



Source: Refinitiv

| Market data  |      |
|--------------|------|
| EPIC/TKR     | FLTA |
| Price (p)    | 194  |
| 12m High (p) | 245  |
| 12m Low (p)  | 146  |
| Shares (m)   | 29   |
| Mkt Cap (£m) | 56   |
| EV (£m)      | 56   |
| Free Float*  | 33%  |
| Market       | AIM  |

\*As defined by AIM Rule 26

**Description**

Filta Group 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](http://www.filtapl.com)

| Key shareholders  |       |
|-------------------|-------|
| Directors         | 66.4% |
| Gresham House     | 12.6% |
| Blackrock         | 5.6%  |
| Cannacord Genuity | 4.5%  |

| Diary  |                     |
|--------|---------------------|
| Apr'20 | Preliminary results |
| Sep'20 | Interim results     |

**Analyst**

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## FILTA GROUP

### FY19 trading update

Filta Group (Filta) provides cleaning services to commercial kitchens in North America, the UK and, mainland Europe. The company reported that EBITDA for 2H19 would be similar to 1H19 and thus below our expectations. The cost-saving benefits of the Watbio acquisition are still taking longer than expected. Revenue continues to be on track and some extra investment has been made in UK sales staff to maximise the revenue opportunities. We cut our EBITDA expectations for 2019 from £4.2m to £3.3m. Our 2020 expectations are unaltered.

- **Forecast changes:** We have cut our FY19E EBITDA from £4.2m to £3.3m and left FY20E unchanged at £5.25m. The cut to EPS – FY19E 0.1p (from 5.1p) is more substantial due to operational and financial gearing and a proportionately higher tax charge. The cuts do not reflect any weakening in the business prospects, which we still see as very attractive.
- **Outlook:** We downgraded our forecasts in September because the Watbio acquisition cost savings were taking longer than expected so this latest announcement is disappointing. However, management remains very confident regarding the external prospects for the business and that it will have resolved the internal restructuring issues so as to have no negative impact on FY20.
- **Valuation:** Filta has no directly comparable companies. We have used a DCF to derive a value range of 217p to 283p per share, using a 10% discount rate and a mid-term (2021-25) growth rate of between 6% and 12%. Our central estimate is 260p. No account is taken of future added-value acquisitions.
- **Risks:** 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. The risks in the Watbio acquisition would seem to be fully understood but any future deals 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.

| Financial summary and valuation |       |       |        |        |        |        |
|---------------------------------|-------|-------|--------|--------|--------|--------|
| Year-end Dec (£000)             | 2015  | 2016  | 2017   | 2018   | 2019E  | 2020E  |
| Revenue                         | 7,925 | 8,469 | 11,547 | 14,213 | 25,100 | 27,500 |
| EBITDA                          | 594   | 1,193 | 2,116  | 2,642  | 3,300  | 5,250  |
| Underlying EBIT                 | 450   | 1,011 | 2,059  | 1,941  | 1,330  | 3,300  |
| Reported EBIT                   | 450   | (249) | 1,699  | 1,782  | 980    | 3,300  |
| Underlying PTP                  | 376   | 932   | 1,968  | 1,900  | 1,030  | 3,100  |
| Statutory PTP                   | 376   | (329) | 1,608  | 1,742  | 680    | 3,100  |
| Underlying EPS (p)              | 1.39  | 3.66  | 5.05   | 5.39   | 1.32   | 8.11   |
| Statutory EPS (p)               | 1.39  | -1.51 | 3.85   | 4.88   | 0.13   | 8.11   |
| Net (debt)/cash                 | -619  | 3,271 | 2,992  | 2,040  | 500    | 2,848  |
| Shares issued (m)               | 22    | 23    | 27     | 29     | 29     | 29     |
| P/E (x)                         | 139.7 | 53.0  | 38.4   | 36.0   | 147.4  | 23.9   |
| EV/EBITDA                       | 72.1  | 34.2  | 23.6   | 20.5   | 17.0   | 10.3   |

Source: Hardman &amp; Co Research

## Profit & Loss

| Income statement, 2015-20E           |            |              |              |              |              |              |
|--------------------------------------|------------|--------------|--------------|--------------|--------------|--------------|
| Year-end Dec (£000)                  | 2015       | 2016         | 2017         | 2018         | 2019E        | 2020E        |
| Revenue                              | 7,925      | 8,469        | 11,547       | 14,213       | 25,100       | 27,500       |
| Cost of sales                        | -4,208     | -4,449       | -5,870       | -7,131       | -14,900      | -15,300      |
| Gross profit                         | 3,718      | 4,019        | 5,677        | 7,083        | 10,200       | 12,200       |
| Other income                         | 36         | 25           | 38           | 25           |              |              |
| Distribution costs                   | -84        | -80          | -125         | -151         | -200         | -200         |
| Admin. expenses                      | -3,220     | -2,953       | -3,532       | -5,015       | -8,670       | -8,700       |
| Operating profit                     | 450        | 1,011        | 2,059        | 1,941        | 1,330        | 3,300        |
| <i>EBITDA</i>                        | <i>594</i> | <i>1,193</i> | <i>2,116</i> | <i>2,642</i> | <i>3,300</i> | <i>5,250</i> |
| Finance expenses                     | -74        | -80          | -91          | -40          | -300         | -200         |
| PBT                                  | 376        | 932          | 1,968        | 1,900        | 1,030        | 3,100        |
| Exceptional costs                    |            | -1,261       | -360         | -159         | -350         |              |
| Tax                                  | -74        | -101         | -590         | -422         | -640         | -700         |
| PAT                                  | 302        | -430         | 1,017        | 1,320        | 40           | 2,400        |
| Discontinued ops.                    |            | 87           | 33           | 19           |              |              |
| Net profit                           | 302        | -343         | 1,050        | 1,339        | 40           | 2,400        |
| Exchange differences                 | -45        | -186         | -94          | -29          |              |              |
| Comprehensive income                 | 257        | -528         | 956          | 1,309        | 40           | 2,400        |
| Avg. no. of shares (fully-dil., m)   | 21.8       | 22.7         | 27.3         | 27.4         | 29.0         | 29.0         |
| EPS (p)                              | 1.4        | -1.5         | 3.9          | 4.9          | 0.1          | 8.3          |
| Statutory EPS (fully-dil., p)        | 1.4        | -1.5         | 3.9          | 4.9          | 0.1          | 8.1          |
| Underlying EPS (fully-dil., adj., p) | 1.4        | 3.7          | 5.1          | 5.4          | 1.3          | 8.1          |
| DPS (p)                              |            |              | 1.3          | 1.6          | 2.0          | 3.8          |
| GP margin                            | 47%        | 47%          | 49%          | 50%          | 41%          | 45%          |
| Admin. as % of revenue               | 41%        | 35%          | 31%          | 35%          | 35%          | 31%          |
| EBIT margin                          | 6%         | 12%          | 18%          | 14%          | 5%           | 12%          |
| Tax rate                             | 20%        | 11%          | 30%          | 22%          | 62%          | 23%          |
| Growth YoY                           |            |              |              |              |              |              |
| Revenue                              | 20%        | 7%           | 36%          | 23%          | 77%          | 10%          |
| Operating profit                     | 45%        | 125%         | 104%         | -6%          | -31%         | 148%         |
| PBT                                  | 64%        | 148%         | 111%         | -3%          | -46%         | 201%         |
| EPS                                  | 63%        | 164%         | 38%          | 7%           | -76%         | 516%         |

Source: Hardman & Co Research

## Balance sheet

| Balance sheet, 2015-20E                 |        |        |        |         |         |         |
|---|--------|--------|--------|---------|---------|---------|
| @ 31 Dec (£000)                         | 2015   | 2016   | 2017   | 2018    | 2019E   | 2020E   |
| <b>Non-current assets</b>               |        |        |        |         |         |         |
| Property, P & E                         | 1,121  | 1,191  | 1,216  | 1,493   | 1,073   | 673     |
| Intangible assets                       | 90     | 167    | 485    | 7,186   | 6,586   | 5,986   |
| Goodwill                                |        |        | 631    | 1,640   | 3,640   | 3,640   |
| Contract acquisition costs              | 170    |        | 157    | 343     | 343     | 343     |
| Deposits                                | 2      | 3      | 2      | 2       | 2       | 2       |
| Trade receivables                       | 215    | 379    | 302    | 325     | 357     | 392     |
| Deferred tax assets                     | 520    | 756    | 652    | 755     | 905     | 1,105   |
| Total non-current assets                | 2,117  | 2,495  | 3,446  | 11,744  | 12,906  | 12,140  |
| <b>Current assets</b>                   |        |        |        |         |         |         |
| Trade receivables                       | 1,591  | 1,961  | 2,311  | 4,821   | 5,544   | 6,376   |
| Contract acquisition costs              |        |        | 38     | 52      | 52      | 52      |
| Inventories                             | 299    | 288    | 438    | 1,386   | 1,525   | 1,671   |
| Cash                                    | 979    | 4,392  | 4,031  | 6,790   | 4,250   | 5,698   |
| Total current assets                    | 2,870  | 6,641  | 6,818  | 13,049  | 11,371  | 13,796  |
| Assets held for sale                    |        | 88     | 74     |         |         |         |
| Total assets                            | 4,987  | 9,224  | 10,339 | 24,793  | 24,277  | 25,937  |
| <b>Current liabilities</b>              |        |        |        |         |         |         |
| Trade payables                          | -1,726 | -1,990 | -2,143 | -6,510  | -7,161  | -7,846  |
| Borrowings                              | -597   | -104   | -108   | -841    | -841    | -841    |
| Due to directors/deferred consideration | -1,522 |        |        |         |         |         |
| Deferred income                         | -194   | -401   | -533   | -869    | -869    | -869    |
| Total current liabilities               | -4,039 | -2,495 | -2,783 | -8,220  | -8,871  | -9,556  |
| <b>Non-current liabilities</b>          |        |        |        |         |         |         |
| Borrowings                              | -1,001 | -1,018 | -932   | -3,909  | -2,909  | -2,009  |
| Deferred income                         | -1,555 | -2,310 | -2,405 | -2,791  | -2,991  | -2,991  |
| Deferred tax                            |        |        | -95    | -1,291  | -1,291  | -1,291  |
| Total non-current liabilities           | -2,556 | -3,328 | -3,432 | -7,992  | -7,192  | -6,292  |
| Liabilities held for sale               |        | -33    | -66    |         |         |         |
| Total liabilities                       | -6,595 | -5,856 | -6,281 | -16,211 | -16,063 | -15,847 |
| <b>Net assets</b>                       | -1,609 | 3,368  | 4,057  | 8,582   | 8,214   | 10,089  |
| <b>Equity</b>                           |        |        |        |         |         |         |
| Share capital                           | 380    | 2,695  | 2,713  | 2,892   | 2,892   | 2,892   |
| Share premium                           |        | 3,480  | 131    | 3,372   | 3,522   | 3,722   |
| Accumulated losses/profits              | -1,914 | -2,257 | 1,863  | 2,711   | 2,194   | 3,869   |
| Other reserves                          | -75    | -551   | -650   | -394    | -394    | -394    |
| Total equity                            | -1,609 | 3,368  | 4,057  | 8,582   | 8,214   | 10,089  |

Source: Hardman & Co Research

Note: the "borrowings" do not include the lease liabilities.

## Cashflow

| Cashflow, 2015-20E          |      |       |        |        |        |        |
|-----------------------------|------|-------|--------|--------|--------|--------|
| Year-end Dec (£000)         | 2015 | 2016  | 2017   | 2018   | 2019E  | 2020E  |
| <b>Operating activities</b> |      |       |        |        |        |        |
| PBT                         | 376  | -218  | 1,641  | 1,760  | 680    | 3,100  |
| Finance costs               | 74   | 80    | 91     | 42     | 300    | 200    |
| Depreciation                | 90   | 119   | 110    | 187    | 620    | 600    |
| Amortisation                | 54   | 63    | 100    | 212    | 800    | 800    |
| Other                       | 9    | 49    | 97     | 310    | -150   | -200   |
| Working capital changes     | 17   | -53   | -197   | -490   | -243   | -327   |
| Cash from operations        | 620  | 40    | 1,842  | 2,021  | 2,006  | 4,173  |
| Tax paid                    | -54  |       | -510   | -1,216 | -640   | -700   |
| Net cash from operations    | 566  | 40    | 1,332  | 805    | 1,366  | 3,473  |
| <b>Investing activities</b> |      |       |        |        |        |        |
| Purchase of P,P&E           | -180 | -43   | -113   | -316   | -200   | -200   |
| Purchase of intangibles     | -60  | -154  | -55    | -105   | -200   | -200   |
| Sales of assets             | 64   |       | 25     | 49     |        |        |
| Acquisitions                |      |       | -1,138 | -3,738 | -1,800 |        |
| Net investing cash          | -176 | -197  | -1,281 | -4,110 | -2,200 | -400   |
| <b>Financing activities</b> |      |       |        |        |        |        |
| Issue of shares             |      | 3,999 | 149    | 2,870  | 150    | 200    |
| Net borrowings              | 291  | -146  | -47    | 3,538  | -1,000 | -900   |
| Interest paid               | -70  | -105  | -91    | -42    | -300   | -200   |
| Dividends paid              |      |       | -226   | -372   | -557   | -725   |
| Net financing cash          | 221  | 3,748 | -215   | 5,994  | -1,707 | -1,625 |
| Net change in cash          | 611  | 3,591 | -165   | 2,689  | -2,540 | 1,448  |
| Cash at beginning of year   | 452  | 979   | 4,392  | 4,031  | 6,790  | 4,250  |
| FX                          | -84  | -178  | -196   | 70     |        |        |
| Cash at end of year         | 979  | 4,392 | 4,031  | 6,790  | 4,250  | 5,698  |

Source: Hardman & Co Research

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