HARDMAN&CO.

THE MONTHLY

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Table of contents

Feature article: Gold and Debt Cycles

By Paul Mylcreest, Hardman & Co Analyst

Gold's risk/reward is improving

The trade-off in the risk/reward for gold and gold mining equities is improving, as central banks push the current iteration of the post-World War II Bretton Woods financial order towards its limits.

Bretton Woods began as a gold exchange standard, which pegged the US dollar to gold at $35/oz until 1968. The framework required modification after monetary discipline was jettisoned by the US, and policy coordination between the US and other major economic powers broke down. The peg to the gold price became unsustainable and a bull market in gold, lasting more than a decade, ensued.

The underpinnings of the status quo

The subsequent modification to Bretton Woods, sometimes termed the "Petrodollar", is a free-floating system built on the US dollar's dominance in global trade and reserve balances. It requires a framework in which confidence in central banks remains strong, economic policies of major powers are coordinated and debt levels are manageable.

Looking at today's "big picture", the current economic expansion is the longest in post-World War II history. Meanwhile, even the Federal Reserve has scrapped its attempts to normalise monetary policy, with the reversion to rate cuts and QE (sorry Mr Powell, it is QE). Trade tensions between the US and China continue and the debt burden, which is a good place to begin this discussion, is unprecedented.

The global debt cycle is key for gold

Our position in the global debt cycle is significant for gold because:

- it performed strongly versus other major asset classes in the final ("Winter") stages of the three previous debt cycles, which have played out since the Industrial Revolution (see table below);
- gold has no counterparty risk, which increases in loans/credit instruments as the debt carried by the financial system increases; and
- debt has a time function – bringing forward consumption from the future into the present – in a sense "buying time". Rising debt ultimately acts as a tax on growth.

Gold outperforms in the late stages of debt cycles

The table below shows the relatively strong performance of gold and bonds vis-à-vis other assets in the final ("Winter") stages of the last three debt cycles. Whether this cycle is resolved by deflation, inflation, or deflation followed sequentially by inflation, remains to be seen. The three previous cycles ended with **debt deflations** of varying lengths and intensities. Consequently, we have also noted the real (adjusted for inflation) change in the gold price. Obviously, central bank policies in previous debt cycles were *far* more constrained, especially in terms of credit creation.

Gold versus other asset classes in final phase of debt cycles

Debt cycle	Final "Winter" stage	Gold act./real	Stocks	Bonds*	Commodities
1788-1843	1825-1843	0%/+26%	-78%	3.54% to 3.17%	-27%
1844-1896	1873-1896	-10%/+20%	-22%	5.49% to 3.61%	-44%
1897-1933	1929-1933	+69%/+122%	-89%	4.73% to 4.49%	-46%

** Change in long-term interest rate*
Source: Hardman & Co Research

A detailed examination of previous debt cycles – reflecting years of research, which has included reviewing several centuries of data and numerous academic studies – is

beyond the scope of this report. However, we have concentrated some of that research into idealised representations of a "Classic debt cycle", which include:

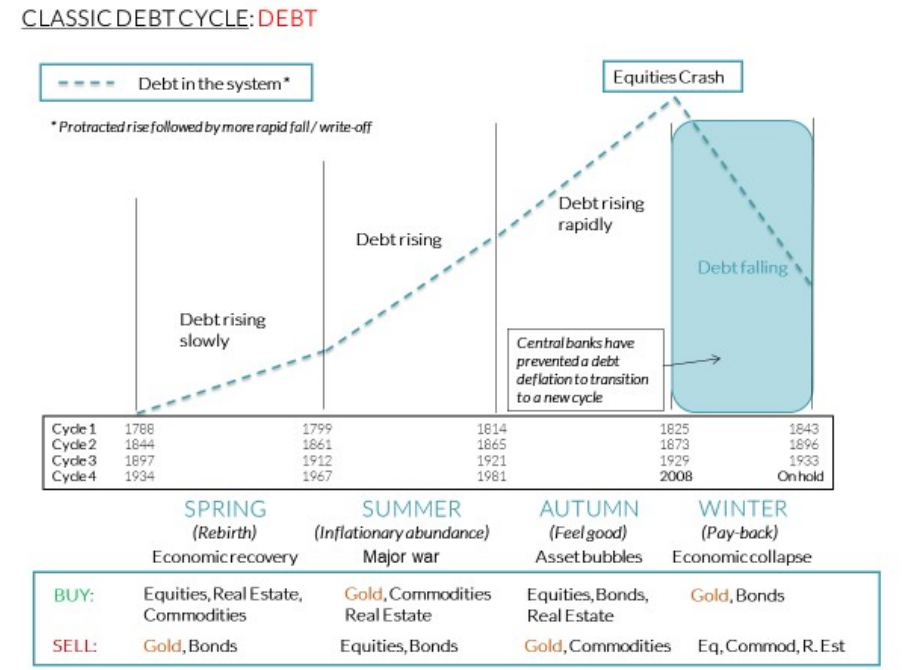
- a protracted rise, followed by a more rapid fall, in debt across the cycle;
- the general trend in other key economic variables, i.e. inflation/price level, interest rates and the rate of GDP growth, during a typical cycle;
- the four phases ("seasons") in a typical cycle and brief characteristics;
- the approximate timing of the phases during each debt cycle since 1788; and
- which of five major asset classes – equities, government bonds, real estate, commodities and gold – have generally outperformed or underperformed in each phase (note: back-testing, we estimate that the expected outperformance or underperformance for each asset class in each phase of every cycle worked 90.1% of the time).

Central banks extended the current cycle

The timeline of the current cycle was extended by unprecedented central bank interventions, which rescued the global banking system from insolvency after the 2008 crisis. Lehman's collapse put the system at the mercy of simultaneous crises in Eurodollar funding and subprime assets, along with the disintegration of the repo market. Absent this intervention, the crash would have been a prelude to a prolonged debt deflation. Instead, central banks put the resolution/end to this cycle on hold.

The chart below shows the progression of the rise and fall in debt across a typical cycle. There is no scale to the charts, and they are primarily indicative of the general direction over periods of years.

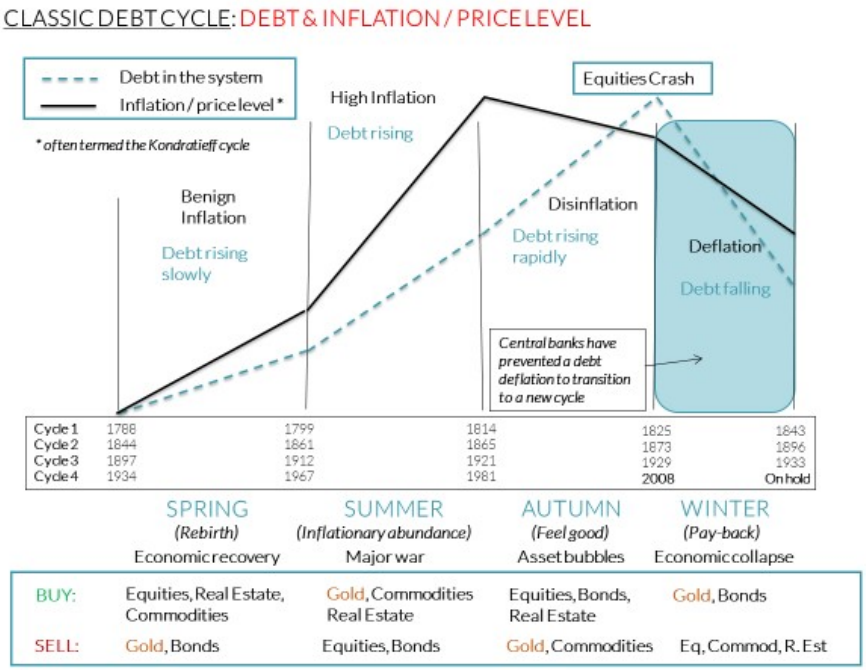
Classic debt cycle – showing the idealised trend in debt



Source: Hardman & Co Research

The next chart shows the typical progression of the rate of inflation/price level across a debt cycle. This is well-known to economists as the "Kondratieff cycle" or "Kondratieff wave". While it normally unfolds across the duration of a debt cycle, the peak is generally midway through the latter.

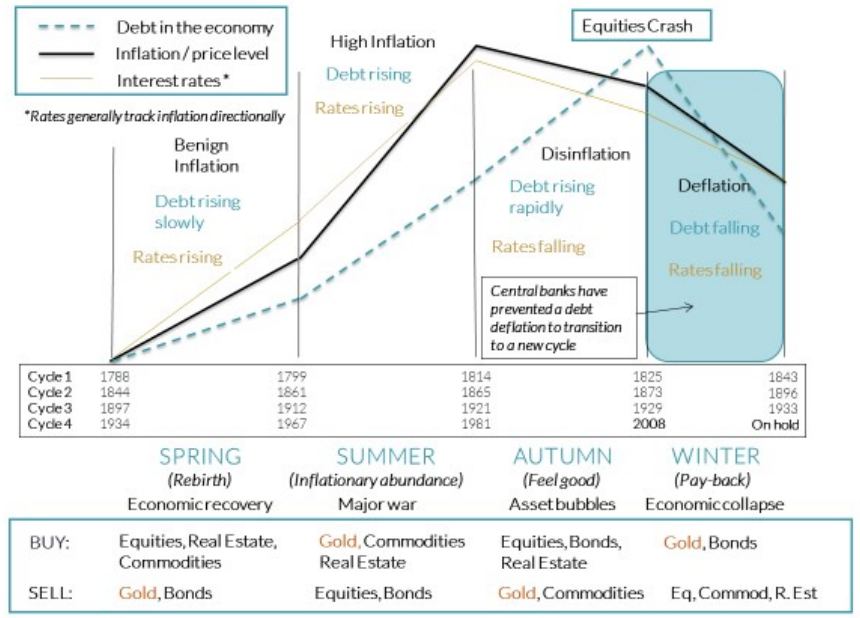
Classic debt cycle – adding the idealised trend in inflation/price level



Source: Hardman & Co Research

The trend in interest rates tends to track the direction of inflation.

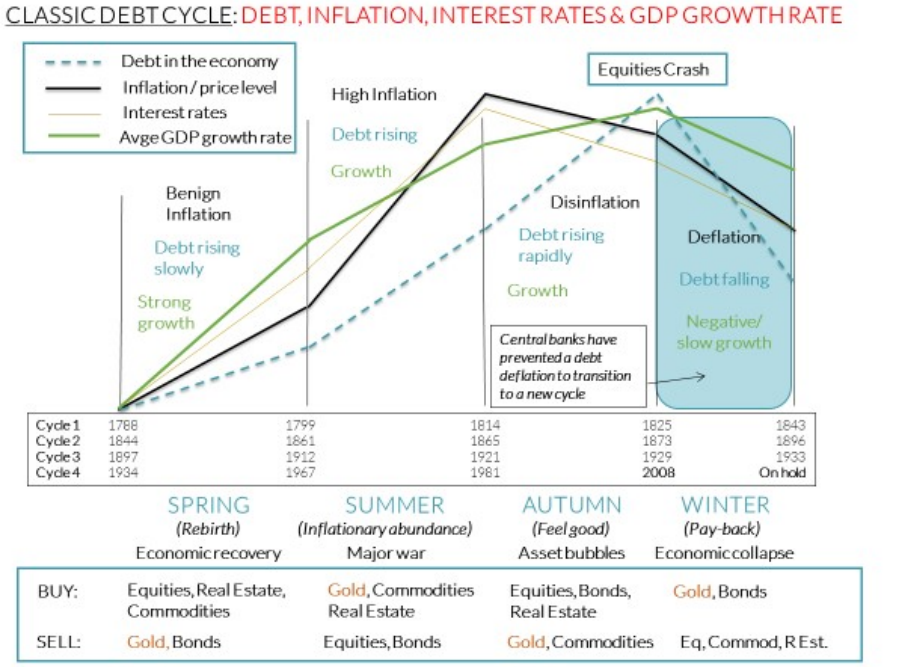
Classic debt cycle – adding the idealised trend in interest rates



Source: Hardman & Co Research

The average rate of GDP growth tends to be relatively higher in the earlier phases of a cycle, with the accumulation of debt eventually acting like a tax on economic growth.

Classic debt cycle – adding the idealised trend in GDP growth



Source: Hardman & Co Research

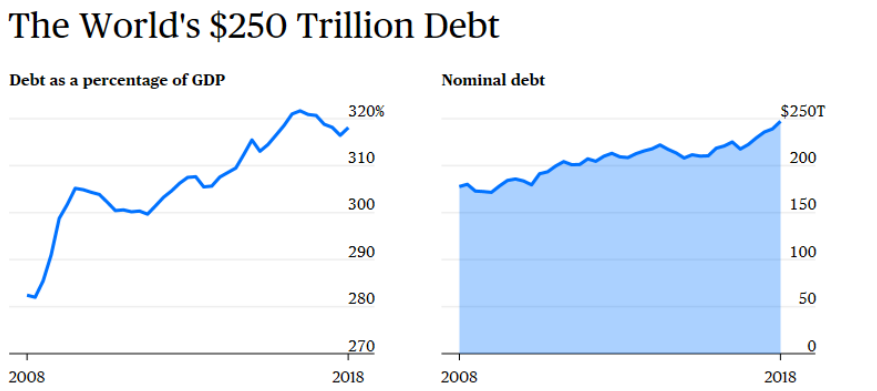
Global debt has risen from $84tr to ca.$250tr since 2000

Global debt was $84tr when the "tech bubble" burst in 2000. Without Greenspan's aggressive rate cutting, the cycle might have come to an abrupt end … **but this is the era of hyper-interventionism**. By 2008, global debt had risen by a further $89tr to $173tr … and central banks circumvented the typical cyclical progression again.

The excesses carried by the system have exploded

We think it's naïve to argue that the recent successes mean that debt no longer matters. While zero interest rates and QE saved the financial system a decade ago, excesses in the system – specifically debt – are now substantially greater. For 1Q'19, Washington-based International Institute of Finance estimates that global debt rose to $246.5tr, a ratio of nearly 320% of global GDP. In comparison, the peak in the debt/GDP ratio in the US during the Great Depression was 275%.

Global debt bubble



Source: Bloomberg

Central bank interventions have been based on distorting financial markets

The central bank policies that fermented the latest surge in the current global debt cycle are founded on distortions to financial markets on a scale never previously attempted. These distortions have focused primarily on manipulating interest rates lower across sovereign bond markets, although the knock-on effects have been felt strongly elsewhere, especially in equities and corporate debt.

In *Fix What Broke, Building An Orderly And Ethical International Monetary System*, gold advocate and economic advisor to President Trump, Judy Shelton, argued:

"In truth, the experiment with floating rates since the end of Bretton Woods has brought about (Milton) Friedman's worst nightmare: It has empowered central banks – particularly the Fed – and strengthened government control over the private sector."

Can this heavy-handed central planning have an enduring benefit?

Using the financial crisis as cover, the world financial order was introduced to a far more heavy-handed version of central planning. The question for investors is whether the impact of this intervention, beneficial as it has been so far, will be enduring. Has the debt cycle been tamed?

Alternatively, have central banks not only temporarily obscured profound structural weaknesses, but exacerbated them by what, in hindsight, will be seen as overreaching themselves?

While the unprecedented stimulus, courtesy of the central banks, led to all-time highs in most financial assets, the gold price plunged into a prolonged bear market, seemingly reinforcing gold's position as the "anti-central bank" asset *par excellence*.

From gold's perspective, the task for central banks is poised to become a lot harder. Among other challenges, they are facing the convergence of an unprecedented debt burden, with an extended economic expansion.

About to become the longest economic expansion since World War II

While the current debt bubble is decades in the making, the current economic expansion is almost exactly a decade-long, having begun in the US in June 2009 (according to the National Bureau of Economic Research). The current US economic expansion is now the longest in post-World War II history. This is shown in the table below, along with the other five longest expansions.

Longest US economic expansions since WWII

Period	Duration (months)	Average annual GDP growth
Jun 2009 –	**124**	**+2.3%**
Mar 1991 – Mar 2001	120	+3.6%
Feb 1961 – Dec 1969	106	+4.9%
Dec 1982 – Jul 1990	92	+4.3%
Nov 2001 – Dec 2007	73	+2.8%
Mar 1975 – Jan 1980	58	+4.3%

Source: Hardman & Co Research

It is worth noting how the average annual GDP growth in the current cycle is lower than the others – with the greater debt load acting like a "tax" on growth.

Yield curve inversion signals deteriorating economic outlook

Market-based indicators – in the form of inversions in the yield curve – are flashing a warning about the deteriorating economic outlook. On 3 December 2018, Bloomberg highlighted the inversion of the first portion of the US yield curve – the three-year/five-year spread – for the first time for more than a decade.

Yield curve inversion in December 2018

Source: Bloomberg

A recession within two years has followed an inversion in the US yield curve in every case, except one, since 1995. The closely followed 2s10s (two-year/10-year) yield curve followed the 3s5s into inversion nine months later, on 14 August 2019, although it is currently 17bps away from inversion. However, the yield curve is generally steepening once again, as recession hits (as policy makers aggressively cut short rates).

Gold's investment case dovetails with current financial risks

In investment terms, gold has unique properties, which dovetail with risks associated with the current position in the extended economic, debt and asset price cycles. For example, gold is:

- positively correlated with declining real interest rates;
- the only financial asset that outperforms in either **inflation or deflation** (cf. Roy Jastram's detailed study covering a timeline of several centuries in his book, *The Golden Constant*); and
- the only financial asset that has **no counterparty risk,** since it is the only one that is not the liability of a third party.

Gold is insurance against financial system mismanagement

Gold was accumulated, historically, to protect capital values and purchasing power from the after-effects of financial system mismanagement, which comes in various guises, including:

- excessive leverage, leading to rising credit risk and defaults;
- inflation or deflation;
- sharp declines in the prices of other major asset classes; and
- waning confidence in policy makers and the status quo in the world financial order.

All four have typically occurred simultaneously in the late stages of previous debt cycles.

The analysis above is part of a larger report on the gold mining sector, which will be published shortly by Hardman & Co. While the fundamentals for gold are arguably better now than they have been for more than a decade, the dynamics affecting the price are more complex than the investment case for gold, being heavily dependent on the structure and mechanics of the gold market. This is covered in greater detail in the upcoming report.

About the author

Paul Mylchreest is an equity analyst covering the Mining sector at Hardman & Co.

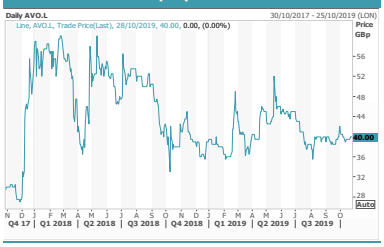
Paul has 30 years' analytical experience, having started his career in the Chemicals sector. He was an Extel-rated analyst at S.G. Warburg, Schroders and Citibank. As well as a brief foray into Oil & Gas, he worked for several years as a Global Macro & Cross Asset strategist, firstly setting up on his own, and later working at US commodity trader, Archer Daniels Midland (ADM Inc.). He began his mining coverage at Crédit Agricole Chevreux in 2005.

Paul joined Hardman & Co in early 2018. He holds a BSocSci in Money, Banking & Finance from the University of Birmingham.

Company research

Priced at 25 October 2019 (unless otherwise stated).

Healthcare Equipment & Services



Source: Refinitiv

Market data	
EPIC/TKR	**AVO**
Price (p)	**40.0**
12m High (p)	52.0
12m Low (p)	35.0
Shares (m)	230.2
Mkt Cap (£m)	92.1
EV (£m)	80.1
Free Float*	64%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

Key shareholders

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

Diary

2H'19	Delivery of LIGHT modules

Analysts

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ADVANCED ONCOTHERAPY

Module deliveries on schedule

AVO's goal is to deliver an affordable and novel proton beam therapy (PBT) system, based on state-of-the-art technology developed originally at the world-renowned CERN. 2018 was characterised by the achievement of a number of technical milestones, including successful integration and validation of all the module types that constitute the LIGHT accelerator, thereby de-risking the project. AVO is delivering on its schedule to have the first LIGHT machine set up in Daresbury (Cheshire) ready for treating first patients by the end of 2020 and gaining CE mark, while completing the final building stage at the Harley Street site.

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

- **Interim results:** Results were broadly in line with our expectations, and AVO ended the period with net debt of -£17.4m, comprised of £3.5m of cash and debt and lease liabilities of -£20.9m. Along with the numbers, management reiterated the schedule for delivery of the remaining modules for LIGHT at Daresbury in 4Q'19.

- **Well-positioned for FLASH:** With its distinctive feature to modulate electronically the energy of the proton beam, up to 200 times/sec, the LIGHT machine is uniquely positioned for the potential breakthrough therapy called FLASH, which allows ultra-high doses over a much shorter period of time, reducing patient visits.

- **Risks:** In 2018, the more complex technical challenges were overcome, and progress towards a fully-functional accelerator is under way in readiness for CE marking. Execution risk remains, but establishment of an innovative financing package for providing LIGHT to potential customers has lowered this risk.

- **Investment summary:** AVO's market capitalisation of ca.£92m equates only to the amount invested into LIGHT to date, which reflects neither the enormous technical challenges that have been overcome, nor the market potential. A DCF analysis of the LIGHT prospects generates an NPV of at least 239p per share (fully-diluted). The disconnect between fundamental and market valuations offers an investment opportunity, which will reduce as AVO completes its financing plan.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	0.0	0.0	0.0	0.0	21.5	65.5
Gross profit	0.0	0.0	-1.9	0.0	1.9	11.4
Administration costs	-11.2	-12.9	-15.7	-15.4	-15.8	-16.1
EBITDA	-12.7	-14.1	-21.4	-19.6	-17.3	-9.1
Underlying EBIT	-13.1	-14.5	-21.8	-20.0	-20.0	-11.8
Statutory EBIT	-13.1	-14.5	-21.8	-20.0	-20.5	-11.1
Underlying PTP	-13.2	-16.5	-21.9	-20.7	-21.5	-13.7
Statutory PTP	-13.2	-16.5	-21.9	-20.7	-22.0	-13.0
Underlying EPS (p)	-17.0	-17.6	-14.0	-9.9	-8.1	-5.1
Statutory EPS (p)	-14.3	-18.9	-13.4	-9.9	-8.3	-4.8
Net (debt)/cash	0.9	-9.2	-2.0	-1.1	-9.0	-15.3
EV/EBITDA (x)	-	-7.1	-4.3	-4.7	-5.8	-11.7

Source: Hardman & Co Life Sciences Research

Financials

Source: Refinitiv

Market data

EPIC/TKR	**AJB**
Price (p)	**372**
12m High (p)	482
12m Low (p)	162
Shares (m)	408
Mkt Cap (£m)	1,518
EV (£m)	1,460
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 SIPPs, 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	14%
Andy Bell	25%
Management and other	23%
Michael Spencer	3%

Diary

05 Dec	FY'19 results
Jan'20	1Q trading update
Apr'20	2Q trading update
May'20	Interim 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 FY trading update confirmed that positive trading continued throughout the year, with Platform AuA up 16% to £45bn.

- **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.
- **Scope for expansion:** Platforms are a good way to put 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. Plenty of assets are not yet corralled, and there is significant underlying growth too.
- **Valuation:** We value the business on a DCF basis. At the current price, it is effectively assuming a discount rate of 7.3%, putting it over the top end of our wide range. Our central valuation of £953m would put it on a FY'19E PER of 33x, which compares with Transact at 35x and Hargreaves Lansdown at 32x.
- **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 also critical.
- **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)	110.3	84.2	61.3	50.1	45.2	39.4
Dividend yield	0.7%	0.8%	1.0%	1.2%	1.4%	1.7%
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)	17.8
12m Low (p)	7.3
Shares (m)	636.2
Mkt Cap (£m)	74.7
EV (£m)	49.7
Free Float*	39%
Market	AIM

**As defined by AIM Rule 26*

Description

Allergy Therapeutics (AGY) provides information to professionals related to prevention, diagnosis and treatment of allergic conditions, with a special focus on allergy vaccination. The emphasis is on treating the underlying cause and not just the symptoms.

Company information

CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen

+44 1903 845 820
www.allergytherapeutics.com

Key shareholders

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

Diary

25 Nov	AGM
Jan'20	Trading update
Mar'20	Interim 2020 results

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ALLERGY THERAPEUTICS

AGM and trading update – due 25 November

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. The Pollinex Quattro (PQ) platform, the ultra-short course subcutaneous allergy immunotherapy (AIT), continues to gain market share, despite its availability in the EU only on a "named-patient" basis. Several products are in clinical development, with the aim of moving the platform to full registration under the new regulatory frameworks in both the EU and the US. Management has the plan and resources to achieve the ultimate goal: to be the first to launch a fully-regulated subcutaneous immunotherapy (SCIT) product in the US market.

- **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.

- **AGM:** The company will be holding its AGM on 25 November when it is expected to release a trading uptake for its traditionally stronger first half. A more detailed trading update for 1H'20 will be issued in January. Our forecasts assume underlying sales growth of 10% for this seasonally strong period.

- **2019 results:** Full analysis of 2019 results were published in our 26 September report *Continuing to gain market share*, highlighting underlying sales growth of 8% in a flat market, equating to 0.6ppts market share gain to 14.1%. Net cash of £25.0m has been boosted by a $4.1m/£3.3m settlement of legal costs.

- **Risks:** The risks inherent in subjective clinical trial outcomes were clear in the Phase III Birch trial. However, AGY prudently included an objective secondary endpoint of activity, which will be used in EU regulatory discussions about the way forward, and to adjust the pending US trial protocol.

- **Investment summary:** The strong trading updates, plus positive settlement of the outstanding litigation, have seen some share price recovery from the low caused by the PQ Birch trial outcome in March. Despite the recovery to date, AGY is trading on an EV/sales of only 0.62x 2020E, reducing to 0.58x 2021E. In our view, this is too low for a company with a long and profitable product history, and well below the multiples commanded by direct competitors.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	64.1	68.3	73.7	80.0	86.0	92.0
R&D investment	-9.3	-16.0	-13.0	-16.0	-28.0	-15.0
Underlying EBIT	-3.6	-7.4	-2.2	-4.7	-16.2	-2.9
Reported EBIT	-2.6	-7.4	3.8	-1.4	-16.2	-2.9
Underlying PBT	-3.7	-7.5	-2.3	-4.8	-16.3	-3.1
Statutory PBT	-2.7	-7.5	3.7	-1.5	-16.3	-3.1
Underlying EPS (p)	-0.6	-1.3	-0.4	-0.9	-2.7	-0.6
Statutory EPS (p)	-0.4	-1.3	0.5	-0.2	-2.5	-0.5
Net (debt)/cash	18.8	12.5	25.0	20.6	1.7	-4.2
Equity issues	0.0	0.0	10.2	0.3	0.3	0.3
P/E (x)	-20.0	-9.3	-29.0	-13.4	-4.4	-18.8
EV/sales (x)	0.78	0.73	0.67	0.62	0.58	0.54

Source: Hardman & Co Life Sciences Research

Financials

Source: Refinitiv

Market data

EPIC/TKR	**ARBB/ARBN**
Price (p)	1,205/1,100
12m High (p)	1,428
12m Low (p)	1,033
Shares (m)	15.4
Mkt Cap (£m)	184
Loans to deposits 2020E	80%
Free Float*	42%
Market	AIM/NEX

**As defined by AIM Rule 26*

Description

Arbuthnot Banking Group (ABG) has a well-funded and capitalised private bank, and has been growing commercial banking very strongly. It holds a 9.85% stake in Secure Trust Bank (STB).

Company information

Chair/CEO	Sir Henry Angest
COO/CEO Arb. Latham	Andrew Salmon
Group FD, Deputy CEO Arb. Latham	James Cobb

+44 20 7012 2400
www.arbuthnotgroup.com

Key shareholders

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

Diary

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

Analyst

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ARBUTHNOT BANKING GROUP

3Q'19: loans +33%, deposits +17%, investment rising

The key message from the 3Q'19 trading statement was of continued strong franchise growth (loans +33% to £1.6bn, deposits +17% to £2bn – see our *18 October note*). The Private Bank has been adding ca.40 clients per month, although it takes time to generate revenue growth from them. Arbuthnot Direct has raised £85m of deposits since August, and other new business areas have shown strong grown (Renaissance Asset Finance loans £101m, +22%, Asset Based Lending £106m). There have been a limited number of credit situations with impairments rising, as may be expected at this stage of the cycle. Investment has accelerated, and the wealth management division is being restructured.

- **Outlook post 3Q:** ABG is not immune from market uncertainty delaying deal conversion. Relative to the franchise growth, it is modest. As the expected franchise growth has been delivered, ABG is now investing a little ahead of our previous expectations. It has also restructured the wealth management business.

- **Peer news:** STB rose 10% with its 16 October *3Q trading update*, which, *inter alia*, confirmed no negative impact of the FCA car finance review. Brooks MacDonald's *Quarterly FUM announcement*, on 24 October, had no price effect. St James Place's *business update*, on 22 October, saw a 3% share price rise.

- **Valuation:** The average of our approaches is now £16.48 (pre-3Q announcement: £17.92), 1.3x 2020E NAV. Two of our models are based off 2020 earnings estimates, which now include accelerated investment but not the payback for it. The share price is well below the 1H'19 NAV (1,321p).

- **Risks:** As with any bank, the key risk is credit. ABG's existing business should see below-market volatility, and so the main risk lies in new lending. We believe management is cognizant of the risk and, historically, has been very conservative. Other risks include reputation, regulation and compliance.

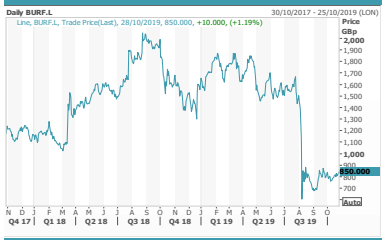
- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly- growing bank priced at book value appears anomalous.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E*	2020E*
Operating income	34,604	41,450	54,616	67,905	77,471	89,588
Total costs	-35,926	-46,111	-54,721	-64,982	-71,595	-80,157
Cost:income ratio	104%	111%	100%	96%	92%	89%
Total impairments	-1,284	-474	-394	-2,731	-2,877	-2,965
Reported PBT	-2,606	-1,966	2,534	6,780	6,799	9,831
Adjusted PBT	2,982	1,864	3,186	7,416	8,799	11,831
Statutory EPS (p)	86.3	1,127.3	43.9	-134.5	37.5	54.0
Adjusted EPS (p)	13.5	17.1	47.5	40.3	48.2	64.6
Loans/deposits	82%	76%	75%	71%	79%	80%
Equity/assets	5.5%	18.5%	12.8%	9.0%	7.6%	7.1%
P/adjusted earnings (x)	89.3	70.5	25.4	29.9	25.0	18.7
P/BV (x)	1.51	0.79	0.79	0.94	0.94	0.93

**IFRS 9 basis; Source: Hardman & Co Research*

Financials



Source: Refinitiv

Market data

EPIC/TKR	**BUR**
Price (p)	840.0
12m High (p)	1,870.0
12m Low (p)	605.0
Shares (m)	218.6
Mkt Cap (£m)	1,837
Total Assets ($m)	2,249
Free Float*	90%
Market	AIM

**As defined by AIM Rule 26*

Description

Burford Capital is a leading global finance and professional services firm focusing on law. Its businesses include litigation finance and risk management, asset recovery, and a wide range of legal finance and advisory activities.

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
CFO	Jim Kilman
Chairman	Sir Peter Middleton

+1 212 235 6820

www.burfordcapital.com

Key shareholders

Directors	8.7%
Invesco Perpetual	13.9%
Link Fund Solutions Ltd	5.0%
Morgan Stanley	5.0%

Diary

5 Dec	Interim dividend paid

Analyst

Brian Moretta 020 7194 7622

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BURFORD CAPITAL

Strong evidence that fair value is fair

In the aftermath of a dramatic period, Burford has provided additional disclosure that greatly improves understanding of its fair value process and its conservatism. The timing of when fair value adjustments are made has been well explained previously, with clear objective criteria. How the amount of each valuation change is determined has also had some clarification, with an objective core overlaid by adjustments that involve some judgement. Detailed data have also been provided on the 20 concluded cases that have had adjustments of $1m or more. All this adds considerably to the belief that Burford's fair value is prudent.

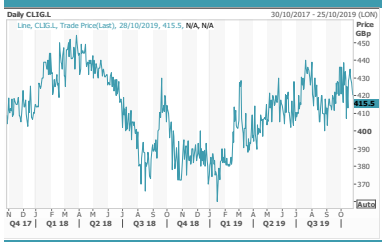
- **Petersen:** Burford has provided additional information on the Petersen claim. While the 11 investors who recently bought in appear to be sophisticated, there was some speculation about their potential upside. Burford has shown that this could still be substantial, with all the usual caveats that apply to a single claim.
- **Market manipulation claims:** Burford has published a report by Professor Mitts of Columbia University showing that there were trades on 6 and 7 August that seemed to indicate spoofing and layering. It has gone to the High Court to obtain judicial approval for the London Stock Exchange to release identifying data.
- **Risks:** The investment portfolio is highly diversified, with exposure to more than 1,100 claims. However, it retains some very large investments, which means revenue could be volatile, particularly in the smaller divisions. The Petersen case shows that this volatility is not simply a negative.
- **Investment summary:** Burford has already demonstrated an impressive ability to deliver good returns in a growing market, while investing its capital base. As the invested capital continues to grow, we would anticipate that the litigation investment business will continue to produce strong earnings growth.

Financial summary and valuation

Year-end Dec ($m)	2013	2014	2015	2016	2017	2018
Revenue	60.7	82.0	103.0	163.4	341.2	420.7
Operating profit	42.5	60.7	77.2	124.4	285.1	353.0
Reported net income	2.6	45.4	64.5	108.3	249.3	317.4
Underlying net income	40.1	53.0	64.5	114.2	264.8	327.8
Underlying RoE	11.7%	12.1%	16.0%	22.1%	35.9%	30.1%
Underlying EPS ($)	0.20	0.26	0.32	0.55	1.27	1.50
Statutory EPS ($)	0.01	0.22	0.32	0.53	1.20	1.51
DPS ($)	0.05	0.07	0.08	0.09	0.11	0.13
Dividend yield	0.2%	0.3%	0.4%	0.4%	0.5%	0.6%
NAV per share ($)	1.72	1.87	2.12	2.22	3.19	5.50
P/E (x) (underlying)	59.9	45.4	37.3	21.4	9.2	7.8
Price/NAV (x)	6.8	6.3	5.6	5.3	3.7	2.1

Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	**CLIG**
Price (p)	420.5
12m High (p)	440.0
12m Low (p)	360.0
Shares (m)	26.6
Mkt Cap (£m)	111.7
EV (£m)	97.9
Market	LSE

Description

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

Company information

CEO	Tom Griffith
CFO	Tracy Rodrigues
Chairman	Barry Aling

+44 207 860 8346

www.citlon.com

Key shareholders

Directors & staff	17.2%
Blackrock	10.1%
Cannacord Genuity	5.0%
Eschaton Opportunities Fund Management	4.8%
Polar Capital	4.1%

Diary

14 Jan	2Q FUM announcement
17 Feb	Half-year results
21 Apr	3Q FUM announcement

Analyst

Brian Moretta 020 7194 7622

bm@hardmanandco.com

CITY OF LONDON INVESTMENT GROUP

Keeping steady against weak markets

City of London has announced a trading update for 1Q'20. Weak markets were largely offset by inflows and outperformance in the Emerging Markets strategy, meaning FUM finished the quarter at $5.34bn, down $61m from the June figure of $5.39bn. The main beneficiary of inflows was the Developed Markets strategy, which received a net $142m, and assets rose 16.5% to $849m. In the Emerging Markets strategy, outperformance came from positive NAV performances and narrowing discounts. The Developed Markets strategy was impacted by European and UK weakness, while Frontier Markets saw an impact from exposure to Argentina.

- **Operations:** The increased FUM in the diversifying strategies continue to affect the revenue margin, which slipped to 75bps. This, together with weak markets, weighed a little on revenues and, with costs in line with expectations, the expected post-tax profit of £2.4m for 1Q'20 is a little behind our forecast.

- **Board:** From 1 January 2020, Carlos Yuste, Head of Business Development, will re-join the board as an Executive Director. He was previously on the board from 2006 until 2015.

- **Valuation:** The prospective P/E of 10.3x is at a discount to the peer group. The historical yield for the ongoing dividend of 6.4% 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.

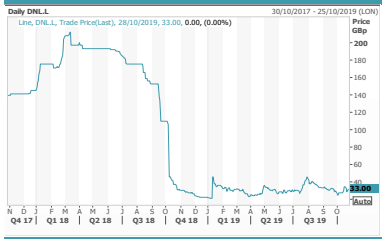
- **Investment summary**: Having shown robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY'17 and FY'18 both saw dividend increases and, unless there is significant market disruption, more should follow in the next few years.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019*	2020E	2021E
FUM ($bn)	4.00	4.66	5.11	5.39	5.60	6.02
Revenue	24.41	31.29	33.93	31.93	34.22	36.49
Statutory PTP	7.97	11.59	12.79	11.40	12.75	13.88
Statutory EPS (p)	23.3	36.9	39.5	34.9	40.8	44.4
DPS (p)	24.0	25.0	27.0	27.0	27.0	27.0
Special dividend				13.5		
P/E (x)	18.0	11.4	10.6	12.0	10.3	9.5
Dividend yield	5.7%	5.9%	6.4%	9.6%	6.4%	6.4%

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

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**DNL**
Price (p)	**33.0**
12m High (p)	78.5
12m Low (p)	20.8
Shares (m)	84.5
Mkt Cap (£m)	27.9
EV (£m)	18.7
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	5.9%
Oceanwood Capital	3.7%

Diary

4Q'19	DITEST study read-out
4Q'19	Alkindi US NDA
4Q'19	Chronocort EMA MAA

Analysts

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DIURNAL GROUP

Key near-term milestones expected

DNL is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead products target rare conditions where medical needs are currently unmet, with the aim of building a long-term "Adrenal Franchise". Recent results confirmed the launch phase of its first commercial product, Alkindi, in Europe using its own commercial infrastructure. The next few months will be characterised by a number of important value inflection points, including the read-out of the DITEST, and the regulatory submissions of Alkindi in the US and Chronocort in Europe.

- **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.

- **Chronocort:** DNL confirmed its intention to submit an MAA for Chronocort in CAH in Europe in 4Q'19. DNL also intends to start a US Phase III trial in CAH patients with a revised protocol as soon as a partner is on board; advanced discussions are taking place. This will be followed by a US Phase II in AI later on.

- **Alkindi:** DNL has confirmed its intention to file its NDA with the FDA for Alkindi in paediatric AI and CAH by 4Q'19. Approval is expected to take approximately 12 months. No further studies are required, and the European dossier will be used, together with two additional studies, both successfully completed.

- **DITEST:** The Phase I/II proof-of-concept trial with DITEST, a new oral formulation of native testosterone for the treatment of male hypogonadism, is now completed. Results are expected before end-2019 and, if positive, DNL will have discussions with potential partners about taking the product forward.

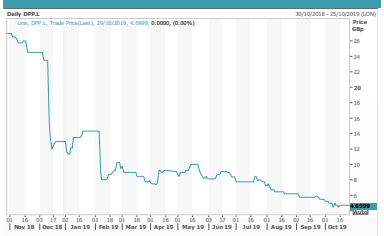
- **Investment summary:** Alkindi, a cortisol replacement therapy designed for children under 18 years of age, is DNL's first drug on the market. It is expected to be followed by Chronocort for adults – a larger market – which now has a clear regulatory pathway in both Europe and the US. Despite this, the share price is still languishing well below valuations determined by peer group and DCF (202p) analyses, possibly due to the need for more capital in 2020.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	0.00	0.07	1.04	2.14	5.56	15.99
SG&A	-3.23	-6.21	-5.83	-7.47	-9.12	-10.78
R&D	-8.34	-10.02	-8.69	-9.43	-8.96	-11.20
EBITDA	-12.07	-16.97	-14.50	-15.96	-14.16	-8.60
Underlying EBIT	-12.08	-16.98	-14.53	-15.98	-14.18	-8.62
Statutory EBIT	-12.08	-16.98	-14.53	-15.98	-14.18	-8.62
Underlying PBT	-12.16	-17.11	-14.40	-15.93	-14.18	-8.68
Statutory PBT	-12.16	-16.91	-14.40	-15.93	-14.18	-8.68
Underlying EPS (p)	-18.04	-27.16	-14.54	-12.84	-11.19	-5.56
Statutory EPS (p)	-18.04	-26.78	-19.70	-12.84	-11.19	-5.56
Net (debt)/cash	16.37	17.28	9.15	1.05	-13.02	-27.03
Equity issues	0.05	13.40	5.53	5.57	0.00	0.00

Source: Hardman & Co Life Sciences Research

Consumer & Leisure



Source: Refinitiv

Market data

EPIC/TKR	**DPP.L**
Price (p)	4.6
12m High (p)	34
12m Low (p)	4.4
Shares (m)	250
Mkt Cap (£m)	11.5
EV (£m)	8.3
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 69 stores, of which 42 are corporately owned. It is rolling out steadily and has a partnership with takeaway.com.

Company information

General Manager	Iwona Olbrys
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

Dec'19	FY trading update
Mar'20	Final results

Analyst

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js@hardmanandco.com

DP POLAND

Like-for-like growth resumes

Growth has been restored following tricky comparisons with January/February last year. System sales, like-for-like, were positive in the first three months of 2H, and the 1H'19 performance was in line with management expectations. Four new stores have opened, with two more in the pipeline, and three corporate stores have been sold to sub-franchisees. The partnership with the aggregator Pyzszne is said to be positive. The company's stated growth focus is on splitting territories and finding more sub-franchisees. A new General Manager has been appointed.

- **Strategy:** DPP has now reached 69 stores and, despite aggressive competition from food delivery aggregators, has proven that the concept works in Poland. It now needs to see immature stores reach profitability and focus its growth on splitting territories and finding more sub-franchisees.
- **Competitive market:** The new food delivery aggregators continue to pursue aggressive (and possibly unsustainable) marketing activity. DPP has partnered with takeaway.com (Pyzszne), and has found that its incremental contribution to stores (especially new ones and those outside Warsaw) is positive.
- **Valuation:** With no reported profits expected for the next few years, we value DPP on a per-store basis, which is explained in our initiation note of 18 September 2018, *Fully proven model rolls out*. To reflect the delay in the maturing of the business, in March this year, we discounted the value further, to £72m, or 29p per share.
- **Risks:** The biggest short-term risk to DPP is the deep pockets of the new disruptors. This has already impacted DPP's growth, as it struggles to get its message across, against competitors spending 20x or even 25x what DPP is spending. Food prices and wage inflation are also a constant threat to margins.
- **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	0.3
Shares issued (m)	129	142	150	230	250
EV/Sales (x)	3.6	2.6	0.9	0.9	0.7

Source: Hardman & Co Research

Support Services

Source: Refinitiv

Market data

EPIC/TKR	**FLTA**
Price (p)	191
12m High (p)	245
12m Low (p)	146
Shares (m)	29
Mkt Cap (£m)	56
EV (£m)	54
Free Float*	33%
Market	AIM

**As defined by AIM Rule 26*

Description

Filta Group (Filta) provides cooking oil filtration, fryer and drain management services in North America and Europe to commercial kitchens.

Company information

CEO	Jason Sayers
CFO	Brian Hogan
Chairman	Tim Worlledge

+44 1788 550100
www.filtaplc.com

Key shareholders

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

Diary

Apr'20	Preliminary results
Sep'20	Interim results

Analyst

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FILTA GROUP

Cleaning up

Filta provides cleaning services to commercial kitchens in North America, the UK and, more recently, mainland Europe. The reported EBITDA for 1H'19 shows that it took a little longer to get the benefit of cost savings following the Watbio acquisition. Our EBITDA expectations for 2020 are scarcely altered. At the EPS level, we have put through some additional non-cash-related costs: share-based payments, IFRS16 impacts and higher-than-expected amortisation.

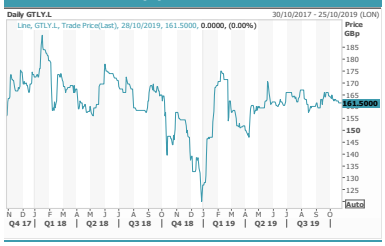
- **Strategy:** Filta provides a professional service, via franchisees, to kitchens to filter their cooking oil – improving taste and saving money. Grease emanating from commercial kitchens also causes problems and needs managing. There is scope for Filta to become the major player in the UK grease management business.
- **1H'19 results and outlook:** Filta delivered adjusted EBITDA of £1.7m (£1.3m). PBT was £0.5m, down from £1m in 1H'18, due to higher growth-related costs and before the full Watbio benefits have begun to flow. The 1p interim dividend was up 39%, reflecting management's confidence in the prospects for the business.
- **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:** As well as normal commercial risks, Filta is dependent on its franchisee behaviour, which it can influence via training. The Watbio acquisition risks are now fully understood, but any future deals will inevitably involve managing some unknowns. It is exposed to FX risk, too, although most costs are local.
- **Investment summary:** Filta is an attractive business, in our view, combining the capital-light franchise model in North America and Europe with company-owned operations in the UK. With only a tiny proportion of the market currently served and with little or no competition, we see potential for years of profitable growth 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	25,000	27,500
EBITDA	594	1,193	2,116	2,642	4,200	5,250
Underlying EBIT	450	1,011	2,059	1,941	2,200	3,300
Reported EBIT	450	(249)	1,699	1,782	1,900	3,300
Underlying PTP	376	932	1,968	1,900	1,900	3,100
Statutory PTP	376	(329)	1,608	1,742	1,600	3,100
Underlying EPS (p)	1.39	3.66	5.05	5.39	5.07	8.11
Statutory EPS (p)	1.39	-1.51	3.85	4.88	4.05	8.11
Net (debt)/cash	-619	3,271	2,992	2,040	1,435	3,487
Shares issued (m)	22	23	27	29	29	29
P/E (x)	137.5	52.2	37.8	35.4	37.7	23.6
EV/EBITDA (x)	71.0	33.6	23.2	20.1	12.9	9.9

Source: Hardman & Co Research

Business Support Services



Source: Refinitiv

Market data

EPIC/TKR	**GTLY**
Price (p)	**162**
12m High (p)	177
12m Low (p)	118
Shares (m)	110.8
Mkt Cap (£m)	179
EV (£m)	182
Free Float*	>40%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Michael Ward
Finance Director	Neil Smith
Chairman (non-exec.)	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

Nov'19	Trading update
Jan'20	Interim results

Analysts

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GATELEY (HOLDINGS) PLC

Excellent results – continued progress

Gateley's AGM statement confirmed the positive start to the year, which was highlighted at the final results. These again beat market expectations, underlining its consistent 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. Gateley made two strategic acquisitions last year, for shares and cash, which are adding to the excellent organic growth. A recent placing improved liquidity.

- **Current trading:** The AGM (19/09) statement read, "Board is pleased to report that the good start to the year reported at the time of our full year results in July has continued, with strong trading momentum leaving us well placed at this stage of the current financial year". Gateley has also surpassed the 1,000 employee milestone.

- **News:** A new orderly market agreement has been announced. 70 (out of 75) partners, representing 49% of the equity, have entered into the lock-up agreement, which protects outside shareholders from large-scale insider selling – basically, each year, they can only sell 10% of the stock they hold now.

- **Sector:** The legal sector is growing profitably, with more firms (notably DWF recently) coming to the market, following Gateley's lead. A larger sector is a positive, improving investor understanding and ability to compare. It should favour Gateley (48th to 44th in latest industry rankings), for which we forecast continued growth.

- **Valuation:** The 2020E P/E is 12.4x, falling to 11.4x in 2021E, on hopefully conservative numbers, and the 2021E dividend yield is 6.0%, which should continue to grow. Professional service companies like this have limited capex; although working capital grows with revenue, this creates strong returns and high free cashflow generation.

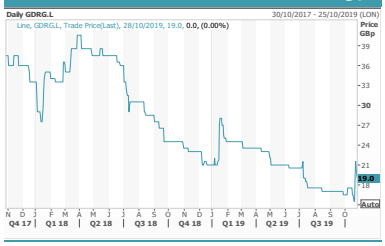
- **Investment summary:** Gateley is a fully invested, consistent performer in a new and exciting space, which is likely increasingly to attract investor attention. It is a high-quality professional services group with significant growth potential, an excellent track record of delivery, a strong management team, and a strategy to diversify further in complementary professional services.

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)	17.1	15.2	13.7	12.4	11.4
EV/EBITDA (x)	11.9	10.5	9.5	8.3	7.6
Dividend yield	4.1%	4.3%	5.0%	5.4%	6.0%

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

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**GDR**
Price (p)	**19.0**
12m High (p)	30.0
12m Low (p)	13.0
Shares (m)	34.0
Mkt Cap (£m)	6.5
EV (£m)	9.8
Free Float*	52%
Market	AIM

**As defined by AIM Rule 26*

Description

Genedrive is a disruptive platform designed to bring the power of central laboratory molecular diagnostics to point-of-care/near-patient settings with a low-cost device offering fast and accurate results. It focuses on diagnostics for acute hospital settings and for serious infectious diseases, such as hepatitis C and tuberculosis.

Company information

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

Key shareholders

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

Diary (calendar year)

1H'20	WHO decision on HCV-ID prequalification
1H'20	Launch HCV sample device

Analysts

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

GENEDRIVE PLC

Acceleration of news flow expected

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. Rapid analysis of samples aids real-time decision-making, whether in clinical, public health or biothreat applications. GDR is developing a portfolio of assays for the Genedrive device. Its hepatitis C virus (HCV) and pathogen detection assays are already on the market, and products for tuberculosis (TB) and screening against adverse reactions to antibiotics are in development.

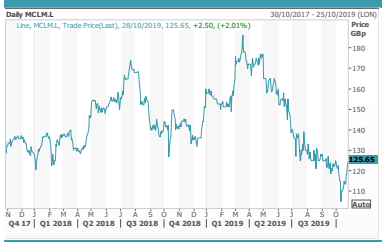
- **Strategy:** Now that the Genedrive technology platform has received CE marking, management has completely re-focused the company onto the commercialisation pathway for gene-based diagnostics in Hepatitis C, TB, bio-threats and Antibiotic-Induced Hearing Loss (AIHL).
- **2019 results:** Reported group sales increased 21.9% to £2.4m (£1.9m) in the 12 months to June 2019. Product sales of £0.9m from the US Department of Defense (DoD) and £0.5m from customers in Europe contributed to a more balanced income, the remainder being grant income.
- **Interesting period:** Management has been very open on the frustrations encountered in developing HCV markets. However, GDR is in an interesting transition, with HCV-ID kit "real-world" data being collected in global clinical settings and a study under way for AIHL in the UK.
- **Risks:** The Genedrive platform has been validated by CE marking of the HCV-ID kit, repeat orders from the US DoD, and funding from Innovate UK and the NIHR. The key risks are commercialisation in undeveloped global health markets and funding for anti-viral or anti-microbial drugs. Partnering tempers these risks.
- **Investment summary:** Genedrive technology ticks all the boxes of an "ideal" *in vitro* diagnostic that satisfies the need for powerful molecular diagnostics at the point of care/need. The hepatitis C market is a large global opportunity – should market factors improve, the HCV-ID test has excellent potential. With strong partners, e.g. the NHS, being signed in both developed and developing markets, and several product lines in development, GDR has a solid growth strategy.

Financial summary and valuation

Year-end Jun (£000)	2017	2018	2019	2020E	2021E	2022E
Group sales	5,785	1,938	2,362	2,992	4,923	9,215
Underlying EBIT	-4,913	-5,264	-4,449	-4,271	-1,928	665
Reported EBIT	-7,292	-7,375	-4,010	-4,271	-1,928	665
Underlying PBT	-5,417	-5,782	-5,002	-5,001	-2,683	-98
Statutory PBT	-7,487	-7,788	-4,518	-5,001	-2,683	-98
Underlying EPS (p)	-23.6	-26.9	-15.8	-12.4	-5.9	1.3
Statutory EPS (p)	-34.9	-31.9	-14.0	-12.4	-5.9	1.3
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-70	-2,096	-3,334	-6,948	-8,228	-6,660
Capital increases	6,023	0	3,243	165	95	0
P/E (x)	-0.8	-0.7	-1.2	-1.5	-3.2	14.7
EV/sales (x)	1.7	5.1	4.1	3.3	2.0	1.1

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	**MCL**
Price (p)	124.5
12m High (p)	186.0
12m Low (p)	105.0
Shares (m)	131.0
Mkt Cap (£m)	163.0
EV (£m)	178.3
Free Float*	60%
Market	AIM

**As defined by AIM Rule 26*

Description

Morses Club PLC (MCL) is number two in UK home credit. It is growing the business organically and by acquisition, and is developing a range of related products, where it has a competitive advantage.

Company information

CEO	Paul Smith
CFO	Andrew Hayward
Non-Exec. Chairman	Stephen Karle

+44 330 045 0719
www. morsesclubplc.com

Key shareholders (16 July 2019)

Hay Wain	36.74%
Miton Asset Mgt.	10.13%
JO Hambro	6.93%
Majedie Asset Mgt.	4.66%
Artemis Inv. Mgt.	4.30%
Legal and General	4.04%
Canaccrod Genuity	3.52%

Diary

End Feb'20	Trading statement

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

MORSES CLUB PLC

Interim FY'20 results: steady core, deal upside

As we detailed in our *21 October report*, MCL's core HCC division again delivered a strong performance. Market volumes remain subdued, but 11% underlying profit growth has been delivered, with efficiency gains and good credit (20% reported adjusted growth). The acquired businesses' performances required incremental investment, and initial lending appears slightly behind track, but these issues are short-term and management has reiterated its stretching guidance for FY'20 and FY'21. We also note the cash collected from CTL loans at acquisition is £11m, against an £8m consideration. Management has outlined a clear, customer-demand-driven strategy in its area of competitive advantage.

- **Outlook post results:** The management outlook statement was for trading in line with expectations, and we do not expect material changes in consensus numbers. Importantly, the stretching targets for the online business have been reiterated, with guidance of pre-tax, pre-interest profits in the range of £3m-£5m for FY'21.

- **Peer news:** The main peer news has been shareholder-related. Non-Standard Finance has seen a reduction in the Invesco stake and a rise in the Aberforth holding. Provident Financial's Woodford overhang has steadily reduced. Amigo's free float is just over 20%. Amigo's results are due on 28 November.

- **Valuation:** We detailed our valuation approaches in *Bringing home collect into the 21st century*, published on 2 February 2017. The range in absolute valuation methodologies is now 167p to 197p (pre results 176.5p to 224.5p), as we have adjusted our above-consensus estimates.

- **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.

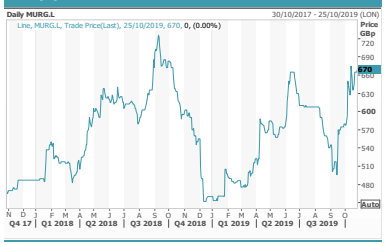
- **Investment summary:** MCL is operating in an attractive market. It has a dual-fold strategy that should deliver an improved performance from existing businesses and new growth options. It conservatively manages risk and compliance, especially in new areas. The self-employed agent network is the competitive advantage over remote lenders. We forecast a February 2021 P/E of 8.9x and an 8.0% February 2021 dividend yield, with 1.6x cover (adjusted earnings).

Financial summary and valuation

Year-end Feb (£m)	2016	2017	2018*	2019*	2020E*	2021E*
Reported revenue	90.6	99.6	110.4	117.0	136.5	151.7
Total impairments	-18.8	-24.3	-24.7	-26.2	-30.0	-40.2
Total costs	-53.4	-56.7	-65.6	-67.1	-83.6	-85.1
EBITDA	19.3	19.9	20.1	23.7	22.9	26.4
Adjusted PBT	16.8	17.7	18.6	22.0	19.9	22.9
Statutory PBT	10.4	11.2	15.5	20.2	16.5	21.5
Statutory EPS (p)	6.1	6.6	9.7	12.5	10.3	13.6
Adjusted EPS (p)	10.2	10.8	11.4	13.6	12.2	14.0
P/adjusted earnings (x)	12.2	11.5	11.0	9.2	10.2	8.9
P/BV (x)	2.9	2.6	2.4	2.3	2.2	2.0
P/tangible book	3.6	3.1	2.8	2.6	2.9	2.7
Dividend yield	N/M	5.1%	5.6%	6.3%	6.6%	8.0%

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

Support Services



Source: Refinitiv

Market data

EPIC/TKR	MUR
Price (p)	660
12m High (p)	730
12m Low (p)	450
Shares (m)	9.0
Mkt Cap (£m)	59.4
EV (£m)	62.3
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%

MURGITROYD

Recommended 675p per share cash offer

Hardman & Co notes the announcement dated 18 October and suspends forecasts and commentary. Project Petra Bidco Ltd. offers 675p cash per Murgitroyd share.

- **Acquisition announcement: The acquisition values** Murgitroyd at "approximately £62.8 million, representing a valuation of 13.8x EV/EBITDA for the financial year ended 31 May 2019 (based on net debt as at 31 May 2019) and a valuation of 20.5x P/E for the financial year ended 31 May 2019". Source: offer announcement 18 October.
- **Recommendation by directors:** "The Murgitroyd Directors, who have been so advised by Deloitte and Nplus1 Singer as to the financial terms of the Acquisition, unanimously consider the terms of the Acquisition to be fair and reasonable". Source: offer announcement 18 October.
- **Irrevocable undertakings:** Specific significant irrevocable undertakings have been given regarding acceptance. The proposed scheme of takeover has not, currently, based on the most recent announcements, been taken to an unconditional majority shareholder acceptance.
- **As of 18 October announcement:** "Bidco has received irrevocable undertakings or letters of intent in respect of a total of 4,939,899 Murgitroyd Shares representing approximately 54.8 per cent. of the Murgitroyd Voting Shares in issue as at the Last Practicable Date".
- **Financial summary and valuation: Hardman & Co is suspending forward estimates and all commentary** on Murgitroyd pending the outcome of the Bidco situation.

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

Financials

Source: Refinitiv

Market data

EPIC/TKR	**NSF**
Price (p)	37.5
12m High (p)	75.0
12m Low (p)	32.45
Shares (m)	312.0
Mkt Cap (£m)	117
EV (£m)	369
Free Float	99%
Market	Main

Description

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

Company information

CEO	John van Kuffeler
CFO	Nick Teunon
Non-Exec Chair	Charles Gregson

+44 20 38699026

www.nonstandardfinance.com

Key shareholders

Invesco	26.9%
Alchemy	19.3%
Aberforth Partners	17.0%
Marathon Asset Mgt.	11.5%
Tosca Fund	3.9%

Diary

Nov'19	Trading statement
Dec'19	Capital markets day

Analyst

Mark Thomas 020 7194 7622

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NON-STANDARD FINANCE

Focus on profit growth from strong franchise

As we outlined in our results note, *Now is the time for profit*, NSF has reached the turning point in its strategic development. Having invested heavily in infrastructure, controls and people over the past four years, it has substantially built the franchise. From here, the pace of investment is expected to slow, and payback from historical investment will be more visible. Assuming NSF is successful in securing additional lower-cost funding, we expect funding costs and mix to improve. The shares can be volatile (bizarrely falling 7% on 3 October, when NSF announced an increased director holding), but consensus estimates have remained very stable and the valuation appears anomalous with the outlook.

- **News:** The Woodford stake was largely sold to Alchemy. In the past month, NSF saw the Invesco holding fall to 26.9% (from 28.3%) and a rise in the Aberforth Holding (from 14.0% to 17.0%). It also announced the appointment of Panmure Gordon as joint broker and Miles Cresswell-Turner standing down as Director.

- **Peer news:** Morses Club's results showed profit opportunities in a subdued home collect market. Concerns on the day about its acquisitions have been reduced with the re-iteration of stretching targets. Provident Financial is hosting an investor day on 7 November. Amigo's results are due on 28 November.

- **Valuation:** Our absolute approaches now indicate a range of 92p-109p. The highest valuation is from the DDM. The peer-rating-driven SoTP is 67p. The *consensus* 2020 P/E is under 5x and the yield is over 10%, and, importantly, these estimates have not changed materially in recent months.

- **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.

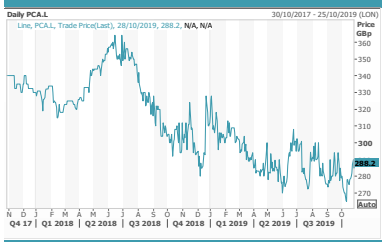
- **Investment summary:** Substantial value should be created, as: i) competitors have withdrawn; ii) NSF is well capitalised, with committed debt funding until 2023; iii) macro drivers are positive; and iv) NSF has a highly experienced management team, delivering operational efficiency without compromising the key F2F model. Targets of 20% loan book growth and 20% EBIT RoA appear credible, and investors are paying 6.6x 2019E P/E and getting a dividend yield of 8.5%.

Financial summary and valuation

Year-end Dec (£000)	2017	2018	2019E*	2020E*	2021E*
Reported revenue	121,682	168,128	189,346	216,831	247,048
Total impairments	-28,795	-42,688	-45,767	-52,511	-59,796
Total costs	-67,706	-87,792	-94,666	-101,776	-110,400
EBITDA	25,181	37,648	48,913	62,543	76,852
Adjusted PBT	13,203	14,769	21,744	30,163	38,872
Statutory PBT	-13,021	-1,590	-13,913	27,034	37,341
Pro-forma EPS (p)	3.44	3.70	5.64	7.97	10.34
DPS (p)	2.20	2.60	3.20	4.00	5.00
P/adjusted earnings (x)	10.9	10.1	6.6	4.7	3.6
P/BV (x)	0.5	0.6	0.6	0.6	0.5
P/tangible book (x)	1.6	2.1	2.3	1.7	1.3
Dividend yield	5.9%	6.9%	8.5%	10.7%	13.3%

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

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**PCA**
Price (p)	287
12m High (p)	350
12m Low (p)	270
Shares (m)	45.9
Mkt Cap (£m)	131.0
EV (£m)	228.0
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%
Miton	7.4%
J.O.Hambro	7.3%
Stanley Davis (Chairman)	3.6%

Diary

19 Nov	Interim results
Jun'20	Final results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PALACE CAPITAL

The portfolio positioning pays off

As announced 24 October, Palace Capital (PCA) has completed 12 lease renewals and five rent reviews at an average of 3% above ERV. Together, the renewals and reviews have added £438,189 p.a. to the previous passing rent on the 17 assets, reflecting a 25.6% uplift. PCA is investing judiciously in its existing assets including larger assets at Sol Northampton; St James' Gate, Newcastle-on-Tyne and also Regency House, Winchester. PCA undertakes limited new development but a major site in this category, Hudson Quarter, York, is now receiving good interest. The strategy combines NAV progression and a progressive income stream.

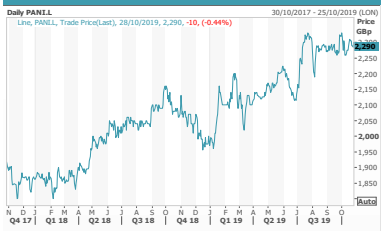
- **Five rent reviews were also concluded**: These include a 36% rental uplift with Rockwell Automation, the global industrial automation and information specialists who occupy 38,331 sq. ft. of office buildings at Kiln Farm in Milton Keynes, leased to December 2026.
- **Track record:** We note the trend that NAV rose from 357p per share at end-2014 to 434p at end-2017. More recently, PCA has issued equity, but while this dampens NAV per share initially, it has provided capital for a strong and clearly-visible pipeline of asset construction and enhancement.
- **FY'22E:** FY'22 will see HQ apartment sales proceeds and an income stream from HQ commercial assets, thus returning profits and cash from HQ and boosting reported returns significantly. Returns thereafter are enhanced as and when the freed development cash is reinvested in yielding assets.
- **A track record of outperformance**: PCA focuses on UK commercial property outside of London. The assets are centrally located for good communications and offer strong yields without disproportionate risks on sustainability.
- **Risks:** The normal risks of real estate apply. The weighted average length of unexpired lease to break is 5.2 years. EPRA profits grow significantly further in FY'22E with the completion of Hudson Quarter, central York. Retail exposure (bar Wickes and Booker) is minimal.

Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019	2020E	2021E
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	65.3%	69.7%	71.1%	70.5%	68.1%
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

Closed-Ended Investments



Source: Refinitiv

Market data

EPIC/TKR	**PIN**
Price (p)	2,300
12m High (p)	2,330
12m Low (p)	1,955
Shares (m)	54,089
Mkt Cap (£m)	1,244
NAV p/sh (p)	2,913.5
Discount to NAV	21%
Market	Premium equity closed-ended investment funds

Description

The investment objective of Pantheon International PLC (PIP) is to maximise capital growth by investing in a diversified portfolio of private equity (PE) assets and directly in private companies.

Company information

Chairman	Sir Laurie Magnus
Aud. Cte. Chr.	Ian Barby
Sen. Ind. Dir.	Susannah Nicklin
Inv. Mgr.	Pantheon
Managers	Andrew Lebus/Helen Steers
Contact	Vicki Bradley
	+44 20 3356 1725
	www.piplc.com

Key shareholders (31 May 2109)

USS	8.15%
Old Mutual	7.03%
Esperides SA SICAV- SIF	5.75%
East Riding of Yorkshire	4.70%
APG Asset Mgt.	4.44%
Investec Wealth	4.37%
Private Syndicate pty	3.76%
Brewin Dolphin	3.45%

Diary

End'Nov	October monthly update

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

PANTHEON INTERNATIONAL

PIP is an investment trust that invests in a diversified portfolio of PE assets managed by third-party managers across the world. PIP is the longest-established PE fund-of-funds on the London Stock Exchange, and has outperformed the FTSE All-Share and MSCI World indices since its inception in 1987.

PIP is managed by Pantheon, one of the world's foremost PE specialists. Founded in 1982, with assets under management (AUM) of $43bn (as at 30 June 2019), and a team of over 90 investment professionals globally, Pantheon is a recognised investment leader, with a strong track record of investing in PE funds over various market cycles in both the primary and secondary markets, as well as a track record of co-investments.

PIP actively manages risk by the careful selection and purchase of high-quality PE assets in a diversified and balanced portfolio, across different investment stages and vintages, by investing in carefully selected funds operating in different regions of the world.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Pantheon can be accessed through our website, *Hardman and Co Research*. Our initiation report, published on 6 September 2019, can be found on the same site.

Mining

Source: Refinitiv

Market data

EPIC/TKR	**PXC**
Price (p)	**17.90**
12m High (p)	32.5
12m Low (p)	10.1
Shares (m)	50.01
Mkt Cap (£m)	8.95
EV (£m)	8.94
Free Float*	84.30%
Market	AIM

**As defined by AIM Rule 26*

Description

Phoenix Copper Ltd (PXC) is developing the former Empire deposit and the surrounding area in central Idaho into a potentially world-class copper and polymetallic mine. First production is expected in late 2021.

Company information

Chairman	M. Edwards-Jones
CEO	Dennis Thomas
COO	Ryan McDermott
CFO	Richard Wilkins

+44 7590 216 657

www.phoenixcopperlimited.com

Key shareholders

Cheviot Capital	15.70%
JIM Nominees	12.03%
Directors & Mgt.	10.12%
Lynchwood Nominees Ltd	6.36%

Diary

May'20	Final results

Analyst

Paul Mylchreest 020 7194 7622

pm@hardmanandco.com

PHOENIX COPPER LTD

Developing a potential world-class copper mine

PXC continued to maintain strict control of costs in 1H'19, advancing its strategy for the staged development of the potentially world-class copper mine in mining-friendly Idaho, US. The initial oxide mine will provide cashflow to explore far more extensive mineralisation in the sulphide ore body at depth and in the adjacent land package (e.g. Red Star – see below). Our estimated DCF valuation for the first mine is 32p/share, and 49p/share using the company's base-case assumptions.

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

- **Interim results:** The 2019 interims were noteworthy for the success in maintaining cost control as the Empire project advances towards a Feasibility Study for the open pit "starter mine" in 2Q'20. The net loss for the period of $0.67m was marginally lower than the $0.68m reported in 1H'18.

- **Red Star upside:** Exploration at the recently delineated high-grade silver-lead resource at Red Star, to the north of Empire, will be fast-tracked to add further resources. It is becoming clear that Phoenix controls a substantial polymetallic ore system in the Empire district, of which as little as 1% has so far been explored.

- **Risks:** PXC is subject to normal risks for a junior mining company. These include volatility in copper and zinc prices, operational risks in executing the mining plan, running downstream processing facilities and funding risks. We believe that jurisdictional risk is significantly reduced in PXC's case, due to the Idaho location.

- **Investment summary:** Our DCF valuation is 32p/share – based solely on the starter oxide mine and more conservative (vs. the company) assumptions of an 8% discount rate and long-term copper and zinc prices of $3.10/lb and $1.25/lb, respectively. At this stage of development, PXC's share price is highly geared to the "supply crunch" upside thesis for copper ($0.25/lb = ca.19p/share).

Financial summary and valuation

Year-end Dec ($m)	2017	2018	2019E	2020E	2021E	2022E
Sales	0	0	0	0	0	48,800
Underlying EBIT	-1.058	-1.654	-1.371	-1.762	-2.082	0.787
Reported EBIT	-1.058	-1.654	-1.371	-1.762	-2.082	0.787
Underlying PTP	-1.056	-1.652	-1.366	-2.747	-5.069	-2.913
Statutory PTP	-1.056	-1.652	-1.366	-2.747	-5.069	-2.913
Underlying EPS (c)	-8.20	-5.82	-2.41	-3.16	-5.76	-3.32
Statutory EPS (c)	-8.20	-5.82	-2.41	-3.16	-5.76	-3.32
Net (debt)/cash	1.904	0.113	0.598	-22.899	-54.596	-36.846
Average shares (m)	16.498	28.273	45.242	69.452	87.633	87.633
P/E (x)	n/a	n/a	n/a	n/a	n/a	n/a
Dividend yield	n/a	n/a	n/a	n/a	n/a	n/a
FCF yield	n/a	n/a	n/a	n/a	n/a	96.2%

Source: Hardman & Co Research

Real Estate

Source: Refinitiv

Market data

EPIC/TKR	**PHP**
Price (p)	142
12m High (p)	142
12m Low (p)	108
Shares (m)	1,220
Mkt Cap (£m)	1,735
EV (£m)	2,770
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
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PRIMARY HEALTH PROPERTIES

Another busy and encouraging month

Last month, we wrote that "September has been a busy time in the capital markets for the REIT." This was after the announcement of a £100m equity placing and a new €70m debt facility. The capital raised will be used to fund the development and acquisition of properties already in development, or which PHP has agreed in principle to forward fund. Any initial dilution is de minimis and the proceeds will be promptly put to work for shareholders. New investment requires expertise and patience. In this sector Lot sizes tend to be £5m-£10m. PHP's record illustrates how it can grow its balance sheet (past decade: 390%) in such an environment.

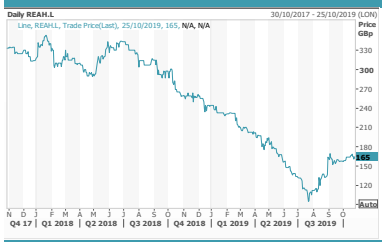
- **Encouraging rental outlook:** For some years, the sector has seen open market rents rising not much over 1%. Ultimately, these are driven by build cost rises and the latter have now caught up with and overtaken the rent accrual over the whole cycle. Rents are due a modest but notable catch-up in growth.
- **Cost of debt falling:** The cost rose to just above 4% post the merger with MedicX fund, which had a higher average debt cost than PHP. The most recent debt facility bears an interest cost of 1.51%. We see medium-term scope for PHP's average coupon to fall 50bps (0.5%), which would enhance EPS ca.7%.
- **Balance sheet:** The PHP loan-to-value ratio on our model pre equity raise grew to 50.0% at end-2020. This is well within the range management's outlined comfortable target. With the new equity, the end-2020 ratio falls to 46.4%, which gives high visibility to funding the pipeline in 2021 and beyond.
- **Risks:** No development risk is taken on the forward funding, and the strategy focuses tightly on this one sector. These are long-lease assets rented to top quality covenant tenants. Undrawn facilities exceeded £200m pre the £100m equity placing and the €70m debt facility of September 2019.
- **Investment summary:** The merger and ongoing debt refinancing has significantly enhanced EPS while at the same time modestly de-leveraging. Therefore, there is a clear road ahead for EPS growth, further supported by the trend in rents. These have seen modest growth in recent years but are now set to move significantly ahead of UK real estate average rent inflation.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Income	66.5	71.3	76.4	118.0	135.5
Finance costs	-32.5	-31.6	-29.7	-43.7	-47.0
Declared profit	43.6	91.9	74.3	-51.0	115.5
EPRA PBT (operating)	26.7	31.0	36.8	61.7	75.5
EPS reported (p)	7.8	15.3	10.5	-4.8	9.4
EPRA EPS (diluted, p)	4.7	5.1	5.2	5.8	6.2
DPS (p)	5.12	5.25	5.40	5.60	5.85
Net debt	-663.2	-726.6	-670.2	-1,113.5	-1,234.7
Dividend yield	3.6%	3.8%	3.9%	4.1%	4.2%
Price/EPRA NAV (x)	1.56	1.41	1.34	1.31	1.26
NAV per share (p)	83.5	94.7	102.5	106.4	109.9
EPRA NAV per share (p)	91.1	100.7	105.1	108.1	111.6

Source: Hardman & Co Research

Food Producers



Source: Refinitiv

Market data

EPIC/TKR	**RE.**
Price (p)	**164.5**
12m High (p)	275.0
12m Low (p)	90.0
Shares Ord (m)	43.8
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	72.1
Mkt Cap Prefs (£m)	51.8
EV (£m)	378.0
Free Float	27.6%
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	30.9%
M&G Investment	20.0%
Nokia Bell Pensioenfonds	9.3%
Artemis UK	8.1%
Aberforth Partners	6.7%

Diary

Apr'20	Full-year results

Analyst

Yingheng Chen 020 7194 7638

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R.E.A. HOLDINGS

Revised forecast

REA's 1H'19 results showed a small 3.1% increase in own-crop production levels to 335,177mt, and a 7.7% increase in CPO production to 96,514mt. However, the group is witnessing a slowdown in FFB production against its original budget, as the oil palm trees enter a resting phase following a highly productive year in 2018. There is also a reported slowdown in FFB ripening due to the recent dry weather across the sector. REA now expects FFB production to fall short of its previous expectation of ca.900,000mt in FY'19. We have revised our FY'19 FFB forecast downward by 6.3% to 815,096mt, from ca.870,000mt.

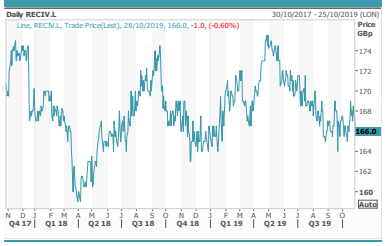
- **Revised forecast:** We have not changed our CPO price forecast of $540/mt in FY'19; however, due to the FFB production downgrade, we lower FY'19 revenue to $125.9m from $133.4m previously. We expect EBITDA to be ca.$22.3m ($29.4m) as a result of lower admin expenses capitalisation rate.
- **Preference share dividend expected to resume in 2020:** Against the backdrop of ongoing commodity price weakness, REA has implemented a series of cost-saving measures. REA is deferring its preference share dividend payments for both Jun'19 and Dec'19 but expects to resume the payment in 2020.
- **Financing costs:** Management recognises the need to deleverage REA's indebtedness. Discussions with the bank have now resumed. REA expects to convert a significant portion of its rupiah borrowings to lower-rate, dollar-denominated borrowings before the end of 2019.
- **Dollar notes and issue of equity:** REA announced the issue of an additional $3m of dollar notes 2022, subscribed to by one of the group's customers along with a supply agreement. REA has also announced the issuance of 3.441m new ordinary shares, at 145p per share, raising a further £4.9m.
- **Investment summary:** 2019 remains a difficult year for oil palm operators, with palms entering a resting phase in some producing regions. Added to a weak palm oil price, the sector index has fallen ca.33% since the start of 2017, or 18% since the recent Feb'19 peak. We expect REA to have ca.33,423 mature ha by end-2019, and the group's estates should be fully planted by end-2025.

Financial summary and valuation

Year-end Dec ($m)	2016	2017	2018	2019E	2020E	2021E
Sales	79.3	100.2	105.5	125.9	137.5	145.5
EBITDA	16.8	20.7	12.8	22.3	36.6	43.8
Reported EBIT	-5.0	-2.2	-10.7	-2.1	11.0	17.2
Adjusted PBT	-18.4	-18.3	-20.3	-21.9	-6.8	-1.1
EPS (c)	-48.2	-67.7	-54.4	-78.0	-35.3	-24.7
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-205.1	-211.7	-189.6	-217.7	-215.2	-211.3
P/E (x)	-	-	-	-	-	-
Total planted hectare (ha)	42,846	44,094	36,500	36,700	36,700	36,700
Adj. EV/planted ha ($/ha)*	7,793	7,557	8,907	8,763	8,736	8,804
CPO production (mt)	127,697	143,916	217,721	236,233	243,469	257,616

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

Diversified Financial Services



Source: Refinitiv

Market data

EPIC/TKR	**RECI**
Price (p)	166.5
12m High (p)	175.5
12m Low (p)	162.5
Shares (m)	209.4
Mkt Cap (£m)	349
NAV p/sh. (p)	165.2
Premium/Disc	0.8%
Market	Premium Equity Closed-Ended Inv. Funds

Description

Real Estate Credit Investments (RECI) is a closed-ended investment company that aims to deliver a stable quarterly dividend via a levered exposure to real estate credit investments, primarily in the UK, France and Germany.

Company information

Chairman	Bob Cowdell
NED	Susie Farnon
NED	John Hallam
NED	Graham Harrison
Inv. Mgr.	Cheyne Capital
Head of Team	Ravi Stickney
Main contact	Richard Lang
	+44 207 968 7328
	www.recreditinvest.com

Key shareholders

AXA SA	8.4%
Close Bros	8.2%
Canaccord Genuity Group	8.1%
Fidelity	7.7%
Premier AM	7.1%
Smith and Williamson	6.0%
Bank Leumi	4.5%

Diary

Early Nov'19	October Factsheet

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

REAL ESTATE CREDIT INVESTMENTS

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RECI is a closed-ended investment company. To achieve the investment objective, the company invests, and will continue to invest, in real estate credit secured by commercial or residential properties in Western Europe, focusing primarily in the UK, France and Germany.

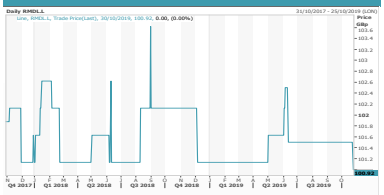
Investments may take different forms but are likely to be:

- Secured real estate loans, debentures or any other forms of debt instruments (together "Secured Debt"). Secured real estate loans are typically secured by mortgages over the property or charges over the shares of the property-owning vehicle. Individual secured debt investments will have a weighted average life profile ranging from six months to 15 years. Investments in secured debt will also be directly or indirectly secured by one or more commercial or residential properties, and will not exceed a loan to value ("LTV") of 85% at the time of investment.
- Listed debt securities and securitised tranches of real estate-related debt securities – for example, residential mortgage-backed securities and commercial mortgage-backed securities (together "MBS"). For the avoidance of doubt, this does not include equity residual positions in MBS.
- Other direct or indirect opportunities, including equity participations in real estate, save that no more than 20% of the total assets will be invested in positions with an LTV in excess of 85% or in equity positions that are uncollateralised. On specific transactions, the company may be granted equity positions as part of its loan terms. These positions will come as part of the company's overall return on its investments, and may or may not provide extra profit to the company, depending on market conditions and the performance of the loan. These positions are deemed collateralised equity positions. All other equity positions in which the company may invest are deemed uncollateralised equity positions.

RECI is externally managed by Cheyne Capital Management (UK) LLP, a UK investment manager authorised and regulated by the FCA. As at 31 July 2019, Cheyne had 153 employees, of which 30 were in the Real Estate Team, and AUM of $7.1bn, of which $3.2bn was managed by the Real Estate Team. It has offices in London, New York, Bermuda and Zurich. Cheyne invests across the capital structure – from the senior debt to the equity positions. It has expertise in the structuring, execution and management of securitisation transactions, involving a broad range of assets, including portfolios comprised of traditional asset classes, such as commercial and residential mortgages, as well as mortgage-backed securities and the management of commercial real estate portfolios, focused on Europe and the UK.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RECI can be accessed through our website, *Hardman and Co Research*. Our initiation report, published on 28 August, can be found on the same site.

Premium Equity Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	**RMDL/RMDZ**
Price (p)	**101/106**
12m High (p)	104.0
12m Low (p)	100.2
Shares (m)	112.20
Mkt Cap (£m)	113
NAV p/shr (p)	98.05
Free Float	100%
Market	LSE Equity Inv. 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 Funds
CIO	James Robson
Co. Manager	Pietro Nicholls
AIFM	IFM

(RM) +44 131 6037060
rmdl.co.uk

Key shareholders

CCLA	18%
Quilter	18%
MerianGlobal	13%
Brooks MacDonald & Hawksmoor	5%
CG AM & Jupiter	4%
Sarasin & Charles Taylor & PAM & Seneca & Blankstone Sington	3%
RM (Inv. Mgr.)	1%

Diary

Mid'Nov	October factsheet

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

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RMDL can be accessed through our website, *Hardman and Co Research*. Our initiation report, published on 5 June 2019, and our report, *Defensive qualities in uncertain times*, can be found on the same site.

Pharmaceuticals & Biotechnology

Source: Refinitiv

Market data

EPIC/TKR	**STX**
Price (p)	**182.5**
12m High (p)	202.0
12m Low (p)	28.0
Shares (m)	117.2
Mkt Cap (£m)	213.9
EV (£m)	204.2
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	9.0%
W. Health	47.8%
MaRu AG	10.7%
R. Griffiths	6.8%
C. Schweiger	4.8%
USS	4.4%

Diary

4Q'19	Accrufer deal
Apr'20	2019 final results
Mid-2020	Accrufer launch

Analysts

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	gp@hardmanandco.com

SHIELD THERAPEUTICS

More choice for clinicians and patients

STX is a commercial-stage company delivering specialty products that address unmet medical needs, with an initial focus on treating iron deficiency (ID) with Feraccru®/Accrufer®. FDA approval of Accrufer with a broad label in the US opens up a market currently worth over $1bn in intravenous (IV) iron alone. Commercialisation of Feraccru is well under way in Europe, where it was approved in 2016, whereas, in the US, it is dependent on an upcoming licensing deal. Additional data released from the AEGIS head-to-head (H2H) study demonstrate favourable patient outcomes from Feraccru versus IV iron treatment.

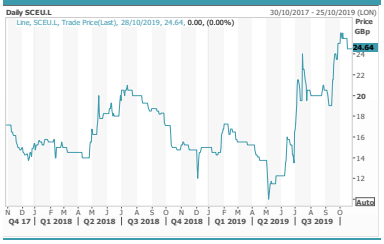
- **Strategy:** STX's strategy is to out-license the commercial rights to its products to partners with marketing and distribution expertise in target markets. These deals allow STX to retain its intellectual property (IP) and keep investing in its R&D pipeline, to benefit from both immediate and long-term value.
- **H2H data:** Top-line results, demonstrating the non-inferiority of Feraccru to IV iron therapy, were released in March 2019. Additional information presented at a conference this week included the response rate for Feraccru, and its effectiveness in maintenance of iron status and prevention of recurrent IDA.
- **More choice:** This is significant for patients and clinicians in providing an alternative option for treatment of IDA, particularly as an alternative to IV therapy in patients intolerant of other oral therapies. For payers like the NHS, Feraccru has cost-effectiveness benefits in preventing recurrence of IDA.
- **Risks:** All drug companies carry development risk. However, the risks with STX are limited because of Feraccru/Accrufer's simplicity and clinical profile. Given the FDA approval, the main risk is achieving the most appropriate commercial partner and executing on its global commercialisation strategy.
- **Investment summary:** The approval of Accrufer reinforces our view that STX is at an exciting juncture. It has delivered on all goals set at the time of its IPO in 2016. Feraccru/Accrufer has been validated by regulatory approval in both the EU and the US, and the commercial deal in Europe looks set to be repeated in the US. Announcement of its commercial partner, together with the terms of any deal, represent the next valuation inflection point.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019E	2020E	2021E
Gross revenues	**0.64**	**11.88**	**2.93**	**2.15**	**3.15**
Sales	0.64	0.86	0.63	2.15	3.15
R&D	-4.71	-4.30	-3.31	-4.64	-3.89
Other income	0.00	11.03	2.30	0.00	0.00
EBITDA	-18.48	-2.47	-5.45	-9.19	-8.68
Underlying EBIT	-18.90	-3.26	-6.24	-9.98	-9.47
Reported EBIT	-20.95	-5.17	-8.15	-11.89	-11.38
Underlying PBT	-18.91	-3.26	-6.24	-10.02	-9.51
Statutory PBT	-20.99	-5.16	-8.14	-11.93	-11.42
Underlying EPS (p)	-15.58	0.09	-4.49	-7.96	-7.62
Statutory EPS (p)	-17.43	-1.55	-6.12	-9.58	-9.25
Net (debt)/cash	13.30	9.63	6.20	-1.27	-8.46

Source: Hardman & Co Life Sciences Research

Automotive



Source: Refinitiv

Market data

EPIC/TKR	**SCE**
Price (p)	24.5
12m High (p)	26
12m Low (p)	12
Shares (m)	136
Mkt Cap (£m)	33.3
EV (£m)	31.7
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Non-Exec Chair.	David Bundred
CEO	Dr Kevin Johnson
Finance Director	Michael Cunningham

+ 44 (0) 151 356 2141
www.surfacetransforms.com

Key shareholders

Directors	14.0%
Canaccord	14.8%
Unicorn	12.3%
Richard Gledhill esq. (director)	9.9%
Richard Sneller esq.	8.2%
Hargreaves Lansdown	4.5%

Diary

12 Nov	AGM
Apr'20	Report for 7 months to Dec'19

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

SURFACE TRANSFORMS

Recent major contract wins transform prospects

ST's results, announced 9 September, were in line with expectations. Since then, the company has secured a further £0.4m revenue, prompting us to upgrade FY19 PBT estimates by £0.25m. Substantial new contracts have been won, post the May 2019 year-end, which have transformed the company's development. It now has multi-year, multi-million, recurring income contracts from European-based global OEMs. Revenue from one commences October 2021, with start of production for the other towards the end of calendar 2021. These will support EBITDA-positive (post-tax credit) for 2020 and profitability in 2022.

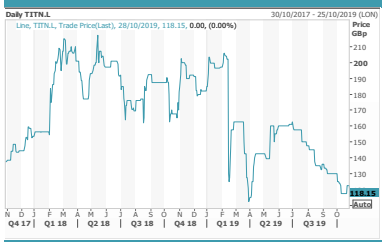
- **26 September – a further order win:** A new client (OEM 1) has placed a £0.4m order with ST, to be completed before the year-end. Note that our estimates only comprise firm orders and OEM 1, other OEM clients and more clients testing the product all are likely to bring accretive orders.
- **Recent order win, small but with good opportunity to expand**: As stated at the time by the CEO, "We regard it as a further reference point for our technology and hope that this can be the foundation of a future relationship with this valued and potentially important customer".
- **Capacity allocation model:** ST's capacity-in-place is £17m sales p.a. Scope for expansion is significant, and – typical for new automotive components – as volumes rise, production efficiencies also rise. Prices can thus fall, with maintained profit margins, expanding market demand exponentially.
- **Risks:** ST has invested ahead of firm orders and so is well ahead, in terms of capital investment. These contracts benefit from set-pricing and highly predicable timings of off-take, with the start of production date set. Only one competitor exists, and no more are envisaged for many years.
- **Investment case:** This is a large, growing market, 99%-supplied by one, highly-profitable player. This single supply was a most anomalous position for an auto OEM market – now ST also supplies. June/July contract wins de-risk the business, and both open and expand the target market. The path to ST's discs being designed-in to many more models is clear.

Financial summary and valuation

Year-end May*/ December**(£m)	FY19*	*7-month 19E***	FY20E**	FY21E**	FY22E**
Sales	1.00	1.50	3.30	4.10	5.80
EBITDA	-2.63	-1.00	-0.55	-0.10	1.00
EBITA	-2.97	-1.20	-1.25	-0.80	0.30
PBT	-2.98	-1.20	-1.25	-0.80	0.30
PAT	-2.06	-0.90	-0.70	-0.25	0.85
EPS (adjusted, p)	-1.64	-0.66	-0.51	-0.18	0.62
Shareholders' funds	6.96	6.05	5.35	5.10	5.95
Net (debt)/cash	1.60	1.60	1.40	1.90	3.20
P/E (x)	loss	N.A.	loss	loss	39.5
EV/sales (x)	23.8	N.A.	9.6	7.7	5.0
EV/EBITDA (x)	loss	N.A.	loss	loss	29.0
DPS (p)	nil	nil	nil	nil	nil

**May year-end, **the company has announced its change of year-end to December; Source: Surface Transforms accounts, Hardman & Co Research estimates*

Construction & Materials



Source: Refinitiv

Market data

EPIC/TKR	**TON**
Price (p)	122.5
12m High (p)	208.0
12m Low (p)	112.5
Shares (m)	11.1
Mkt Cap (£m)	13.6
EV (£m)	11.9
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

Dec'19	Preliminary results

Analyst

Tony Williams 020 7194 7622

tw@hardmanandco.com

TITON HOLDINGS PLC

Size is nothing to the Universe

It is humans who make rules on size and time; and, put simply, they say "size matters". And, so it is the renaissance of the Hardman UK Building Materials Sector i.e. it has morphed from an annualised Total Shareholder Return (TSR) of 11% to 25% between September and October 2019 – driven by four big market-capitalised stocks. Sector constituents, however, number 23, including Titon, and the largesse will spread. Bertrand Russell said, "There is no need to worry about mere size. Sir Isaac Newton was very much smaller than a hippopotamus, but we do not on that account value him less".

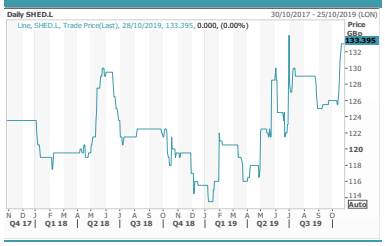
- **One:** Marshalls (£1.4bn), James Halstead (£1.1bn), Ibstock (£1.0bn) and Polypipe (£900m) led the charge in October, and half of the weighted 25% TSR recorded by the Sector, in the 12 months to 25 October, derived from them; albeit they were supported by the meritorious Forterra (£535m) and James Latham (£166m).
- **Two:** From 23 Sector stocks, nine returned a negative TSR in the 12-month period under review, including Low & Bonar (£99m) and Titon (£14m). The former, as noted last month, is the subject of an agreed bid from The Freudenberg Group, a family-owned global technology business based in Weinheim in Germany.
- **Three:** The building materials industry is an unsung hero, but is, in reality, a vital contributor to economic activity, shelter and comfort i.e. Titon is a specialist in ventilation and clean intra-mural air. At the same time, the Low & Bonar bid certainly has created major ripples in both the industry and financial natatorium.
- **Four:** Fiscal 2018-19 was a testing time for Titon. But it has passed with flying colours for remedial actions i.e. it has traded since 1972 and knows about troughs – and peaks. After a sharp dip in the pre-tax profit line in the fiscal year to be reported in December, we expect a bounce in fiscal 2020, with further momentum in 2021.
- **Value:** The Hardman UK Building Materials Sector is comprised of 23 companies worth £8.6bn (+4% in a month) and 8.9x EV/EBITDA on a trailing 12-month basis (priced 25 October) or 12.5x weighted by market value. One of 23, Titon is on just 4.4x (okay, rising to 5.1x in 2019E). At the same time, the Sector's TSR over 12 months is 6% actual or 25% weighted. Titon is adrift at -25%. "But we do not on that account value him less" i.e. in 2016 through 2018, it averaged a 31% TSR p.a.

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)	6.7	7.6	7.4	6.5
EV/EBITDA (x)	4.4	5.1	4.7	4.0
DPS (p)	4.75	4.75	5.00	5.50
Dividend yield	3.9%	3.9%	4.1%	4.5%

Source: Hardman & Co Research

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**SHED**
Price (p)	133
12m High (p)	133
12m Low (p)	113
Shares (m)	87.8
Mkt Cap (£m)	110
EV (£m)	172
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

14 Nov	Interim results
May'20	Final results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

URBAN LOGISTICS

A busy and positive few weeks

SHED owns "mid-box", "last-stage" distribution warehouse assets on well-configured sites with good access and thus the ability to fulfil the evolving needs of tenants. Tenants typically have been in place for many years as cost of moving is significant vs. rental occupancy costs. On 14 October, it provided a trading update. As expected, occupancy remains 100%. EPRA NAV rose 5.2% (since March) to 145.2p, with the portfolio value rising 3.8% in the period. The numbers underpin the strong progress, well into the upper quartiles of the sector since float, but do not highlight the strong asset management here in an undersupplied category.

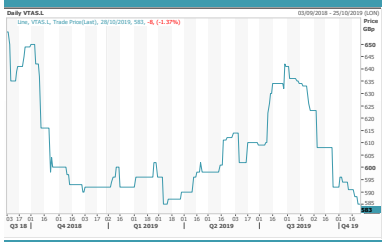
- **Trading update:** On 14 October, EPRA NAV was stated to be up 5.2% since March reflecting the benefit of rent advances and some disposals, which took place – to recycle capital – at above historical stated NAVs. This value rise does not reflect a revaluation due to yield shift, but we think there is scope here.
- **Recent acquisitions:** On 20 September, contracts exchanged to pay £9.9m for six depots on a net initial yield of 7.0%, plus two DHL-tenanted logistics warehouses for £5.3m on a 5.9% yield. The former will be leased back to Tuffnells for 20 years. Note, figures below do not reflect this earnings-enhancing acquisition.
- **Strategy:** SHED owns "mid-box", "last-stage" distribution warehouse assets on well-configured sites with good access. It acquires assets which may have short leases (ca.30% sub-three years) and its subsequent re-gears tend to be done above ERV (estimated market rental value).
- **Risks:** 6.1-year leases mean 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. Physical cuts in supply, new demand from omni-channel supply-chain and assets trading at below replacement cost all mitigate downside.
- **Investment track record**: SHED listed on AIM in April 2016. Management has achieved 17% compound accounting (NAV plus dividend) returns p.a. in the three full years since float. All asset disposals (recycling capital) have been at or above book value, achieving Total (ungeared) Property Returns of 25.2%. Market rents have risen to ca.25% above SHED's current £4.83 sq. ft. level.

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	4.7%	4.8%	5.3%	5.6%
Price/EPRA NAV (x)	1.13	1.08	0.97	0.90
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

Note: We plan to initiate FY21E and FY22E shortly; Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	VTA .NA, VTA.LN VTAS LN
Price (€)	6.56/6.66/585p
12m High (€)	7.32/7.28/655p
12m Low (€)	6.44/6.52/585p
Shares (m)	36.6
Mkt Cap (€m)	240
Trail. 12-mth. yield	9.5%
Free Float	70%
Market	AEX, LSE

Description

Volta Finance (Volta) 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 AXA IM Paris	Serge Demay A Martin-Min François Touati
Co. sec. /Administrator	BNP Paribas Securities Services SCA, Guernsey Branch

BNP: +44 1481 750853

www.voltafinance.com

Key shareholders

Axa Group	30.4%

Diary

Mid'Nov	October estimated NAV

Analyst

Mark Thomas 020 7194 7622

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VOLTA FINANCE

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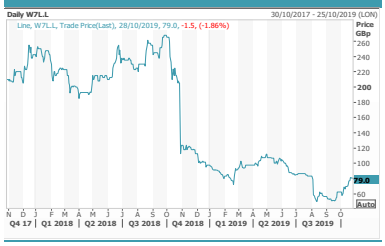
Volta is a closed-ended, limited liability company registered in Guernsey. Its investment objectives are to seek to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends that it expects to distribute on a quarterly basis. The rolling 12-month 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 (NMPIs). 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, our 7 October report, *9%+ yield in uncertain times*, as well as links to our Directors Talk interviews on the company.

Personal Products



Source: Refinitiv

Market data

EPIC/TKR	**W7L**
Price (p)	79.0
12m High (p)	160.0
12m Low (p)	48.3
Shares (m)	76.7
Mkt Cap (£m)	60.6
EV (£m)	58.7
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 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	14.3%
Blackrock	4.8%
GAM International Mgt.	4.7%
BI Asset Mgt.	4.6%

Diary

Apr'20	Full-year results

Analyst

Yingheng Chen 020 7194 7638

yc@hardmanandco.com

WARPAINT LONDON PLC

Continuing to grow brand awareness

Warpaint's goal is to deliver creative, design-focused and high-quality cosmetics at affordable prices to its global customer base. 1H'19 results saw a 2.9% increase in revenue, to £18.9m (£18.4m). The gross margin fell to 34.9% (36.5%), due to the lower margin from the US. Having acquired its US distributor, LMS, in 2018, Warpaint is well placed to continue its American market growth. 1H'19 results, though, were dampened by a weak UK retail market, particularly among small high-street retailers. The group has lowered its FY'19 revenue expectation to ca.£50m, with PBT at £6m-£7m. Management remains focused on implementing its growth strategy, especially in the US.

- **Strategy:** In the near term, Warpaint will continue to focus on developing its own brands, W7 and Technic, and on optimising operations in both Retra and LMS. In the UK, the group continues to grow with its top retail customers, and it is trying to compensate the smaller end of the market by targeting bigger UK retail groups.
- **International operations:** 1H'19 international sales rose by 7.8% to £11.1m (£10.3m), chiefly in the EU and US, which posted growth of over 12% and 45% (US figure on LFL basis) YoY, respectively. The US operation's gross margin was only 11.5%, but this should improve as the pre-acquisition stock holding is sold through.
- **Valuation:** Warpaint remains profitable and cash-generative, with good control on the gross margin, despite a challenging trading environment in the UK. Cashflow from operations for 1H'19 was £2.0m, despite ca.£6.1m of investment in inventory in the UK. The group has declared an interim dividend of 1.5p per share.
- **Risks:** The biggest short-term risk for Warpaint is the ongoing decline in the retail market, particularly in the smaller end of the UK retail segment, and the uncertainty around Brexit. The group is addressing this by actively expanding its flagship brand, W7, to a number of new UK retailers.
- **Investment summary:** 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 in a fast-growing colour cosmetics sector.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E
Sales	22.5	32.5	48.5	50.0
EBITDA (adjusted)	6.3	8.0	8.9	-
Operating profit (adjusted)	6.2	7.3	5.3	-
PBT (adjusted)*	6.1	7.7	8.2	6.5
Basic EPS (adjusted, p)*	7.9	9.6	9.1	7.5
DPS (p)	1.5	4.0	4.4	4.4
P/E (x)*	10.0	8.2	8.7	10.5
EV/EBITDA (x)	9.4	7.4	6.6	-
Dividend yield	1.9%	5.1%	5.6%	5.6%
RoE	-	20.0%	8.8%	7.5%

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

Source: Hardman & Co Research

Notes

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The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

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