



23 October 2019



Market data	
EPIC/TKR	HAYD
Price (p)	1.4
12m High (p)	12.0
12m Low (p)	1.0
Shares (m)	317.7
Mkt Cap (£m)	4.4
EV (£m)	1.0
Free Float*	100%
Market	AIM

*As defined by AIM Rule 26

Description

Haydale is involved in the production and functionalisation of nanomaterials, with key growth areas being silicon carbide (75% of revenues), functionalised inks and graphene composites.

Company information

CEO	Keith Broadbent
CFO	Laura Redman-Thomas
Chairman	David Banks
+44 01269 842946	
www.Haydale.co.uk	

Key shareholders

Quilter Plc	13.4%
Anthony Best	8.3%
Nichola Audley Money-Kyrle	5.1%
David & Monique Newlands	4.1%
Others	69.1%

Diary

Feb'20	Interim results
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Analyst

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HAYDALE

Cost savings evident, revenue growth to come

The re-focusing and re-orientating of the business with a major cost-saving programme are progressing well. Commercial developments are also progressing well, and medium-term financial issues have now been addressed. The long-term risk/reward balance remains favourable. The markets, though, await clear evidence that the new management team is delivering on its revenue objectives.

- ▶ **Strategic developments:** A global cross-site/cross-commodity sales team (each with specific product/market expertise) is now in place, with low regulated markets as key targets. This should enhance top-line growth. Furthermore, Haydale has just received a \$0.7m order for ceramic blanks from a large US cutting tool manufacturer, providing additional growth and a commitment in principle from a Japanese cutting tool manufacturer with a value of \$0.6m.
- ▶ **Financial developments:** 2018/19 results revealed a 55% gross margin and excellent progress on cost-cutting initiatives. New management's key focus has been the reduction of central costs, e.g. marketing and travel, etc. This has already led to a reduction in its annualised SG&A costs of more than £1.6m, with more expected in the coming years.
- ▶ **Financial position:** Net cash was £3.4m at the 2018/19 year-end. The group had an order book at 10/09/19 of £3.55m, to be delivered over the coming years. Capital expenditure will be lower in 2019/20, and working capital management is well controlled. The group should remain in a positive cash position over the medium term.
- ▶ **Investment summary:** Haydale remains well positioned competitively, with a proprietary and recently-enhanced nanomaterial functionalisation plasma process. Commercial traction is good, with a healthy order book, and the group has been financially de-risked. While the risk/reward balance remains favourable on a long-term basis, the market awaits clear evidence that the new management team is delivering on its revenue objectives.

Financial summary and valuation				
Year-end Jun (£m)	2018	2019	2020E	2021E
Sales	3.4	3.5	5.3	7.2
Gross profit	2.0	1.9	3.3	4.4
Grant income	0.8	0.8	0.6	0.6
EBITDA	-4.9	-4.4	-1.9	0.4
Underlying EBIT	-5.7	-5.5	-3.0	-0.7
Reported EBIT	-6.0	-7.5	-3.2	-0.9
Underlying PBT	-5.8	-5.6	-3.0	-0.7
Underlying EPS (p)	-22.4	-2.9	-0.8	-0.2
Statutory EPS (p)	-23.7	-4.1	-0.9	-0.3
Net (debt)/cash	4.2	3.4	1.5	1.5
EV/sales (x)	0.3	0.3	0.2	0.1

Source: Hardman & Co Research

Financials

Profit and Loss

- ▶ 2018/19 revealed commercial revenues of £3.47m, with initial growth of £0.5m in the US business. Gross profit was maintained at the previous year's level, but the gross margins was lower, at 55%, reflecting the different sales mix, pricing strategies and a below-average yield from the US operations.
- ▶ Around £1.6m of annualised cost savings have been achieved to date. The group's UK composite business has not developed as quickly as had been planned, and, despite good pipeline opportunities, a £1.78m impairment charge has been taken. The adjusted operating loss before non-cash items was £4.18m, marginally better than anticipated and lower than the previous year's level.
- ▶ Our forecasts assume strong growth in the group's silicon carbide business and an improvement in gross margins, reflecting the more optimal sales mix.
- ▶ 2019/2020 grant income will be marginally below that of 2018/19, reflecting the new emphasis on projects, which will lead to commercial products in the short to medium term.

Profit & Loss				
Year-end Jun (£m)	2018	2019	2020E	2021E
Sales	3.40	3.47	5.27	7.16
COGS	-1.40	-1.57	-2.00	-2.72
Gross profit	2.00	1.90	3.27	4.44
Gross margin	58.8%	54.8%	62.0%	62.0%
Other income – grant	0.83	0.79	0.60	0.60
Sales & marketing	0.00	0.00	0.00	0.00
Administrative expenses	-7.71	-6.87	-5.84	-4.78
R&D	-0.88	-1.00	-1.00	-1.00
EBITDA	-4.94	-4.41	-1.87	0.35
Depreciation & amortisation	-0.82	-1.12	-1.10	-1.10
Restructuring costs	0.00	-0.35	0.00	0.00
Underlying EBIT	-5.76	-5.53	-2.97	-0.74
Share-based costs	-0.29	-0.20	-0.20	-0.20
Exceptional items	0.00	-1.78	0.00	0.00
Statutory operating profit	-6.05	-7.51	-3.17	-0.94
Finance income	0.00	0.00	0.00	0.00
Finance costs	-0.10	-0.12	0.00	0.00
Associates	0.00	0.00	0.00	0.00
Net financials	-0.10	-0.12	0.00	0.00
Underlying PBT	-5.86	-5.65	-2.97	-0.74
Reported PBT	-6.15	-7.63	-3.17	-0.94
Tax payable/receivable	0.85	0.57	0.30	0.07
Minorities	0.00	0.00	0.00	0.00
Underlying net income	-5.01	-5.08	-2.67	-0.67
Statutory net income	-5.30	-7.06	-2.87	-0.87

Source: Hardman & Co Research

Balance sheet

- ▶ Following the £5.8m fund raise in March 2019, Haydale was in a net cash position at end-2018/19 of £3.4m.
- ▶ We forecast that Haydale will be in a net cash position of around £1.5m at the end of 2019/20.

Balance sheet				
@30 Jun (£m)	2018	2019	2020E	2021E
Shareholders' funds	12.5	11.3	8.6	7.9
Cumulated goodwill	0.0	0.0	0.0	0.0
Total equity	12.5	11.3	8.6	7.9
Share capital	0.5	6.4	6.4	6.4
Reserves	12.0	4.9	2.2	1.6
Minorities	0.0	0.0	0.0	0.0
Provisions/liabilities	0.0	0.0	0.0	0.0
Deferred tax	0.1	0.0	0.0	0.0
Long-term debt	0.3	0.9	0.9	0.9
Short-term loans	0.6	0.4	0.4	0.4
<i>less:</i> Cash	5.1	4.7	2.7	2.8
<i>less:</i> Deposits	0.0	0.0	0.0	0.0
<i>less:</i> Non-core invests.	0.0	0.0	0.0	0.0
Invested capital	8.5	7.8	7.1	6.4
Fixed assets	5.1	5.6	5.1	4.6
Intangible assets	2.1	1.0	0.8	0.6
Goodwill	2.1	1.5	1.5	1.5
Inventories	1.0	1.2	1.2	1.3
<i>Trade debtors</i>	0.7	0.6	0.7	0.7
<i>Other debtors</i>	0.4	0.5	0.5	0.5
<i>Tax credit/liability</i>	0.5	0.8	0.8	0.8
<i>Trade creditors</i>	-2.2	-2.1	-2.2	-2.3
<i>Other creditors</i>	-1.2	-1.3	-1.3	-1.3
Debtors less creditors	-1.8	-1.4	-1.5	-1.5
Invested capital	8.5	7.8	7.1	6.4
Net debt	-4.2	-3.4	-1.5	-1.5

Source: Hardman & Co Research

Cashflow

- ▶ 2018/19 capital expenditure was £1.2m, primarily for the US blanks equipment business.
- ▶ For 2019/2020, capital expenditure will decrease to around £0.4m, and working capital management will remain tight.

Cashflow				
Year-end Jun (£m)	2018	2019	2020E	2021E
Trading profit	-5.76	-5.5	-3.0	-0.7
Depreciation	0.65	0.9	0.9	0.9
Amortisation	0.15	2.0	0.2	0.2
Working capital	0.16	-0.2	0.0	0.0
Other	0.00	0.0	0.0	0.0
Company op. cashflow	-4.81	-2.8	-1.9	0.4
Net interest	-0.1	-0.1	0.0	0.0
Tax paid/received	0.9	0.7	0.3	0.1
Operational cashflow	-4.1	-2.3	-1.6	0.4
Capital expenditure	-0.7	-1.2	-0.4	-0.4
Sale of fixed assets	0.0	0.0	0.0	0.0
Free cashflow	-4.8	-3.5	-2.0	0.0
Dividends	0.0	0.0	0.0	0.0
Acquisitions	-0.6	-0.3	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0
Cashflow after invests.	-5.4	-3.7	-2.0	0.0
Share repurchases	0.0	0.0	0.0	0.0
Share issues	8.8	5.9	0.0	0.0
Change in net debt	3.4	2.9	-2.0	0.0

Source: Hardman & Co Research

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