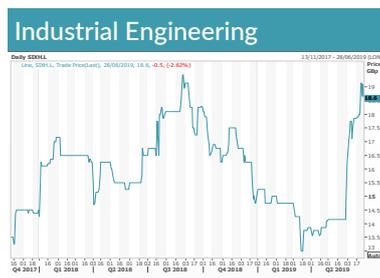




2 July 2019

**Market data**

EPIC/TKR	SIXH
Price (p)	18.6
12m High (p)	18.6
12m Low (p)	13.0
Shares (m)	113.1
Mkt Cap (£m)	21.1
EV (£m)	34.7
Free Float*	72.1%
Market	AIM

*As defined by AIM Rule 26

Description

The 600 Group is a designer and manufacturer of industrial products active in machine tools, components and laser marking. The US represents around 65% of group sales and the UK 15%.

Company information

Executive Chairman	Paul Dupee
CFO	Neil Carrick
	+44 1922 707110
	www.600group.com

Key shareholders

Haddeo Partners	20.8%
Mr D Grimes (MD of ILS)	6.6%
Mr A Perloff and	5.8%
Maland Pension Fund	
Miton Group	3.4%
Others	63.4%
Haddeo Partners	20.8%

Diary

Jul'19	Final results
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Analysts

Paul Singer	020 7194 7622
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THE 600 GROUP

Acquisition of CMS attractive and EPS-enhancing

The Control Micro Systems Inc (CMS) acquisition (US) is strategically attractive. Trading remains good, with a healthy and improved order book, and growth enhanced by new product launches and new market entry. The group remains competitively well positioned, with a world-class reputation in machine tools and laser marking. The shares stand at a discount to the peer group and to a DCF valuation, and offer an appealing yield.

- ▶ **Strategic developments:** The CMS acquisition strengthens the competitive position of the group's TYKMA laser marking subsidiary. The \$10m consideration was part-funded from the group's cash resources, boosted by monies from the recent pension scheme settlement, a new \$3.25m five-term loan and \$1m in new shares.
- ▶ **Financial impact:** The consideration represents transaction multiples of around 0.9x sales and 5x EBITDA. We believe the deal will be immediately earnings-enhancing (over 10%), even before any synergies or efficiency gains. (We will be adjusting our forecasts post release of the group's final results in early July.)
- ▶ **Current trading:** Despite the continued macroeconomic and political (trade war/Brexit) uncertainties, enquiry and quotational activity has remained good, with further progress in the group's order book.
- ▶ **Competitive position:** The 600 Group has strong global brand recognition, with, as a key differentiator, the provision of high-service/customer support. The group is regarded as well positioned within highly competitive and fragmented industries, where barriers to entry are generally low.
- ▶ **Investment summary:** The shares offer the opportunity to invest in a de-risked cyclical stock with good operational leverage, enhanced by new product launches and new market entry. Cyclicalities has been de-risked through development of repeat/recurring business and activities in high-margin, economically less sensitive spares/services operations. The risk/reward profile is favourable, and the shares stand at a discount to the peer group and to a DCF valuation, with an appealing yield.

Financial summary and valuation

Year-end Mar (\$m)	2017	2018	2019E	2020E
Sales	58.8	66.0	69.7	73.9
Gross profit	20.5	23.0	24.4	25.8
EBITDA	4.5	4.9	5.4	6.0
Underlying EBIT	3.8	4.2	4.8	5.4
Underlying PTP	2.7	3.1	3.7	4.4
Underlying EPS (c)	2.7	3.2	3.1	3.6
Statutory EPS (c)	2.7	3.7	3.1	3.6
Net (debt)/cash	-17.1	-15.6	-15.7	-8.9
Dividend (p)	0.00	0.50	0.60	0.72
P/E (x)	7.0	7.5	7.5	6.8
Dividend yield		2.7%	3.2%	3.9%

Source: Hardman & Co Research

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