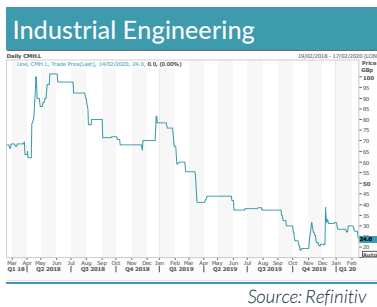




17 February 2020

**Market data**

EPIC/TKR	CMH
Price (p)	24.5
12m High (p)	79
12m Low (p)	17
Shares (m)	8.3
Mkt Cap (£m)	2.0
EV (£m)	7.4
Free Float*	40%
Market	AIM

\*As defined by AIM Rule 26

**Description**

Chamberlin is a UK-based industrial engineering company operating in two divisions – Foundries and Engineering. Around 75% of sales are exported.

**Company information**

CEO	Kevin Nolan
CFO	Neil Davies
Chairman	Keith Butler-Wheelhouse
	+44 1922 707100
	<a href="http://www.chamberlin.co.uk">www.chamberlin.co.uk</a>

**Key shareholders**

Rights & Issues IT	12.5%
Miton Capital Partners	12.5%
Janus Henderson	9.9%
Chelverton	6.3%
Thornbridge IM	6.3%
Schroders	4.4%

**Diary**

Jun'20	Final results
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**Analyst**

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# CHAMBERLIN

## Near-term trading subdued

The recent trading update revealed sustained challenging markets. Chamberlin, however, is still on track strategically, and the group continues to develop its product offering most favourably. The group has been financially de-risked, and the shares remain attractively valued against the peer group on most methodologies, in our view.

- ▶ **Trading update:** Sales for 2H 2019/20 will be slightly higher than the £12.8m reported in 1H. This is expected to lead the company to breakeven at the operating profit level in 2H and will result in an operating loss for the year broadly the same as the loss of £1.01m reported for 1H 2019/20.
- ▶ **Financial forecasts:** We have reduced our 2019/20 forecasts to reflect the ongoing challenging operating environment and the company's updated view. Our 2020/21 forecasts remain intact and are conservative given the recent contract awards.
- ▶ **Business developments remain most positive:** Recent contract awards for both the Walsall and Scunthorpe foundries – to Roadcraft and Thames Tideway Tunnel, respectively – will help to diversify the customer base away from the automotive industry, improve capacity utilisation and enhance revenues from 2020/21.
- ▶ **Risks:** Potential risks include developments with the automotive industry, Brexit uncertainties, foreign currency and raw material price fluctuations. From a financial standpoint, the group has been significantly de-risked, with the Exidor disposal proceeds used to reduce the pension scheme deficit and pay down debt.
- ▶ **Investment summary:** The shares offer the opportunity to invest in a cyclical stock with good operational leverage and a valuation that we consider attractive compared with the peer group; however, they are likely to tread water until significantly brighter prospects become more evident.

**Financial summary and valuation**

Year-end Mar (£m)	2018	2019	2020E	2021E
Sales	30.2	33.0	26.4	29.1
Gross profit	4.7	3.8	2.6	3.9
EBITDA	1.2	0.9	0.0	1.5
Underlying EBIT	-0.3	-0.9	-1.0	0.5
Underlying PBT	-0.7	-1.3	-1.1	0.4
Underlying EPS (p)	-12.3	-16.6	-10.3	4.0
Net (debt)/cash*	-8.9	-5.4	-5.0	-4.4
P/E (x)	-	-	-	7.1
EV/sales (x)	0.3	0.3	0.3	0.3

\*Net debt after cash position; Source: Hardman &amp; Co Research

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