



HARDMAN & CO.



THE MONTHLY

August 2019

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Accounting update

Treatment of 'share-based payments'

The introduction of IFRS 2 in 2004 generated considerable debate about the best approach for handling 'share-based payments' (SBP). While it is clearly a cost to shareholders, which should be included in the statutory reporting lines through the P&L account, the question arose as to whether it should be part of our underlying EBIT calculation. Following discussion, it was decided to exclude SBP from the calculation of underlying EBIT in Hardman & Co research for the following reasons:

- ▶ **Relative importance:** When IFRS 2 was introduced, the size of SBP, usually related to long-term remuneration for directors, was small and insignificant compared with all other costs.
- ▶ **Ability to calculate/forecast:** There is a large amount of information needed, including expected vesting, together with a number of assumptions, in order to calculate SBP. Given that neither the information nor the assumptions are disclosed, forecasting this 'cost' is almost impossible for an analyst.
- ▶ **Non-cash item:** In order to keep underlying EPS as a close proxy to the preferred valuation metric – operating cashflow per share (OCFPS) – SBP should not be included. SBP are added back into the cashflow statement because they are a non-cash item.

Fifteen years on, we now have to reconsider the decision to exclude SBP from our underlying EBIT calculations for the following reasons:

- ▶ **Relative importance:** Since the introduction of IFRS 2, SBP have become an increasingly larger proportion of operating costs, and shares are used as remuneration incentives for many more employees than just the directors.
- ▶ **Geographical comparisons:** In a global sector such as pharmaceuticals, SBP are widely used as employee incentives, particularly in the US. Therefore, to make direct comparisons between global peers, the accounting treatment needs to be the same. US companies routinely add back SBP for the calculation of their non-GAAP EPS because the payments are so large – thereby inflating EPS.
- ▶ **Broader use:** In addition to being used to reward more employees, many companies are also using SBP, instead of cash, to remunerate professionals and advisors for services provided – notably fees and commissions related to capital increases – thereby protecting their cash position.

After lengthy discussion surrounding all the above-mentioned points, we have decided that SBP should now be included as part of underlying EBIT. This decision has not been taken lightly, because they are still very difficult to forecast – therefore we will keep them constant on the last reported year – and are a non-cash item.

However, this change does reflect better the true operating costs of the business, and it will mean that international comparisons can be made more easily. It will involve a significant amount of work to alter all the historical and forecast P&L calculations and to add back SBP into cashflow statements, so it will be introduced when the next research report is written on each company.

At the time of writing, we are unsure whether to continue to state SBP as a separate line in the P&L account, or to include them as part of administration costs (SG&A). The dilemma here is that, in the US, SEC filings have SBP split by COGS, SG&A and R&D, whereas, in Europe, SBP tend to be a single cost included only in SG&A. Whatever the decision, we will, as always, be as transparent and informative as possible.

Company research

Priced at 24 July 2019 (unless otherwise stated).

Healthcare Equipment & Services



Source: Refinitiv

Market data

EPIC/TKR	AVO
Price (p)	37.5
12m High (p)	57.0
12m Low (p)	31.0
Shares (m)	200.4
Mkt Cap (£m)	75.2
EV (£m)	68.7
Free Float*	61%
Market	AIM

*As defined by AIM Rule 26

Description

Advanced Oncotherapy (AVO) is developing next-generation proton therapy systems for use in radiation treatment of cancers. The first system is expected to be installed in Harley Street, London, during 2019; it will be operated through a JV with Circle Health.

Company information

Exec. Chairman	Michael Sinclair
CEO	Nicolas Serandour

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www.advancedoncoterapy.com

Key shareholders

Board & Management	11.4%
Liquid Harmony Ltd	23.1%
DNCA Investments	6.2%
Brahma AG	4.1%
Barrymore Investments Ltd	4.1%
AB Segulah	3.3%

Diary

2H'19	Harley Street ready
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Analysts

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ADVANCED ONCOTHERAPY

Harley Street: final stage of development started

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 CERN. AVO has hit a number of technical milestones, such as integration of all the module types that constitute the LIGHT accelerator, and accelerated the proton beam to an energy sufficient to treat superficial tumours. At the recent AGM, management highlighted all the technical and financial challenges that have been overcome. The Harley Street site has been handed over to AVO for the final fitting-out stage, keeping it on schedule for assembling the LIGHT machine by the end of 2019.

- **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 the technology know-how developed by CERN, Geneva, and relies on a base of world-class suppliers.
- **Results:** The 2018 financial performance was largely in line with our forecasts. Gross cash at the end of the period was £1.0m, which was boosted by £18.8m of new funds post-period. Operationally, accelerating the proton beam to clinically relevant energy to treat deep-seated tumours is now greatly de-risked.
- **Harley Street:** Following the recent completion of the building work and the handover to AVO, the project has moved into the final stage, consisting of the fit-out and preparation stage. The operation will include the installation of shielding concrete blocks, and is expected to finish in 2H'19.
- **Perspective:** A recent *Horizon BBC2 programme* highlighted the challenges of building a proton centre in the heart of a city, digging a cavity of 80,000m³ and the huge shielding needed. At Harley Street, such features are not necessary, due to the unique modularity of the LIGHT system and the linear accelerator.
- **Investment summary:** Demand for PBT is increasing worldwide, and the need for a small, flexible, affordable and close-to-patient system is desirable. AVO has attracted strong manufacturing partners, and discussions with potential customers are advancing. Progress at its flagship Harley Street site has been substantial, and installation of the first LIGHT system is planned for mid-2019. The latest technical update brings further reassurance and has boosted confidence.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019E	2020E	2021E	2022E
Sales	0.0	0.0	0.0	21.5	65.5	111.5
Gross profit	0.0	-1.9	0.0	1.9	11.4	27.6
Administration costs	-12.9	-15.7	-15.4	-15.8	-16.1	-16.4
EBITDA	-12.6	-21.4	-19.6	-17.3	-9.1	5.1
Underlying EBIT	-12.9	-21.8	-20.0	-20.0	-11.8	2.5
Statutory EBIT	-14.5	-21.8	-20.0	-20.5	-11.1	4.1
Underlying PTP	-14.9	-21.9	-20.6	-21.4	-13.6	0.6
Statutory PTP	-16.5	-21.9	-20.6	-22.0	-12.9	2.3
Underlying EPS (p)	-15.6	-14.0	-21.1	-13.8	-8.1	1.1
Statutory EPS (p)	-18.9	-13.4	-21.1	-14.2	-7.7	2.2
Net (debt)/cash	-9.2	-2.0	-2.6	-10.4	-16.6	-15.1
EV/EBITDA	-7.5	-4.3	-4.7	-5.8	-11.7	20.6

Source: Hardman & Co Life Sciences Research

Financials


Source: Refinitiv

Market data

EPIC/TKR	AJB
Price (p)	428
12m High (p)	482
12m Low (p)	162
Shares (m)	408
Mkt Cap (£m)	1,746
EV (£m)	1,688
Free Float*	36.5%
Market	LSE full listing

*As defined by LR 6.14 of the Listing Rules

Description

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

Company information

CEO	Andy Bell
CFO	Michael Summersgill
Chairman	Les Platts
	+44 345 40 89 100
	www.ajbell.co.uk

Key shareholders

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

Diary

24 Oct	4Q trading update
05 Dec	FY19 results

Analyst

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AJ BELL

Platform for growth

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

- ▶ **Strategy:** AJ Bell intends to be the easiest platform for investors and advisers to use, and to offer exceptional value – but not at the expense of service levels. It charges noticeably less than many of its competitors, putting it in a strong position as charges take a higher profile.
- ▶ **Plenty of scope for platform expansion:** Investment platforms are an obviously good way to concentrate the administration and custody of investments in one place, while offering a huge variety of investment choice, and freeing investors and advisers to focus on what they do best. There are still plenty of assets not yet corralled, as well as significant underlying growth.
- ▶ **Valuation:** We value the business on a DCF basis. At the current price, it is effectively assuming a discount rate of 6.8%, putting it over the top end of our wide range. Our central valuation of £953m would put it on a FY19E PER of 33x, which compares with Transact at 34x and Hargreaves Lansdown at 39x.
- ▶ **Risks:** There are inevitably market risks – revenue is linked to the value of assets and, to a lesser extent, the amount of trading on the platform. The business is also sensitive to tax and savings policies, which can have major impacts on investors' behaviour. The robustness of the technology is critical too.
- ▶ **Investment summary:** AJ Bell is a very attractive business, in our view. It is well positioned to benefit from the expected continuing growth in savings and the ever-higher proportion of those savings held on platforms. The business is highly cash-generative and holds significant net cash. These positive characteristics would seem to be well reflected in the current price.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
AuA (£bn)	32	40	46	49	55	61
Revenue	64.5	75.6	89.7	104.0	116.0	130.0
Net finance income	0.0	-0.1	0.1	0.0	0.0	0.0
PBT	16.8	21.7	30.1	37.0	41.0	47.0
Tax	-3.5	-4.2	-5.7	-6.7	-7.4	-8.5
Net profit	13.3	17.5	22.6	28.5	33.6	38.6
No. of shares (fully-diluted, m)	394	396	402	408	408	408
EPS (fully-diluted, p)	3.4	4.4	6.1	7.4	8.2	9.5
DPS (p)	2.7	2.9	3.7	4.5	5.4	6.1
PER (x)	126.9	96.8	70.5	57.6	52.0	45.3
Dividend yield	0.6%	0.7%	0.9%	1.1%	1.3%	1.4%
Dividend cover (x)	1.3	1.5	1.6	1.6	1.5	1.5

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	AGY
Price (p)	11.8
12m High (p)	29.0
12m Low (p)	7.3
Shares (m)	636.2
Mkt Cap (£m)	74.7
EV (£m)	50.5
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

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www.allergytherapeutics.com

Key shareholders

Directors	0.7%
Abbott Labs	37.8%
Southern Fox	22.7%
SkyGem	15.6%
Invesco	4.5%

Diary

1H'20	Start Phase 1 Polyvac Peanut trial
2H'20	Start Phase III Grass Trial

Analysts

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ALLERGY THERAPEUTICS

Legal settlement and positive trading

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. The Pollinex Quattro (PQ) platform, an ultra-short-course subcutaneous allergy immunotherapy (SCIT), continues to gain market share despite its availability in the EU on a 'named-patient' (NP) basis only. Several products are in clinical development, with the aim of moving the platform to full registration under the new regulatory framework. AGY has issued a positive trading update, highlighting the strong operating performance of the group. Also, it has reached a successful settlement of an ongoing legal dispute with one of its third-party R&D contractors.

- **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.
- **Legal settlement:** AGY has settled a legal dispute with Inflamm Research Inc (Inflamm) regarding the inconclusive US Phase II Grass MATA MPL trial. Inflamm has paid AGY \$7.4m/£6.0m in full settlement of the dispute. In addition, Inflamm has agreed to pay a 'substantial portion' of AGY's legal costs.
- **Trading update:** Fiscal 2019 sales were close to forecasts, rising 8.7% to £74.0m (£68.3m). While further Brexit costs (-£0.5m est.) dented any prospect of gross margin improvement, this was more than offset by lower spend on marketing (+£1.0m), G&A (+£1.0m) and R&D (+2.0m), resulting in an upgrade to forecasts.
- **Risks:** AGY's primary risk lies in the timings of the regulatory approval process, mostly outside of its control, related to the PQ Birch immunotherapy and the European TAV process for full approval. Ongoing trials do represent a risk, but this is limited by the products' use on a named-patient basis.
- **Investment summary:** The share price continues to recover from the overly pessimistic view of the PQ Birch trial primary endpoint failure in March, and the positive trading update and news that the legal dispute has been settled will help. Despite some recovery to date, AGY is trading on EV/sales of only 0.68x 2019E, down to 0.63x 2020E – well below the multiples commanded by its direct competitors.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	48.5	64.1	68.3	74.0	80.3	88.7
R&D investment	-16.2	-9.3	-16.0	-14.0	-17.0	-15.0
Underlying EBIT	-12.3	-2.9	-6.4	-3.6	-6.2	-2.0
Reported EBIT	-12.5	-2.6	-7.4	1.4	-7.2	-3.0
Underlying PBT	-12.5	-3.0	-6.5	-3.7	-6.5	-2.3
Statutory PBT	-12.2	-2.7	-7.5	1.3	-7.4	-3.3
Underlying EPS (p)	-2.4	-0.5	-1.1	-0.6	-1.1	-0.5
Statutory EPS (p)	-2.3	-0.4	-1.3	0.2	-1.2	-0.6
Net (debt)/cash	20.0	18.8	12.5	24.2	15.5	-14.5
Capital increase	11.0	0.0	0.0	10.4	0.3	0.3
P/E (x)	-5.0	-25.0	-10.7	-20.1	-10.4	-23.5
EV/sales (x)	1.0	0.8	0.7	0.7	0.6	0.6

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

	ARBB/ARB
EPIC/TKR	1,360/1,110
Price (p)	1,640
12m High (p)	1,065
12m Low (p)	15.4
Shares (m)	210
Mkt Cap (£m)	80%
Loans to deposits	2020E
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.	Andrew Salmon
Latham	
Group FD,	James Cobb
Deputy CEO AL	

+44 20 7012 2400

www.arbuthnotgroup.com

Key shareholders

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

Diary

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

Analyst

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ARBUTHNOT BANKING GROUP

1H'19 results and value-added acquisition

The 17 July *results*, reviewed in our note (*1H'19 results: diversified, low-risk growth continues*), showed further progress in profitably deploying the capital ABG generated from the partial sales of its stake in STB. Net interest income was up 15%, as loans grew 16% to £1,275m, and deposits rose 18% to £1,829m. New businesses continue to show strong growth. Commercial Banking generated profits of £3m (1H'18 loss £0.8m). The group is well funded (loans 70% of deposits) and has surplus group capital of ca.£70m (core equity Tier 1 surplus exceeds £30m). The recent acquisition of two mortgage portfolios for £258m shows the flexibility this strength provides to take earnings-enhancing acquisition opportunities.

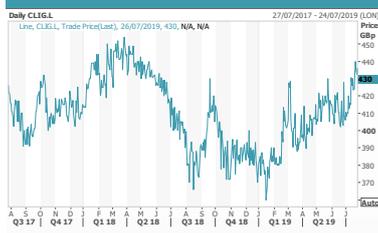
- ▶ **ABG News:** On 3 July, ABG *announced* the acquisition of two mortgage portfolios for £258m (£6m discount to book value). The overall yield on the portfolios is 3.6%, pre- accounting effects, and the credit profile is excellent (average loan to value sub-70%, and 75% of the loans originated before 2008).
- ▶ **Results detail:** Net interest income was up 15%, and fees rose 7% (total income up 14%). Expenses grew by 7% to £33.8m. Impairments were £1.6m (1H'18: £2.5m). Commercial Banking swung from a loss of £0.8m to a £3.0m profit. Private Banking profits fell on lower loan volume, some margin pressure and impairments.
- ▶ **Valuation:** The average of our approaches is £17.42 (previously £17.46), 1.3x 2020E NAV. Since our last report, there has been a small change in the STB share price, which feeds through to the sum-of-the-parts model. Despite the 2019 YTD rally, the current share price is still around the 2018 NAV (1,283p).
- ▶ **Risks:** As with any bank, the key risk is credit. ABG's existing business should see below-market volatility, and so the main risk lies in new lending. We believe management is cognizant of the risk and, historically, has been very conservative. Other risks include reputation, regulation and compliance.
- ▶ **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly growing bank priced at book value appears anomalous.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E*	2020E*
Operating income	34,604	41,450	54,616	67,905	77,574	90,340
Total costs	-35,926	-46,111	-54,721	-64,982	-71,595	-79,157
Cost:income ratio	104%	111%	100%	96%	92%	88%
Total impairments	-1,284	-474	-394	-2,731	-2,877	-2,965
Reported PBT	-2,606	-1,966	2,534	6,780	7,299	12,000
Adjusted PBT	2,982	1,864	3,186	7,416	9,299	14,000
Statutory EPS (p)	86.3	1,127.3	43.9	-134.5	40.3	65.9
Adjusted EPS (p)	13.5	17.1	47.5	40.3	50.9	76.5
Loans/deposits	82%	76%	75%	71%	79%	80%
Equity/assets	5.5%	18.5%	12.8%	9.0%	7.7%	7.2%
P/adjusted earnings (x)	100.7	79.5	28.6	33.7	26.7	17.8
P/BV (x)	1.70	0.90	0.89	1.06	1.06	1.04

*IFRS 9 basis; Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	CLIG
Price (p)	436.0
12m High (p)	440.0
12m Low (p)	360.0
Shares (m)	26.6
Mkt Cap (£m)	115.8
EV (£m)	97.1
Market	LSE

Description

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

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	Barry Aling
	+44 207 860 8346
	www.citlon.com

Key shareholders

Directors & staff	16.8%
Blackrock	10.0%
Cannacord Genuity	8.0%
Eschaton Opportunities	
Fund Management	4.8%
Polar Capital	4.1%

Diary

16 Sep	Preliminary results statement
9 Oct	1Q FUM announcement
10 Oct	Ex-div date for final
14 Jan	2Q FUM announcement

Analyst

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CITY OF LONDON INVESTMENT GROUP

Finishing ahead in a volatile year for markets

City of London has announced its pre-close trading update for FY19. After a volatile fourth quarter, FUM finished ahead of the end-March figure, at \$5.39bn. This was an increase of \$282m (5.5%) over a year ago, of which \$96m was net inflows, with the balance from market movements. As indicated in the quarterly statements, both the Developed Markets and Opportunistic Value strategies saw net inflows over the year. Emerging Markets and Frontier Markets experienced net outflows. Performance in the Emerging Markets strategy was good, with outperformance of ca.300bps over the year.

- **Operations:** Expected PTP for the year will be £11.4m, which, after tax and deducting of non-controlling interests, gives £8.8m attributable to shareholders. This is a very slightly ahead of our forecast of £8.7m. Basic and diluted EPS are expected to be 34.9p and 34.1p, respectively.
- **Dividend:** The recommendation is for a final dividend of 18p, the same as last year. This will bring the total for the year to 40.5p, including the special dividend of 13.5p. The underlying dividend of 27p is covered 1.26x by fully-diluted earnings.
- **Valuation:** The 2020E P/E of 10.4x 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 increase the risk of such outflows, although increased diversification is also mitigating this.
- **Investment summary:** Having shown robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY'17 and FY'18 both saw dividend increases and, unless there is significant market disruption, more should follow in the next few years.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E*	2020E	2021E
FUM (\$bn)	4.00	4.66	5.11	5.39	5.79	6.21
Revenue	24.41	31.29	33.93	31.98	35.41	37.56
Statutory PTP	7.97	11.59	12.79	11.40	13.09	14.16
Statutory EPS (p)	23.3	36.9	39.5	34.9	41.9	45.3
DPS (p)	24.0	25.0	27.0	27.0	27.0	27.0
Special dividend				13.5		
P/E (x)	18.7	11.8	11.0	12.5	10.4	9.6
Dividend yield	5.5%	5.7%	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)	39.0
12m High (p)	175.8
12m Low (p)	20.8
Shares (m)	84.5
Mkt Cap (£m)	33.0
EV (£m)	26.1
Free Float*	40%
Market	AIM

*As defined by AIM Rule 26

Description

Diurnal (DNL) is a UK-based specialty pharma company targeting patient needs in chronic, potentially life-threatening, endocrine (hormonal) diseases. Alkindi is DNL's first product in the market in Europe for the paediatric population, with first sales already started in key countries, while Chronocort is in Phase III trials.

Company information

CEO	Martin Whitaker
CFO	Richard Bungay
Chairman	Peter Allen
	+44 29 2068 2069
	www.diurnal.co.uk

Key shareholders

Directors	2.4%
IP Group	40.7%
Finance Wales	13.6%
Polar Capital	7.8%
Richard Griffiths	5.5%
Oceanwood Capital	3.7%

Diary

24 Sep	Final results
4Q'19	Alkindi US NDA subm.
4Q'19	Chrono. EMA MAA subm.

Analysts

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DIURNAL GROUP

Alkindi: MMA submitted in Australia

DNL is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead products are targeting rare conditions where medical need is currently unmet, with the aim of building a long-term 'Adrenal Franchise'. The first product, Alkindi®, is being launched in key EU markets, and was expected to be followed by the adult version, Chronocort®. Emerge Health, DNL's Australian partner, has submitted the MAA for Alkindi. The Australian market size is substantial and is estimated at \$10m for both Alkindi and Chronocort. This follows the Israeli MAA submitted earlier this year.

- **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.
- **MAA submitted:** Emerge Health, which is DNL's marketing and distribution partner in Australia and New Zealand, has successfully submitted the market authorisation application (MAA) for Alkindi. The process could take around a year before the potential approval in both territories.
- **Australian market size:** The market opportunity for both Alkindi and Chronocort, when approved, in AI and CAH in Australia is estimated at around 1,750 patients. This represents a market size estimated at around \$10m. Alkindi was recently granted Orphan Drug Designation in Australia.
- **Commercial strategy:** Following the European market approval of Alkindi, DNL intends to commercialise Alkindi itself in the major European countries. DNL will use commercial partners and distributors in other territories. Medison Pharma, the Israeli partner, submitted an MAA in Israel in February 2019.
- **Investment summary:** Alkindi, a cortisol replacement therapy designed for children under 18 years of age, is DNL's first drug on the market. It is expected to be followed by Chronocort for adults – a larger market – which now has a clear regulatory pathway in both Europe and the US. Despite this, the share price is still languishing well below valuations determined by peer group and DCF (225p) analyses, possibly due to the need for more capital later in 2019.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	0.00	0.00	0.07	1.14	2.14	5.56
SG&A	-1.99	-3.23	-6.21	-5.50	-7.12	-8.76
R&D	-3.89	-8.34	-10.02	-10.00	-10.85	-10.31
EBITDA	-5.87	-11.56	-16.16	-14.52	-16.03	-14.06
Underlying EBIT	-5.88	-11.56	-16.17	-14.53	-16.05	-14.07
Reported EBIT	-6.99	-12.08	-16.98	-15.38	-16.94	-15.01
Underlying PBT	-5.95	-11.64	-16.30	-14.45	-16.03	-14.09
Statutory PBT	-7.06	-12.16	-16.91	-15.30	-16.92	-15.03
Underlying EPS (p)	-12.48	-17.05	-25.68	-19.81	-12.76	-10.94
Statutory EPS (p)	-15.02	-18.04	-26.78	-21.19	-13.59	-11.81
Net (debt)/cash	26.88	16.37	17.28	4.23	-4.60	-18.04
Capital increase	24.52	0.05	13.40	0.00	5.57	0.00

Source: Hardman & Co Life Sciences Research



Source: Refinitiv

Market data	
EPIC/TKR	DPP.L
Price (p)	8.0
12m High (p)	34
12m Low (p)	7
Shares (m)	250
Mkt Cap (£m)	20
EV (£m)	18
Free Float*	64%
Market	AIM

*As defined by AIM Rule 26

Description
 DP Poland (DPP) has the master franchise for Domino's Pizza in Poland. It has 67 stores, of which 43 are corporately owned. It is rolling out steadily and trialling a partnership with takeaway.com.

Company information
 CFO Maciej Jania
 Chairman Nicholas Donaldson
 +44 20 3393 6954
www.dppoland.com

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

Diary
 24 Sep Interim results

Analyst
 Jason Streets 020 7194 7622
js@hardmanandco.com

DP POLAND

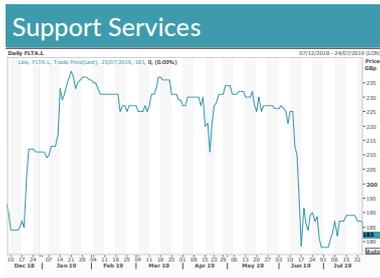
Like-for-like growth resumes

The company reported system sales up 10% in 1H'19, with 80% online orders. Like-for-like resumed positive growth in 2Q, after negatives in 1Q. Two new sub-franchisees were signed up, who will take on three corporate stores between them. A further three were taken under contract by an existing sub-franchisee. The growth focus will be on splitting territories and larger cities. There was no update on the trial with takeaway.com.

- **Strategy:** DPP spent its first few years proving the Domino's Pizza model in Poland. It has scope to double the number of operations in the next few years. As stores mature, it should see success in reported profits. It aims to be smarter in marketing than its competitors, using digital media, rather than expensive display advertising.
- **Competitive market:** The new food delivery aggregators have money to spend and are impacting DPP's above-the-line promotional activity, with aggressive (and possibly unsustainable) marketing activity. DPP is now trialling a partnership with takeaway.com. It allows DPP full control of product, service and delivery, while piggy-backing on its marketing spend. Early signs are positive.
- **Valuation:** With no reported profits expected in the next few years, we value DPP on a per-store basis. In our initiation note (18 Sep 2018), *Fully proven model rolls out*, we derived a ca.£80m central value, to reflect the delay in the maturing of the business; we now discount that for a further year, to £72m, or 29p per share.
- **Risks:** The biggest short-term risk is the deep pockets of the new disruptors: the food delivery aggregators. This has already impacted DPP's growth, as it struggles to get its message across, with competitors' spend 20x or even 25x that of DPP. Another hot summer without the World Cup to compensate would not be helpful.
- **Investment summary:** DPP has a powerful retail consumer franchise in a fast-developing economy. A Domino's Pizza franchise takes time to reach profitability, leaving management with a choice between growth and short-term losses. Disruptive competitive activity pushes the path to profitability further into the future, but also grows the delivery market. The model remains sound, in our view.

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

Source: Hardman & Co Research



Market data	
EPIC/TKR	FLTA
Price (p)	187
12m High (p)	282
12m Low (p)	164
Shares (m)	29
Mkt Cap (£m)	54
EV (£m)	52
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 Worledge
 +44 1788 550100
www.filtapl.com

Key shareholders

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

Diary

Sep'19	Interim results
Apr'20	Preliminary results

Analyst

Jason Streets 020 7194 7622
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FILTA GROUP

Strong and transformative year in 2018

Filta provides cleaning services to commercial kitchens in North America, the UK and, more recently, mainland Europe. In addition to buying in the European master franchise, it has made a major step in acquiring Watbio, which will increase the company-owned operations and reinforce the UK side of the business. At the AGM, the company reported that the integration of Watbio would lead FY19 profits to be more 2H-weighted than usual. This was in line with our expectations. Revenues should prove both consistent and persistent, and there is scope for growth for many years, we believe.

- **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.
- **FY18 results and outlook:** Filta delivered adjusted EBITDA of £2.64m, up 25% on the previous year and broadly in line with our expectations. Adjusted EPS was up 7%, at 5.4p, and the full-year dividend rose 26% to 1.64p. FY19 is said to have started well, with growth in all core businesses.
- **Valuation:** Filta has no directly comparable companies. We have used a DCF to derive a value range of 226p to 282p per share, using a 10% discount rate and a mid-term (2021-25) growth rate of between 6% and 12%. Our central estimate is 262p. No account is taken of future added-value acquisitions.
- **Risks:** In addition to normal commercial risks, Filta is dependent on the behaviour of its franchisees, which it cannot control but can help to influence by means of thorough training. It has also recently made a sizeable acquisition, the integration of which will inevitably involve managing some unknowns.
- **Investment summary:** Filta is an attractive business, in our view, combining the capital-light franchise model in North America and Europe with company-owned operations in the UK. With only a tiny proportion of the market currently served and with little or no competition, we see potential for years of profitable growth ahead. Please see our initiation report [here](#), published on 3 April 2019.

Financial summary and valuation						
Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	7,925	8,469	11,547	14,213	26,363	29,626
EBITDA	594	1,193	2,116	2,642	4,850	5,350
Underlying EBIT	450	1,011	2,059	1,941	4,000	4,550
Reported EBIT	450	-249	1,699	1,782	3,850	4,350
Underlying PTP	376	932	1,968	1,900	3,750	4,300
Statutory PTP	376	-329	1,608	1,742	3,600	4,100
Underlying EPS (p)	1.39	3.66	5.05	5.39	9.88	11.25
Statutory EPS (p)	1.39	-1.51	3.85	4.88	9.37	10.57
Net (debt)/cash	-619	3,271	2,992	2,040	2,723	5,289
Shares issued (m)	22	23	27	27	29	29
P/E (x)	136.1	51.6	37.4	34.7	18.9	16.6
EV/EBITDA (x)	70.3	33.2	22.9	18.6	10.6	9.2

Source: Hardman & Co Research

Business Support Services



Source: Refinitiv

Market data

EPIC/TKR	GTLY
Price (p)	164
12m High (p)	177
12m Low (p)	118
Shares (m)	110.8
Mkt Cap (£m)	182
EV (£m)	185
Free Float*	>40%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	Michael Ward
CFO	Neil Smith
Chairman	Nigel Payne
	+44 121 234 0000
	www.gateleyplc.com

Key shareholders

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

Diary

Sep'19	AGM
Nov'19	Trading update
Jan'20	Interim results

Analyst

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GATELEY (HOLDINGS) PLC

Excellent full-year results

Gateley reported another strong set of results, again beating market expectations, underlining its consistency and predictable performance. A broad-based, legal and professional services group, Gateley is a leader in serving the UK mid-market. It continues to deliver on its pre-IPO plan, growing revenue, profit, breadth of service offering and geographical footprint since flotation. Strong cash generation and organic revenue growth were highlights, with 10.7% of revenues coming from acquisitions. Gateley made two strategic acquisitions this year, for shares and cash, enhancing its excellent long-term organic growth performance. A recent strategic placing improved liquidity and expanded its institutional shareholder list.

- **Strategy:** Gateley has proved a consistent performer in this new and exciting sector, with solid organic growth, boosted by complementary legal and professional services acquisitions. A high-growth core business with strong cash generation, is led by a seasoned management with a track record of delivery, pre and post-IPO.
- **Results:** Results were strong, with EPS of 11.8p, up 7%, vs. our forecast of 11.3p, and accompanied by a generous 14.3% hike in the dividend. The outlook comment was extremely positive – “the Group is well positioned to make even greater progress in the current financial year” – this after a 20% revenue growth year!
- **Valuation:** The valuation, based on our forecasts, is shown in the table below, and the stock is clearly modestly rated, given the track record, attractive dividend yield and resilience. Particularly attractive are the inherently strong financial characteristics, with good cash generation and a limited investment requirement.
- **Risks:** This is a people business. People can leave. Gateley’s record, since IPO, in lateral hires and limited losses is impressive, with retirees handing over to the next generation and securing clients. Any new CEO is also a risk, but the change is being closely managed, planned a long way out, and strategy will be unchanged.
- **Investment summary:** Gateley is a quality player in a new and exciting space, which is increasingly attracting investor attention. It is a high-quality legal and professional services group with significant growth potential, an excellent delivery track record, a strong management team, and a strategy to diversify further in complementary professional services. Its valuation is far from demanding, in our view.

Financial summary and valuation

Year-end Apr (£m)	2017	2018	2019	2020E	2021E
Sales	77.6	86.1	103.5	111.2	120.1
EBITDA*	14.9	16.5	19.1	21.3	22.9
PBT (adjusted)	13.8	14.1	16.0	17.7	19.3
EPS (adjusted, p)	9.4	10.6	11.8	13.0	14.2
DPS (p)	6.6	7.0	8.0	8.8	9.7
Net cash	-4.8	-0.7	-3.2	2.0	4.6
P/E (x)	17.4	15.4	13.9	12.6	11.6
EV/EBITDA (x)	12.1	10.7	9.7	8.4	7.8
Dividend yield	4.0%	4.3%	4.9%	5.4%	5.9%

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

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	GDR
Price (p)	17.5
12m High (p)	31.9
12m Low (p)	16.3
Shares (m)	34.0
Mkt Cap (£m)	6.0
EV (£m)	9.4
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 the point-of-care/need setting in a low-cost device, offering fast and accurate results, initially for diagnosis of serious infectious diseases such as hepatitis.

Company information

CEO	David Budd
CFO	Matthew Fowler
Chairman	Ian Gilham

+44 161 989 0245

www.genedriveplc.com

Key shareholders

Directors	1.7%
Calculus	19.4%
M&G	15.2%
BGF	12.8%
Odey	5.5%
River & Merc.	5.4%

Diary

Oct'19	Fiscal 2019 results
1H'20	WHO decision on HCV-ID prequalification

Analysts

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GENEDRIVE PLC

Hepatitis C market frustrations

genedrive plc (GDR) is a commercial-stage company focused on point-of-care molecular diagnostics. Its Genedrive® molecular diagnostic platform is at the forefront of this technology, offering a rapid, low-cost, simple-to-use device with high sensitivity and specificity in the diagnosis of infectious diseases. Rapid analysis of patient samples greatly aids clinical and public health decision-making, particularly in remote areas of developing countries. However, despite the clear utility of the HCV-ID kit for diagnosis of hepatitis C virus (HCV) infections, the frustrating nature of the HCV market has led to little HCV-ID sales growth in 2019.

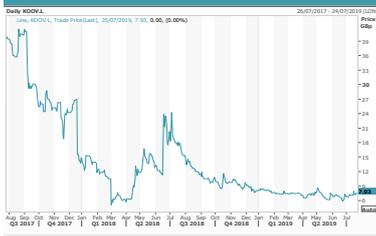
- **Strategy:** Now that the Genedrive technology platform has received CE marking, management has completely re-focused the company onto the commercialisation pathway for gene-based diagnostics in Hepatitis C, tuberculosis, Bio-threats and Antibiotic-Induced Hearing Loss (AIHL), after divesting its Services unit in 2018.
- **Trading update:** Sales grew 25.6% to £2.4m (£1.9m) in the 12 months to June, the first full year without the services business. The mix of sales was considerably more balanced than prior periods, with product sales of ca.£1.0m (£0.1m), which included ca.£0.9m from the US Department of Defense (DoD).
- **HCV product:** Management has been very open on the difficulties encountered in commercialisation of the HCV-ID kit. The process for obtaining in-country registrations has been slower than anticipated, and uptake in registered countries has been frustrated by low demand due to a lack of funding for HCV drugs.
- **Risks:** Genedrive platform technology has been validated by the CE marking of its assay for detection of HCV infection and by recurrent work from the US DoD. The main risks are commercial, given that it often takes time for new technologies to be adopted. Partnering with major global and local experts reduces this risk.
- **Investment summary:** Genedrive technology ticks all the boxes of an 'ideal' *in vitro* diagnostic that satisfies the need for powerful molecular diagnostics at the point of care/need. The hepatitis C market is a very large global opportunity, and, should market factors improve, the HCV-ID test has excellent potential. With strong partners being signed for different countries, such as the NHS (UK), and several product lines in development, GDR has a solid growth strategy in place.

Financial summary and valuation

Year-end Jun (£000)	2016	2017	2018	2019E	2020E	2021E
Group sales	5,063	5,785	1,938	2,434	3,040	5,089
Underlying EBIT	-5,259	-4,812	-5,276	-4,559	-4,177	-1,871
Reported EBIT	-5,426	-7,292	-7,375	-3,944	-4,207	-1,914
Underlying PBT	-5,828	-5,316	-5,794	-5,171	-5,019	-2,737
Statutory PBT	-6,497	-7,487	-7,788	-4,232	-5,050	-2,780
Underlying EPS (p)	-49.8	-23.1	-26.9	-16.3	-13.0	-6.6
Statutory EPS (p)	-56.2	-34.9	-31.9	-12.9	-13.1	-6.7
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-3,877	-70	-2,096	-3,370	-6,740	-8,033
Capital increases	0	6,023	0	3,318	0	0
P/E (x)	-0.4	-0.8	-0.7	-1.1	-1.4	-2.8
EV/sales (x)	1.9	1.7	5.0	4.0	3.2	1.9

Source: Hardman & Co Life Sciences Research

General Retailers



Source: Refinitiv

Market data

EPIC/TKR	KOOV
Price (p)	7.85
12m High (p)	17
12m Low (p)	5.9
Shares (m)	359
Mkt Cap (£m)	28
EV (£m)	21
Free Float*	40%
Market	AIM

*As defined by AIM Rule 26

Description

Koovs is an online retailer of fashion across India. It has an experienced management team, growing brand awareness and the highest Net Promoter Score (NPS) in its vertical.

Company information

CEO	Mary Turner
CFO	Rob Pursell
Chairman	Waheed Alli
	+44 20 7151 0170
	www.koovs.com

Key shareholders

Waheed Alli (Dir.)	11%
Future Lifestyle Fashion	26%
Hindustan Times Media	11%
Dragon Asia	7%
Michinoko	5%
Anant Nahata	3%

Diary

Sep'19	AGM
Dec'19	Interim results

Analyst

Jason Streets	020 7194 7622
	js@hardmanandco.com

KOOVS PLC

Koovs refinanced for the future

Trading since the company secured its additional financing saw Gross Order Value (GOV) up 104% in 1Q20: Koovs is once more showing the sort of growth associated with online success. FY19 itself was a lost year, as the company conserved cash while it successfully sought new investors; they eventually arrived – not only with money but with important synergistic benefits too. The GOV data is a function of being able to finance growth again. The benefits of the Future Lifestyle (FLFL) tie-up are still to come in additional distribution and improved buying.

- **Strategy:** Koovs' plan to become the ASOS of India is back on track. The impact of the lack of resources in FY19 showed up in the low growth in reported revenue (+9%). With the tap turned back on, GOV has doubled in 1Q20, and web traffic is up 148% (and this not achieved at the expense of the trading margin: up to 21%).
- **Forecasts:** We have, effectively, shifted our forecasts one year later. The expected revenue in FY20 is roughly what we were anticipating for FY19, had the funding arrived straightaway. The base is slightly lower, but we would expect that the benefits from the FLFL tie-up should accelerate growth prospects.
- **Valuation:** Our valuation has changed – under the old estimates, the value should have risen, as the growth came through and the discount unwound. By delaying for a year, this has not happened, and there has been some dilution. Our central estimate of value suggests that Koovs is worth £300m today, or 74p per share.
- **Risks:** We see the two key risks as being slower uptake of e-commerce in India than we forecast, and damaging discounting by Koovs' direct and indirect competitors. Koovs also needs to manage the relationship with FLFL successfully to optimise its benefits. It will need further funding in FY21 to achieve its plans.
- **Investment summary:** With the money raised and the new partners on board, Koovs becomes an exciting way to play the last big world retail market to move online. The prize, if it gets it right, is a billion-pound company and more. It is likely to be a bumpy, exciting ride, but investors have the reassurance of a highly experienced management team in charge, and the backing of two major Indian corporations straddling both retail and media.

Financial summary and valuation

Year-end Mar (£m)	2018	2019	2020E	2021E	2022E	2023E
Visits (m)	66	76	100	160	260	340
Conversion	1.37%	1.14%	1.40%	1.70%	2.50%	3.00%
No. of orders (m)	0.91	0.86	1.40	2.72	6.50	10.20
AOV (£)	16.37	14.99	14.90	15.00	15.50	16.00
GOV (£m)	14.5	12.8	22.6	49.0	135.2	249.8
Net sales	9.6	8.5	13.8	30.4	85.9	159.9
Weighted margin	47%	49%	52%	57%	61%	62%
Trading profit	1.2	0.1	3.3	10.3	39.0	73.9
Trading margin	11%	1%	24%	34%	45%	46%
EBITDA	-14	-14	-18	-18	1	21
No. of shares (m)	175	313	359	359	359	359
EV/sales (x)	1.0	1.7	1.7	0.8	0.3	0.2

Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

	MCL
EPIC/TKR	
Price (p)	130.0
12m High (p)	186.0
12m Low (p)	127.0
Shares (m)	129.8
Mkt Cap (£m)	168.4
EV (£m)	174.5
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 (1 July)	Andrew Hayward
Non-Exec. Chairman	Stephen Karle

+44 330 045 0719

www.morsesclubplc.com

Key shareholders

Hay Wain	36.82%
Miton Asset Mgt.	9.03%
JO Hambro	6.74%
Majedie Asset Mgt.	5.34%
Artemis Inv. Mgt.	4.98%
Legal and General	3.22%
Woodford Inv. Mgt.	<5%

Diary

End Aug'19	Trading update
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Analyst

Mark Thomas	020 7194 7622
	mt@hardmanandco.com

MORSES CLUB PLC

Reduction in share overhang

In common with many companies that had a significant presence of Woodford Investment Management on their share register, MCL has seen significant share price weakness since the market perceived that this holding might have to be sold rapidly. The shares rallied on the news that a partial disposal had already taken place, with the holding taken below 5% (announcement 11 July), but they have weakened a little since. We see this as a temporary sentiment issue. The group's fundamentals, and the result of our valuation approaches, are unchanged. It has competitive advantages in a market generating good returns.

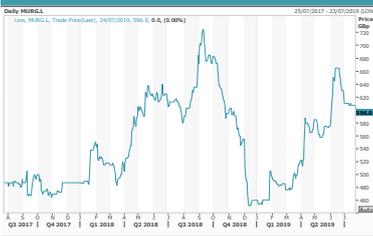
- ▶ **MCL other news:** On 3 July, MCL *announced* the appointment of Les Easson as a NED from 1 September 2019 (his current role is the company's Operations Director). On 24 July, MCL *announced* the appointment of Gary Marshall as COO of Shelby Finance (online businesses). Gary was interim COO at Sainsbury's Bank.
- ▶ **Peer news:** Like MCL, both Non-Standard Finance (NSF) and Provident Financial (PFG) have seen Woodford-related share price weakness, despite significant and broadly-spread director buying at both companies. The stake in PFG has been cut to 17% while, in NSF, it has been trimmed to 24%.
- ▶ **Valuation:** We detailed a range of valuation approaches and sensitivities in our initiation note, *Bringing home collect into the 21st century*, published on 2 February 2017, and did so again in our results note. The range in absolute valuation methodologies is now 181p to 243p (pre-results 169p to 223p).
- ▶ **Risks:** Credit risk is high (albeit inflated by accounting rules), but MCL adopts the right approach to affordability and credit assessment. Regulatory risk is a factor, although high customer satisfaction suggests a limited need for change. MCL was the first major HCC company to get full FCA authorisation.
- ▶ **Investment summary:** MCL is operating in an attractive market. It has a dual-fold strategy that should deliver an improved performance from existing businesses and new growth options. It conservatively manages risk and compliance, especially in new areas. The self-employed agent network is the competitive advantage over remote lenders. We forecast a 9.8x February 2020 P/E and a 6.3% February 2020 dividend yield, with 1.6x cover (adjusted earnings).

Financial summary and valuation

Year-end Feb (£m)	2016	2017	2018*	2019*	2020E*	2021*E
Reported revenue	90.6	99.6	110.4	117.0	144.1	160.1
Total impairments	-18.8	-24.3	-24.7	-26.2	-37.6	-46.6
Total costs	-53.4	-56.7	-65.6	-67.1	-83.0	-85.5
EBITDA	19.3	19.9	20.1	23.7	23.5	28.0
Adjusted PBT	16.8	17.7	18.6	22.0	21.4	25.4
Statutory PBT	10.4	11.2	15.5	20.2	19.1	23.0
Statutory EPS (p)	6.1	6.6	9.7	12.5	12.1	14.5
Adjusted EPS (p)	10.2	10.8	11.4	13.6	13.2	15.7
P/adjusted earnings (x)	12.7	12.0	11.5	9.6	9.8	8.3
P/BV (x)	3.0	2.7	2.5	2.4	2.2	2.0
P/tangible book	3.7	3.3	2.9	2.8	2.7	2.4
Dividend yield	n.m.	4.9%	5.4%	6.0%	6.3%	7.7%

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

Support Services



Source: Refinitiv

Market data

EPIC/TKR	MUR
Price (p)	620
12m High (p)	730
12m Low (p)	450
Shares (m)	9.0
Mkt Cap (£m)	55.9
EV (£m)	53.8
Free Float*	53%
Market	AIM

*As defined by AIM Rule 26

Description

Murgitroyd offers a global service to clients on patents, trademarks, etc. It operates from 15 offices worldwide, and over 50% of its revenues are from the USA.

Company information

CEO	Edward Murgitroyd
CFO	Keith Young
Chairman	Ian Murgitroyd
	+44 141 307 8400
	www.murgitroyd.com

Key shareholders

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

Diary

Sep'19	Final results
Oct'19	AGM

Analyst

Mike Foster	020 7194 7633
	mf@hardmanandco.com

MURGITROYD

Global market and global presence

Murgitroyd's business is a global one, providing professional services to a range of clients, many of which are in Fortune 500. The underlying driver is global patent application and filing. This market's largest geographical region is the USA, with technology firms predominating. For the market (as opposed to commercially sensitive details regarding Murgitroyd specifically), top applicants include Philips, Samsung, LG, Huawei, Siemens and others – predominantly consumer electronics. We see long-term scope for a range of growing applicants, as artificial intelligence and emerging major economies expand.

- **Strategy:** Murgitroyd invests strongly in business development and in expanding the range of services supporting its client relationships. The skill is matching the patent attorneys' input with a wider suite of services. The skill also involves matching costs and geographical footprint to the market as it evolves.
- **Market growth:** Numbers of patent applications filed with the European Patent Office grew 4.6% last year (as announced in March) – to a new high of 174,317. The US remained the top country of origin, at 25% of total filings, followed by Germany, Japan, France and China. We understand growth continues.
- **Financial trends:** One detail to be aware of is the over 50% exposure to US markets, priced in US dollars. In addition, there is healthy Euro income (and costs). Generally, costs and income are matched, with a slight bias to UK sterling costs. Margins had been falling, due principally to the growth mix weighted to services.
- **Risks:** The offer of a broad suite of services to a broad customer base, in focused markets, balances the group. This is a reasonably stable, growing global market, with some pricing pressure ongoing. This is not new, and Murgitroyd's global strategy is designed around this given feature, delivering cash well.
- **Investment summary:** Four years of significant investment in the pan-European footprint, software and business development, as well as back-office efficiencies, have put Murgitroyd in a strong position for both client-service (the fuller-suite range of services) and productivity (a value-engineered proposition).

Financial summary and valuation (NB forecasts under review)

Year-end May (£m)	2014	2015	2016	2017	2018
Sales	38.4	39.8	42.2	44.3	43.9
EBITDA	4.6	4.5	4.6	4.2	4.5
PBT (adjusted)	4.2	4.2	4.3	3.9	4.1
EPS (adjusted, p)	33.6	34.8	35.3	28.7	30.8
DPS (p)	13.3	14.8	16.0	17.0	21.0
Net (debt)/cash	-0.4	0.7	2.8	2.2	2.8
Net debt/EBITDA (x)	0.1	cash	cash	cash	cash
P/E (x)	18.4	17.7	17.1	21.6	19.9
EV/Sales (x)	1.4	1.3	1.3	1.2	1.2
EV/EBITDA (x)	11.6	11.9	11.6	12.8	11.9
FCF yield	5.4%	5.0%	6.2%	5.3%	5.0%
Dividend yield	2.1%	2.3%	2.5%	2.6%	3.4%

Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	NSF
Price (p)	39.55
12m High (p)	75.0
12m Low (p)	34.1
Shares (m)	312.0
Mkt Cap (£m)	123.4
EV (£m)	375.8
Free Float	99%
Market	Main

Description

In the UK non-standard lending market, Non-Standard Finance (NSF) has the market-leading network in unsecured branch-based lending, is number two in guarantor loans and number three in home credit.

Company information

CEO	John van Kuffeler
CFO	Nick Teunon
Exec. Dir.	Miles Cresswell-Turner

+44 20 38699026

www.nonstandardfinance.com

Key shareholders

Invesco	28.7%
Woodford Inv. Mgt. (04/09/18)	25.0%
Aberforth Partners	13.0%
Marathon Asset Mgt.	12.7%
Tosca Fund	3.9%

Diary

20 Aug	Interim results
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Analyst

Mark Thomas	020 7194 7622
	mt@hardmanandco.com

NON-STANDARD FINANCE

Director buying, trading update, interims due 20 Aug

In common with many companies that had a significant presence of Woodford Investment Management on their share register, NSF has seen significant share price weakness since the market perceived that this holding might have to be sold rapidly. To date, the reduction in holding has been small (just over 1%), and the shares had already weakened through the lapsed bid for Provident Financial (PFG). We note that there has been multiple and broad director buying since the lapse of the bid, which is likely to help sentiment on the stock.

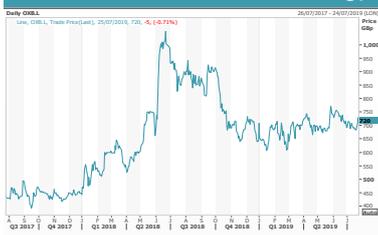
- ▶ **Trading update:** With the lapsing of the PFG bid, NSF is expected to focus on the operational delivery of the franchise growth in both the Everyday Loans (ELD) and Guarantor Loans (GLD) divisions. In home collect (HCC), we expect profit growth to come from improving impairments and operational efficiency.
- ▶ **Peer news:** Amigo Loans increased the size of its securitisation, saw its CEO leave on health grounds and was subject to a review on BBC's *Panorama*. The risks of involving a third party in the loan have been known about for many years, and NSF's deal integrations will have ensured it is adopting latest and best practice.
- ▶ **Valuation:** We forecast adjusted EPS of 5.65p in 2019, 8.0p in 2020 and 10.34p in 2021, versus a reported 3.4p in 2017. For this projected growth, investors are paying 4.9x 2020E earnings. Our absolute valuation measures range from 96p to 109p per share. Our sum-of-the-parts model implies a valuation of 87.5p.
- ▶ **Risks:** Credit risk remains the biggest threat to profitability (although this is mitigated through high risk-adjusted margins), and NSF's model accepts higher credit risk where a higher yield justifies it. Regulation is a market issue; management is taking appropriate action to mitigate this risk.
- ▶ **Investment summary:** Substantial value should be created, as i) competitors have withdrawn, ii) NSF is well capitalised, with committed debt funding until 2023, iii) macro drivers are positive, and iv) NSF has a highly experienced management team, delivering operational efficiency without compromising the key F2F model. Targets of 20% loan book growth and 20% EBIT RoA appear credible, and investors are paying 7.0x 2019E P/E and getting a yield of 8.1%.

Financial summary and valuation

Year-end Dec (£000)	2017	2018	2019E	2020E*	2021E*
Reported revenue	121,682	168,128	192,108	219,634	251,183
Total impairments	-28,795	-42,688	-48,221	-53,359	-59,316
Total costs	-67,706	-87,792	-92,806	-101,785	-112,969
EBITDA	25,181	37,648	51,081	64,490	78,898
Adjusted PBT	13,203	14,769	21,762	30,248	38,859
Statutory PBT	-13,021	-1,590	-1,121	27,119	37,328
Pro-forma EPS (p)	3.44	3.70	5.65	8.00	10.34
DPS (p)	2.20	2.60	3.20	4.00	5.00
P/adjusted earnings (x)	11.5	10.7	7.0	4.9	3.8
P/BV (x)	0.5	0.6	0.6	0.6	0.5
P/tangible book (x)	1.7	2.2	2.3	1.7	1.3
Dividend yield	5.6%	6.6%	8.1%	10.1%	12.6%

* IFRS9 basis; Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	OXB
Price (p)	705
12m High (p)	1,029
12m Low (p)	581
Shares (m)	76.7
Mkt Cap (£m)	541.0
EV (£m)	495.4
Free Float	59%
Market	LSE

Description

Oxford Biomedica (OXB) is a UK-based biopharmaceutical company specialising in cell and gene therapies developed using lentiviral vectors – gene-delivery vehicles based on virus particles. In addition to vector development and manufacture, OXB has a pipeline of therapeutic candidates and undertakes innovative pre-clinical R&D in gene-medicine.

Company information

CEO	John Dawson
CFO	Stuart Paynter
Chairman	Lorenzo Tallarigo
	+44 1865 783 000
	www.oxfordbiomedica.co.uk

Key shareholders

Directors	0.3%
Vulpes	15.2%
M&G	15.1%
Novo Holdings A/S	10.1%
Canaccord Genuity	5.2%
Hargreaves Lansdown	4.7%

Diary

Sep'19	Interim results
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Analysts

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OXFORD BIOMEDICA

Eying up long-term value

OXB is a specialist, advanced therapy, viral-vector biopharma company. It offers vector manufacturing and development services, while developing proprietary drug candidates, with its LentiVector® platform. 2018 saw significant growth in gross income, the majority through licensing deals. A new R&D collaboration deal with Santen, coupled with the recent equity financing and debt repayment, demonstrate OXB's deal-making ability and its strategy to secure future, long-term potential. Near term, this R&D arrangement will provide modest additional profit, adding confidence to OXB's new net cash status in 2019.

- ▶ **Strategy:** OXB has four strategic objectives: i) delivery of vector development services that embed its technology within partners' commercial products; ii) bioprocessing and commercial manufacture of vector; iii) out-licensing of proprietary candidates; and iv) investment in R&D and the LentiVector platform.
- ▶ **New R&D deal:** Santen Pharmaceutical Co. (Santen) and OXB have agreed to collaborate in developing a gene therapy for an inherited retinal disease. The financial details have not been disclosed, although the potential royalty is high, at up to 10%. Commercial development income will increase in the short term.
- ▶ **Equity investment:** OXB recently signed an agreement with Novo Holdings A/S for an equity investment of £53.5m, at 690p/share, representing 10.1% of OXB's enlarged share capital. This greatly strengthens the balance sheet, with OXB repaying in full its debt facility with Oaktree Capital on 28 June 2019.
- ▶ **Risks:** OXB's mid-term sales model is dependent on successful progress of partners' clinical trials and commercialisation of LentiVector-enabled products. OXB is investing heavily in infrastructure for manufacturing capacity and in personnel, which could potentially affect the bottom line, depending on deal flow.
- ▶ **Investment summary:** OXB is an exciting company with market-leading technology. It has been extensively validated through large deals with leading (bio)pharmaceutical partners and through grants from the UK government. On expectations of further milestones in 2019, OXB is now profitable, net-cash-positive and cashflow-positive at the operating level.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E	2021E
Gross revenue	30.78	39.36	67.84	83.47	104.60	123.04
EBITDA	-6.78	-2.63	13.54	14.63	18.53	30.40
Underlying EBIT	-10.45	-7.00	9.18	9.84	13.27	25.16
Reported EBIT	-11.32	-7.97	7.93	8.50	11.82	23.62
Underlying PBT	-15.34	-16.38	4.57	7.67	13.66	25.71
Statutory PBT	-20.31	-11.76	5.01	5.93	12.21	24.16
Underlying EPS (p)	-21.00	-21.99	10.88	13.68	24.35	43.08
Statutory EPS (p)	-29.95	-14.56	11.57	11.27	22.17	40.75
Net (debt)/cash	-19.05	-22.54	-8.91	34.80	43.82	64.93
Capital increase	17.50	0.39	19.81	52.43	0.10	0.10
P/E (x)	-	-	64.8	50.8	28.9	16.4
EV/sales (x)	-	-	-	9.2	6.3	5.5

Source: Hardman & Co Life Sciences Research



Market data	
EPIC/TKR	PCA
Price (p)	280
12m High (p)	350
12m Low (p)	270
Shares (m)	45.9
Mkt Cap (£m)	128.4
EV (£m)	225.0
Market	Main, LSE

Description

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

Company information

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

+44 20 3301 8330
www.palacecapitalplc.com

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

Diary	
Nov'19	Interim results
Jun'20	Final results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PALACE CAPITAL

A range of strong opportunities

Palace Capital's asset bias is towards regional offices – a market with strong supply constraints and good demand. There is also a well-positioned development in York for a mixed-use site. Profits from sales of the residential portion of the site should commence early in the FY22 year. The sales suite has just opened, upon physical commencement of the site. FY22 is thus primed to bring not only these apartment sales proceeds but also an income stream from the commercial development on this site. In the meantime, EPRA EPS rises are anticipated, with the FY20 and FY21 dividends fully covered. Palace Capital is well placed strategically and through its value-added management of assets.

- ▶ **REIT status:** Palace Capital has recently converted to REIT status. We anticipate this should result in it entering the EPRA REIT index in September. We have commented in the past on Palace Capital's strong record, year by year, of total accounting return vs. its peer group, and new REIT status can only assist liquidity.
- ▶ **Results and prospects:** Property return was strong in FY19 – beating the benchmark, as did rents. NAV, though, fell 2%, due primarily to tax and a modest loss on part-disposal of the RT Warren portfolio. We expect a covered dividend next year, ahead of the large benefits from the York development in FY22.
- ▶ **Financial estimates:** On 7 May, a £2.85m cash premium was agreed with a tenant for early lease termination; this is included in our FY20 estimates. EPRA EPS is stated prior to small estimated share-based payments. For FY22, we estimate income to rise ca.£0.8m, with a high proportion translating to EPRA profits.
- ▶ **A track record of outperformance:** After the development-site completion, loan-to-value (LTV) will reduce significantly. This will provide significant headroom for further expansion. A number of refurbishment, redevelopment and tenant-enhancement projects are under way. Both ultimately enhance EPRA profits further.
- ▶ **Risks:** The normal risks of real estate apply. The weighted average length of unexpired lease to break is 4.5 years. Generally, covenants are good. Retail exposure (bar Wickes and Booker) is minimal. Gearing, at 34% LTV, is conservative and, although expected to rise as the York development progresses, management has previously stated an intention to keep it below 40%.

Financial summary and valuation					
Year-end Mar (£m)	FY17	FY18	FY19	FY20E	FY21E
Net income	12.2	14.9	16.4	19.2	16.8
Finance cost	-3.0	-3.4	-4.6	-4.0	-4.0
Declared profit	12.6	13.3	6.4	11.2	14.8
EPRA PBT (adj. pre-revaluation)	6.4	7.5	8.6	11.2	8.8
EPS reported (diluted, p)	36.5	35.8	11.3	25.4	33.3
EPRA EPS (p)	21.2	18.7	16.5	23.6	19.1
DPS (p)	18.5	19.0	19.0	19.0	19.0
Net cash/debt	-68.6	-82.4	-96.5	-108.6	-123.1
Dividend yield	6.3%	6.4%	6.4%	6.4%	6.4%
Price/EPRA NAV	63.2%	67.5%	68.8%	68.0%	65.9%
EPRA NAV (p)	443.0	414.8	406.6	411.8	425.0
LTV	37.3%	29.9%	33.8%	36.3%	38.5%

Source: Hardman & Co Research



Source: Refinitiv

Market data

EPIC/TKR	PHP
Price (p)	136
12m High (p)	139
12m Low (p)	106
Shares (m)	1,136
Mkt Cap (£m)	1,540
EV (£m)	2,690
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

High security and accelerating dividend growth

The UK or Republic of Ireland (RoI) governments back 91% of PHP's income. Occupancy consistently exceeds 99%. We are confident investors will continue to seek out REITs, which have strong asset-class focus, particularly categories that provide security of rising income. PHP achieves all this and its dividend per share growth rate is accelerating as a result. In a total contrast to the wider real estate market, rent reviews on PHP assets are accelerating upwards. PHP's growth avenues are expanding. The March 2019 merger with MedicX Fund – in addition to a £4m p.a. synergy efficiency and over £800m additional investment assets – has added complementary routes to purchase new assets.

- ▶ **What PHP invests in:** PHP purchases modern standing stock, and forward-funds repeat development partners. These assets are localised hubs, providing community-based GP surgeries and other closely related medical services. The gross value is £2.3bn and the contracted rent roll now stands at £125.6m.
- ▶ **Growth in 2019 sees step jump expansion:** PHP's 14 March 2019 merger with complementary MedicX Fund effectively adds well over £800m of investment assets of as high a quality as PHP's, at nil stamp duty cost, bringing synergy efficiencies and taking PHP's investor offering to a new level.
- ▶ **Valuation:** Shares trade at a premium to EPRA NAV. At the latest balance sheet, assets were valued at a 4.85% (unchanged) net initial yield (NIY), but portfolios of this asset class consistently change hands at lower yields (higher prices). Investors in quoted real estate tend to favour focused investment strategies.
- ▶ **Risks:** No development risk is taken on the forward funding, and the strategy focuses tightly on this one sector. 2018 DPS cash cover was over 100%, and grew that year. Undrawn facilities exceed £200m. PHP states a 2.7% marginal interest cost, vs. a 3.9% average cost in 2018, so yield pick-up still trends upwards.
- ▶ **Investment summary:** In addition to 23 years of unbroken dividend growth, expansion into higher cash-generating RoI assets and a falling debt cost enhance EPRA EPS. Incremental management fees are below portfolio averages. Given these items, the enlargement through the merger, and the asset yield, recent acquisitions have been EPS-accretive. The merger led to strong upgrades.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Income	66.5	71.3	76.4	118.0	135.5
Finance costs	-32.5	-31.6	-29.7	-44.9	-50.3
Declared profit	43.6	91.9	74.3	-52.2	112.2
EPRA PBT (operating)	26.7	31.0	36.8	60.5	72.2
EPS reported (p)	7.8	15.3	10.5	-5.1	9.8
EPRA EPS (diluted, p)	4.7	5.1	5.2	5.9	6.3
DPS (p)	5.12	5.25	5.40	5.60	5.85
Net debt	-663.2	-726.6	-670.2	-1,212.3	-1,333.5
Dividend yield	3.7%	3.9%	4.0%	4.1%	4.3%
Price/EPRA NAV (x)	1.49	1.35	1.29	1.27	1.22
NAV per share (p)	83.5	94.7	102.5	105.0	108.8
EPRA NAV per share (p)	91.1	100.7	105.1	106.8	110.6

Source: Hardman & Co Research

Food Producers



Source: Refinitiv

Market data

EPIC/TKR	RE.
Price (p)	107.5
12m High (p)	332.0
12m Low (p)	90.0
Shares Ord (m)	40.4
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	43.4
Mkt Cap Prefs (£m)	52.0
EV (£m)	325.5
Free Float	30%
Market	MAIN

Description

R.E.A. Holdings (REA) is engaged in the operation and further development of palm oil plantations in East Kalimantan, Indonesia. The group also owns stone quarrying rights and concessions, and coal mining concessions that are being contracted out to third-party operators.

Company information

Managing Director	Carol Gysin
Chairman	David Blackett
	+44 207 436 7877
	www.rea.co.uk

Key shareholders

Directors	28.6%
M & G Investment Mgt.	15.0%
Alcatel Bell Pension Fund	10.1%
Artemis UK	8.8%
Aberforth Partners	7.3%

Diary

Sep'19	Interim results
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Analyst

Yingheng Chen	020 7194 7638
	yc@hardmanandco.com

R.E.A. HOLDINGS

Weak commodity prices

The palm oil price reached its lowest 2019 level, at \$480/mt CIF Rott on 16 July. Average CPO price for July (1-24) was \$492/mt, compared with \$596/mt average price for 2018, or \$825/mt in Jan'17. The CPO discount to soybean oil has widened to \$249/mt, a level not reached since 2013. Despite the higher demand boost from biodiesel enforced by the Indonesian government and the low stocks:usage ratio, the current downward price trend comes as a surprise to many. Notwithstanding the weak commodity prices, the group continues to focus on improving its oil extraction efficiency, with an average OER of 22.9% to end-May'19.

- **Production:** So far, weather patterns have been stable and good for crop production, and the group continues to see a yield rise from the increased fertiliser regime, which started in 2H'16. REA is expecting FFB production of ca.900,000mt in FY'19; our expectation is slightly lower, at 870,096mt.
- **Preference share dividend suspended:** Owing to the continual weakness in commodity prices, REA has implemented a series of cost-saving measures. It announced that it would defer the half-yearly dividend payment of its preference shares pending a CPO price improvement as part of a cash conservation measure.
- **Financing:** Management recognises the need to deleverage REA's indebtedness. Net debt, with the sale of PBJ, was \$189.6m at end-FY'18, vs. \$211.7m in FY'17. Net debt to equity was 72.5%, down from 76.5% in FY'17. A further reduction in cost of borrowings should help reduce some funding risk.
- **Sector valuation:** A weak palm oil price has dampened the results of most operators in Asia. The Asian Palm Oil Plantation Index has fallen 20.9% since Jan'18, while the Asian palm plantation sector saw a 17.0% valuation decrease, ending Jun'19 at \$11,181/planted ha, vs. \$13,468/planted ha at end-Dec'17.
- **Investment summary:** For investors attracted by palm oil assets, now could be an opportunistic time to review this sector, with the sector valuation down ca.12.8% since the beginning of 2017. We expect REA to have ca.33,423 mature ha by end-2019, as well as stronger agricultural production across the estates, and the plantations to be fully planted by end-2025.

Financial summary and valuation

Year-end Dec (\$m)	2016	2017	2018	2019E	2020E	2021E
Sales	79.3	100.2	105.5	133.4	158.1	167.4
EBITDA	16.8	20.7	12.8	29.4	58.7	66.6
Reported EBIT	-5.0	-2.2	-10.7	4.9	32.9	39.8
Adj. pre-tax profit	-18.4	-18.3	-20.3	-13.8	14.5	22.9
EPS (c)	-48.2	-67.7	-54.4	-53.6	4.4	21.6
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
P/E (x)	-	-	-	-	24.6	5.0
Net (debt)/cash	-205.1	-211.7	-189.6	-227.4	-214.7	-194.9
Planted hectares (ha)	42,846	44,094	36,500	36,700	36,700	36,700
Adj. EV/planted ha (\$/ha)*	6,568	6,367	7,469	7,333	7,265	7,224
CPO production (mt)	127,697	143,916	217,721	246,847	254,021	269,003

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

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	REDX
Price (p)	9.8
12m High (p)	18.0
12m Low (p)	4.8
Shares (m)	126.5
Mkt Cap (£m)	12.3
EV (£m)	9.0
Free Float*	81%
Market	AIM

*As defined by AIM Rule 26

Description

Redx Pharma (REDX) is focused on the discovery and development of proprietary, small molecule therapeutics to address areas of high unmet medical need, in cancer and fibrosis. The aim is to develop putative drugs through early trials and then to partner them for late-stage development and commercialisation.

Company information

CEO	Lisa Anson
CFO	James Mead
Chairman	Iain Ross

+44 1625 469 900

www.redxpharma.com

Key shareholders

Directors	0.6%
Jon Moulton	18.2%
Seneca Partners	12.6%
AXA	9.7%
Aviva	8.2%
Paul & Thelka Blackmore	4.0%

Diary

3Q'19	ROCK2 candidate nomin.
2H'19	RXC004 initial clinical update

Analysts

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

REDX PHARMA

Pan-RAF agreement

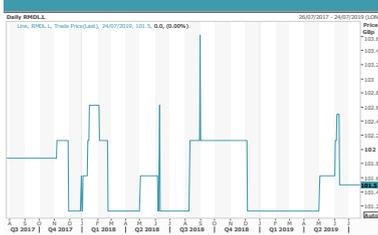
REDX is a clinical-stage R&D company focused on drugs targeting oncology and fibrotic disease. 2018 was a year that reset the benchmarks – new management team, restructured organisation focused on two therapeutic areas, and a clean balance sheet. A core focus for 2019 has been the restart of the Phase I/II with RXC004 and to strengthen the balance sheet. REDX has entered into an agreement with Jazz Pharmaceuticals (JAZZ) for the sale of its pan-RAF inhibitor programme. REDX will receive an upfront payment of \$3.5m (£2.84m) and is eligible to receive up to \$203m (£162m) in milestone payments.

- **Strategy:** REDX is focused on the discovery and early clinical development of small molecule therapeutics in oncology and fibrotic disease. It is also focused on taking assets through proof-of-concept clinical trials and then partnering them for late-stage development and commercialisation.
- **RXC004 trial re-started:** The Phase I trial with a reformulation of the porcupine inhibitor has resumed, using a revised protocol, and REDX has indicated that the first patient is now close to completion. Additional patients are planned for enrolment. Initial safety and tolerability results are anticipated in 2H'19.
- **Agreement with JAZZ:** REDX has signed a definitive agreement with JAZZ for its pre-clinical stage pan-RAF inhibitor programme. JAZZ has made an upfront payment of \$3.5m (£2.84m) to REDX, with the potential for further payments up to \$203m (£162m) in development, regulatory and commercial milestones.
- **Partnering:** In a separate agreement, JAZZ will also pay REDX an undisclosed sum to perform additional research and pre-clinical work, with the aim of completing IND-enabling studies. JAZZ is a strong partner, with five marketed products, and more than 20 R&D programmes in multiple stages of development.
- **Investment summary:** The management team is moving forward with an updated business plan that focuses cash resources on progressing its drug leads in oncology and fibrotic disease to proof-of-concept early clinical development. Big pharma can be willing to pay handsome prices for novel and/or de-risked assets with clinical data, reinforcing REDX's strategy. This can generate good returns and shareholder value for companies such as REDX.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
Other income	2.38	1.29	1.32	1.00	1.00	1.00
R&D investment	-14.32	-13.00	-7.42	-10.61	-10.83	-12.99
SG&A (corp. cost)	-2.21	-5.70	-2.81	-3.04	-3.22	-3.38
Underlying EBIT	-14.15	-17.41	-8.92	-12.65	-13.04	-15.37
Underlying PBT	-14.61	-17.74	-8.90	-12.72	-13.10	-15.37
Statutory PBT	-15.41	1.65	-10.15	-13.03	-13.42	-15.71
R&D tax credit	0.64	-0.12	1.30	1.79	1.83	2.20
Underlying EPS (p)	-17.83	-15.80	-6.01	-3.95	-2.64	-3.09
Statutory EPS (p)	-19.81	1.35	-6.99	-4.06	-2.72	-3.23
Disposals	0.00	30.47	0.00	0.00	0.00	0.00
Net (debt)/cash	3.76	23.81	6.47	8.95	-2.28	-16.55
Capital increase	9.30	11.07	0.00	14.10	0.00	0.00

Source: Hardman & Co Life Sciences Research

Premium Equity Closed-Ended Investment Funds


Source: Refinitiv

Market data

EPIC/TKR	RMDL/RMDZ
Price (p)	101.5/105.5
12m High (p)	104.0
12m Low (p)	100.2
Shares (m)	112.20
Mkt Cap (£m)	114
NAV p/shr. (p)	98.00
Free Float	100%
	LSE Equity Inv.
Market	Instrmt.

Description

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

Company information

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

(RM) +44 131 6037060

<http://rmdl.co.uk>
Key shareholders

CCLA	18%
Quilter	13%
MerianGlobal	13%
Brooks MacDonald	5%
Hawksmoor	5%
CG AM	4%
Charles Taylor	3%
RM (Inv. Mgr.)	0.8%

Diary
Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

RM SECURED DIRECT LENDING

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

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RMDL can be accessed through our website, [Hardman and Co Research](#). Our initiation report, published on 5 June 2019, can be found on the same site.

Pharmaceuticals & Biotechnology

Market data

EPIC/TKR	STX
Price (p)	104.0
12m High (p)	123.8
12m Low (p)	27.0
Shares (m)	117.1
Mkt Cap (£m)	121.8
EV (£m)	112.0
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	6.9%
C. Schweiger	4.8%
USS	4.4%

Diary

Sep'19	Interim results
2H'19	Sign US commercial partner(s) for Accufer

Analysts

Martin Hall	020 7194 7632	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

SHIELD THERAPEUTICS

Positive FDA outcome transforms prospects

STX is a commercial-stage pharmaceutical company delivering specialty products that address patients' unmet medical needs, with an initial focus on treating iron deficiency (ID) with Feraccru[®]. Approved for use in the EU in February 2016, STX demonstrated in a Phase III trial (AEGIS-H2H) that oral Feraccru was as effective as intravenous iron, which formed the basis of its FDA submission. At the time of going to press, the FDA approved Feraccru for the treatment of iron deficiency in the US, where it will be marketed as Accufer[®]. The next significant inflection point will be the announcement of STX's commercialisation partner in the US.

- **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 agreements allow STX to retain its IP and to continue to invest in its R&D pipeline, while benefiting from immediate and long-term value.
- **FDA approval:** Given that Feraccru had been shown in clinical trials to be non-inferior to Injectafer (Daichi Sankyo) and that it has been approved across Europe for the treatment of ID in adults with or without anaemia, the approval by the FDA for use in the US was largely uncontroversial and duly arrived on 25 July.
- **Commercialisation:** The FDA approved the drug for the broad indication of iron deficiency in adults, and it will be marketed in the US as Accufer. The next step will be to conclude a commercial deal with one or more of the potential partners with whom STX has already been in discussion pending this approval.
- **Risks:** All drug companies carry development risk, although Feraccru carries limited risk because of its simplicity and clinical profile. Feraccru is already de-risked in Europe and has now been de-risked in the US from a regulatory standpoint, so the only remaining risk is commercial execution.
- **Investment summary:** STX is at an exciting juncture. It has delivered on all goals set at the time of its IPO in 2016. Feraccru has been validated by regulatory approval in both the EU and the US, and the commercial deals in Europe look set to be repeated in the US. At the time of going to press, the share price had reacted positively (+70%) to the news. In light of this, we will reassess forecasts and the new de-risked valuation in a more significant note in the coming days.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Gross revenues	0.34	0.64	11.88	2.83	2.00
Sales	0.30	0.64	0.86	0.63	2.00
R&D	-2.03	-4.71	-4.30	-4.73	-2.51
Other income	0.04	0.00	11.03	2.20	0.00
EBITDA	-10.29	-17.92	-1.80	-6.30	-6.45
Underlying EBIT	-10.47	-18.34	-2.25	-6.75	-6.90
Reported EBIT	-12.46	-20.95	-5.17	-9.67	-9.82
Underlying PBT	-10.43	-18.35	-2.24	-6.73	-6.93
Statutory PBT	-15.60	-20.99	-5.15	-9.65	-9.85
Underlying EPS (p)	-9.73	-15.08	0.96	-4.62	-5.60
Statutory EPS (p)	-14.84	-17.43	-1.54	-7.86	-8.03
Net (debt)/cash	20.98	13.30	9.78	6.02	0.83
Capital increase	33.51	11.88	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research



Source: Refinitiv

Market data

EPIC/TKR	SCE
Price (p)	20
12m High (p)	24
12m Low (p)	9
Shares (m)	136
Mkt Cap (£m)	27.2
EV (£m)	25.3
Free Float*	86%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

Non-Exec Chair. David Bundred
 CEO Dr Kevin Johnson
 Finance Director Michael Cunningham
 + 44 (0) 151 356 2141
<https://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

Early Sep'19 Final results
 Oct'19 Capital markets day
 Dec'19 AGM

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

SURFACE TRANSFORMS

Rapid acceleration; “game changing” announcements

In June, a new contract of £6m lifetime revenues to a UK OEM was announced. Production is due to start at the end of calendar year 2021. This contract shows the company's ability to achieve new contracts with existing customers. In July, a “game changing” contract for series supply to OEM 5 was announced. This first model starts series production in October 2021, with annual offtake of ca.€2m p.a., tapering from 2026: an €11.8m contract. The company has agreed pricing across a range of platforms. This presents the chance to be selected for multiple vehicles, which will generate revenues many times the value of this first contract.

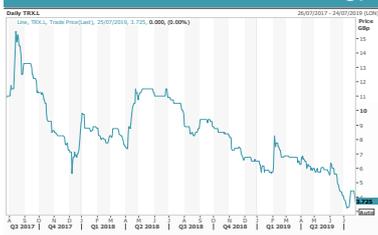
- ▶ **Pole position in this large market:** These are early stages of dramatic growth for Surface Transforms, the only alternative to the current near-monopoly supplier, sales of which are ca.€180m. It is substantially owned by the family behind BMW. Lead times for any new competitors are many years, and none are foreseen.
- ▶ **A niche £1bn-plus market is now clearly visible:** The product not only brings performance and safety benefits, but is environmentally friendly as it lasts considerably longer and reduces brake dust and emissions. As volumes rise, prices fall, which is the trigger to utilisation on greater volume models.
- ▶ **Capacity allocation model:** OEM production Cell One facilitates £17m or more in annual sales. Current revenue derives from important but modest retrofit and near-OEMs. The new contracts should generate well over 60% gross margins, dropping to the bottom line and requiring no significant capital expenditure.
- ▶ **Risks:** OEM new model timelines are long and so investment has come ahead of firm orders and well ahead of profit. Surface Transforms receives revenue from a number of sources, but is still in cash burn until mid-calendar 2020. Having both OEM 6 and OEM 5 contracts materially de-risks this situation.
- ▶ **Investment case:** This is a large, growing market, 99% supplied by one player. Surface Transforms and its new clients, OEM 6 and OEM 5, are beginning to address this anomaly. As the company moves towards operational cash breakeven in 2020, its risk/reward is transformed by the move into cashflow positive during the life of these two contracts, which run until the late 2020s.

Financial summary and valuation

Year-end May (£m)	2017	2018	2019E	2020E	2021E
Sales	0.70	1.36	1.00	1.85	3.70
EBITDA	-2.38	-2.00	-1.95	-2.15	-0.60
EBITA	-2.53	-2.30	-2.55	-2.65	-1.30
PBT	-2.53	-2.30	-2.55	-2.65	-1.30
PAT	-2.18	-1.83	-2.05	-2.10	-0.75
EPS (adj.) (p)	-2.42	-1.66	-1.65	-1.54	-0.55
Shareholder funds	3.91	5.55	6.70	4.70	3.85
Net (debt)/cash	1.53	0.62	1.87	0.20	0.10
P/E (x)	loss	loss	loss	loss	loss
EV/sales (x)	36.10	18.60	25.30	13.70	6.80
EV/EBITDA (x)	loss	loss	loss	loss	loss
DPS (p)	nil	nil	nil	nil	nil

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	TRX
Price (p)	3.7
12m High (p)	10.7
12m Low (p)	3.1
Shares (m)	1,172.0
Mkt Cap (£m)	42.8
EV (£m)	325.0
Free Float*	45%
Market	AIM

*As defined by AIM Rule 26

Description

Tissue Regenix (TRX) is a medical device company focused on regenerative medicine. Patented decellularisation technologies remove DNA, cells and other material from animal/human tissue and bone, leaving scaffolds that can be used to repair diseased or worn-out body parts. Its products have multiple uses.

Company information

CEO	Steve Couldwell
CFO	Gareth Jones
Chairman	John Samuel
	+44 330 430 3052
	www.tissueregenix.com

Key shareholders

Directors	4.3%
Invesco	28.7%
Woodford Inv. Mgt.	22.2%
IP Group	13.7%
Baillie Gifford	6.0%

Diary

2H'19	Potential EU approval of OrthoPure XT
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Analysts

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Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

TISSUE REGENIX

Share price affected by market conditions

TRX has a broad portfolio of regenerative medicine products for the biosurgery, orthopaedics, dental and cardiac markets. It has two proprietary decellularisation technology platforms for repair of soft tissue (dCELL) and bone (BioRinse). Following the acquisition of CellRight in the US in 2017, TRX embarked on a revised commercialisation strategy, which is clearly gaining traction, with sales growth of 47% in 2018. To allow further business expansion, including investment in facilities and working capital, credit facilities of up to \$20m/£16m have been secured. This will also support TRX in the difficult current market conditions.

- **Strategy:** TRX is building an international regenerative medicine business with a product portfolio using proprietary dCELL and BioRinse technology platforms, underpinned by compelling clinical outcomes. It aims to expand its global distribution network, via strategic partnerships, to drive sales momentum.
- **Shareholding:** At the time of writing (24 July 2019), TRX had 1,172.0m shares in issue. Following the sale of 47.4m shares in July, Woodford Investment Management remains the company's second-largest shareholder, with a 22.2% holding. The company's biggest shareholder is Invesco, with a 28.7% holding.
- **Market conditions:** The stock has fallen 21% since the Woodford Equity Income Fund was gated in early June (at which point TRX comprised ca.0.15% of the fund). It is unfortunate that negative market sentiment may be affecting TRX, as its intrinsic value and fundamental growth drivers remain unaffected.
- **Risks:** TRX is exposed to many of the risks common to medical device companies, including the regulatory hurdles based on the manufacture and distribution of human tissue products, and the commercial risks of operating in a highly competitive market. A hybrid sales strategy, however, mitigates the latter.
- **Investment summary:** TRX has three near-term value drivers: sales of BioSurgery products in the US; expansion of CellRight and TRX technologies into the orthopaedics/spine and dental markets; and preparation for the EU launch of OrthoPure XT in 2019. Management has been prudent in securing a timely US dollar loan that relieves some of the working capital pressure during this growth period, and which is non-dilutive for shareholders.

Financial summary and valuation

Year-end Dec (£m)	*2016	2017	2018	2019E	2020E	2021E
Sales	1.44	5.23	11.62	16.24	21.43	27.66
EBITDA	-10.55	-8.98	-7.15	-6.01	-3.53	-0.34
Underlying EBIT	-10.85	-9.69	-8.32	-7.20	-4.75	-1.59
Reported EBIT	-11.06	-10.82	-8.69	-7.14	-4.70	-1.54
Underlying PBT	-10.74	-9.64	-8.51	-7.51	-5.65	-2.52
Statutory PBT	-10.95	-10.77	-8.88	-7.45	-5.59	-2.47
Underlying EPS (p)	-1.28	-0.90	-0.67	-0.61	-0.42	-0.14
Statutory EPS (p)	-1.30	-1.02	-0.70	-0.61	-0.41	-0.13
Net (debt)/cash	8.17	16.42	7.82	-3.72	-6.77	-14.69
Capital increase	0.00	37.99	0.00	0.00	7.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	6.7	3.0	2.2	1.6	1.3

*11 months to December; Source: Hardman & Co Life Sciences Research

Construction & Materials



Source: Refinitiv

Market data

EPIC/TKR	TON
Price (p)	150.0
12m High (p)	208.0
12m Low (p)	112.5
Shares (m)	11.1
Mkt Cap (£m)	16.6
EV (£m)	14.9
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

30 Sep	Year-end
Dec'19	Preliminary results

Analyst

Tony Williams 020 7194 7622
tw@hardmanandco.com

TITON HOLDINGS PLC

Are you experianced?

Jimi Hendrix asked the question in 1966 with his debut interrogative album (here with Middle English spelling); and the answer was emphatically "no". The latter-day Experian, though, has played many venues, particularly as forecasting frontman for UK construction activity. No falsetto right now, but almost 2% real rises p.a. 2019-21 are scheduled. T-Bone Titon can carry a tune, too, and has done so since 1972; and the UK accounts for around half its revenue ensemble. Within this unit, too, housebuilding is on lead guitar and Experian expects some £4bn of new work here through 2021.

- ▶ **'May this be love':** Experian promulgated its latest numbers this month and – assuming an orderly Brexit – the band that is the UK Construction Industry will grow in real terms by 0.9% this year, followed by 2.0% next and 2.8% in 2021. For the record, I am an independent advisor to Experian on the above.
- ▶ **'Third Stone from the Sun':** Private housebuilding accounted for 22% of UK Construction activity last year with the Public Sector adding a rhythmic 4%. Private will grow at 2.7% p.a. 2019-21 with Public on an average octave of 4.3%. This means an extra £3bn (ex-inflation) plus £800m, respectively.
- ▶ **'Can you see me?':** In fiscal 2018, Titon recorded half its revenue in UK housebuilding and a 6.8% net margin. Top-line growth should average 4% p.a. through 2021 with profitability rising to ca.8%, when the UK would also account for half of group PBT i.e. 1% on margins adds a musical £150,000 to PBT this year.
- ▶ **'Foxy Lady':** South Korea (historically the largest earner) has been impacted by a slower residential market and a structural shift in product preference. It will be a tough year but swift action has been taken, and it is a Top-of-the-Pops economy with GDP set to rise 2.6% this year, 2.9% next and in 2022 (Statista – May 2019).
- ▶ **'Stone free':** The Hardman UK Building Materials Sector comprises 23 companies with a market value of £8.2bn and 8.8x EV/EBITDA on a trailing 12-month basis (priced on 24 July) or 12.2x sounds weighted by market capitalisation. Titon is on just 5.6x (albeit rising to 6.3x). At the same time, the sector's Total Shareholder Return (TSR) over 12 months is -1.5% actual or 8.4% weighted. Titon is at -10.9%, having been +17.7% in calendar 2018. Harmony will return.

Financial summary and valuation

Year-end Sep (£m)	2018	2019E	2020E	2021E
Net revenue	29.9	28.3	30.1	31.8
EBITDA	2.67	2.42	2.47	2.75
Underlying EBIT	2.02	1.71	1.69	1.89
Underlying PBT	2.77	2.21	2.30	2.60
Underlying EPS (p)	18.2	16.1	16.7	18.9
Statutory EPS (p)	18.2	14.5	16.7	18.9
Net (debt)/cash	3.4	3.0	3.7	4.5
Shares issued (m)	11.1	11.1	11.1	11.1
P/E (x)	8.2	9.3	9.0	7.9
EV/EBITDA (x)	5.6	6.3	6.0	5.1
DPS (p)	4.75	4.75	5.00	5.50
Dividend yield	3.2%	3.2%	3.3%	3.7%

Source: Hardman & Co Research

Real Estate



Market data

	SHED
EPIC/TKR	
Price (p)	129
12m High (p)	133
12m Low (p)	113
Shares (m)	87.8
Mkt Cap (£m)	114
EV (£m)	176
Market	AIM

Description

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

Company information

CEO	Richard Moffitt
Chairman	Nigel Rich

+44 20 7591 1600
www.urbanlogisticsreit.com

Key shareholders

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

Diary

Nov'19	Interim results
May'20	Final results

Analyst

Mike Foster	020 7194 7633 mf@hardmanandco.com
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URBAN LOGISTICS

6% dividend yield, plus rising NAV

Urban Logistics (SHED) invests in UK-based industrial and logistics properties. NAV growth and cash generation have been robust and growing during its as yet short history. Prospects are excellent for this owner of “mid-box”, “last-mile” distribution warehouses. This asset class is clearly placed to benefit consistently from engrained market trends in logistic requirements. Supply is strictly constrained by the dominant trend – that the cost of new-build is generally above the current valuations placed on assets in Urban Logistics’ category (last-mile logistics). It has demonstrated excellent returns through assets it holds and also through assets sold very profitably, to recycle capital.

- **EPS dynamics:** 20% of SHED’s space is let on relatively short leases. Market rents have risen and continue to do so; therefore, significant reversionary upside is present in these assets. We expect to initiate 2021 estimates shortly and, as a result of the above, we anticipate further significant growth.
- **Sector dynamics:** Logistics space from online (or multichannel) retail is far from the only driver here, but it appears to us that valuations ignore this major aspect of the asset class. In this “mid-box” arena, supply is falling and demand rising. Generally, the current build cost is ahead of current market values of mid-box.
- **Valuation:** The share price valuation, at a discount to EPRA NAV, appears illogical. An asset was sold in May for £9.2m, vs. a book value (end-March) of £8.43m and a much lower initial cost – illustrative of a conservative NAV. Also, there is the potential inherent in the market’s dwindling supply and good demand.
- **Risks:** 5.5-year leases mean that there are reversionary rent rises to come, but also that new leases must be secured. In the past ca.20 years, aggregate rent rises have been minimal. So, once rents and values rebase to higher levels and omnichannel retail growth tails off, new macro drivers need to be found.
- **Investment track record:** SHED has a £185m portfolio of warehouses, generating annualised NAV and dividend returns of 17.7%. Market rents have risen to ca.25% above its current £4.83 sq. ft. level. With plenty more to go, the dynamics here are totally different to the broader property market. Some aspects remind us of Primary Health Properties (qv), the rating of which is markedly different.

Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019	2020E
Rental income	2.28	5.56	10.80	12.40
Finance costs	-0.60	-0.93	-2.20	-2.80
EPRA operating profit	1.76	4.06	8.30	10.00
Declared profit	4.89	9.86	18.88	18.00
EPS reported (p)	34.12	19.50	22.29	20.52
EPRA EPS (diluted, pre-LTIP, p)	7.82	6.12	7.20	8.21
DPS (p)	6.23	6.32	7.00	7.50
Net debt	16.52	44.39	61.64	67.23
Dividend yield	4.8%	4.9%	5.5%	5.9%
Price/EPRA NAV (x)	1.13	1.07	0.94	0.88
NAV per share (p)	118.23	123.64	137.37	147.54
EPRA NAV per share (p)	116.11	122.49	138.18	148.00

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	VAL
Price (p)	0.18
12m High (p)	3.00
12m Low (p)	0.15
Shares (m)	1,024.1
Mkt Cap (£m)	1.84
EV (£m)	1.54
Free Float*	100%
Market	AIM

*As defined by AIM Rule 26

Description

ValiRx (VAL) is a clinical-stage biopharma company focused on novel treatments for cancer. It currently has two products in Phase I/II, and has completed Phase II clinical trials. Its business model focuses on out-licensing or partnering drug candidates after clinical trials.

Company information

CEO	Dr Satu Vainikka
CFO	Gerry Desler
Chairman	Oliver de Giorgio-Miller
	+44 203 008 4416
	www.valirx.com

Key shareholders

Directors	0.3%
Nicholas Slater	8.0%
Monecor	5.7%

Diary

2H'19	Read-out VAL201
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Analysts

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VALIRX

Good clinical progress

VAL is a clinical-stage biopharmaceutical company focused on the development of therapeutics for the treatment of cancer. The company has two leading assets: VAL201 (Phase I/II) – a peptide for advanced prostate cancer and potential to treat other hormone-induced indications; and VAL401 (completed Phase II) – a novel reformulation of risperidone, for advanced lung cancer. Both drugs are targeted at multi-billion-dollar markets that are inadequately served by current drugs. While its long-term financial position is being addressed by management, VAL401 received a positive outcome in late-stage NSCLC patients, and VAL201 nearly completed.

- **Strategy:** VAL operates as a virtual business, outsourcing most of its activities. The core strategy is to develop its therapeutic assets through the clinical pathway and seek a partner/licensing deal to complete the development programme and regulatory submissions to commercialise the products.
- **Trials progress:** Positive completion of the Phase II with VAL401 in late-stage non-small cell lung cancer, and advancement of VAL201 into the last stage of the trial, have been the key milestones. Also, VAL has signed an agreement with Aptus Clinical to work on the clinical development of VAL301 for endometriosis.
- **Results:** VAL took the opportunity with its 2018 financial results to update the market on its R&D pipeline. Although the pipeline is progressing well, there is some uncertainty about the long-term cash position, following termination of the subscription agreement with EHGOSF.
- **Capital increase:** Following the recent termination of a credit facility, VAL raised £0.3m through the issue of 150 million shares, at a price of 0.2p per share, representing a premium of 33%. In addition, VAL expects to receive £0.15m from the sale of an unlisted security and £0.4m from an R&D tax credit.
- **Investment summary:** VAL appears to be under-appreciated by the market. Reasons for this include the lack of institutional shareholders and a continuing need for more capital to advance its clinical programmes, thereby building value. On the back of clinical progress, the company is attracting potential commercial partners to help pay for the costs of late-stage development. This should be the catalyst needed to attract institutional investors into the company.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	0.00	0.00	0.00	0.00	0.00	0.00
SG&A	-1.67	-1.47	-1.68	-1.85	-1.94	-2.04
R&D	-2.38	-1.75	-1.70	-2.20	-2.64	-3.17
EBITDA	-3.94	-2.94	-3.24	-3.91	-4.44	-5.06
Underlying EBIT	-4.04	-3.13	-3.38	-4.05	-4.58	-5.21
Reported EBIT	-3.99	-3.13	-4.37	-4.05	-4.58	-5.21
Underlying PBT	-4.38	-3.57	-3.39	-4.06	-4.62	-5.27
Statutory PBT	-5.57	-3.55	-4.83	-4.06	-4.62	-5.27
Underlying EPS (p)	-6.16	-2.01	-0.62	-0.45	-0.32	-0.36
Statutory EPS (p)	-8.22	-2.00	-0.94	-0.45	-0.32	-0.28
Net cash/(debt)	-0.73	0.31	0.06	-2.58	-6.77	-11.60
Capital increase	2.61	3.60	3.43	1.05	0.00	0.00

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	VTA .NA, VTA.LN VTAS LN*
Price (€)	6.98/7.02/634p
12m High (€)	7.32/7.28/655p
12m Low (€)	6.44/6.52/585p
Shares (m)	36.6
Mkt Cap (€m)	255
Trail 12-mth. yield	8.9%
Free Float	70%
Market	AEX, LSE

*Listing 03 September 2018

Description

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

Company information

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

BNP: +44 1481 750853

www.voltafinance.com

Key shareholders

Axa Group	30.4%
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Diary

Mid'Aug	July estimated NAV
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Analyst

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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 (NMPs). The Board believes, therefore, that independent financial advisers can recommend the company's shares to retail investors, although financial advisers should seek their own advice on this issue.

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

Personal Products



Source: Refinitiv

Market data

EPIC/TKR	W7L
Price (p)	83.5
12m High (p)	274.8
12m Low (p)	70.0
Shares (m)	76.7
Mkt Cap (£m)	64.1
EV (£m)	62.8
Free Float*	36.1%
Market	AIM

*As defined by AIM Rule 26

Description

Warpaint is a UK-based colour cosmetics specialist that sells creative, design-focused and high-quality cosmetics at affordable prices. The company comprises of two divisions: own-brand (W7, Retra and others) and close-out. It has a presence in more than 67 countries.

Company information

Joint CEO	Sam Bazini
Joint CEO	Eoin Macleod
CFO	Neil Rodol
Chairman	Clive Garston

+44 1753 639 130

www.warpaintlondonplc.com

Key shareholders

Directors	51.1%
Schroders	12.0%
Blackrock	4.8%
BI Asset Mgt.	4.6%
Canaccord	3.1%

Diary

Sep'19	Interim results
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Analyst

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WARPAINT LONDON PLC

Challenging UK market; encouraging international growth

Warpaint continues to see an increase in brand awareness and encouraging growth in international sales, particularly in the EU and the US. However, trading conditions in the UK retail market continue to be challenging, particularly in the high street, with a reduction in footfall to bricks-and-mortar stores. Warpaint's management team is focusing on implementing its growth strategy and is still cautiously optimistic about the remainder of FY'19. Cash generation remains healthy.

- **Strategy:** In the near term, Warpaint will continue to focus on developing the own brands, W7 and Technic, and on optimising operations in both Retra and LMS. The group believes that further synergies are still possible. It will also concentrate on increasing its product offerings and raising brand awareness across the globe.
- **LMS integration:** Since the LMS acquisition (August 2018), Warpaint has opened a new showroom in Manhattan, which will showcase a full range of W7 and most Technic products. It has also opened a fulfilment centre in the US to shorten the lead time to customers in the Americas. LMS sales were up a strong 36% in 1Q'19.
- **Valuation:** Warpaint remains profitable and cash-generative, despite a challenging trading environment in the UK. We estimate a 2019 P/E of 8.3x, falling to 6.9x in 2020 on an adjusted basis. Warpaint has never made a loss and has a healthy profit margin. The group also has a progressive dividend policy.
- **Risks:** The biggest short-term risk for Warpaint is the ongoing decline in the retail market, particularly in the bricks-and-mortar stores in the UK, given that the UK is the company's biggest market at present, with 48.2% of sales in FY'18.
- **Investment summary:** The Warpaint story is quite simple. The group's flagship brand, W7, was created to fulfil the ever-increasing demand for creative, design-focused and high-quality cosmetics at affordable prices. The company deploys a similar strategy to its other own-brand products, with a quick product development time and on-trend products, meaning that Warpaint is well positioned for growth in a fast-growing colour cosmetics sector. Warpaint's RoE appears attractive.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	22.5	32.5	48.5	52.7	57.3	62.6
EBITDA (adjusted)	6.3	8.0	8.9	9.8	11.5	13.1
Operating profit (adjusted)	6.2	7.3	5.3	7.2	8.9	10.6
PBT (adjusted)*	6.1	7.7	8.2	9.0	10.9	12.7
Basic EPS (adjusted, p)*	7.9	9.6	9.1	10.1	12.1	13.9
DPS (p)	1.5	4.0	4.4	5.0	5.8	6.7
P/E (x)*	10.6	8.7	9.2	8.3	6.9	6.0
EV/EBITDA (x)	10.0	7.9	7.0	6.4	5.5	4.8
Dividend yield	1.8%	4.8%	5.3%	6.0%	6.9%	8.0%
RoE	-	20.0%	8.8%	13.0%	15.5%	17.2%

*adjusted for amortisation relating to acquisitions, exceptional costs and acquisition-related impairments

Source: Hardman & Co Research

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