of the Main Market – but they are more important to liquidity than even these percentages suggest.

This paper contends that, for most quoted companies, on most days, small trades set the share price. We have consistently shown that 82.9% of AIM-quoted companies have an average trade size of below £10,000. One might think the Main Market would be different; it is, but not by much. A sample test shows that the average trade size on the Main Market is below £10,000 for 75.1% of companies. Of course, the identity of the parties behind a trade is confidential, but it would not be a wild assertion to suggest that, the smaller the figure for the average, the more likely it is that the party is retail.

Focusing only on institutions is no longer going to cut it. Ignoring retail is not only unfair on these investors, but it also neglects a key generator of liquidity. Such a path may prove ultimately fatal for the public life of a company.

This paper outlines a number of routes to improve investor engagement, diversify share registers and grow liquidity.

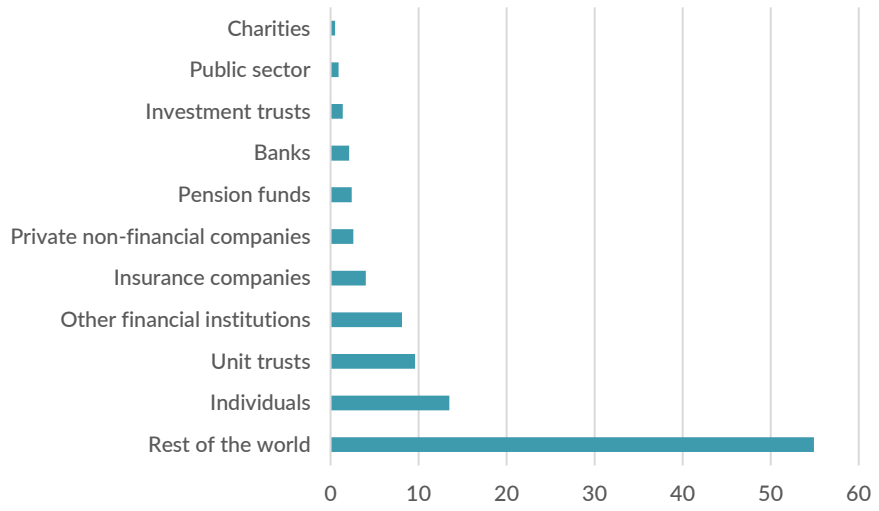
Hardman & Co recently published a paper looking at the ownership of the London market[1]. This was partly in anticipation of the ONS publication of its survey, and partly to explore the field in greater depth. In particular, our survey looks at the register of every company, not just a sample of 200 used by the ONS; it considers the NEX as part of the exercise and uses six-monthly data points, with the most recent point being June 2019. The ONS, however, considers the issue once every two years, with the most recent survey looking at December 2018.

The ONS published its survey, *Ownership of UK quoted shares 2018*, on 14 January 2020[2]. This is the latest contribution to a series stretching back to 1963 and examines the trends in the ownership of shares in companies quoted in London. Its findings bear out the conclusions from our own survey.

Looking at UK quoted companies in aggregate

The ONS survey first considers the position for the whole market at the end of 2018, which is reproduced below:

Beneficial ownership of UK quoted shares at 31 Dec 2018, %



Source: ONS, Hardman & Co

The ONS data show that the two most important investor groups are investors from RoW and individuals

We should point out that, while the ONS entitles this chart, *Beneficial owners of UK quoted shares*[3], we believe that, by this, it means the beneficial owners of shares in *UK domiciled companies* quoted on the London Stock Exchange. We do not believe it includes shares quoted on the London Stock Exchange that are domiciled overseas; nor does it include shares quoted on the NEX market (although the inclusion of NEX shares would make little difference to the aggregate percentages, given the scale of NEX market capitalisations).

The ONS data show that the two most important investor groups are investors from RoW and individuals.

[1] *Share ownership: For the many, not the few*, published 13 January 2020; https://www.hardmanandco.com/share-ownership-for-the-many-not-the-few/

[2] *ONS statistical bulletin*, published 14 January 2020; https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2018

[3] *ONS statistical bulletin*, published 14 January 2020; Figure 1: Rest of the world dominates ownership of UK quoted shares

However, just looking at the details for the whole of the market tells only part of the story. Drilling down into the various components of the London Stock Exchange pays dividends, so to speak.

The smaller the universe size, the more important the individual or retail investor

Holdings of FTSE 100, other quoted companies and the AIM by beneficial owner

At 31 December 2018	FTSE 100	Other quoted	AIM
Rest of the world	57.1%	48.4%	48.2%
Individuals	11.3%	19.8%	25.1%
Charities	0.5%	0.7%	0.6%
Insurance companies	4.1%	3.8%	1.3%
Pension funds	2.4%	2.3%	3.7%
Investment trusts	1.2%	1.9%	1.4%
Unit trusts	9.6%	9.5%	10.9%
Banks	2.0%	2.7%	0.7%
Other financial institutions	8.2%	7.7%	7.3%
Private non-financial companies	2.3%	3.3%	0.6%
Public sector	1.2%	0.0%	0.2%
Total	99.9%	100.1%	100.0%

Source: ONS, Hardman & Co

It should not come as a surprise that the smaller the universe size, the more important the individual or retail investor. The ONS survey does not cover the NEX market; the Argus Vickers/Hardman (AVH) survey does – individuals own 52% of NEX.

RoW investors remain the dominant players in the market as a whole

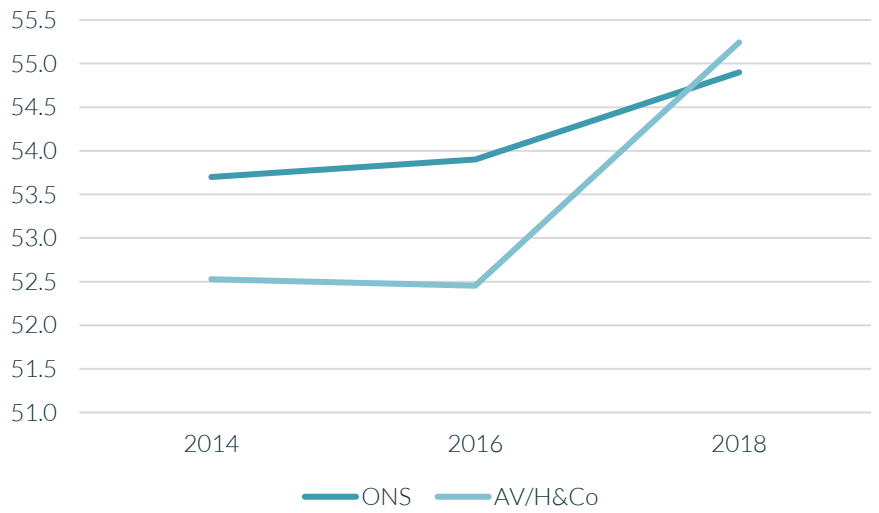
The ONS survey confirms our conclusion that RoW investors still dominate the market.

Our original paper noted that:

> *"In 1963, London was, essentially, a domestic market, even though it was home to international businesses like ICI and the old "colonials", such as rubber plantations. Big Bang, in 1986, was the start of a revolution. Since then, London has been seen as the listing venue of choice for companies from all over the world and, at the same time, has been transformed into a theatre for international investors. These investors owned 7% of the market in 1963, which shrunk further just before 1986; the most recent survey logged them at 53.9% (2016)".*

The latest ONS survey reckons that, in December 2018, RoW investors had grown their share marginally – to 54.9% since 2016. The two surveys have very similar results:

Percentage owned by RoW investors – the two surveys compared



Source: ONS, Argus Vickers, Hardman & Co

Note 1: We assume that when the ONS survey looks at the aggregate figures for the market, it includes the data for AIM. This is not clarified in the survey. Our results in the chart above match what we assume is the basis of the ONS output. In particular, we have not included data for the NEX market.

Note 2: To calculate the percentage for the AVH results in the chart above, we have included holdings where, despite our best efforts, we have been unable to identify the beneficial owner.

The data for June 2019, which we have, but the ONS does not, show little change since the previous December.

Retail investors continue to grow their share of the market

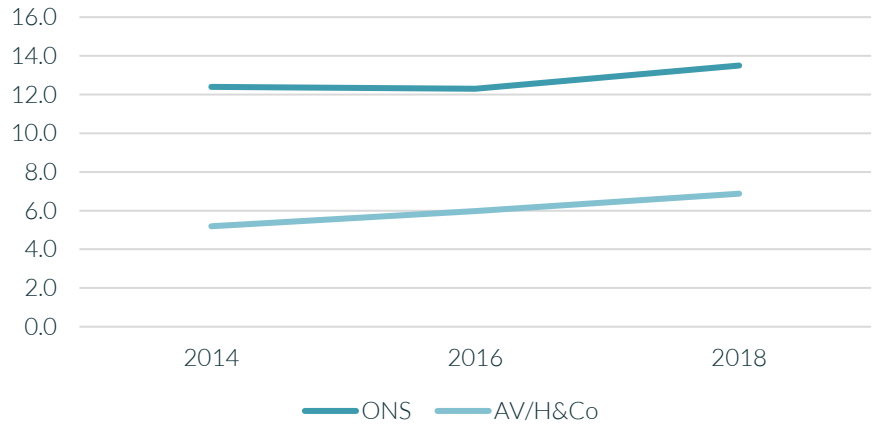
Our previous Insight stated:

> *"Back in 1963, the man in the street owned 54% of all the shares in issue on the London stock market. By 2012, this had fallen to a low point of 10.1%. This has since recovered, with the previous survey, using the data for December 2016, showing a figure of 12.6%".*

The latest ONS survey reports a further increase in the role of the retail investor. The ONS estimates that retail investors owned 13.5% of the market by December 2018. The AVH survey also reported a continuing rise in ownership of the market, albeit with a rather smaller total. If the ONS survey is correct, then the retail investor is even more important than we have suggested.

We compare the two surveys below:

Percentage owned by retail investors – the two surveys compared



Source: ONS, Argus Vickers, Hardman & Co

Note 1: We assume that when the ONS survey looks at the aggregate figures for the market, it includes the data for AIM. This is not clarified in the survey. Our results in the chart above match what we assume is the basis of the ONS output. In particular, we have not included data for the NEX market (as noted earlier, we have the data, but the ONS does not).

Note 2: To calculate the percentage for the AVH results in the chart above, we have included holdings where, despite our best efforts, we have been unable to identify the beneficial owner. If we were to redistribute these "unknowns" across the remaining categories in proportion to their holdings ex the "Unknowns", then the retail share would have been 8.1% in December 2018.

The ONS survey uses the data for December 2018. The AVH survey has more recent data. By June 2019, the retail share had climbed further to 8.3% of the whole market.

Share ownership and liquidity

Liquidity has become a much more important factor for professional investors since the events that led to the winding up of the Woodford Equity Income Fund (WEIF). Both Mark Carney, the outgoing Governor of the Bank of England, and Andrew Bailey, the CEO of the Financial Conduct Authority and the newly appointed Governor, have expressed concerns about the threat to the financial system from illiquidity in the holdings of Open-Ended Investment Companies.

In a letter to Nicky Morgan, chair of the Treasury Committee of the House of Commons, on 18 June 2019, Andrew Bailey wrote of the approach of dividing fund liquidity into buckets. Regulators set limits to the proportion of a fund that can be held in private companies of 10%[4]. However, if a security is quoted on a stock exchange, there are no limits – every exchange is considered as liquid as any other, and there is no distinction drawn by the authorities between shares on the same exchange. The basket analysis (created by Link Solutions, the Authorised Corporate Director of WEIF) considers liquidity of holdings by buckets, regardless of whether they are private or public companies.

[4] We are using the term "private" here, rather than "unlisted" or "unquoted", to avoid confusion. Section 1005 of the Income Tax Act 2007 sets out which stock exchanges meet the HMRC definition of either "listed" or "not listed" for the purposes of HMRC legislation. The AIM market is considered "not listed".

Looking at liquidity in buckets!

Link assessed the WEIF portfolio in four buckets, and each security in WEIF was allocated to a bucket according to the number of days it would take to liquidate the holding:

- Bucket 1 (1-7 days)
- Bucket 2 (8-30 days)
- Bucket 3 (30-180 days)
- Bucket 4 (180-360+ days)

Even before the WEIF issue, many fund managers used liquidity analysis as part of their investment decision. Post-Woodford, there is a renewed focus on the issue. A small fund has more flexibility in what it can hold than a multi-billion-pound fund, because its unit size will be much smaller.

Often, institutions cannot help to improve liquidity – the support of retail becomes key

Hardman & Co has a long history of analysing stock market liquidity[5]. We used to be told by some professionals in the capital markets that liquidity was irrelevant, since every share was always owned by someone. That argument has been dropped. Today, company managements need to be aware of the liquidity in their shares, since low liquidity may mean a reduced investor audience. Of course, if an institution is keen on a company it does not already own, but is held back from purchasing by poor liquidity, it is powerless to solve the liquidity hurdle itself. It must rely on other investors to do that. And guess who they might be? – retail investors.

Our survey shows that the private investor is even more important because, on most days of most months, for most companies, these investors set the share price.

Role of retail investors in price formation of most shares is unappreciated

Another way to consider the influence of retail investors on liquidity and share prices is to consider trading data. The table below examines the average trade size on the AIM and Main Market for the month of November 2019. This is not the average value traded in a day or a month; it is the average size in pounds of each individual trade. It is also the most recent data available as this article went to press.

Average trade size on AIM in November 2019

Average trade size	Number of companies	% of all companies
More than £100k	7	0.8%
£80-100k	2	0.2%
£60-80k	6	0.7%
£40-60k	11	1.3%
£20-40k	55	6.3%
£10-20k	68	7.8%
£5-10k	153	17.6%
£0-5k	568	65.3%
Total	**870**	**100.0%**

Source: London Stock Exchange, Hardman & Co Research

In this particular month, for 82.9% of AIM companies, the average trade on the market was worth less than £10,000. Is there something unusual about November 2019? No, our latest paper using this dataset looked at November 2017, when 82% fell into this bracket. The previous paper to that showed that, in September 2015, the percentage of AIM companies with an average bargain size less that £10,000 was… 82%.

Is there something unusual about AIM? The answer is "hardly". We publish, for the first time, the data for the Main Market, set out below. 75.1% of Main Market companies had an average trade size of less than £10.000 in November 2019.

[5] For example, our June 2018 paper, *After the love has gone*, explored post-IPO liquidity. https://www.hardmanandco.com/after-the-love-has-gone/

Average trade size on the Main Market in November 2019		
Average trade size	Number of companies	% of all companies
More than £100k	12	1.1%
£80-100k	4	0.4%
£60-80k	7	0.6%
£40-60k	21	1.9%
£20-40k	61	5.6%
£10-20k	164	15.2%
£5-10k	314	29.1%
£0-5k	497	46.0%
Total	**1080**	**100.0%**

Source: London Stock Exchange, Hardman & Co Research

The data do not show what type of investor is responsible for each trade, but it must be sensible to draw the conclusion that the lower the average, the more important the retail investor probably is. A few companies get the issue. Some managements tell us that the largest part of their register is accounted for by institutions, which trade infrequently, often only when there is a placing or fund raising. Yet the price at which these large trades occur starts from the trades in the days and weeks before – trades by retail investors.

What can company managements do to improve investor engagement and liquidity?

Better engagement with all investor audiences, not just institutions, will improve that vital liquidity, enabling more professional investors to buy

Managements spend too much time courting institutions and too little time thinking about other investor audiences. One of the authors of this paper spent a large part of his career doing exactly that.

Managements should consider the following:

- We understand why it is normal to restrict attendance at results meeting to analysts. However, we recommend pasting the slide deck on the company's website. Why not add a recording of the meeting as well?
- Host capital markets days where all investors are presented to by the whole leadership team, not just the CEO and CFO.
- Engage a sponsored research house (such as Hardman & Co). Some have very extensive distribution, covering all types of investors, including retail. Although a few institutional brokers claim they cover retail, this generally means that work is available to high-net-worth investors. Investors have to find the research; it is not proactively marketed to them.
- Consider retail investor events such as Mello, attended by ca.700 private investors over two or three days. We have found the typical investor to be knowledgeable and serious.
- Understand your shareholder register and investigate the holders of your peers. If they hold a peer but not your shares, why is that? Is it through lack of knowledge perhaps? This is where a shareholder analysis service such as Argus Vickers can prove useful.
- When raising new money, work with execution-only private client broking platforms and organisations, such as PrimaryBid, to enable retail investors to participate on the same terms as institutions. A measure of the role that PrimaryBid can play in assisting public companies is the fact that it recently signed

an agreement with the London Stock Exchange[6]. Also recently, Mark Payton, CEO of Mercia Technologies, was forced to apologise for not including a retail offer in a further fundraising[7].

Excluding retail investors from engagement is not only unfair on those investors, but may rebound on a company. Without those investors enhancing liquidity, institutions may not be able to buy the shares in the first place.

Methodology

Collecting the data

Argus Vickers combines detailed share registry work with a sophisticated database of the real beneficial owners behind nominee names

Argus Vickers employs a team of professionals to interrogate share registers. The law requires the share register of UK-domiciled companies to be a public document. Although the collection of all the data from share registers is a mammoth task in itself, it is only part of the work needed to produce the data used in this report. Much of a share register is held in nominee names; Argus Vickers uses its proprietary analytic tools and software to extrapolate the readily available information to understand who is behind these nominee names. For example, Rule 8 of the Takeover Code in the UK requires certain parties to disclose dealing in shares of a company involved in a bid situation and to reveal who is behind a nominee name. Indeed, the form that must be completed says specifically, "The naming of nominee or vehicle companies is insufficient. For a trust, the trustee(s), settlor and beneficiaries must be named". This is a key plank of the transparency, which is a hallmark of the British capital markets – parties cannot hide behind nominees, as is common in many other regimes. The detail about the beneficiary behind a nominee name revealed during a takeover bid is cross-referenced to uncover the beneficial owners on other companies' share registers.

Even so, there are still gaps, categorised as "Unknown" in the data, for a number of reasons. Many companies quoted in the UK are not domiciled here, and so their share registers may not be available to public scrutiny. The second main reason is that there may be a newly-registered nominee, or one that has never had to make a regulatory disclosure before – so the beneficiary behind the nominee cannot be discovered.

Categories

The ONS survey splits shareholders into various categories. We have worked with Argus Vickers to divide the data we have into the same categories.

What is an individual?

The ONS methodology paper defines individuals as "… individual persons resident in the UK (whether registered in their own name, through a PEP/ISA, or as clients of a stockbroker or fund management group); shares held for employee share ownership schemes; and shares held in trusts with named individual beneficiaries".

Why our results might differ from the upcoming ONS survey

- The ONS survey uses a sample of 200 companies quoted on the London Stock Exchange, representing approximately 80% of the value of shares on the London Stock Exchange. The ONS sample comprised the 85 largest companies and 115 small companies; it is possible that the 115 small companies are unrepresentative of smaller companies in total. The AVH survey does not use a sample, but, instead,

[6] See interview with Marcus Stuttard, Head of UK Primary Markets and Head of AIM, London Stock Exchange and Anand Sambasivan, CEO and Co-Founder of PrimaryBid here: https://www.lsegissuerservices.com/spark/in-conversation-primarybid

[7] Financial Times, 29 December 2019, *Mercia contrite over small investors left out of £30m fundraising*. https://www.ft.com/content/ee75c2c2-228a-11ea-b8a1-584213ee7b2b

uses the data for *every* quoted company. The difference in the datasets might explain varying outcomes.

- ONS only considers UK-domiciled companies. Our data include all companies listed in the UK, regardless of domicile. We focus on the data from Argus Vickers, excluding shareholdings where the beneficial owner cannot be discerned ("Unknowns"). This is a proxy for excluding non-UK-domiciled companies, since many of these unknown shareholdings are such companies where there is rather less public disclosure.

- We have tried to match the categories that the ONS uses. However, we cannot be sure we have perfectly matched its definitions without cross-referencing its work with ours. It is unlikely that the ONS would agree to that! It is the direction of travel that is important.

- Our survey includes the data for NEX-quoted companies – the ONS survey does not cover NEX.

- The ONS survey is conducted once every two years, whereas our survey has data points for every six months back to 2014.

- Our most recent data point is June 2019; the ONS survey was struck at December 2018.

ARGUS VICKERS®
Intelligent Shareholder Analysis

About Argus Vickers

Argus Vickers provides a complete Intelligent Shareholder Analysis service, which enables companies and investors to identify and track the real beneficial owners and fund managers behind a company share register.

The shareholders behind Nominee accounts are identified and their trading behaviour is tracked. This intelligence is key for building strong investor relationships, developing efficient corporate communication and identifying investment trends of fund managers and beneficial owners. The service enables an investment bank equity trader, corporate financier, institutional stockbroker or investor relations consultant to find out who owns "what" and "how much" within a public listed company. Argus Vickers' professional analysts and products deliver detailed and accurate fund manager and beneficial owner shareholding information behind all companies listed in the UK and Ireland.

www.argus-vickers.co.uk

About Hardman & Co

Hardman & Co is a rapidly-growing, innovative corporate research & consultancy business, based in London, serving the needs of both public and private companies. Its expert team of nearly 35 sector analysts and market professionals collectively has more than 400 years of experience. This depth of knowledge and a reputation for integrity have built trust with investors. With effective communication and carefully-targeted distribution, Hardman & Co helps companies disseminate their investment message to interested investors, as well as advise them on strategy.

Our smaller, boutique structure allows us to provide first-class customer service and to deliver a wide range of ad-hoc services for multiple clients with different needs.

www.hardmanandco.com

About the authors

Keith Hiscock is the Chief Executive of Hardman & Co

He is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate. Keith has 40 years' stockbroking experience and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith has also advised companies, large and small, on their relationships with the capital markets.

Yingheng Chen is a senior financial analyst at Hardman & Co

Yingheng has particular experience in the markets for palm oil, cocoa, citrus, coconut, Jatropha and sugar. She worked as a corporate finance analyst at the Agricultural Bank of China, and is fluent in Cantonese and Mandarin. She has a thorough understanding of the Chinese financial and business markets, as well as of those in the UK. Yingheng joined Hardman & Co in 2008. She holds the Chartered Financial Analyst Level 2 qualification, together with a BSc in Economics from the London School of Economics.

Ben Brougham is Head of Sales & Marketing at Argus Vickers

Ben has spent a career in the B2B media sector, as a publisher, and head of events, marketing and business development. His career includes spells at Euromoney Institutional Investor, Caspian Publishing, jointly running Real IR and Vitesse Media (now Bonhill Group Plc), publishers of *Growth Company Investor* and *What Investment*, and manager of the Quoted Company Awards. He started at Argus Vickers in February 2017, and heads up the sales function, with a focus on cultivating the knowledge and understanding on the value of shareholder intelligence.

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Richard Downard is Head of Business Development at Argus Vickers

Richard started his career as a trader in the London capital markets, working for firms such as BZW, Panmure Gordon and Jeffries. He has more than 25 years' experience covering global equities, specialising in UK/Pan-Euro/Canadian and Small/Mid-Cap and Natural Resources companies. Richard is a proven account relationship manager with extensive Institutional and Broker/Dealer contacts. He joined Argus Vickers in May 2016.

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Antonio (Tony) Martins is an IT Consultant at Argus Vickers

Tony Martins started his career as an Environmental Data Analyst, using Relational Data and Satellite images to analyse environmental impacts in areas of Hydroelectric Power Plants, working for companies such as CESP, CETESB and AXA-IM. With over 30 years' experience working in Database Technology, he has been creating and implementing processes and data analysis reports. Tony joined Argus Vickers in July 1999.

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Company research

Priced at 24 January 2020 (unless otherwise stated).

Healthcare Equipment & Services

Source: Refinitiv

Market data

EPIC/TKR	**AVO**
Price (p)	**37.3**
12m High (p)	52.0
12m Low (p)	32.5
Shares (m)	243.8
Mkt Cap (£m)	90.8
EV (£m)	104.7
Free Float*	72%
Market	AIM

**As defined by AIM Rule 26*

Description

Advanced Oncotherapy (AVO) is developing next-generation proton therapy systems for use in radiation treatment of cancers. The first system is expected to be installed in Daresbury for CE marking. Meanwhile, Harley Street, London, is progressing to plan and will be operated via a JV with Circle Health.

Company information

Exec. Chairman	Michael Sinclair
CEO	Nicolas Serandour
	+44 203 617 8728
	www.avoplc.com

Key shareholders

Board & Management	9.6%
Liquid Harmony	19.0%
DNCA Investments	5.1%
P. Glatz	4.0%
Lombard Odier AM	3.4%
Brahma AG	3.3%

Diary

End-2020	First patient treatment

Analysts

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ADVANCED ONCOTHERAPY

2020 – the final countdown

AVO's goal is to deliver an affordable and novel proton beam therapy (PBT) system, based on state-of-the-art technology developed originally at the world-renowned CERN. While 2019 was characterised by the achievement of a number of technical milestones and validation of the technical advantages of the accelerator over conventional machines, 2020 will see the first LIGHT machine set up in Daresbury (Cheshire) for treating first patients in order to gain CE marking. Given the late-stage advancement the project, it would not be surprising if AVO were to announce its first sales orders during the current financial year.

- **Strategy:** AVO is developing a compact and modular PBT system at an affordable price for the payor, financially attractive to the operator, and generating superior patient outcomes. AVO benefits from technology know-how developed by ADAM, a spin-off from CERN, and relies on a base of world-class suppliers.

- **Patient treatments by end-2020:** All the components that comprise LIGHT have now been delivered to the Daresbury site, including the patient positioning system. AVO is undertaking the on-site validation stage to get the first LIGHT accelerator ready for patient treatments by the end of 2020 for CE marking.

- **Daresbury:** The strong partnership with STFC's Daresbury Laboratory, Liverpool will enable AVO to quickly move forward with the construction of the first LIGHT system. STFC offers the know-how and the skills to project manage and is able to deliver the bespoke accelerator infrastructure required by AVO.

- **Harley Street:** After completion of the verification process and gaining CE mark and also FDA 510(k) approval through first patient treatments, the first commercial LIGHT machine will be installed at the Harley Street site (2021), where final preparatory works are taking place.

- **Investment summary:** AVO's ca.£91m market capitalisation equates only to the amount invested into LIGHT to date, reflecting neither the huge technical challenges already overcome, nor the market potential. A DCF analysis of LIGHT's prospects generates an NPV of at least 239p per share (fully-diluted). The disconnect between fundamental and market valuations offers an investment opportunity, which will reduce as AVO nears first patient treatments and completes its financing plan.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	0.0	0.0	0.0	21.5	65.5	111.5
Gross profit	0.0	0.0	-1.9	1.9	11.4	27.6
Administration costs	-11.2	-12.9	-15.7	-15.4	-15.8	-16.2
EBITDA	-12.7	-14.1	-21.4	-16.6	-10.5	1.6
Underlying EBIT	-13.1	-14.5	-21.8	-20.6	-14.6	-2.4
Statutory EBIT	-13.1	-14.5	-21.8	-21.2	-13.9	-0.7
Underlying PTP	-13.2	-16.5	-21.9	-22.3	-16.7	-4.6
Statutory PTP	-13.2	-16.5	-21.9	-22.9	-16.0	-2.9
Underlying EPS (p)	-17.0	-17.6	-14.0	-8.1	-6.0	-1.3
Statutory EPS (p)	-14.3	-18.9	-13.4	-8.3	-5.7	-0.6
Net (debt)/cash	0.9	-9.2	-2.0	-21.5	-31.0	-34.7
EV/EBITDA (x)	-	-	-	-	-	61.9

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Refinitiv

Market data	
EPIC/TKR	**AGY**
Price (p)	11.5
12m High (p)	17.8
12m Low (p)	7.3
Shares (m)	636.2
Mkt Cap (£m)	73.2
EV (£m)	48.2
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	
Jan'20	Trading update
Mar'20	Interim 2020 results

Analysts	
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ALLERGY THERAPEUTICS

Positive interim trading update

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Pollinex Quattro (PQ) is an ultra-short course subcutaneous allergy immunotherapy (AIT) platform, which continues to make strong market share gains in a competitive environment. Several products using the PQ platform are in late-stage development, with the aim of moving them to full registration under new regulatory frameworks in both the EU and the US. AGY has just announced another solid operating performance and market share gains in its traditionally strong first half, with associated positive cashflow.

- **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.

- **1H'20 trading:** Underlying product sales were very solid again in 1H'20, rising 9% to £50.5m (£46.7m), suggesting further European market share gains. The gross cash position at the period-end was exactly in line with our forecast, at £39.7m, benefiting from the £3.2m settlement of legal costs with Inflamax.

- **Trial update:** The statement also highlighted progress made with two upcoming trials. First, AGY is taking a stepwise approach to the US Grass MATA MPL Phase III study, with the initial part starting in 2020. Secondly, peanut vaccine GMP material is being manufactured to support a Phase I trial.

- **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 Phase III trial protocol.

- **Investment summary:** Over the past year, we have highlighted consistently that AGY is at an exciting juncture. While continuing to invest in its profitable European SCIT business, it is leading the race to have its SCIT products fully approved and regulated as biologicals in the US. Despite this, the current EV/sales appears 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	-4.1
Equity issues	0.0	0.0	10.2	0.3	0.3	0.3
P/E (x)	-17.9	-8.3	-25.9	-12.0	-3.9	-16.8
EV/sales (x)	0.65	0.61	0.57	0.52	0.49	0.45

Source: Hardman & Co Life Sciences Research

Financials

Source: Refinitiv

Market data

EPIC/TKR	**ARBB/ARBN**
Price (p)	1,300/1,100
12m High (p)	1,428
12m Low (p)	1,033
Shares (m)	15.4
Mkt Cap (£m)	206
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	7.0%
Slater Investments	3.9%
Miton Asset Mgt.	3.6%
R Paston	3.6%
M&G IM	3.5%

Diary

12 Feb	Pre-close trading update
End-Mar'20	FY'19 results

Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

Trading update due in February

The key message from the 3Q'19 trading statement was of continued strong franchise growth (loans +33% to £1.6bn, deposits +17% to £2bn – see our *18 October note*). We expect the February 2020 trading statement to deliver similar messages of growth, driven by new products and services (see service example below and testimonial in our January monthly), funded by deposit growth. Investment in new businesses is paced with consideration to profit generation from existing ones. Our view on credit is for a gentle market deterioration, with ABG's private bank seeing lumpy provisions and recoveries. A profitable, growing bank, trading around book value, appears anomalous.

- **Arbuthnot Specialist Finance Ltd (ASFL):** Speed is an important service issue and potential competitive advantage. On *6 January*, ASFL reported a deal completing in just seven working days from approval, with the client using ASFL's "Commercial Investment" offering on a 12-month interest-only term, at 65% LTV.

- **Peer news:** STB's 15 January *trading statement* was positive and the share price rose 4% on the day. Charles Stanley's 14 January *trading statement* saw a 6% rise. Close Brothers' 22 January update saw a 6% fall, as did the Brooks MacDonald's *update*. Brewin Dolphin appointed *Phillip Monks* as Non-Executive Director.

- **Valuation:** The average of our approaches is now £16.55, 1.3x 2020E NAV (from £16.56 – with a small decline in the STB stake value). Two of our models use 2020 estimates, which include accelerated investment, as detailed in our *18 October note*, but not the payback for it. The share price is around the 1H'19 NAV (1,321p).

- **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 around 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	77,471	89,588
Total costs	-35,926	-46,111	-54,721	-64,982	-71,595	-80,157
Cost:income ratio	104%	111%	100%	96%	92%	89%
Total impairments	-1,284	-474	-394	-2,731	-2,877	-2,965
Reported PBT	-2,606	-1,966	2,534	6,780	6,799	9,831
Adjusted PBT	2,982	1,864	3,186	7,416	8,799	11,831
Statutory EPS (p)	86.3	1,127.3	43.9	-134.5	37.5	54.0
Adjusted EPS (p)	13.5	17.1	47.5	40.3	48.2	64.6
Loans/deposits	82%	76%	75%	71%	79%	80%
Equity/assets	5.5%	18.5%	12.8%	9.0%	7.6%	7.1%
P/adjusted earnings (x)	100.0	78.9	28.4	33.5	28.0	20.9
P/BV (x)	1.69	0.89	0.88	1.05	1.06	1.04

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

Market data	
EPIC/TKR	**Private**
Price (p)	n/a

Description

B-North is being developed to serve the sizeable UK SME lending market. It has state-of-the-art technology, a regional hub model and experienced managers to deliver a best-in-class service to SMEs and commercial brokers. It will be funded through best-buy retail deposit comparison websites. The model should have a material cost advantage over competitors, and credit risk is being tightly managed.

Company information	
Chairman	Ron Emerson CBE
CEO	Jonathan Thompson
CFO	David Broadbent
	investor@b-north.co.uk
	b-north.co.uk

Key shareholders	
Directors/management	£1m+
Greater Manchester Combined Authority	Six-figure sum
HNWI	Balance

Diary	
1Q'20	Banking licence (tbc)
1Q'20	£20m capital raise
2Q'20	Start lending
4Q'20	Start retail deposit-taking

The target seed round top-up capital raise of £2m was over-subscribed (£2.8m raised). The GrowthFunders and Crowdcube platforms are now closed. Investors with £50k+ to invest can do so directly through contact with David Broadbent, Founder & CFO, Suite 20A, Manchester One, 53 Portland Street (and this is expected to close end-January). The group now targets raising £20m from institutional investors, conditional on getting its banking licence.

Analyst

Mark Thomas 020 7194 7622

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B-NORTH

Initial capital raise oversubscribed

The original seed-round top target had been to raise £2m. In the event, it was substantially oversubscribed and, as at 23 January, had raised £2.8m. The *GrowthFunders* platform reports 112 online investors and 55 professional investors taking part, while *Crowdcube* reported 563 investors. There were further substantial contributions from management and direct high-net-worth individuals. The opportunity for investors with £50k+ to subscribe direct remains open. B-North will now move on to raising a more substantial £20m (through Berenberg, minimal likely investment £500k), with the funds committed conditional on approval of the banking licence, which is due in March 2020.

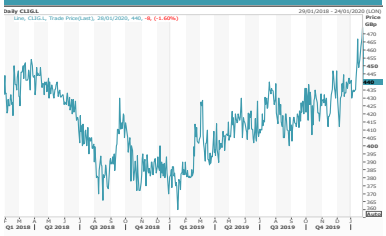
- **News:** B-North continues to build controls and infrastructure (three hires announced *13 January*) and has selected Newcastle Strategic Solutions Limited to provide its deposit-taking solution as it moves towards scheduled launch in the first half of 2020.
- **"Reality Check":** In our *16 December note*, we reviewed the company assumptions and believe them to be ambitious but credible. We considered the level of lending that peers have achieved and the absolute performance. Importantly, B-North has multiple options to address any volume shortfall – most at a modest cost.
- **Valuation:** Given the growth profile of the company and associated uncertainties, any valuation must be treated with extreme caution. In our initiation, we provided a range of approaches that, on average, indicate B-North's value in 2027 could be treble the amount of equity raised. We also provided a range of sensitivities.
- **Risks:** Credit risk is key for any bank. B-North will establish independent credit functions, and its technology brings it close to customers interfacing with their internal information. It has multiple options to address any loan growth shortfall. The economic cycle is important. The model is yet to be tested and capital raised.
- **Investment summary:** B-North is still at the pre-revenue stage. Its model should be low-cost and deliver a superior service to customers and intermediaries. It has a conservative credit culture and uses state-of-the-art technology, written from scratch, to originate, service and manage its business. Funding waill be via the deep best-buy retail deposit comparison sites. The potential market is huge, profitable and under-served, and major incumbents have selectively become uncompetitive.

Financial summary and valuation – eight-pod scenario

Year-end Sep (£m)	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net interest income	0.0	0.5	3.9	14.5	37.4	72.7	116.2	160.7	203.6
Costs	-2.9	-7.0	-18.0	-28.3	-36.0	-41.3	-45.5	-47.8	-52.0
Impairments	0.0	0.0	-0.2	-1.0	-3.1	-7.4	-8.9	-10.1	-10.7
Pre-tax profit	-2.9	-6.5	-14.2	-14.3	-0.6	25.9	64.7	106.5	145.4
Net interest margin	n/m	1.4%	4.0%	4.3%	4.1%	4.2%	4.2%	4.3%	4.3%
Cost:income ratio	n/m	n/m	n/m	n/m	-93%	-55%	-38%	-29%	-25%
RoE	n/m	-14%	-15%	-12%	0%	11%	20%	23%	24%
Loans	0	15	100	470	1,100	1,925	2,850	3,700	4,550
Deposits	0	0	12	329	770	1,424	2,098	2,745	3,393
Equity	1	72	86	102	154	217	298	393	502
Value at 12x P/E*	n/m	n/m	n/m	n/m	n/m	252	629	962	1,303
Value vs. cum. equity issued	n/m	n/m	n/m	n/m	n/m	1.1	2.3	2.9	3.4

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

Financials



Source: Refinitiv

Market data

EPIC/TKR	**CLIG**
Price (p)	474.0
12m High (p)	474.0
12m Low (p)	379.1
Shares (m)	26.6
Mkt Cap (£m)	125.9
EV (£m)	112.1
Market	LSE

Description

City of London (CLIG) 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	18.6%
Blackrock	10.1%
APQ Capital	5.5%
Cannacord Genuity	5.0%
Eschaton Opportunities Fund Management	4.8%
Polar Capital	3.7%

Diary

17 Feb	Half-year results
21 Apr	3Q FUM announcement
14 Jul	Pre-close update

Analyst

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CITY OF LONDON INVESTMENT GROUP

Perky markets support dividend hike

City of London has announced a trading update for 2Q'20. At the end of December, FUM had grown to $6.01bn, a 13% increase over the September 2019 figure of $5.34bn. This was driven by healthy market growth and more inflows into the Developed World strategy. A rebound in the exchange rate means a smaller increase in FUM of 5% in sterling terms. The highlight for many investors will be in the increase in the interim dividend of 1p to 10p. While nothing has been said about the full-year dividend, increasing that at the same rate would still leave the five-year rolling dividend cover, on our estimates, above the 1.2x target.

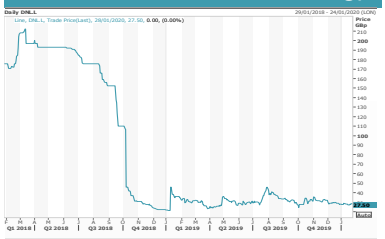
- **Operations:** The increased FUM in the diversifying strategies did not affect the revenue margin, which stayed at 75bps. The strong market performance and good inflows led to an estimated pre-tax profit of £6.3m, which was a little ahead of our forecast.
- **Performance:** Each of the Emerging Market, Developed Market and Opportunistic Value strategies outperformed, with NAV performance and discount narrowing being a factor in each. Frontier underperformed, with country allocation and discount widening both being factors.
- **Valuation:** The prospective P/E of 10.7x is at a discount to the peer group. The historical yield for the ongoing dividend of 6.2% 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 raise 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	6.23	6.67
Revenue	24.41	31.29	33.93	31.93	35.07	38.20
Statutory PTP	7.97	11.59	12.79	11.40	13.47	15.20
Statutory EPS (p)	23.3	36.9	39.5	34.9	43.1	48.6
DPS (p)	24.0	25.0	27.0	27.0	30.0	30.0
Special dividend				13.5		
P/E (x)	18.6	11.8	11.0	12.4	10.7	9.8
Dividend yield	5.5%	5.8%	6.2%	9.3%	6.2%	6.2%

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

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**DNL**
Price (p)	**28.5**
12m High (p)	47.0
12m Low (p)	22.8
Shares (m)	84.5
Mkt Cap (£m)	24.1
EV (£m)	14.9
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 in key EU countries, while Chronocort is submitted for EU approval.

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

11 Feb	Interim results
28-31 Mar	DITEST study details
1H'20	Alkindi AUS Approval

Analysts

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	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

DIURNAL GROUP

Interim results due 11 February

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". In 2020, DNL is expecting a number of market authorisations in key territories. We expect DNL to announce a US partnership(s), likely in 1H'20, to support Alkindi, and for the upcoming clinical studies with Chronocort. In an interim trading update, DNL provided sales figures for Alkindi of £1.1m, ahead of forecast. Cash of £4.6m is before receipt of an R&D tax credit claim of £2.1m.

- **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.

- **Trading update:** In its interim trading update, DNL stated that sales of Alkindi were £1.1m (£0.2m), which was ahead of our forecast at £0.8m. Further launches are due with Italy and the Netherlands in calendar 1H'20, followed by Spain in 2H'20. Cash in the bank of £4.6m was also higher than our £3.6m forecast.

- **US partner:** DNL is progressing discussions in its search for a US partner for the sales and distribution of Alkindi as well as clinical support for the Phase III (CAH) and Phase II (AI) Chronocort trials. US licensing discussions for Alkindi are ongoing and we expect an announcement to be made in 1H'20.

- **Four market approvals:** During 2020, DNL expects to receive four market authorisations for its products, with Alkindi approval due in Australia, NZ and in Israel in early 2H'20. Importantly, DNL awaits the US approval for Alkindi for late 2H'20 as well as EMA positive feedback on its market authorisation for 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 (202p) 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	-7.52	-9.22	-10.92
R&D	-8.34	-10.02	-8.69	-9.43	-8.96	-11.20
EBITDA	-12.07	-16.97	-14.50	-16.00	-14.25	-8.73
Underlying EBIT	-12.08	-16.98	-14.53	-16.02	-14.27	-8.76
Statutory EBIT	-12.08	-16.98	-14.53	-16.02	-14.27	-8.76
Underlying PBT	-12.16	-17.11	-14.40	-15.98	-14.27	-8.83
Statutory PBT	-12.16	-16.91	-14.40	-15.98	-14.27	-8.83
Underlying EPS (p)	-18.04	-27.16	-14.54	-12.88	-11.27	-5.69
Statutory EPS (p)	-18.04	-26.78	-19.70	-12.88	-11.27	-5.69
Net (debt)/cash	16.37	17.28	9.15	0.29	-13.82	-22.46
Equity issues	0.05	13.40	5.53	5.57	0.00	0.00

Source: Hardman & Co Life Sciences Research

Support Services

Source: Refinitiv

Market data

EPIC/TKR	**FLTA**
Price (p)	162
12m High (p)	245
12m Low (p)	133
Shares (m)	29
Mkt Cap (£m)	47
EV (£m)	47
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

Cleaning up

Filta provides cleaning services to commercial kitchens in North America, the UK and, more recently, mainland Europe. The company reported that EBITDA for 2H'19 would be similar to 1H'19, and thus below our expectations. The cost-saving benefits of the Watbio acquisition are still taking longer than expected. Revenue continues to be on track, and some extra investment has been made in UK sales staff to maximise the revenue opportunities.

- **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.

- **Outlook:** In November last year, we cut our FY19E EBITDA from £4.2m to £3.3m, and left FY20E unchanged. The cut to EPS was more substantial, due to operational and financial gearing, as well as a proportionately higher tax charge. The cuts do not reflect any weakening in the business prospects, which we still see as very attractive.

- **Valuation:** Filta has no directly comparable companies. We have used a DCF to derive a value range of 217p to 283p per share, using a 10% discount rate and a mid-term (2021-25) growth rate of between 6% and 12%. Our central estimate is 260p. 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.

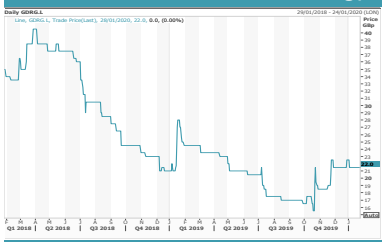
- **Investment summary:** Filta is an attractive business, in our view, combining the capital-light franchise model in North America and Europe with company-owned operations in the UK. With only a tiny proportion of the market currently served and with little or no competition, we see potential for years of profitable growth going forward. 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	25,100	27,500
EBITDA	594	1,193	2,116	2,642	3,300	5,250
Underlying EBIT	450	1,011	2,059	1,941	1,330	3,300
Reported EBIT	450	-249	1,699	1,782	980	3,300
Underlying PTP	376	932	1,968	1,900	1,030	3,100
Statutory PTP	376	-329	1,608	1,742	680	3,100
Underlying EPS (p)	1.39	3.66	5.05	5.39	1.32	8.11
Statutory EPS (p)	1.39	-1.51	3.85	4.88	0.13	8.11
Net (debt)/cash	-619	3,271	2,992	2,040	500	2,848
Shares issued (m)	22	23	27	29	29	29
P/E (x)	116.7	44.3	32.1	30.0	123.1	20.0
EV/EBITDA (x)	60.4	28.1	19.5	17.0	14.1	8.4

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**GDR**
Price (p)	**21.5**
12m High (p)	28.0
12m Low (p)	13.0
Shares (m)	34.9
Mkt Cap (£m)	7.3
EV (£m)	12.3
Free Float*	52%
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 point-of-care/near-patient settings with a low-cost device offering fast and accurate results. It focuses on diagnostics for acute hospital settings and for serious infectious diseases, such as hepatitis C and tuberculosis.

Company information

CEO	David Budd
CFO	Matthew Fowler
Chairman	Ian Gilham
	+44 161 989 0245
	www.genedriveplc.com

Key shareholders

Directors	1.8%
Calculus	18.9%
M&G	14.8%
BGF	12.5%
Odey	5.4%
River & Merc.	5.2%

Diary (calendar year)

4 Feb	Interim results
1H'20	WHO HCV-ID prequalification decision

Analysts

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

GENEDRIVE PLC

RNR1 assay data: high clinical accuracy

Genedrive plc (GDR) is a commercial-stage biotech focused on point-of-care molecular diagnostics. Its Genedrive® molecular diagnostic platform offers low-cost, simple-to-use devices for highly sensitive and specific testing. The rapid analysis of samples aids real-time decision-making, whether in clinical, public health or biothreat applications. GDR is developing a portfolio of assays for the Genedrive device, with its hepatitis C virus (HCV) and pathogen detection assays already on the market. GDR should enter European markets in 2020 with the CE-marked RNR1 assay. The latest data demonstrate high accuracy in clinical detection of RNR1 gene variants.

- **Strategy:** With CE marking for its Genedrive technology platform, management has completely re-focused the company onto the commercialisation pathway for gene-based diagnostics in hepatitis C, TB and for US DoD pathogen detection, and for the RNR1 assay for Antibiotic-Induced Hearing Loss (AIHL).
- **Accuracy data:** A case-control study of the RNR1 diagnostic assay on 303 buccal swab samples delivered results of 100% specificity and 100% sensitivity. This is particularly impressive since such samples are relatively impure and unprocessed, as necessary for fast turnaround times in acute care settings.
- **AIHL news flow:** The implementation phase of the AIHL programme is underway, with recruitment to the NHS "PALOH" study ongoing. News could include first patient treated, top-line analytical performance data, and partnership deals for both UK and European launches. CE marking was achieved in 2019.
- **Risks:** The Genedrive platform has been validated by CE marking of the HCV-ID and RNR1 kits, repeat orders from the US DoD, and funding from Innovate UK and the NIHR. The key risks are commercialisation in undeveloped global health markets and funding for anti-viral or anti-microbial drugs.
- **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 large global opportunity – should market factors improve, the HCV-ID test has excellent potential. With strong partners, e.g. the NHS, being signed in both developed and developing markets, and several product lines in development, GDR has a solid growth strategy.

Financial summary and valuation

Year-end Jun (£000)	2017	2018	2019	2020E	2021E	2022E
Group sales	5,785	1,938	2,362	2,992	4,923	9,215
Underlying EBIT	-4,913	-5,264	-4,449	-4,271	-1,928	665
Reported EBIT	-7,292	-7,375	-4,010	-4,271	-1,928	665
Underlying PBT	-5,417	-5,782	-5,002	-5,001	-2,683	-98
Statutory PBT	-7,487	-7,788	-4,518	-5,001	-2,683	-98
Underlying EPS (p)	-23.6	-26.9	-15.8	-12.1	-5.7	1.3
Statutory EPS (p)	-34.9	-31.9	-14.0	-12.1	-5.7	1.3
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-70	-2,096	-3,334	-6,948	-8,228	-6,660
Capital increases	6,023	0	3,243	174	100	0
P/E (x)	-0.8	-0.7	-1.3	-1.7	-3.5	15.9
EV/sales (x)	2.1	6.2	5.1	4.0	2.4	1.3

Source: Hardman & Co Life Sciences Research

Financials

Source: Refinitiv

Market data

EPIC/TKR	**MCL**
Price (p)	127.5
12m High (p)	186.0
12m Low (p)	105.0
Shares (m)	131.0
Mkt Cap (£m)	167.0
EV (£m)	182.2
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 (31 December)

Hay Wain	36.33%
Premier Miton Group	13.71%
Artemis Inv. Mgt.	8.70%
J.O. Hambro	7.21%
Canaccord Genuity WM	4.02%
Legal & General	4.00%

Diary

End-Feb'20	Trading statement

Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

MORSES CLUB PLC

Value-added, customer-driven expansion from core

In our 15 January note, *Value-added, customer-driven expansion from core*, we outlined the clear, customer-demand-driven strategy and how MCL aims to deliver on its ambitious guidance in the acquired businesses. With expanded operations in both online lending and current accounts, MCL can take a greater proportion of existing customer wallet, generate more new customers and retain a greater proportion of current customers who may otherwise have left. We believe these new areas are key to the franchise growth and likely to be a driver to share price performance. On our assumptions, the range of absolute valuation methodologies is 167p-197p.

- **MCL news:** Artemis, J.O. Hambro and Cannaccord Genuity have all increased their shareholdings. In our *21 October report*, we detailed how MCL's core home collect division delivered 11% underlying profit growth, with efficiency gains and good credit (20% reported adjusted growth), despite stable market volumes.
- **Peer news:** Non-Standard Finance's 16 January *trading update and capital markets* day saw a 27% recovery in its share price. The company outlined its strategy across all three divisions. There was no price-sensitive read-across for MCL. PFG's 15 January *trading update* saw an 8% rise on company-specific issues.
- **Valuation:** We detailed our valuation approaches in *Bringing home collect into the 21st century*, published on 2 February 2017. The range in absolute valuation methodologies is now 167p-197p. Peer valuations remain of limited value, given specific issues affecting each company.
- **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 receive 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 9.1x and a 7.8% February 2021 dividend yield, with 1.5x 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	136.5	151.7
Total impairments	-18.8	-24.3	-24.7	-26.2	-30.0	-40.2
Total costs	-53.4	-56.7	-65.6	-67.1	-83.6	-85.1
EBITDA	19.3	19.9	20.1	23.7	22.9	26.4
Adjusted PBT	16.8	17.7	18.6	22.0	19.9	22.9
Statutory PBT	10.4	11.2	15.5	20.2	16.5	21.5
Statutory EPS (p)	6.1	6.6	9.7	12.5	10.3	13.6
Adjusted EPS (p)	10.2	10.8	11.4	13.6	12.2	14.0
P/adjusted earnings (x)	12.4	11.8	11.2	9.4	10.5	9.1
P/BV (x)	3.0	2.7	2.5	2.3	2.2	2.1
P/tangible book (x)	3.7	3.2	2.8	2.7	3.0	2.8
Dividend yield	n/m	5.0%	5.5%	6.1%	6.4%	7.8%

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

Financials

Source: Refinitiv

Market data

EPIC/TKR	**NSF**
Price (p)	28.0
12m High (p)	75.0
12m Low (p)	16.9
Shares (m)	312.0
Mkt Cap (£m)	87
EV (£m)	340
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
Non-Exec. Chair	Charles Gregson

+44 20 386 99026
www.nonstandardfinance.com

Key shareholders (29 Nov'19)

Invesco	25.33%
Alchemy	19.22%
Aberforth Partners	17.64%
Marathon Asset Mgt.	12.35%

Diary

Mar'20	FY'19 results

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

NON-STANDARD FINANCE

Sunshine after the rain

In our 17 January note, *Sunshine after the rain*, we noted: "The focus for the next few years is on relatively modest investment and on driving return on assets towards our medium-term target of 20% for each division." So said John van Kuffeler at the *capital markets day*. After an eventful 2019, 2020 (and beyond) is now all about operational delivery and the "boring" grinding-out of profit from a franchise that has seen heavy investment over many years. We welcome this focus and think it will help deliver the 84% EPS growth (2021 on 2018) in current consensus estimates. The accompanying *trading statement* indicated 2019 results would be in line with market expectations. The shares rose strongly on the day.

- **Trading update:** The branch-based lending business's (ELL) net loan book grew 17% and the guarantor loan division (GLD) book by 29% vs. end-2018. Home Collect Credit (HCC) saw a small decline. Impairments were 22.4% of revenue in ELL, 22.6% in GLD and 27% in HCC. Progress has been made on cheaper funding.

- **Peer news:** PFG's 15 January *trading update* saw an 8% rise on company-specific issues. Secure Trust Bank's 15 January trading statement was positive, and its share price rose 4% of the day. Amigo announced a *strategic review, and possible sale*. MCL saw a modest increase in holdings by three of its shareholders.

- **Valuation:** Our absolute approaches now indicate a range of 79p-85p. On the current price, the 2020 prospective P/E is 4.6x, for a business whose impairment provisioning already reflects a significant downside scenario. The covered yield is now double-digit. Our forecasts are slightly above consensus (2020 P/E 5.0x).

- **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.

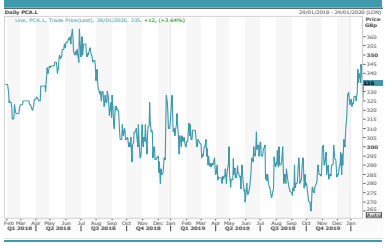
- **Investment summary:** Substantial value should be created, as: i) competitors have withdrawn; ii) NSF is well-capitalised, with committed debt funding until 2023; iii) macro drivers are positive; and iv) NSF has a highly experienced management team, delivering operational efficiency without compromising the key F2F model. Investors are paying 4.6x current-year estimated earnings and getting a dividend yield of 11.1%, driven, we believe, by the sentiment issues above.

Financial summary and valuation

Year-end Dec (£000)	2017	2018	2019E*	2020E*	2021E*
Reported revenue	121,682	168,128	184,013	202,836	224,607
Total impairments	-28,795	-42,688	-47,513	-51,707	-55,623
Total costs	-67,706	-87,792	-93,281	-98,358	-106,137
EBITDA	25,181	37,648	43,219	52,772	62,847
Adjusted PBT	13,203	14,769	15,822	23,281	29,881
Statutory PBT	-13,021	-1,590	-19,835	20,152	28,350
Pro-forma EPS (p)	3.44	3.70	4.10	6.15	7.94
DPS (p)	2.20	2.60	3.00	3.10	3.95
P/adjusted earnings (x)	8.1	7.6	6.8	4.6	3.5
P/BV (x)	0.4	0.4	0.5	0.5	0.4
P/tangible book (x)	1.2	1.5	1.9	1.5	1.2
Dividend yield	7.9%	9.3%	10.7%	11.1%	14.1%

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

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**PCA**
Price (p)	338
12m High (p)	350
12m Low (p)	270
Shares (m)	46.0
Mkt Cap (£m)	155
EV (£m)	252
Market	Main, LSE

Description

Palace Capital is a real estate investor, diversified by sector (office, industrial predominate) and location, but not present 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

Jun'20	Final results
Jul'20	AGM

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PALACE CAPITAL

It is time for the regions: Palace Capital is the answer

There seems to be a growing school of thought that the House of Lords should relocate to York; Palace Capital got there first. We are confident it would say "come on in, the water's fine." The sales launch for its mixed residential-office scheme in York was in the summer, and apartment sales are ahead of budget. As well as the development in the centre of York, most of Palace Capital's top-10 investment assets are located in the north of England, with office developments in central Newcastle, Manchester, Leeds and Liverpool. With or without external market assistance, all these are strongly placed in the short and medium term, as is the large majority of the REIT's assets.

- **The north of England:** Palace Capital is a REIT that excludes central London from its investment universe and has a bias – not exclusively – towards the Midlands and north of England. This is not a short-term cyclical play: it is the result of the managers seeking prospective fundamental revaluations, on a strategic basis.

- **More good positioning:** Strategically, Palace Capital also holds ca.50% of its assets in (non-London) city-centre offices. This is a market where not only has development been very limited, but where stock is changing from office into residential. Nothing is easy or perfect in real estate, but Palace Capital's positioning is "Premier League".

- **FY21E upgrade:** FY21 will see York apartment sales proceeds and an income stream from the commercial part of the mixed scheme. Last year, we brought forward this income as a result of the trading update showing strong sales rates. This is most encouraging, while investors should note that it ties up capital in 2019/2020.

- **A track record of outperformance**: Portfolio occupancy is 86%, with the voids predominantly being "tactical vacancies as we progress our value enhancing Capex strategy." This is important: some income is sacrificed to optimise overall NAV returns.

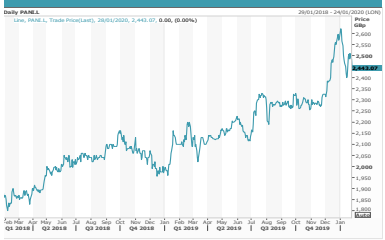
- **Risks:** The normal risks of real estate apply. The weighted average length of unexpired lease to break is 5.2 years. EPRA profits grow significantly further in FY22E, with the completion of Hudson Quarter, central York. Retail exposure (bar Wickes and Booker) is minimal. Hudson Quarter selling well means earlier reduction in development capital debt exposure. We have upgraded here.

Financial summary and valuation

Year-end Mar (£m)	FY17	FY18	FY19	FY20E	FY21E
Net income	12.2	14.9	16.4	19.0	16.4
Finance cost	-3.0	-3.4	-4.6	-4.0	-4.0
Declared profit	12.6	13.3	6.4	3.6	20.2
EPRA PBT	6.4	7.5	8.6	11.0	8.2
EPS reported (diluted, p)	36.5	35.8	11.3	7.1	44.1
EPRA EPS (p)	21.2	18.7	16.5	23.2	18.0
DPS (p)	18.5	19.0	19.0	19.0	19.0
Net cash/debt	-68.6	-82.4	-96.5	-108.6	-84.8
Dividend yield	5.4%	5.5%	5.5%	5.5%	5.5%
Price/EPRA NAV	76.2%	81.4%	83.1%	85.2%	79.9%
EPRA NAV (p)	443.0	414.8	406.6	396.8	423.0
LTV	37.3%	29.9%	33.8%	37.2%	30.2%

Source: Hardman & Co Research

Closed-Ended Investments Funds



Source: Refinitiv

Market data

EPIC/TKR	**PIN**
Price (p)	2,450
12m High (p)	2,620
12m Low (p)	1,975
Shares (m)	54,089
Mkt Cap (£m)	1,344
NAV p/sh. (p)	2,749.3
Discount to NAV	11%
Market	Premium Equity Closed-Ended Investment 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'19)

USS	8.2%
Merian	7.0%
Esperides SA SICAV- SIF	5.7%
East Riding of Yorkshire	4.7%
APG Asset Mgt.	4.4%
Investec Wealth	4.4%
Private Syndicate pty.	3.8%
Brewin Dolphin	3.4%

Diary

27 Feb	Interim results

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

PANTHEON INTERNATIONAL

PIP is an investment trust that invests in a diversified portfolio of 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 (AUM) of $43bn (as at 30 June 2019), and a team of more than 90 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, and our report, *History of value added to portfolio by holding Pantheon*, published on 26 November 2019, can be found on the same site.

FTSE sector

Source: Refinitiv

Market data

EPIC/TKR	**PXC**
Price (p)	**11.30**
12m High (p)	21.8
12m Low (p)	9.0
Shares (m)	54.42
Mkt Cap (£m)	6.15
EV (£m)	6.05
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	15.56%
JIM Nominees	12.75%
Directors & mgt.	10.17%
Lynchwood Nominees Ltd	6.67%

Diary

May'20	Final results

Analyst

Paul Mylchreest 020 7194 7622

pm@hardmanandco.com

PHOENIX COPPER LTD

Developing a potentially world-class copper mine

PXC continues to advance its strategy for the staged development of the potentially world-class polymetallic mine in mining-friendly Idaho, US. In a change to planned mine scheduling, the initial Red Star silver-lead-zinc mine will provide cashflow to develop the Empire near surface copper (oxide ore) mine and explore the much larger sulphide ore body at depth. Only about 1% of the deposit has been explored so far. Our current estimated DCF valuation of 32p/share is based on the initial copper mine only while we evaluate Red Star.

- **Strategy:** PXC focuses on near-term cashflow and will maximise returns/ minimise risk to shareholders by developing a potentially world-class copper-silver-zinc deposit in stages. Empire was formerly a (very) high-grade underground copper mine, which was shut down due to World War II. Access to historical workings will cut exploration costs significantly, e.g. drilling.

- **Interims:** The 2019 interims were noteworthy for the success in maintaining cost control as the Empire project advances. The net loss for the period of $0.67m was marginally lower than the $0.68m reported in 1H'18.

- **Red Star update:** The development of the Red Star mine is being fast-tracked, with production expected by end-2021. Recent exploration confirmed an open-ended extension of the vein and two additional veins. The drilling programme will see at least 25 drill holes in addition to the initial three. This will upgrade and enlarge the existing inferred resource of 103,500 tonnes of ore and 0.58m ounces of silver.

- **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:** While we evaluate Red Star, which will be the subject of an upcoming report, our DCF valuation of 32p/share is based on the initial copper mine. This incorporates 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)	158
12m High (p)	160
12m Low (p)	110
Shares (m)	1,220
Mkt Cap (£m)	1,925
EV (£m)	2,960
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

48% total shareholder return in 2019

PHP's rating has risen, as investors gave the strategy execution in 2019 a positive vote. The merger with MedicX Fund was one of several factors driving DPS growth visibility; others include the successful treasury management and the equity raise later this year. What next? We think 2020 will be a year illustrating the ongoing benefits of being 100% devoted to investing in a sector that is upward-only rent income with an effectively government-backed covenant. We see an accelerating trend in rental evolution as leases are renewed in 2020. This is not quite an index-linked gilt, but there are some similarities. Results are due later this month, upon which we will initiate FY21E.

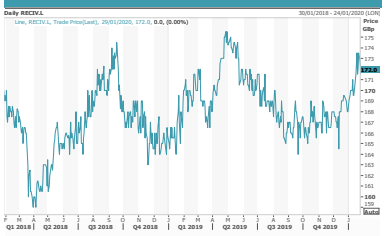
- **In a nutshell, PHP has a hat trick of positive differences:** Open market rent rises have been modest and are set to accelerate in this specific market. The same cannot be said for any other UK asset class. This sector is effectively government-backed income. The dividend has risen in each of the 23 years since IPO, with more to come.
- **Cost of debt falling:** A number of factors are driving EPS higher. Along with rent, another major factor is cost of finance. The cost rose to just above 4.0% post the merger with MedicX Fund – which had a higher average debt cost than PHP. Progressively, this may reduce towards 3% – and potentially less.
- **Other factors driving EPS, and hence DPS:** The low-risk (not nil-risk) nature of the assets gives scope for slightly greater leverage. Assets yield well over cost of debt, so would continue to be EPS-accretive. The incremental administrative costs are low.
- **Risks:** No development risk is taken. Investment is focused tightly on this one sector. Assets are rented to top-quality covenant tenants on long leases. Undrawn facilities exceeded £200m pre the £100m equity placing and the €70m debt facility of September 2019. We estimate 46% LTV at end-2020.
- **Investment summary:** The merger and ongoing debt refinancing have significantly enhanced EPS, while, at the same time, been modestly de-leveraging, and so there is a clear road ahead for EPS growth. This is further supported by the significant trend in rents; these have seen modest growth in recent years but are now set to move significantly ahead of UK real estate average rent inflation.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Income	66.5	71.3	76.4	116.5	134.5
Finance costs	-32.5	-31.6	-29.7	-43.7	-47.0
Declared profit	43.6	91.9	74.3	-52.5	114.5
EPRA PBT (operating)	26.7	31.0	36.8	60.2	74.5
EPS reported (p)	7.8	15.3	10.5	-5.1	9.4
EPRA EPS (diluted, p)	4.7	5.1	5.2	5.7	6.1
DPS (p)	5.12	5.25	5.40	5.60	5.85
Net debt	-663.2	-726.6	-670.2	-1,192.9	-1,222.9
Dividend yield	3.2%	3.4%	3.4%	3.5%	3.7%
Price/EPRA NAV (x)	1.73	1.57	1.50	1.45	1.42
NAV per share (p)	83.5	94.7	102.5	103.3	106.0
EPRA NAV per share (p)	91.1	100.7	105.1	108.8	111.6

Source: Hardman & Co Research

Diversified Financial Services



Source: Refinitiv

Market data

EPIC/TKR	**RECI**
Price (p)	173.5
12m High (p)	176.0
12m Low (p)	163.5
Shares (m)	209.4
Mkt Cap (£m)	363
NAV p/sh. (p)	165.2
Premium/Disc	5.0%
Market	Premium Equity Closed-Ended Investment 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

Bank Leumi	8.6%
AXA SA	8.4%
Close Bros	8.2%
Premier AM	8.2%
Fidelity	8.0%
Canaccord Genuity Group	7.7%
Smith and Williamson	6.7%

Diary

Early Feb'20	Jan factsheet
Jun'20	Year-end Mar results

Analysts

Mark Thomas	020 7194 7622
	mt@hardmanandco.com
Mike Foster	020 7194 7622
	mf@hardmanandco.com

REAL ESTATE CREDIT INVESTMENTS

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 on the UK, France and Germany.

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 will not exceed an 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.

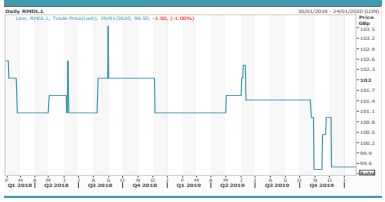
- Other direct or indirect opportunities, including equity participations in real estate, save that no more than 20% of the total assets will be invested in positions with an LTV in excess of 85% or in equity positions that are uncollateralised. On specific transactions, the company may be granted equity 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 28 August 2019, and our note, *Delivering on its promises*, published on 17 December 2019, can be found on the same site.

RECI *announced*, on 30 January 2020, a proposed issue of new ordinary shares.

Premium Equity Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	**RMDL/RMDZ**
Price (p)	99.5/105.5
12m RMDL High (p)	104.0
12m RMDL Low (p)	99.5
Shares (m)	122.24
Mkt Cap (£m)	120
NAV p/share (p)	97.79
Free Float	100%
Market	LSE Equity Inv. Instr.

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	17%
Quilter	16%
MerianGlobal	13%
Brooks MacDonald & Hawksmoor	5%
CG AM & Jupiter	4%
Sarasin, Charles Taylor, PAM, Seneca & Blankstone Sington	3%
RM (Inv. Mgr.)	1%

Diary

Mid-Feb	Jan 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: Predictable revenue streams generating high yield*, published on 5 June 2019, and our reports, *Defensive qualities in uncertain times* (26 September 2019) and *Social Infrastructure: RMDL an alternative alternative* (6 January 2020), can be found on the same site.

Pharmaceuticals & Biotechnology

Source: Refinitiv

Market data

EPIC/TKR	**STX**
Price (p)	163.5
12m High (p)	202.0
12m Low (p)	37.0
Shares (m)	117.2
Mkt Cap (£m)	191.6
EV (£m)	182.0
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	8.9%
W. Health	47.8%
MaRu AG	10.7%
R. Griffiths	5.0%
C. Schweiger	4.8%
USS	4.4%

Diary

1Q'20	Management update
1H'20	Accrufer deal
1Q'20	Paediatric study to start
Apr'20	FY'19 results
Mid-2020	Accrufer launch

Analysts

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

SHIELD THERAPEUTICS

China upfront has boosted cash runway

STX is a commercial-stage company delivering specialty products that address patients' unmet medical needs, with an initial focus on treating iron deficiency (ID) with ferric maltol. Recent news that the FDA had approved this drug for a broad indication opened up a market in the US currently worth more than $1bn p.a. On 8 January, STX announced a development and commercialisation licence deal in China with Beijing Aosaikang Pharmaceutical Co (ASK Pharm), whose local expertise should support approval and deliver strong licensing income in what is the world's second-largest pharmaceuticals market.

- **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.

- **China deal:** The novel iron replacement therapy Feraccru/Accrufer has been exclusively licensed to ASK Pharm for commercialisation in China. An $11.4m/£8.7m upfront payment has extended STX's cash runway into 2021. Addition of this China deal has increased our valuation to £399m/341p.

- **Trading update:** Partner sales of Feraccru in European markets were in line with expectations, giving gross revenues of £2.9m. 2H'19 sales were 28% higher than 1H sales. The gross cash position, at £4.1m, was lower than forecast, due to a combination of working capital, lower tax rebate and capitalised R&D.

- **Risks:** All drug companies carry development risk. However, the clinical risk with STX is limited because of Feraccru/Accrufer's clinical profile and existing marketing approvals. The main risk is achieving an appropriate partnering deal in the US and executing on commercialisation strategy to capture market share.

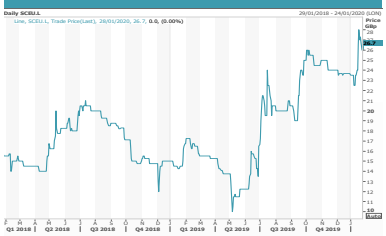
- **Investment summary:** The FDA approval and pending launch of Accrufer reinforces our view that STX is at an exciting juncture. It has delivered on all the goals set at the time of its IPO in 2016. Feraccru/Accrufer has been validated by EU and US regulatory approvals, and the commercial deal in Europe 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**	**2.91**	**9.81**	**3.05**
Sales	0.64	0.86	0.61	2.08	3.05
R&D	-4.71	-4.30	-3.31	-4.64	-3.89
Other income	0.00	11.03	2.30	7.73	0.00
EBITDA	-18.48	-2.47	-5.46	-1.49	-8.72
Underlying EBIT	-18.90	-3.26	-6.25	-2.28	-9.51
Reported EBIT	-20.95	-5.17	-8.15	-4.19	-11.42
Underlying PBT	-18.91	-3.26	-6.24	-2.32	-9.56
Statutory PBT	-20.99	-5.16	-8.15	-4.22	-11.46
Underlying EPS (p)	-15.58	0.09	-4.49	-1.39	-7.66
Statutory EPS (p)	-17.43	-1.55	-6.12	-3.01	-9.28
Net (debt)/cash	13.30	9.63	3.96	4.13	-3.18

Source: Hardman & Co Life Sciences Research

Automotive



Source: Refinitiv

Market data

EPIC/TKR	**SCE**
Price (p)	28
12m High (p)	28
12m Low (p)	12
Shares (m)	136
Mkt Cap (£m)	38.0
EV (£m)	37.2
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

Surface Transforms (ST) 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

+44 151 356 2141
www.surfacetransforms.com

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

28 Feb	Report for seven months to Nov'19
30 Mar	Year-end Dec'19
Jun'20	AGM

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

SURFACE TRANSFORMS

Front foot very much forward

ST's trading update issued in January was in line with expectations, including the fulfilment of an order within weeks of winning it. Substantial new contracts have been won, post the May 2019 year-end. These have 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). Some cash receipts were pushed beyond the December year-end but were received by the time of the 10 January update. Our numbers (below) reflect only orders won. Progress to expand the order book is good.

- **Major orders achieved and more to come:** As per the 10 January update: "the Company still expects to be able to make significant contract announcements during the new 2020 financial year." The market is £100m and set to grow ca.20-fold, with ST one of only two manufacturers.
- **Major orders won last year:** OEM 6 contract award on 28 June 2019 – two contracts, ca.£8m, over the next five years; OEM 5 award on 16 July 2019 – lifetime revenue contracted at ca.€11.8m, commencing in October 2021. In the context of the market, these are small contracts, and there will be more to come.
- **Capacity allocation model:** ST's capacity-in-place is £17m sales p.a. We reiterate that the production process, while extremely complex, is entirely repeatable; so expansion would consist of adding more of exactly the same bespoke kit as that being used already.
- **Evolution of risks:** ST is set to be cashflow-positive by 2021. It is the right side of high barriers to new competition in a high-growth market with only one competitor. The product requires a delicate marriage of manufacturing and chemical engineering skills. ST's high R&D spend has secured this.
- **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 ST also supplies. Last year's June/July contract wins de-risk the business, and both open and expand the target market. The path to ST's discs being designed into many more models is clear.

Financial summary and valuation

Year-end May*/ December**(£m)	FY19*	*7-month 19E***	FY20E**	FY21E**	FY22E**
Sales	1.00	1.50	3.30	4.10	5.80
EBITDA	-2.63	-1.00	-0.55	-0.10	1.00
EBITA	-2.97	-1.20	-1.25	-0.80	0.30
PBT	-2.98	-1.20	-1.25	-0.80	0.30
PAT	-2.06	-0.90	-0.70	-0.25	0.85
EPS (adjusted, p)	-1.64	-0.66	-0.51	-0.18	0.62
Shareholders' funds	6.96	6.05	5.35	5.10	5.95
Net (debt)/cash	1.60	0.77	1.40	1.90	3.20
P/E (x)	loss	n/a	loss	loss	45.2
EV/sales (x)	37.2	n/a	11.0	8.8	6.0
EV/EBITDA (x)	loss	n/a	loss	loss	35.0
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

Construction & Materials

Source: Refinitiv

Market data

EPIC/TKR	**TON**
Price (p)	120.0
12m High (p)	206.0
12m Low (p)	112.5
Shares (m)	11.1
Mkt Cap (£m)	13.3
EV (£m)	10.2
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

18 Feb	AGM
May'20	Interim results

Analyst

Tony Williams 020 7194 7622

tw@hardmanandco.com

TITON HOLDINGS PLC

Electiton

'Tis rare that a company reports on the same day as a general election. 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 coped manfully with a number of travails in fiscal 2019; and, in the current fiscal year, it will show how to "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 had to take out the red pencil with which we reduced 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 a number of commentators expects long-term annual growth above 3%.

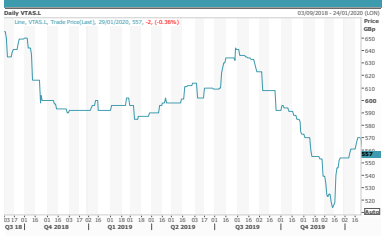
- **Electiton:** The Hardman UK Building Materials Sector comprises 23 companies worth £10.3bn (flat in 2020 to date) and 10.7x EV/EBITDA on a trailing 12-month basis (priced 24 January) or 14.4x weighted by market value. Titon is on just 3.9x (okay, rising to 4.5x in 2020E). The sector's Total Shareholder Return (TSR) over 12 months is 27% actual or 40% weighted. Titon is adrift at -37%; remember, though, in 2016 through 2018, it averaged a 31% TSR p.a. It will be re-elected.

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)	8.3	10.5	8.5	7.2
EV/EBITDA (x)	3.9	4.5	3.8	3.1
DPS (p)	4.75	4.75	4.75	4.75
Dividend yield	4.0%	4.0%	4.0%	4.0%

Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	**VTA .NA, VTA.LN VTAS LN**
Price (€)	6.60/6.64/564p
12m High (€)	6.74/7.04/642p
12m Low (€)	6.04/6.14/515p
Shares (m)	36.6
Mkt Cap (€m)	241
Trail. 12-mth. yield	9.4%
Free Float	70%
Market	AEX, LSE

Description

Volta Finance (Volta) is a closed-ended, limited liability investment company with 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-Feb	Jan 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).

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 note, *Investment opportunities at this point of the cycle* (14 January 2019), the manager's *March 2019* and *June 2019* presentations, our 7 October 2019 report, *9%+ yield in uncertain times*, as well as links to our Directors Talk interviews on the company.

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