



HARDMAN & CO.



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The prices used in this publication were those as at 21 February 2020 (unless otherwise stated). Clearly in some cases there has been a material change in market sentiment since then.

Feature article

Privatisation: Whose flame has burnt the brightest?

- ▶ Much of the UK's privatisation programme took place between the early 1980s and the mid-1990s: subsequent sales have been few. Undoubtedly, privatisation attracted many private investors to the market, many for the first time.
- ▶ Following the 50.2% sale of British Telecom (BT) shares in 1984, which was the first mass privatisation, other utility stocks were sold off, notably British Gas (BG), the English and Welsh water companies and virtually all the electricity supply sector.
- ▶ The transport sector saw several sales, notably in aviation with British Airways (BA) and British Airports Authority (BAA), along with various railway, ports and bus companies.
- ▶ Many privatisation stocks have materially outperformed the FTSE-100 since their flotation – the 12 Regional Electricity Companies (RECs), all of which were bought out during the bidding frenzy in the late 1990s, being examples. In addition, quoted water companies, such as Pennon, the owner of South West, and Severn Trent have seen share price rises of between 10x and 15x.
- ▶ National Grid, which was privatised via the RECs, is now valued at a formidable £36.5bn; it is one of the EU's most valuable utilities. The various components of the dismembered British Gas have generally prospered, despite Centrica's recent plunge. Among the transport stocks, BAA has been the star performer; it was taken over for £10.3bn in 2006.
- ▶ However, there have been serial underperformers. Railtrack, most controversially, was re-nationalised with compensation at ca.15% of its peak value. British Energy became a virtual dotcom stock and collapsed when power prices fell sharply. Welsh Water's owner, Hyder, also failed, despite the very favourable financial settlement put in place for its core business at flotation.
- ▶ Furthermore, BT – the originator of widespread privatisation – has seen its share price perform dreadfully. The current price is little changed from its fully paid flotation price in 1984. More recently, shares in Royal Mail, privatised in 2013, have plunged as letter volumes decline.

Privatisation: Whose flame has burnt the brightest?

1980s and early 1990s were prime years for privatisation

During the period of Conservative Government in the 1980s and early 1990s, an extensive privatisation programme was undertaken, with a raft of publicly owned companies being sold to the private sector.

Many of these companies prospered; there was also considerable takeover activity, especially in the energy sector, while a few privatised companies failed.

A key driver of the privatisation programme was to deliver greater efficiencies – and to reduce prices, especially for utility customers.

Investment was the driver

Funding large investment programmes was also regarded as a priority since, under state ownership, securing capital expenditure funding had always been a challenge. The Water Authorities and British Rail, Railtrack's predecessor, had been particularly affected by serious levels of under-investment.

The quest for a share-owning democracy

Allied to these financial factors was the political determination to create a share-owning democracy – on a similar basis to the property-owning democracy of previous years.

Millions of new shareholders attracted

Part privatisation of British Telecom (BT) in 1984 and, subsequently, of other utilities attracted the interest of millions of new investors – the innovative 'tell Sid' campaign devised to sell shares in British Gas (BG) was peculiarly effective.

In recent years, various spectacular failings, especially of much of the banking sector in 2008/09, have driven away many private investors from the market, but they may return. This issue was discussed in two previous leading articles for the Hardman and Co Monthly in [January](#) and [February](#) 2020.

Major privatisations

Prior to the part sale of BT shares in 1984, there were various low-profile disposals of government-owned stakes predominantly to institutional shareholders; they included shares in Cable and Wireless and the now BAE Systems, *inter alia*.

In subsequent years, the sale of stakes in BP and Enterprise Oil – the latter was eventually acquired by Shell – also took place.

The table below lists the largest privatisations – all of which were directed towards private investors.

Major privatisations	
Company	Year of flotation
British Telecom	1984
British Gas	1986
British Airports Authority	1986
British Airways	1987
British Steel	1988
10 English/Welsh water companies	1989
12 English/Welsh regional electricity companies	1990
2 English/Welsh electricity generators	1991
2 Scottish electricity companies	1991
Northern Ireland Electricity	1993
British Energy	1996
Railtrack	1996
Royal Mail	2013

Source: Hardman & Co Research

The BT part sale in 1984 launched mass privatisation

The unprecedented 50.2% initial sale of BT in 1984 set trends in several respects that were copied by many overseas governments. First, private investors were heavily incentivised to apply for shares. Secondly, a price regulation system was imposed on BT, to prevent its customers being exploited. At that time, BT was an effective monopolist (outside Hull, which had its own network), despite the participation at the fringes of Cable and Wireless' Mercury subsidiary, while mobile telephony was still in its infancy.

Then came British Gas – sold like soap powder

In 1986, it was BG that was privatised – on the back of a very high-profile advertising campaign. Controversially, BG remained a gas monopoly for many years, thereby requiring a complex – and much debated – price regulatory system revolving around its Transco subsidiary.

Then transport

Thereafter, the privatisation focus moved to the transport sector, with British Airports Authority (BAA), the owner of the UK's key airports, being floated, followed by its major customer, British Airways (BA), in 1987.

In 1989, water...

Following the re-election of the Conservative Government in 1987, the water sector in England and Wales was next to be sold, led by Thames. It was the first regionally based privatisation and it proved very popular.

... followed by electricity

The complex disaggregation of the electricity supply industry enabled its almost total privatisation from 1990 onwards, led by the 12 Regional Electricity Companies (RECs). The £5.2bn sector valuation figure was widely seen as being desperately generous to investors – and so it proved. And, like water investors, they applied in very large numbers.

Privatisation: Whose flame has burnt the brightest?

Subsequently, the first tranche of shares in both leading generators, National Power and PowerGen, were sold; this process was followed by the two integrated Scottish companies, ScottishPower and Scottish Hydro-Electric. North Ireland Electricity's privatisation followed in 1993.

The three post-1993 privatisations were less successful

Significantly, the three major privatisations since 1993 have all been far less successful. British Energy collapsed on the back of low electricity prices; it was essentially – and dangerously – a price-taker. Railtrack was controversially re-nationalised in 2001, while the share price of Royal Mail is currently languishing at almost 50% below its 2013 flotation price.

Bar Network Rail and NATs, the cupboard looks bare

Looking forward, the privatisation cupboard is quite bare. Network Rail, with net debt of over £54bn, is a possible – if somewhat theoretical – candidate, along with NATs, the air traffic control business. Scottish Water and Northern Ireland Water, too, could be floated, despite political opposition locally.

Privatisation: Whose flame has burnt the brightest?

Privatisation winners

Virtually all the utilities privatised in the 1980s and in the early 1990s have delivered decent returns – and, in some cases, mightily impressive ones.

Four of the best performers

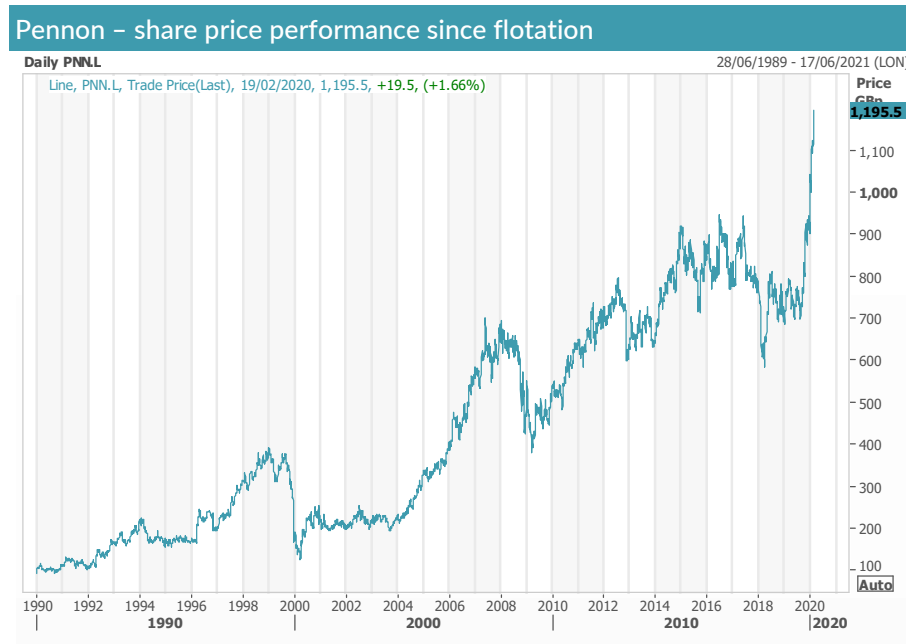
The four stand-out investments are two of the quoted water companies, namely Pennon and Severn Trent, National Grid and British Gas; all have delivered quite remarkable value for many for their investors.

Leaving aside Hyder, the holding company of Welsh Water, which failed in 1997, the remaining nine privatised water companies have delivered good shareholder returns. However, of the nine, only three remain publicly quoted.

Pennon prospers

Pennon, with its successful – if volatile – Viridor waste business has truly prospered, with a current share price, after adjustment for a 3/1 scrip issue in 2006, of ca.£35, compared with the 240p flotation price in 1989; this is equivalent to a staggering ca.14.5x increase since 1989.

Pennon's very impressive share price graph, based on the post-scrip issue price, is reproduced below.



Source: Hardman & Co Research

Severn Trent, which – apart from the integration of Dee Valley and Hafren Dyfrdwy, two small water companies – effectively remains the same business as at flotation. Its share price at £26 is now more than 10x its 1989 flotation price, once some minor adjustments are made.

The share price of United Utilities, the third quoted water company, has also risen appreciably over the same period.

Privatisation: Whose flame has burnt the brightest?

National Grid's shareholder returns have been impressive

National Grid was indirectly privatised through the flotation of the 12 RECs in 1990, each of whom held a share in the business, as listed below. An implicit value has also been ascribed to each stake, based on National Grid's current £36.5bn market value; it should be noted that National Grid has undertaken various fundraising initiatives, in part to finance its burgeoning US investments, since it was demerged in 1995.

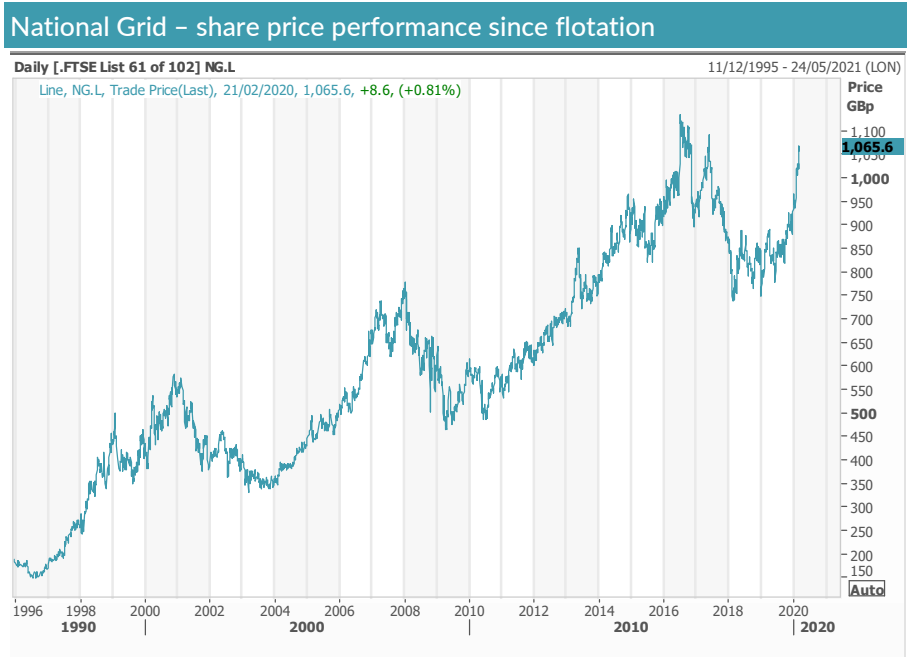
REC National Grid shareholdings		
REC	NG share (1990)	NG value (£bn) (2/2020)
Eastern	12.5%	4.6
East Midlands	8.4%	3.1
London	10.5%	3.8
Manweb	5.5%	2.0
Midlands	9.2%	3.4
Northern	6.5%	2.4
Norweb	8.2%	3.0
Seeboard	7.3%	2.7
Southern	11.0%	4.1
South Western	6.3%	2.3
Swalec	5.4%	2.0
Yorkshire	9.2%	3.4

Source: Hardman & Co Research

Now one of the EU's biggest utility beasts

From comparatively modest beginnings, National Grid, with its £36.5bn capitalisation, is now one of the most valuable utilities in the EU after Italy's ENEL (£69bn) and Spain's Iberdrola (£61bn). Its current £62bn Enterprise Value (EV) figure should be compared with the £5.2bn value placed initially on the REC sector in 1990. Even if a 20% National Grid value were accorded to the latter figure, this would amount to an imputed flotation value of just £1.04bn.

Significantly, too, National Grid's share price has rallied of late, as the graph below shows, following the decisive General Election result last December, which removed any real threat of some form of re-nationalisation undertaken by an incoming Labour Government.



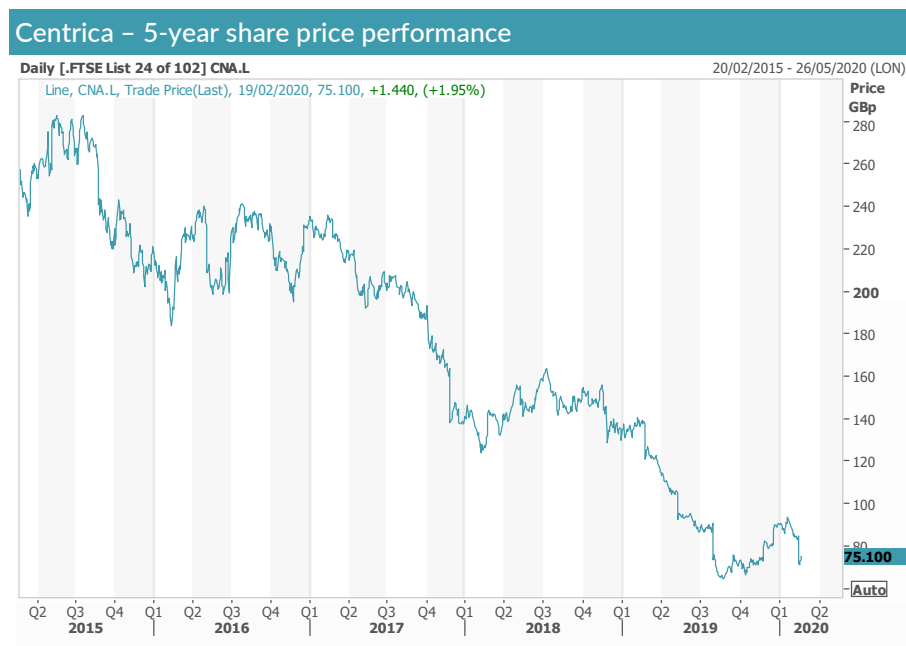
Source: Hardman & Co Research

Privatisation: Whose flame has burnt the brightest?

Split into three entities

Since its privatisation in 1986, British Gas has been demerged into three major entities. The key E and P division was sold to Shell in 2016 for ca.£47bn – at a time when oil and gas prices were high.

To that figure, the value of the gas transportation business should be added; after demerger, it became the core business of Lattice, which merged with National Grid in 2002. The assets of the struggling Centrica, whose very poor share price performance in recent years is illustrated below, should also be included.



Source: Hardman & Co Research

12 RECs disappeared in a takeover frenzy

The 12 RECs, all of whom were taken over during a frenzy of corporate activity in the mid/late 1990s, also provided highly impressive returns for most investors. All the take-out prices were far in excess of the very modest £5.2bn value – including the National Grid shareholdings – placed on the sector at flotation.

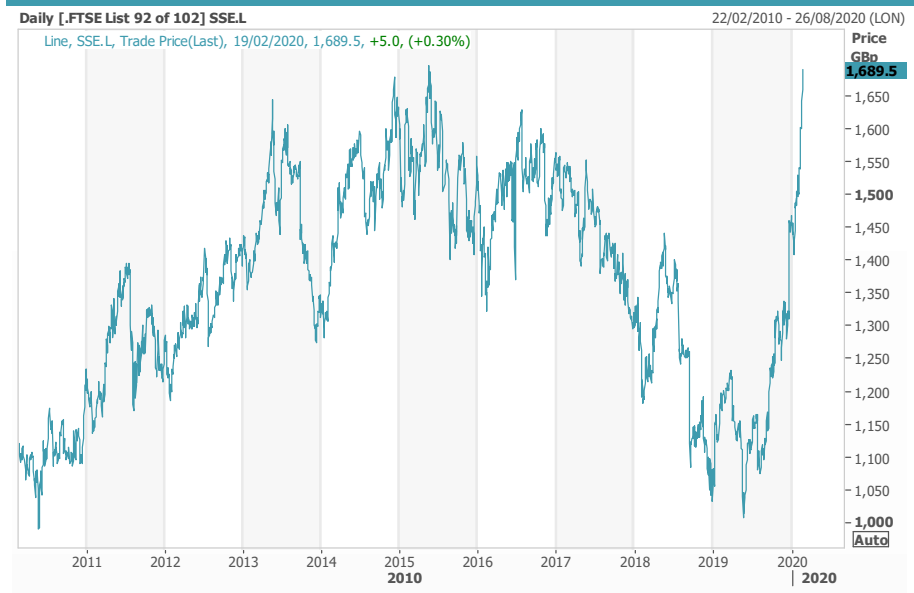
Elsewhere in the electricity sector, shareholder returns from the two UK generators, National Power and PowerGen, were also impressive, although they were less than those of most RECs.

While Drax Group remains quoted, encompassing the eponymous – and legendary – 3,960MW coal-fired/biomass plant acquired indirectly from National Power, it is Scotland's integrated SSE that provides a more valid comparison.

SSE is now a top renewables player

Having acquired Southern Electric in 1998, SSE has continued to invest in renewable energy – an undoubted boost to its share price rating, as the graph below shows.

SSE – 10-year share price performance



Source: Hardman & Co Research

The issue of SSE's renewable generation valuation, along with those of other renewable energy infrastructure funds (REIFs), was addressed in Hardman and Co's recent sector publication, *UK Renewable Energy Infrastructure Funds – A 20/20 Vision*.

On the privatised transport front, there have been some obvious winners led by the BAA, which has been disaggregated in recent years; Heathrow and Gatwick airports are now in different ownership.

Heavy profits on BAA privatisation

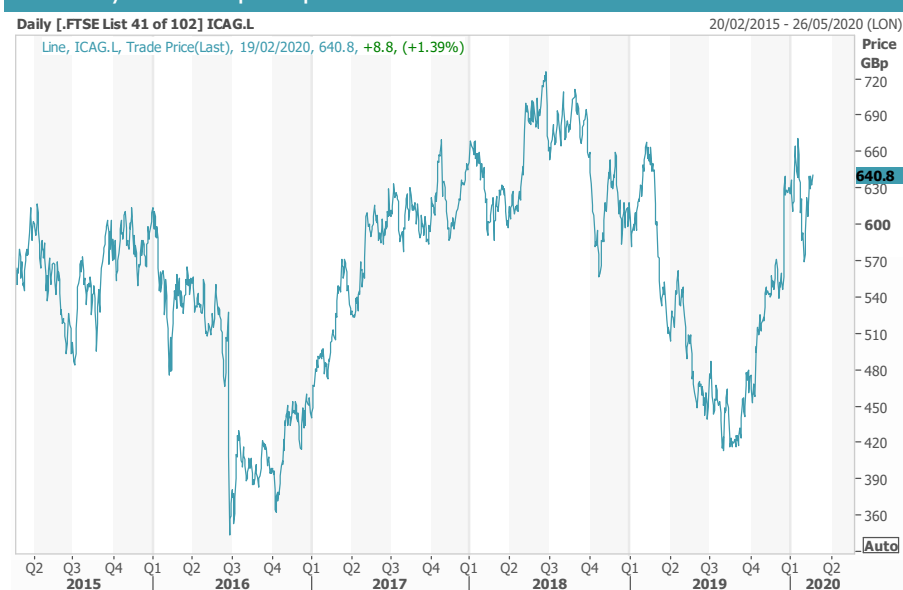
Nonetheless, starting out in 1987 with a flotation value of £1.3bn, BAA was bought in 2006 by a consortium led by Spain's Ferrovial for £10.3bn.

Its major client, BA, was privatised in 1987 at 125p per share; it has performed well – until the recent coronavirus concerns. Its share price, now quoted within International Airlines Group, is robust currently: volatile oil prices have been a key factor in recent years as they have a heavy impact on the annual fuel bill and, consequently, on the share price rating.

Reproduced below is a 5-year graph for IAG, which also incorporates leading Spanish airlines, including both Iberia and Vuelig. It does not include the very adverse risks implied by the spread of coronavirus.

Privatisation: Whose flame has burnt the brightest?

IAG – 5-year share price performance



Source: Hardman & Co Research

ABP sold for a good premium

There have been other transport privatisations that have materially benefited shareholders, especially where acquisitions have been involved, such as the privatised Associated British Ports, which was sold for £2.8bn to a Goldman Sachs-led consortium in 2006.

Strong performance from the FTSE-100

In assessing any degree of share price outperformance, it is necessary to recognise that the market has performed strongly – despite the 2008/09 banking crisis – since the early 1990s as the FTSE-100 data in the table below, dating back to 1985, illustrates.

5-year FTSE-100 performances

Year	Value
1985	1,232
1990	2,423
1995	3,066
2000	6,930
2005	4,814
2010	5,413
2015	6,556
2020	7,542

Source: Hardman & Co Research

Any outperformance of the market, therefore, needs to have seen at least a trebling of the underlying share price, after any material adjustments, from the late 1980s/early 1990s period.

Privatisation: Whose flame has burnt the brightest?

Privatisation losers

Dire BT performance

Within the privatised portfolio, it is perhaps inevitable that there would be some failures. Ironically, it was the performance of the first major privatisation stock, BT, which has been particularly dire.

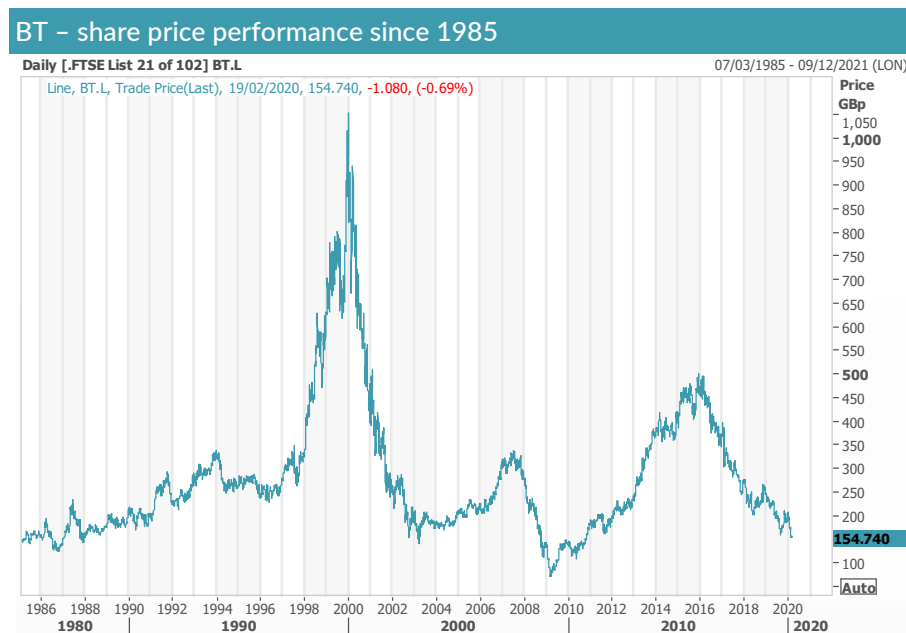
Flat adjusted EBITDA for a generation

For more than 20 years, its underlying annual EBITDA – once a raft of adjustments has been made, especially for the £12.5bn EE mobile telecoms acquisition – has been becalmed at ca.£6bn.

Flat share price too

Furthermore, BT's current share price – more than 35 years after its market debut – is almost identical to its fully paid flotation price back in 1984. The surge in its share price around the turn of the century – driven by the TMT (Telecoms, Media, Technology) bubble – proved to be illusory; indeed, in 2001, it launched a massive £5.9bn rights issue.

The graph below, which goes back to 1985 – shortly after the first tranche of BT shares was floated – illustrates this very poor performance, during a period when the FTSE-100 has more than trebled.



Source: Hardman & Co Research

Prior to the first BT share offering in 1984, the Government sold a minority stake in Cable and Wireless, which had flourished under the banner of the British Empire. Having sold its pivotal Hong Kong Telecom business, Cable and Wireless' demise was rapid. As a result of some dreadfully ill-advised – and extremely expensive – acquisitions, it was finally split up, with much of its UK fixed line network going to Vodafone.

The British Steel story is also depressing. Having been privatised in 1988, it was eventually bought – under Corus, its new name – by India's Tata conglomerate in 2007. Subsequently, it has been progressively wound down.

Privatisation: Whose flame has burnt the brightest?

Two utility casualties

Welsh Water and British Energy are two privatised utilities that failed to prosper: eventually, both effectively folded and many shareholders lost out. The collapse of the Hyder-owned Welsh Water took place within a decade of the latter being privatised with a large and guaranteed customer base, a real 6.5% annual price increase for its first five years in the private sector and a healthy cash balance at flotation.

British Energy – dotcom stock

British Energy, which owned all the major UK nuclear plants, including the Pressurised Water Reactor (PWR) at Sizewell, was always very vulnerable to low power prices. When they did indeed plunge, British Energy was caught short – leaving many shareholders nursing heavy losses.

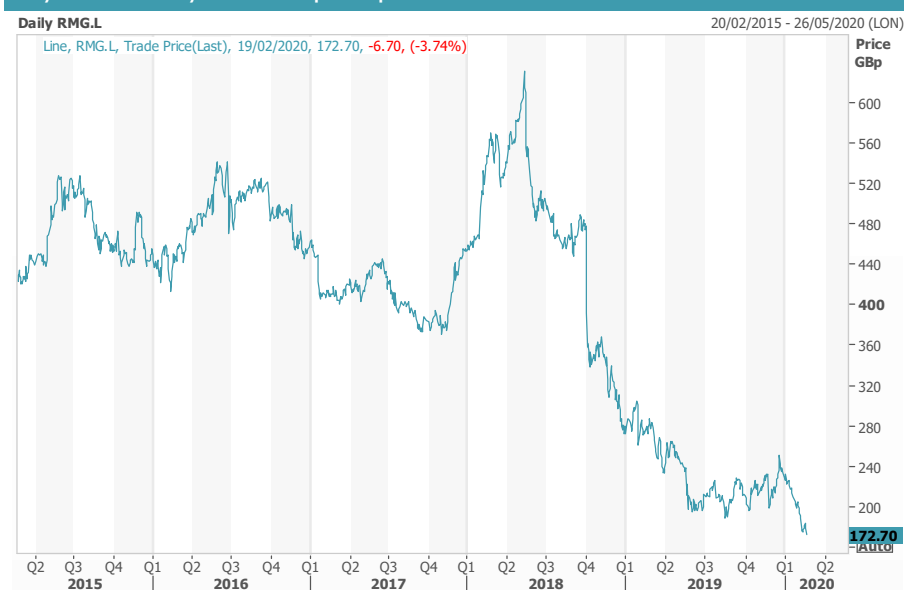
Railtrack also went down

Another high-profile casualty was Railtrack, which was suddenly nationalised in 2001, ostensibly due to a massive capital expenditure liability. Eventually, after prolonged legal hearings, shareholders received compensation of ca.260p per share – Railtrack's share price had peaked at over £17.

Nor is Royal Mail too clever

Another loser, to date at least, has been Royal Mail. It was privatised in 2013 and, after initial enthusiasm, has struggled. Letter volumes are falling fast, industrial unrest remains a real risk and issues related to its pension fund liabilities endure. The graph of Royal Mail's sorry share price performance reflects these serious challenges.

Royal Mail – 5-year share price performance



Source: Hardman & Co Research

Conclusion

Clearly, stock selection of privatised companies has been key. Some companies were very severely under-priced at flotation and their share prices boomed subsequently; others have stumbled badly.

National Grid vs. British Energy – which prevailed for investors?

The energy sector provides a good comparison. Both National Grid and British Energy were privatised in the early 1990s; the former is now one of the EU's most valuable utilities, while the latter collapsed within a few years of being brought to market.

Caveat emptor.

About the author



Nigel Hawkins is the Utilities sector analyst at Hardman & Co.

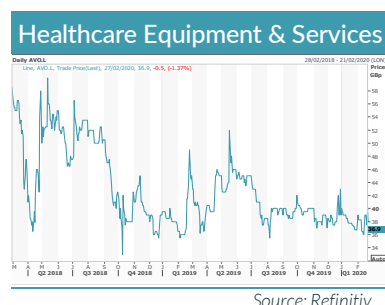
Nigel is responsible for analysing the UK Utility companies, including those privatised in the 1980s and 1990s, as well as newer arrivals in the sector. He has been involved in the Utilities sector since the late 1980s, as a feature writer at Utility Week magazine and as an analyst at Libertas Capital. Prior to that, he was the Telecoms analyst at Williams de Broë. Between 1989 and 1995, he worked at Hoare Govett as the Water and Electricity analyst.

Between 1984 and 1987, Nigel was the Political Correspondence Secretary to Lady Thatcher at 10 Downing Street.

Nigel joined Hardman & Co in February 2016. He holds a BA (Hons) in Law, Economics and Politics from the University of Buckingham. He is an associate of the Institute of Chartered Secretaries and Administration and a senior fellow of the Adam Smith Institute.

Company research

Priced at 21 February 2020 (unless otherwise stated).



Market data

EPIC/TKR	AVO
Price (p)	40.0
12m High (p)	52.0
12m Low (p)	32.5
Shares (m)	243.8
Mkt Cap (£m)	97.5
EV (£m)	111.4
Free Float*	72%
Market	AIM

*As defined by AIM Rule 26

Description

Advanced Oncotherapy (AVO) is developing next-generation proton therapy systems for use in cancer radiotherapy. The first system is expected to undergo CE marking during 2020. Standard radiation procedures have evolved over many years. PBT delivers radiation via a beam of proton particles, rather than a beam of photons used in conventional radiotherapy (X-rays).

Company information

Exec. Chairman Michael Sinclair
CEO Nicolas Serandour

+44 203 617 8728

www.avopl.com

Key shareholders

Liquid Harmony (Board)	18.5%
Other Board	9.6%
P. Glatz	6.4%
DNCA Investments	4.9%
Lombard Odier	4.1%
Brahma AG	3.2%
Barrymore Inv.	3.2%

Diary

Analysts

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ADVANCED ONCOTHERAPY

Purchase order and partnerships

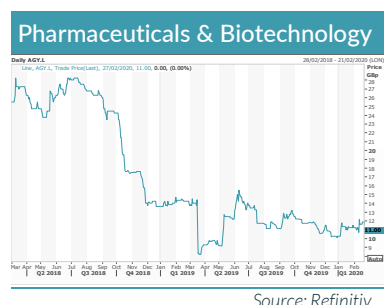
AVO's goal is to deliver an affordable and novel proton beam therapy (PBT) system, based on state-of-the-art technology developed originally at the world-renowned CERN. 2019 was characterised by the achievement of a number of technical milestones and validation of the technical advantages of the accelerator over conventional machines. As anticipated, 2020 will see a number of key milestones being reached. Crucially, AVO has announced the first purchase order for a LIGHT system by the Mediterranean Hospital of Cyprus (MHC), valued at €50m, as well as partnerships with the London Clinic and Birmingham.

- **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.
- **Purchase order:** AVO has announced a purchase order by MHC, valued at €50m/£41.7m, for the installation of a LIGHT accelerator system, which will support three treatment rooms. AVO will also receive a share of the profit generated from this PBT service. Installation is to commence before end-2023.
- **The London Clinic:** AVO has announced a new partnership with The London Clinic (TLC), which will run the day-to-day operational activities for the LIGHT machine at its Harley Street site. Although financial terms were not disclosed, it will have a profit share arrangement, highlighting AVO's innovative business and financing strategy.
- **NHS Birmingham:** AVO has also announced a partnership with University Hospitals Birmingham NHS Foundation Trust (UHB), for the installation of a LIGHT system on the trust campus (subject to planning permission) for the provision of specialist PBT treatment in Birmingham and surrounding areas.
- **Investment summary:** AVO's ca.£98m market capitalisation equates only to the amount invested into LIGHT to date, reflecting neither the huge technical challenges already overcome nor the market potential. A DCF analysis of LIGHT's 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 nears first patient treatments and completes its financing plan.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019E	2020E	2021E	2022E
Sales	0.0	0.0	0.0			
Gross profit	0.0	-1.9	0.0			
Administration costs	-12.9	-15.7	-15.0			
EBITDA	-14.1	-21.4	-18.9			
Underlying EBIT	-14.5	-21.8	-20.6	Following recent significant commercial announcements, forecasts are under review		
Statutory EBIT	-14.5	-21.8	-20.6			
Underlying PTP	-16.5	-21.9	-21.7			
Statutory PTP	-16.5	-21.9	-21.7			
Underlying EPS (p)	-17.6	-14.0	-8.9			
Statutory EPS (p)	-18.9	-13.4	-8.9			
Net (debt)/cash	-9.2	-2.0	-13.9			
EV/EBITDA (x)	-	-	-			

Source: Hardman & Co Life Sciences Research



Market data

EPIC/TKR	AGY
Price (p)	11.9
12m High (p)	15.8
12m Low (p)	7.3
Shares (m)	636.2
Mkt Cap (£m)	75.7
EV (£m)	38.4
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

Mar'20	Interim 2020 results
1H'21	Ph. I peanut vaccine trial

Analysts

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ALLERGY THERAPEUTICS

Peanut allergy vaccine market heating up

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Pollinex Quattro (PQ) is an ultra-short course subcutaneous allergy immunotherapy (SCIT) platform, which continues to make strong market share gains in a competitive environment. Several products using the PQ platform are in late-stage development in order to move them to full registration under new EU and US regulations. In addition, AGY's early pipeline includes a Peanut SCIT, which is Phase I ready. Published pre-clinical data indicate there to be competitive advantages for its SCIT, which is based on traditional vaccination approaches.

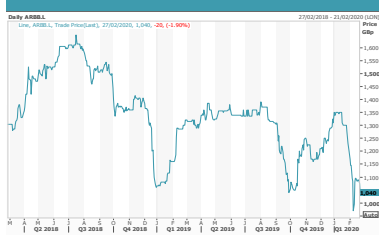
- **Strategy:** AGY is a fully-integrated pharmaceutical company focused on the treatment of allergies. There are three parts to its strategy: continued development of its European business via investment or opportunistic acquisitions; the US PQ opportunity; and further development of its pipeline.
- **Peanut SCIT:** AGY's vaccine candidate will enter Phase I trials this summer, with excellent pre-clinical data now published. A single immunisation protected against local and systemic allergic reactions on challenge in mouse models. Manufacturing scale-up is under way for a trial to test for sustained immunity in humans.
- **Peanut market:** Currently estimated at \$8bn, the food allergy market is growing due to demand and new technology. Aimmune (NASDAQ: AIMT) achieved FDA approval for its peanut immunotherapy based on oral desensitisation in February, but this requires multiple doses and carries risk of dangerous allergic reactions.
- **Risks:** The risks inherent in subjective clinical trial outcomes were clear in the Phase III Birch trial. However, AGY does include objective secondary endpoints to test for protective immunity; the design of the Phase I trial is already agreed with regulatory authorities – it is likely to include measurement of IgG antibodies.
- **Investment summary:** Over the past 12 months, we have highlighted consistently that AGY is at an exciting juncture. While continuing to invest in its profitable European SCIT business, it is leading the race to have its SCIT products fully approved and regulated as biologicals in the US. Despite this, the current EV/sales appears too low for a company with a long and profitable product history, and well below the multiples commanded by direct competitors, including AIMT.

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	-4.1
Equity issues	0.0	0.0	10.2	0.3	0.3	0.3
P/E (x)	-20.2	-9.4	-29.3	-13.6	-4.4	-19.0
EV/sales (x)	0.60	0.56	0.52	0.48	0.45	0.42

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

	ARBB/ARBN
EPIC/TKR	1,020/1,100
Price (p)	1,428
12m High (p)	970
12m Low (p)	15.4
Shares (m)	157
Mkt Cap (£m)	80%
Loans to deposits	42%
2020E	
Free Float*	AIM/NEX
Market	

*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	Andrew Salmon
Arb. Latham	
Group FD,	James Cobb
Deputy CEO	
Arb. Latham	

+44 20 7012 2400

www.arbuthnotgroup.com

Key shareholders

Sir Henry Angest	56.1%
Liontrust	7.0%
Slater Investments	3.9%
Miton Asset Mgt.	3.6%
R Paston	3.6%
M&G IM	3.5%

Diary

26 Mar	FY'19 results
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Analyst

Mark Thomas	020 7194 7622
	mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

“Towards upper end of market expectations”

The key message from the 12 February *trading statement* was that ABG expects to announce full-year pre-tax profits “towards the upper end of the range of market expectations”. It increased its period-end customer loan balances by 31% and deposits by 22% on 2018. Planned diversification of the group's loan book and income streams continued, with Arbuthnot Commercial Asset Based Lending and Arbuthnot Specialist Finance both making good progress in the quarter and year. Early February share price weakness was on light volumes vs. the mid/late February recovery. A profitable, growing bank, trading at 0.8x NAV, appears anomalous.

- **Outlook:** In addition to delivering FY'19 profits at the upper end of expectations, the outlook comment was positive, particularly noting that “following the decisive election result, the Group has noticed an increase in the level of confidence in its markets and the pipeline across all business divisions has begun to improve.”
- **Peer news:** Rathbone Brothers' FY *results* on 20 February were well received (s/p +2%). Brewin Dolphin's CEO *retired* and will be replaced internally. In the broader wealth management space, Harwood Capital decided not to make an *offer for Frenkel Topping* while Interactive Investor's *bid for Shae plc* was recommended.
- **Valuation:** The average of our approaches is now £16.51, 1.3x 2020E NAV (from £16.55 – with a small decline in the STB stake value). Two of our models use 2020 estimates, which include accelerated investment, as detailed in our *18 October note*, but not the payback for it. The share price is 0.8x 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 around 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)	75.6	59.6	21.5	25.3	21.2	15.8
P/BV (x)	1.27	0.67	0.67	0.80	0.80	0.79

*IFRS9 basis; Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	ARIX
Price (p)	88.5
12m High (p)	163
12m Low (p)	86
Shares (m)	135.6
Mkt Cap (£m)	120.0
Free Float	69%
NAV/share (p)	146
Premium/discount to NAV	-39.6%
Market	LSE

Description

Arix is a publicly listed biotechnology venture capital (VC) company. It provides an opportunity for all investors to participate in a balanced portfolio of diverse biotech innovation via a single stock. With a global portfolio of 17 companies and four IPOs achieved since launch in 2016, Arix is a dynamic and modern approach to life sciences VC investing.

Company information

Chairman	Jonathan Peacock
CEO	Joe Anderson
COO	Robert Lyne
Finance Director	Marcus Karia

+44 20 7290 1050

www.arixbioscience.com

Key shareholders

Directors	9%
Link Fund Solutions	19.8%
Fosun	8.2%
Ruffer	6.1%
Takeda Ventures	5.5%

Diary

10 Mar	FY'19 results
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Analysts

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Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

ARIX BIOSCIENCE

Full-year 2019 results due 10 March

Arix is a listed global venture capital (VC) company that presents an opportunity for institutional and retail investors to participate in the high risk-return profile of early-stage biotech investing. Arix minimises risk through its expert investment team and with portfolio diversification. Arix's latest published NAV of £232m (1H'19) includes 17 portfolio companies (PCs) into which Arix has invested ca.£135m since launch. FY'19 results, due 10 March, will provide visibility on the contribution of both core and discovery portfolio companies to FY'19 NAV, forecast at £208m, or 154p/share.

- **Business model:** Arix provides capital, operational expertise and network access to entrepreneurs and companies from the seed stage through to undervalued public companies. As a listed company itself, and unlike traditional VC models, Arix is not constrained by exit timelines, and its investors can trade shares at will.
- **Strategy:** Sourcing benefits from an established network and a strong scientific reputation. The portfolio is diversified by therapeutic area, treatment modality, stage of discovery/development and geography to balance the risk-reward inherent to biotech investments. Value is realised when Arix exits its investments.
- **Performance:** Arix's performance cannot yet be assessed by exits, although more visibility may be expected on 10 March. Since IPO in 2017, its NAV/share increased from 150p to 170p at 1H'19, and is forecast at 154p on 31 December 2019. Value-accretive events in 2019 include NASDAQ IPO of two PCs.
- **Risks:** Value inflection points include PC progression through clinical, regulatory, partnering and financial milestones. Given that 29% of the portfolio value is pre-clinical, much of the risk lies in the investment team's skill in identifying innovation with clear commercial potential – allowing it successful exits.
- **Investment summary:** Arix stock is currently suffering from a market overhang and some negative sentiment towards biotech that is affecting its share price, and the share prices of some of its PCs have fallen following IPO. Although the portfolio's fundamentals are unchanged, investors should ensure that they understand the basis of the NAV and its discount before seizing the opportunity to participate in the basket of well-chosen biotech.

Financial summary and valuation

Year-end Dec (£m)	*2016	2017	2018	2019E	2020E	2021E
Operating income	2.0	7.4	52.5	-57.8	1.1	0.0
Admin. expenses	-10.3	-11.0	-11.7	-10.0	-8.9	-8.9
Operating profit/(loss)	-13.0	-7.2	37.5	-71.1	-11.2	-12.3
Profit/(loss) before tax	-13.0	-7.2	37.5	-71.1	-11.2	-12.3
Underlying EPS (p)	-38.4	-9.5	27.2	-47.7	-7.0	-7.8
Net cash/(debt)	28.9	74.9	91.2	48.0	13.5	-9.1
Capital increase	50.0	105.1	83.5	0.0	0.0	0.0
NAV/share (p)	201.4	152.3	200.4	153.6	146.6	138.8

*15-month period (30 September 2015 to 31 December 2016)

Source: Hardman & Co Life Sciences Research

Market data

EPIC/TKR **Private**
Price (p) n/a

Description

B-North is being developed to serve the sizeable UK SME lending market. It has state-of-the-art technology, a regional hub model and experienced managers to deliver a best-in-class service to SMEs and commercial brokers. It will be funded through best-buy retail deposit comparison websites. The model should have a material cost advantage over competitors, and credit risk is being tightly managed.

Company information

Chairman Ron Emerson CBE
CEO Jonathan Thompson
CFO David Broadbent

investor@b-north.co.uk
b-north.co.uk

Key shareholders

Directors/management £1m+
Greater Manchester Six-figure
Combined Authority sum
HNWI Balance

Diary

1Q'20 Banking licence (tbc)
1Q'20 £20m capital raise
2Q'20 Start lending
4Q'20 Start retail deposit-taking

The target seed round top-up capital raise of £2m was over-subscribed (£2.7m raised). Investors with £50k+ to invest can do so directly through contact with David Broadbent, Founder & CFO, Suite 20A, Manchester One, 53 Portland Street. The group targets raising £20m from institutional investors, conditional on getting its banking licence.

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

B-NORTH

4Q'19 overview

For us, the key takeaways of B-North's *4Q overview* on 30 January are i) super-seed capital raise oversubscribed at 135% of the original target; ii) B-North says its Series A funding to raise £20m "is progressing well with B-North engaged in a positive dialogue with a number of potential institutional investors"; iii) no change to previous guidance that overall build-the-bank cost expected to be >20% lower than original expectations; iv) infrastructure build with key control hires and outsource partner for deposit-taking appointed; v) management outlook statement: "We look forward with great confidence to 2020 being a year of further significant progress."

- **News:** B-North continues to build controls and infrastructure (three hires announced on *13 January*), and has selected Newcastle Strategic Solutions Limited to provide its deposit-taking solution, as it moves towards scheduled launch in the first half of 2020.
- **"Reality Check":** In our *16 December note*, we reviewed the company assumptions and believe them to be ambitious but credible. We considered the level of lending that peers have achieved and the absolute performance. Importantly, B-North has multiple options to address any volume shortfall – most at a modest cost.
- **Valuation:** Given the growth profile of the company and associated uncertainties, any valuation must be treated with extreme caution. In our initiation, we gave a range of approaches that, on average, indicate that B-North's value in 2027 could be treble the amount of equity raised, and provided a range of sensitivities.
- **Risks:** Credit risk is key for any bank. B-North will establish independent credit functions, and its technology brings it close to customers interfacing with their internal information. It has multiple options to address any loan growth shortfall. The economic cycle is important. The model is yet to be tested and capital raised.
- **Investment summary:** B-North is still at the pre-revenue stage. Its model should be low-cost and deliver a superior service to customers and intermediaries. It has a conservative credit culture and uses state-of-the-art technology, written from scratch, to originate, service and manage its business. Funding will be via the deep best-buy retail deposit comparison sites. The potential market is huge, profitable and under-served, and major incumbents have selectively become uncompetitive.

Financial summary and valuation – eight-pod scenario

Year-end Sep (£m)	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net interest income	0.0	0.5	3.9	14.5	37.4	72.7	116.2	160.7	203.6
Costs	-2.9	-7.0	-18.0	-28.3	-36.0	-41.3	-45.5	-47.8	-52.0
Impairments	0.0	0.0	-0.2	-1.0	-3.1	-7.4	-8.9	-10.1	-10.7
Pre-tax profit	-2.9	-6.5	-14.2	-14.3	-0.6	25.9	64.7	106.5	145.4
Net interest margin	n/m	1.4%	4.0%	4.3%	4.1%	4.2%	4.2%	4.3%	4.3%
Cost:income ratio	n/m	n/m	n/m	n/m	-93%	-55%	-38%	-29%	-25%
RoE	n/m	-14%	-15%	-12%	0%	11%	20%	23%	24%
Loans	0	15	100	470	1,100	1,925	2,850	3,700	4,550
Deposits	0	0	12	329	770	1,424	2,098	2,745	3,393
Equity	1	72	86	102	154	217	298	393	502
Value at 12x P/E*	n/m	n/m	n/m	n/m	n/m	252	629	962	1,303
Value vs. cum. equity issued	n/m	n/m	n/m	n/m	n/m	1.1	2.3	2.9	3.4

*IFRS9 basis; Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	BUR
Price (p)	616.5
12m High (p)	1,870.0
12m Low (p)	585.0
Shares (m)	218.6
Mkt Cap (£m)	1,348
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	9.5%
Morgan Stanley	6.1%
Coltrane Asset Mgt.	5.2%
Mithaq Capital	5.1%

Diary

24 Mar	Full-year results
13 May	AGM

Analyst

Brian Moretta 020 7194 7622
bm@hardmanandco.com

BURFORD CAPITAL

Mixture of strong and weak activity in 2019

Burford recently released its first-ever trading statement, covering cash activity in 2019. Group-wide commitments set a new record of \$1.57bn, a 24% increase. Overall deployments were almost flat compared with 2018, at £1.07bn. In both, the Sovereign Wealth Fund (SWF) and fund arrangements increased their share. It was, however, a quiet second half for realisations on-balance sheet in the core litigation finance business. 2019 profits will be lower than in 2018, with Burford indicating that net realised gains will be ca.\$20m-\$30m lower than in 2018 and net unrealised gains ca.\$50m-\$70m lower.

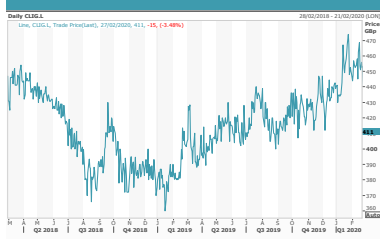
- **Returns:** While on-balance sheet net realised gains were lower in 2019 than in 2018, the cumulative RoIC since inception ticked up slightly to 93% on \$1.2bn of realisations (85% on \$1bn in 2018). The aggregate IRR also increased from 30% to 31%.
- **Cash:** Group-wide cash generation increased 23% over 2019 to \$997m. The majority of this increase was driven by post-settlement finance, which is shorter duration. The year-end cash balance of \$192m was slightly up from \$171m at the half year, but down on the \$277m a year ago.
- **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 the litigation investment business continuing 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 (underlying, x)	44.0	33.3	27.4	15.7	6.8	5.8
Price/NAV (x)	5.0	4.6	4.1	3.9	2.7	1.6

Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	CLIG
Price (p)	452.5
12m High (p)	474.0
12m Low (p)	379.1
Shares (m)	26.6
Mkt Cap (£m)	120.2
EV (£m)	107.7
Market	LSE

Description

City of London (CLIG) 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	18.6%
Blackrock	10.1%
APQ Capital	5.5%
Cannacord Genuity	5.0%
Eschaton Opportunities	4.8%
Fund Management	
Polar Capital	3.7%

Diary

21 Apr	3Q FUM announcement
14 Jul	Pre-close update
14 Sep	Preliminary results
7 Oct	1Q FUM announcement

Analyst

Brian Moretta	020 7194 7622
	bm@hardmanandco.com

CITY OF LONDON INVESTMENT GROUP

Interim results validate good first-half performance

CLIG has announced its interim results for 1H'20. Several of the key figures were announced in the January trading statement, so the main interest is in the underlying figures. With FUM growth supported by positive markets and net inflows, revenue growth was good at 11% compared with the same period last year. Despite the helpful conditions, CLIG maintained its excellent cost control and the net result was a 23% increase in profit after tax to \$5.06m. Cash conversion, as always, was excellent, with operating cashflow at 107% of earnings.

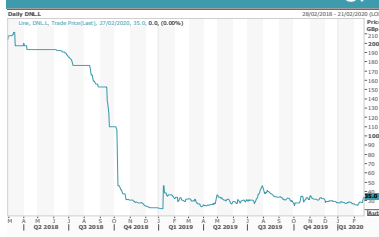
- **Performance:** Further detail was provided on fund performance over the period. The Developed strategy outperformed by an average of 3.5% and Opportunistic Value by an average of 2.2%. EM averaged 0.75% as well and all have strong quartile placings over multiple timescales.
- **Earnings estimates:** As the main figures were given in January, there are only small adjustments to the Hardman & Co earnings estimates. We have introduced a 2022E EPS of 54.5p. A further dividend increase is also assumed, but strong markets may see another one before then.
- **Valuation:** The 2021E P/E of 9.1x is at a significant discount to the peer group. The underlying 2020E yield of 6.6% is attractive, in our view, and should, at the very least, provide support for the shares in the current markets.
- **Risks:** Although emerging markets can be volatile, CLIG 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, CLIG 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)	2017	2018	2019*	2020E	2021E	2022E
FUM (\$bn)	4.66	5.11	5.39	6.27	6.79	6.92
Revenue	31.29	33.93	31.93	35.13	38.56	41.43
Statutory PTP	11.59	12.79	11.40	13.56	15.59	17.04
Statutory EPS (p)	36.9	39.5	34.9	43.4	49.8	54.5
DPS (p)	25.0	27.0	40.5	30.0	30.0	33.0
Special dividend			13.5			
P/E (x)	12.3	11.5	13.0	10.4	9.1	8.3
Dividend yield	5.5%	6.0%	9.0%	6.6%	6.6%	7.3%

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

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	DNL
Price (p)	34.4
12m High (p)	47.0
12m Low (p)	23.0
Shares (m)	86.7
Mkt Cap (£m)	29.8
EV (£m)	25.2
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 approved in Europe, and has been filed in the US. Chronocort completed the largest and only Phase III trial in CAH, and is awaiting EMA approval.

Company information

CEO	Martin Whitaker
CFO	Richard Bungay
Chairman	Peter Allen

+44 29 2068 2069

www.diurnal.co.uk

Key shareholders

Directors	4.0%
IP Group	39.7%
Finance Wales	13.3%
Polar Capital	7.6%
Richard Griffiths	7.2%
Oceanwood Capital	3.6%

Diary

27-31 Mar	DITEST details pres.
1H'20	US partner
4Q'20	Chrono. CHMP opinion

Analysts

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DIURNAL GROUP

Interim results and revised forecasts

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". In 2020, DNL is expecting five market authorisations. We expect it to announce a US partnership(s) to support Alkindi and the upcoming clinical studies with Chronocort. Sales for Alkindi at the interim stage were £1.1m and cash was £4.6m (before receipt of a £2.1m R&D tax credit). In line with a new strategy, we have revised our forecasts and anticipate DNL to be profitable in 2022.

- **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.
- **Interims:** At its interim results, DNL indicated that sales of Alkindi were £1.1m (£0.2m), ahead of our forecast at £0.8m. Further launches are due with Italy and the Netherlands in calendar 1H'20, followed by Spain in 2H'20. Cash in the bank of £4.6m was also higher than our £3.6m forecast.
- **US partner(s):** DNL is progressing discussions in its search for a US partner for the sale and distribution of Alkindi, as well as clinical support for the Phase III Chronocort trials in CAH. The final outcome might be with more than one company, and an announcement is expected during 1H calendar 2020.
- **Revised forecasts:** With the new strategy taking place, which will share trial costs with a US partner for Chronocort, we have revised our forecasts, with a reduced R&D investment. We anticipate DNL to raise £10m new capital in the short term, allowing the company to become profitable by 2022.
- **Investment summary:** Alkindi, a cortisol replacement therapy designed for children under 18 years of age, is DNL's first product on the market. It is expected to be followed by Chronocort for adults – a larger market – which now has a clear pathway for regulatory approval in both Europe and the US. Despite this, the share price is still languishing well below valuations determined by peer group and DCF (344p) analyses, due possibly to the need for more capital during 2020.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	0.00	0.07	1.04	2.41	5.76	16.16
SG&A	-3.23	-6.21	-5.83	-5.75	-6.46	-7.81
R&D	-8.34	-10.02	-8.69	-4.80	-5.04	-5.29
EBITDA	-12.07	-16.97	-14.50	-9.42	-7.33	0.60
Underlying EBIT	-12.08	-16.98	-14.53	-9.45	-7.35	0.58
Statutory EBIT	-12.08	-16.98	-14.53	-9.45	-7.35	0.58
Underlying PBT	-12.16	-17.11	-14.40	-9.40	-7.29	0.59
Statutory PBT	-12.16	-16.91	-14.40	-9.40	-7.29	0.59
Underlying EPS (p)	-18.04	-27.16	-14.54	-9.27	-5.05	1.32
Statutory EPS (p)	-18.04	-26.78	-19.70	-9.27	-5.05	1.32
Net (debt)/cash	16.37	17.28	9.15	10.65	1.77	1.21
Equity issues	0.05	13.40	5.53	9.40	0.00	0.00

Source: Hardman & Co Life Sciences Research

Support Services



Source: Refinitiv

Market data

EPIC/TKR	FLTA
Price (p)	159
12m High (p)	245
12m Low (p)	127
Shares (m)	29
Mkt Cap (£m)	46
EV (£m)	46
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.filtapl.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

Jason Streets	020 7194 7622
	js@hardmanandco.com

FILTA GROUP

Back on track

Filta announced in February that it expects to report revenue of ca.£25m and EBITDA of ca.£3.2m for FY19, largely in line with our revised forecasts. The Watbio business is responding to new management and investment and cost savings of £100,000 per month should be achieved in 2020. The US and Europe continue to perform well. After this brief hiatus, Filta appears to be back on track.

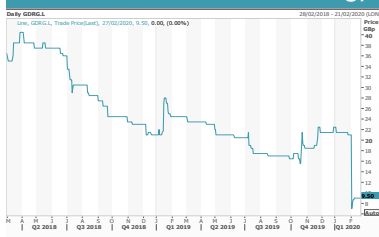
- **Strategy:** Filta provides a professional service, via franchisees, to kitchens to filter their cooking oil – improving taste and saving money. Grease emanating from commercial kitchens also causes problems, and needs managing. There is scope for Filta to become the major player in the UK grease management business.
- **Outlook:** In November last year, we cut our FY19E EBITDA from £4.2m to £3.3m, and left FY20E unchanged. The update is reassuring that problems related to initial integration only and nothing more substantive. We still think the prospects for the business are very attractive.
- **Valuation:** Filta has no directly comparable companies. We have used a DCF to derive a value range of 217p to 283p per share, using a 10% discount rate and a mid-term (2021-25) growth rate of between 6% and 12%. Our central estimate is 260p. No account is taken of future added-value acquisitions.
- **Risks:** 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	25,100	27,500
EBITDA	594	1,193	2,116	2,642	3,200	5,250
Underlying EBIT	450	1,011	2,059	1,941	1,230	3,300
Reported EBIT	450	(249)	1,699	1,782	880	3,300
Underlying PTP	376	932	1,968	1,900	930	3,100
Statutory PTP	376	(329)	1,608	1,742	580	3,100
Underlying EPS (p)	1.39	3.66	5.05	5.39	0.98	8.11
Statutory EPS (p)	1.39	-1.51	3.85	4.88	-0.20	8.11
Net (debt)/cash	-619	3,271	2,992	2,040	400	2,748
Shares issued (m)	22	23	27	29	29	29
P/E (x)	114.5	43.4	31.5	29.5	162.5	19.6
EV/EBITDA (x)	59.3	27.5	19.1	16.6	14.3	8.3

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	GDR
Price (p)	9.0
12m High (p)	26.0
12m Low (p)	6.3
Shares (m)	34.9
Mkt Cap (£m)	3.1
EV (£m)	8.9
Free Float*	54%
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	1.8%
Calculus	18.9%
Spreadex	12.6%
BGF	12.5%
Odey	5.4%
River & Merc.	5.2%

Diary (calendar year)

2H'20	WHO decision on HCV-ID pre-qualification
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Analysts

Martin Hall	020 7194 7631	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

GENEDRIVE PLC

Western market progress, but developing markets difficult

Genedrive plc (GDR) is a commercial-stage biotech focused on point-of-care molecular diagnostics. Its Genedrive® molecular diagnostic platform offers low-cost, simple-to-use devices for highly sensitive and specific testing. The 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, with its hepatitis C virus (HCV) and biothreat assays already on the market. The HCV diagnostics market is proving challenging due to a lack of access to HCV drugs, but biothreat revenue should support GDR in fiscal 2020.

- **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, biothreat pathogen detection and Antibiotic-Induced Hearing Loss (AIHL).
- **Interims:** Ongoing challenges with commercialisation of the HCV-ID kit and delays in delivering orders to the Department of Defense (DoD) have combined with expiry of grant-funded programmes to deliver group sales of £0.6m (£1.5m) in 1H'20. Product sales were ca.£0.33m (£0.78m), the majority from the DoD.
- **Operational progress:** Regulatory approval for HCV-ID was achieved in India at the end of 1H'20; however, although the WHO pre-qualification assessment is still ongoing, expected completion is now further delayed. Crucially, the DoD increased its framework contract for pathogen detection by \$2.0m/£1.5m.
- **Risks:** The Genedrive platform has been validated by CE marking of the HCV-ID and RNR1 kits, 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.
- **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. The next 12 months will be indicative of GDR's ability to deliver traction across two assays.

Financial summary and valuation

Year-end Jun (£000)	2017	2018	2019	2020E	2021E	2022E
Group sales	5,785	1,938	2,362	2,741	4,455	8,346
Underlying EBIT	-4,913	-5,264	-4,449	-3,172	-1,783	216
Reported EBIT	-7,292	-7,375	-4,010	-3,172	-1,783	216
Underlying PBT	-5,417	-5,782	-5,002	-4,958	-2,830	-605
Statutory PBT	-7,487	-7,788	-4,518	-4,677	-2,830	-605
Underlying EPS (p)	-23.6	-26.9	-15.8	-12.0	-6.2	-0.2
Statutory EPS (p)	-34.9	-31.9	-14.0	-11.2	-6.2	-0.2
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-70	-2,096	-3,334	-5,834	-6,931	-5,479
Capital increases	6,023	0	3,243	78	45	0
P/E (x)	-0.4	-0.3	-0.6	-0.8	-1.5	-56.8
EV/sales (x)	1.5	4.6	3.8	3.3	2.0	1.1

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	NSF
Price (p)	30.8
12m High (p)	65.0
12m Low (p)	16.9
Shares (m)	312.0
Mkt Cap (£m)	96
EV (£m)	348
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 20 386 99026
	www.nonstandardfinance.com

Key shareholders

Alchemy	29.95%
Aberforth Partners	17.64%
Marathon Asset Mgt.	11.24%

Diary

Apr'20	FY'19 results
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Analyst

Mark Thomas	020 7194 7622
	mt@hardmanandco.com

NON-STANDARD FINANCE

Results due in April

In our 17 January note, *Sunshine after the rain*, we noted: "The focus for the next few years is on relatively modest investment and on driving return on assets towards our medium-term target of 20% for each division." So said John van Kuffeler at the *capital markets day*. The accompanying *trading statement* indicated 2019 results would be in line with market expectations. Following Amigo's 27 January *statement*, effectively putting itself up for sale, there was a slight weakness in the NSF share price (as for Provident Financial), as we believe investors looked to them both as possible buyers. The shares have subsequently recovered this loss. The 5.0x 2020E P/E looks anomalous with the consensus growth forecasts.

- **Trading update:** The branch-based lending business's (ELL) net loan book grew 17% and the guarantor loan division's (GLD) book by 29% vs. end-2018. Home Collect Credit (HCC) saw a small decline. Impairments were 22.4% of revenue in ELL, 22.6% in GLD and 27% in HCC. Progress has been made on cheaper funding.
- **Peer news:** On *18 February*, Amigo announced it had several interested parties with whom it had entered discussions. Amigo's 27 February results will be reviewed in our April Monthly. There has been no news from MCL this month. The FCA, as expected, fined *PFG's Moneybarn* (redress was completed in 3Q'19).
- **Valuation:** Our absolute approaches now indicate a range of 79p-85p. On the current price, the 2020E P/E is 5.0x, for a business whose provisioning already reflects a significant downside scenario. The covered yield is double-digit. Our EPS forecast is slightly above consensus (2020 consensus P/E 5.5x).
- **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 has committed debt funding until 2023 and expects to secure a new multi-year securitisation facility shortly; iii) macro drivers are positive; and iv) NSF has a highly experienced management team, delivering operational efficiency without compromising the key F2F model. Investors are paying 5.0x current-year estimated earnings and getting a dividend yield of 10.1%, driven, we believe, by the sentiment issues above.

Financial summary and valuation

Year-end Dec (£000)	2017	2018	2019E*	2020E*	2021E*
Reported revenue	121,682	168,128	184,249	205,651	227,785
Total impairments	-28,795	-42,688	-45,658	-52,408	-56,400
Total costs	-69,203	-89,564	-95,000	-99,726	-107,743
EBITDA	23,684	35,876	43,590	53,516	63,642
Adjusted PBT	13,203	14,769	15,878	23,391	29,941
Statutory PBT	-13,021	-1,590	-19,779	20,262	28,410
Pro-forma EPS (p)	3.44	3.70	4.12	6.18	7.95
DPS (p)	2.20	2.60	3.00	3.10	3.95
P/E (adjusted, x)	9.0	8.3	7.5	5.0	3.9
P/BV (x)	0.4	0.5	0.5	0.5	0.5
P/tangible book (x)	1.3	1.7	2.1	1.7	1.3
Dividend yield	7.1%	8.4%	9.7%	10.1%	12.8%

* IFRS9 basis; Source: Hardman & Co Research



Market data

EPIC/TKR	PCA
Price (p)	320
12m High (p)	350
12m Low (p)	270
Shares (m)	45.9
Mkt Cap (£m)	147
EV (£m)	244
Market	Main, LSE

Description

Palace Capital is a real estate investor, diversified by sector (office, industrial predominate) and location, but not present 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%
Mitton	7.4%
J.O. Hambro	7.3%
Stanley Davis (Chairman)	3.6%

Diary

Jun'20	Final results
Aug'20	AGM

Analyst

Mike Foster 020 7194 7633
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PALACE CAPITAL

Palace Capital's successful regional and sector bias

Palace Capital has announced a pre-let agreement with solicitors' firm Knights LLP at the prestigious mixed-use development underway at Hudson Quarter, York setting a record office rent for the city of York. The sales launch was in the summer, and apartment sales are ahead of budget. Trading in a number of the REIT's assets is going well. Most of Palace Capital's top-10 investment assets are located in the north of England, with office developments in central Newcastle, Manchester and Liverpool. With or without external market assistance, all these are strongly placed in the short and medium term, as is the very large majority of the REIT's assets.

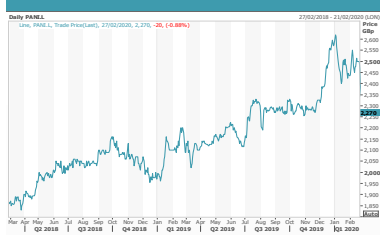
- **The north of England:** Palace Capital is a REIT that excludes central London from its investment universe and has a bias – not exclusively – towards the north of England. This is not a short-term cyclical play; it is the result of management seeking prospective fundamental revaluations, on a strategic basis.
- **More good positioning:** Strategically, Palace Capital also holds ca.50% of its assets in (non-London) city-centre offices. Exposure to pure retail is virtually nil. It is noteworthy that the REIT is undertaking a measured amount of development work, designed to underpin NAV growth.
- **Non-executive director:** Paula Dillion was appointed on 3 February. The Chairman highlights her "close understanding of the regional economy and issues across transport, planning policy, skills and technology will complement the existing Board and we look forward to working with her."
- **A track record of outperformance:** Portfolio occupancy is 86%, with the voids predominantly being "tactical vacancies as we progress our value enhancing capex strategy." This is important: some income is sacrificed to optimise overall NAV returns.
- **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 FY22E, with the completion of Hudson Quarter, central York. Retail exposure (bar Wickes and Booker) is minimal. Hudson Quarter selling well means earlier reduction in development capital debt exposure. We have upgraded here.

Financial summary and valuation

Year-end Mar (£m)	FY17	FY18	FY19	FY20E	FY21E
Net income	12.2	14.9	16.4	19.0	16.4
Finance cost	-3.0	-3.4	-4.6	-4.0	-4.0
Declared profit	12.6	13.3	6.4	3.6	20.2
EPRA PBT	6.4	7.5	8.6	11.0	8.2
EPS reported (diluted, p)	36.5	35.8	11.3	25.4	33.3
EPRA EPS (p)	21.2	18.7	16.5	7.1	44.1
DPS (p)	18.5	19.0	19.0	19.0	19.0
Net cash/debt	-68.6	-82.4	-96.5	-108.6	-84.8
Dividend yield	5.4%	5.5%	5.5%	5.5%	5.5%
Price/EPRA NAV	72.2%	77.1%	78.7%	80.6%	75.6%
EPRA NAV (p)	443.0	414.8	406.6	396.8	423.0
LTV	37.3%	29.9%	33.8%	37.2%	30.2%

Source: Hardman & Co Research

Closed-Ended Investments Funds



Source: Refinitiv

Market data

EPIC/TKR	PIP
Price (p)	2,280
12m High (p)	2,620
12m Low (p)	1,975
Shares (m)	54,089
Mkt Cap (£m)	1,333
NAV p/sh. (p)	2,768.7
Discount to NAV	18%
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	Helen Steers
Contact	Vicki Bradley
	+44 20 3356 1800
	www.piplc.com

Key shareholders (31 May'19)

USS	8.2%
Merian	7.0%
Esperides SA SICAV- SIF	5.7%
East Riding of Yorkshire	4.7%
APG Asset Mgt.	4.4%
Investec Wealth	4.4%
Private Syndicate pty.	3.8%
Brewin Dolphin	3.4%

Diary

Mid-Mar Feb performance report

Analyst

Mark Thomas 020 7194 7622
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PANTHEON INTERNATIONAL

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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 \$47.1bn (as at 30 September 2019), and a team of 96 investment professionals globally (total staff 315 as at January 2020), 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, and our report, *History of value added to portfolio by holding Pantheon*, published on 26 November 2019, can be found on the same site.



Market data

EPIC/TKR	PXC
Price (p)	9.50
12m High (p)	21.8
12m Low (p)	9.0
Shares (m)	55.07
Mkt Cap (£m)	5.23
EV (£m)	5.13
Free Float*	84.30%
Market	AIM

*As defined by AIM Rule 26

Description

Phoenix Copper (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	14.87%
JIM Nominees	11.67%
Directors & mgt.	10.20%
Lynchwood Nominees Ltd	6.37%

Diary

May'20	Final results
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Analyst

Paul Mylchreest	020 7194 7622
pm@hardmanandco.com	

PHOENIX COPPER LTD

Developing a potentially world-class copper mine

PXC continues to advance its strategy for the staged development of the potentially world-class polymetallic mine in mining-friendly Idaho, US. In a change to planned mine scheduling, the initial Red Star silver-lead-zinc mine will provide cashflow to develop the Empire near surface copper (oxide ore) mine and explore the much larger sulphide ore body at depth. Only ca.1% of the deposit has been explored so far. Our current estimated DCF valuation of 32p/share is based on the initial copper mine only as we evaluate Red Star.

- **Strategy:** PXC focuses on near-term cashflow, and will maximise returns/minimise risk to shareholders by developing a potentially world-class copper-silver-zinc deposit in stages. Empire was formerly a (very) high grade underground copper mine, shut down due to World War II.
- **Recent announcements:** The 2019 interim results were noteworthy for the success in maintaining cost control as the Empire project advances. The \$0.67m net loss for the period was marginally lower than the \$0.68m reported in 1H'18. The completion of the environmental study was positive for mine permitting.
- **Red Star update:** The Red Star mine development is being fast-tracked, with production possible by end-2021. This year's drilling programme will see a further 25 drill holes to upgrade/enlarge the existing resource. The initial three holes led to an inferred resource of 103,500 tonnes of ore and 0.58m oz. of silver.
- **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:** While we evaluate Red Star, which will be the subject of an upcoming report, our DCF valuation of 32p/share is based on the initial copper mine. This incorporates 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)	160
12m High (p)	161
12m Low (p)	115
Shares (m)	1,220
Mkt Cap (£m)	1,950
EV (£m)	3,042
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

Apr'20	AGM
Jul'20	Interim results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PRIMARY HEALTH PROPERTIES

Final results show accelerating rental growth

2019 results were announced on 12 February. 90% of PHP's income is backed by the UK or RoI governments. Occupancy consistently exceeds 99%. We are confident investors will still seek out REITs with a strong focus on categories that provide security of rising income. PHP's DPS growth rate is accelerating, in contrast to the wider real estate market. 2019's complementary MedicX merger was transformational, driving improvements that continue strongly in the short term, as well as being strategically beneficial. PHP has reduced costs of borrowing and overhead ratios, benefiting 2019, but also affecting 2020 and 2021 onwards.

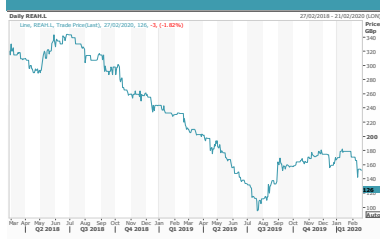
- **2019 sees step jump expansion:** There is a strong acquisition pipeline of £160m, including £44m in legals, with £356m undrawn bank facilities plus cash. Rental growth, which accelerated to 1.9% from 1.4%, and PHP's 24 years of unbroken dividend growth, highlight the REIT bears some similarity to index-linked gilts.
- **2019's good financial results:** The 3.7% dividend rise was above the prior year's 2.8%. 1Q'20 rose 5.4%. This was driven by the MedicX merger in 1Q'19, rental growth and lower cost of finance. Cost ratios are highly efficient. Administrative costs are captured in the EPRA cost ratio, which, at 12.0%, is the lowest in the UK.
- **Valuation:** The rating has risen, with a positive reaction to strategy execution. The MedicX merger was one of several factors driving raised DPS growth visibility. We note rent inflation and successful treasury management (blended new debt cost is 2.5%). Strong expansion in RoI raises blended returns.
- **Risks:** No development risk is taken. Investment is focused tightly on this one sector. Assets are rented to top-quality covenant tenants on long leases. Interest cover is 2.7x, and the average unexpired lease length is 12.8 years. We estimate a 46.8% end-2020 loan to value (LTV).
- **Investment summary: the rental trend is important.** Rents have seen modest growth in recent years, but are now set to move significantly ahead of UK real estate average rent inflation. Rental growth in the year drove the majority of the NAV uplift of £50m. There was a modest yield compression in RoI, which comprises 7% of the portfolio, and is growing. 1Q'20 dividends are fully covered.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E
Income	71.3	76.4	115.7	134.0	143.0
Finance costs	-31.6	-29.7	-43.7	-46.5	-48.8
Declared profit	91.9	74.3	-70.2	112.4	133.7
EPRA PBT	31.0	36.8	59.7	72.4	78.7
EPS reported (p)	15.3	10.5	-6.4	9.2	10.9
EPRA EPS (diluted, p)	5.1	5.2	5.4	5.9	6.4
DPS (p)	5.25	5.40	5.60	5.90	6.12
Net debt	-726.6	-670.2	-1,120.8	-1,249.3	-1,382.9
Dividend yield	3.3%	3.4%	3.5%	3.7%	3.8%
Price/EPRA NAV (x)	1.59	1.52	1.48	1.45	1.39
IFRS NAV per share (p)	94.7	102.6	101.0	103.7	108.7
EPRA NAV per share (p)	100.7	105.1	107.9	110.3	115.3

EPRA EPS and EPRA NAV adjusted as per PHP definition
 Source: Hardman & Co Research

Food Producers



Source: Refinitiv

Market data

EPIC/TKR	RE.
Price (p)	152.5
12m High (p)	218.0
12m Low (p)	90.0
Shares Ord (m)	43.8
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	66.8
Mkt Cap Prefs (£m)	64.4
EV (£m)	387.5
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 Pensionsfonds	9.3%
Aberforth Partners	6.7%
Capital Research Global Investors	4.9%
Artemis	4.6%

Diary

Apr'20	Full-year results
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Analyst

Yingheng Chen	020 7194 7638
	yc@hardmanandco.com

R.E.A. Holdings

Trading update

REA's latest trading update reported full-year FFB production of 800,666mt, a marginal increase from the prior year. CPO production reached 224,856mt, up 3.3% YoY. The slowdown in FFB production was experienced widely by the sector, as the oil palm trees entered a resting phase, following a highly productive year in 2018. An improved oil extraction rate (OER) of 23% (22.5%) reflected the upgrade and repair works in the mill during FY'19. REA expects the OER to improve further in FY'20, as the work in the group's mills continues, and the planned expansion to be completed later this year.

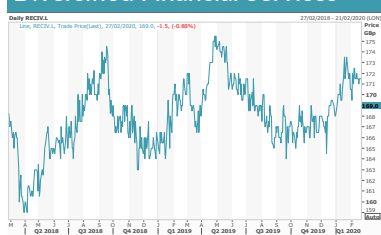
- **Commodity prices:** CPO averaged \$563/mt for 2019, vs. FY'18's \$596/mt. Commodity prices recovered steadily during 4Q'19 (\$860/mt end-December). However, prices have seen a sharp reduction in the past five weeks, due primarily to the reduction in imports from China, affected by the coronavirus epidemic.
- **Coal operations:** In September 2019, REA announced the appointment of a contractor to mine its coal concession in Kota Bangun. The contractor has recently completed further drilling to confirm existing mining data and is developing a mine plan. REA expects mining to commence in 2H'20.
- **Financing and sterling notes:** REA has resumed discussions with banks regarding an additional loan to refinance the recent capex on its mills, as well as discussions regarding the conversion of some of its rupiah loans to US\$ loans. The group is also working on refinancing its £30.9m 2020 sterling notes.
- **Preference share dividend expected to resume in 2020:** The management team intends to resume payment of cash dividends on the group's preference shares in 2020. REA is also planning to progressively catch up on the deferred preference share dividends, with a 1% per share dividend planned for the end of March 2020.
- **Summary:** 2019 was not an easy year for oil palm operators, with continued low commodity prices, and palms entering a resting phase in some producing regions. Despite a slow start to 2020, affected by a temporary slowdown in imports from India and China, we expect CPO prices to increase due to pent-up demand. REA will be announcing its FY'19 results in the second half of April.

Financial summary and valuation

Year-end Dec (\$m)	2016	2017	2018	2019E	2020E
Sales	79.3	100.2	105.5		
EBITDA	16.8	20.7	12.8		
Reported EBIT	-5.0	-2.2	-10.7		
Adjusted PBT	-18.4	-18.3	-20.3	Forecasts	Forecasts
EPS (c)	-48.2	-67.7	-54.4	under	under
DPS (p)	0.0	0.0	0.0	review	review
Net (debt)/cash	-205.1	-211.7	-189.6		
P/E (x)	-	-	-		
Total planted hectare (ha)	42,846	44,094	36,500	36,700	
Adj. EV/planted ha (\$/ha)*	8,014	7,772	9,166	9,021	
CPO production (mt)	127,697	143,916	217,721	224,856	

*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)	168.5
12m High (p)	175.5
12m Low (p)	163.5
Shares (m)	229.3
Mkt Cap (£m)	393
NAV p/sh. (p)	166.0
Prem. to NAV	3.3%
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

Bank Leumi	8.6%
AXA SA	8.4%
Close Bros	8.2%
Premier AM	8.2%
Fidelity	8.0%
Canaccord Genuity Group	7.7%
Smith and Williamson	6.7%

Diary

Early Mar'20	Feb factsheet
Jun'20	Year-end Mar results

Analysts

Mark Thomas	020 7194 7622
	mt@hardmanandco.com
Mike Foster	020 7194 7622
	mf@hardmanandco.com

REAL ESTATE CREDIT INVESTMENTS

THE MATERIALS CONTAINED HEREIN MAY NOT BE DISTRIBUTED, FORWARDED, TRANSMITTED OR OTHERWISE MADE AVAILABLE, AND THEIR CONTENTS MAY NOT BE DISCLOSED, TO ANY US PERSON OR IN, INTO OR FROM THE UNITED STATES, AUSTRALIA, CANADA, JAPAN, SOUTH AFRICA OR IN, INTO OR FROM ANY OTHER JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OR REGULATIONS OF SUCH JURISDICTION.

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.

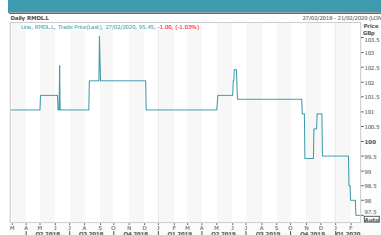
Investments may take different forms, but are likely to be:

- ▶ 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](http://HardmanandCoResearch). Our initiation report, published on 28 August, and our note, [Delivering on its promises](http://Deliveringonitspromises), published on 17 December, can be found on the same site.

Premium Equity Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	RMDL/RMDZ
Price (p)	97.5/105.5
12m RMDL (ord.) High (p)	103.0
12m RMDL (ord.) Low (p)	97.5
Shares Ord. (m)	122.24
Mkt Cap (£m)	131
NAV per share (p)	98.3
Free Float	100%
Market	LSE Equity Inv. Instr.

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) +44 131 603 7060

rmdl.co.uk

Key shareholders

CCLA	17%
Quilter	16%
MerianGlobal	13%
Brooks MacDonald & Hawksmoor	5%
CG AM & Jupiter	4%
Sarasin, Charles Taylor, PAM, Seneca & Blankstone Sington	3%
RM (Inv. Mgr.)	1%

Diary

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: Predictable revenue streams generating high yield*, published on 5 June 2019, and our reports, *Defensive qualities in uncertain times* (26 September 2019) and *Social Infrastructure: RMDL an alternative alternative* (6 January 2020), can be found on the same site.

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	STX
Price (p)	153.0
12m High (p)	202.0
12m Low (p)	54.0
Shares (m)	117.2
Mkt Cap (£m)	179.3
EV (£m)	175.3
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	8.9%
W. Health	47.8%
MaRu AG	10.7%
C. Schweiger	4.8%
USS	4.4%
R. Griffiths	4.0%

Diary

1H'20	US Accrufer deal
2Q'20	Paediatric study to start
Apr'20	FY'19 results
Mid-2020	Accrufer launch

Analysts

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SHIELD THERAPEUTICS

Good demand for Feraccru in Europe

STX is a commercial-stage company delivering specialty products that address patients' unmet medical needs, with an initial focus on treating iron deficiency (ID) with ferric maltol. Recent news that the FDA had approved this drug for a broad indication opened up a market in the US currently worth over \$1bn p.a. – a US partnership deal is expected in 2020. A 2019 trading update showed STX's performance to be in line with expectations, with £0.6m in sales-related revenue from Norgine's sales of Feraccru in Europe and £2.3m in milestones. STX's cash runway extends into 2021, in the absence of a US deal.

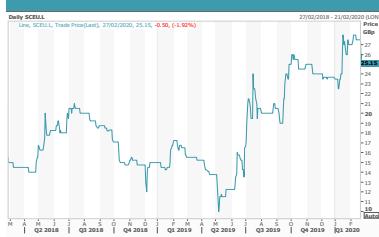
- **Strategy:** STX's strategy is to out-license the commercial rights to its products to partners with marketing and distribution expertise in target markets. These deals allow STX to retain its intellectual property (IP) and to keep investing in its R&D pipeline, while benefiting from immediate and long-term value.
- **Trading update:** Partner sales of Feraccru in European markets were in line with expectations, giving gross revenues of £2.9m. 2H'19 sales volumes were 28% higher than in 1H. The gross cash position, at £4.1m, was lower than forecast, due to a combination of working capital, lower tax rebates and capitalised R&D.
- **China deal:** The novel iron replacement therapy, Feraccru/Accrufer, has been exclusively licensed to ASK Pharm for development and commercialisation in China. This paves the way to a large and growing market for iron replacement products, and strengthens STX's hand in ongoing negotiations with potential US partners.
- **Risks:** All drug companies carry development risk. However, the clinical risk with STX is limited because of Feraccru/Accrufer's clinical profile and existing marketing approvals. The main risks are achieving an appropriate partnering deal in the US and executing on commercialisation strategy to capture market share.
- **Investment summary:** The FDA approval and pending launch of Accrufer reinforce our view that STX is at an exciting juncture. It has delivered on all the goals set at the time of its IPO in 2016. Feraccru/Accrufer has been validated by EU and US regulatory approvals, 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, represents 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	11.07	3.14
Sales	0.64	0.86	0.63	2.15	3.14
R&D	-4.71	-4.30	-3.31	-4.64	-3.89
Other income	0.00	11.03	2.30	8.92	0.00
EBITDA	-18.48	-2.47	-5.45	-0.28	-8.68
Underlying EBIT	-18.90	-3.26	-6.25	-1.07	-9.47
Reported EBIT	-20.95	-5.17	-8.15	-2.97	-11.38
Underlying PBT	-18.91	-3.26	-6.24	-1.10	-9.52
Statutory PBT	-20.99	-5.16	-8.14	-3.00	-11.42
Underlying EPS (p)	-15.58	0.09	-4.49	-0.34	-7.62
Statutory EPS (p)	-17.43	-1.55	-6.12	-1.97	-9.25
Net (debt)/cash	13.30	9.63	3.96	5.35	-1.92

Source: Hardman & Co Life Sciences Research

Automotive



Source: Refinitiv

Market data

EPIC/TKR	SCE
Price (p)	28
12m High (p)	28
12m Low (p)	12
Shares (m)	136
Mkt Cap (£m)	38.0
EV (£m)	37.2
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
	+ 44 151 356 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

28 Feb	Report for seven months to Nov'19
30 Mar	Year-end Dec'19
Jun'20	AGM

Analyst

Mike Foster	020 7194 7633
	mf@hardmanandco.com

SURFACE TRANSFORMS

Results anticipated with interest

ST's trading base is secured by several orders, typically of three or so years' duration. These are with European-based, global original equipment manufacturers (OEMs). There is also a retrofit baseload. Orders won in summer 2019 were transformational in ST's development, taking it to cashflow generation. More importantly, though, the OEMs have strong scope to place much larger orders within our forecasting timeframes. Order book building has been good in 2019 and we see this as just the start of the journey. Note the recent year-end change, hence two sets of results in the coming month.

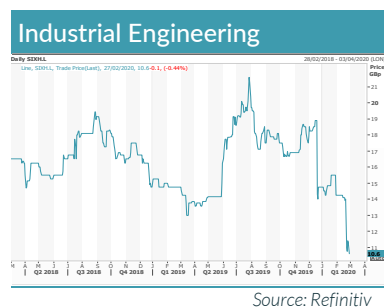
- **Major orders achieved and more to come:** As per the 10 January update: "the Company still expects to be able to make significant contract announcements during the new 2020 financial year." The market is £100m and set to grow ca.20-fold, with ST one of only two manufacturers.
- **Major orders won last year:** OEM 6 contract award on 28 June 2019 – two contracts, ca.£8m, over the next five years; OEM 5 award on 16 July 2019 – lifetime revenue contracted at ca. €11.8m, commencing in October 2021. Note that other, 'near OEM' orders were secured in 2019.
- **Capacity allocation model:** ST's capacity-in-place is £17m sales p.a. The production process, while extremely complex, is entirely repeatable; expansion would consist of adding more of exactly the same bespoke kit as that being used already. There will be ongoing scope to adjust efficiencies.
- **Evolution of risks:** ST is set to be cashflow-positive by 2021. It is the right side of high barriers to new competition in a high-growth market with only one competitor. The product requires a delicate marriage of manufacturing and chemical engineering skills. ST's high R&D spend has secured this.
- **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. Last year's June/July contract wins de-risk the business, and both open and expand the target market. The path to ST's discs being designed into many more models is clear.

Financial summary and valuation

Year-end May*/ Dec** (£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	0.77	1.40	1.90	3.20
P/E (x)	loss	n/a	loss	loss	45.2
EV/sales (x)	37.2	n/a	11.0	8.8	6.0
EV/EBITDA (x)	loss	n/a	loss	loss	35.0
DPS (p)	nil	nil	nil	nil	nil

*May year-end; **the company has announced its change of year-end to December

Source: Hardman & Co Research

**Market data**

EPIC/TKR	SIXH
Price (p)	11.0
12m High (p)	21.9
12m Low (p)	10.2
Shares (m)	117.1
Mkt Cap (£m)	12.9
EV (£m)	24.1
Free Float*	72.1%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

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

Key shareholders

Haddeo Partners	20.0%
Mr A Perloff and Maland	9.0%
Mr T Miller	3.8%
Miton Group	3.3%
Others	63.9%

Diary

Apr'20	Final results
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Analyst

Paul Singer	020 7194 7622
	ps@hardmanandco.com

THE 600 GROUP

Continued near-term trading difficulties

Trading difficulties continue in the near term with 4Q order intake significantly below previously predicted levels. The 600 Group remains well placed fundamentally and competitively, with a world-class reputation and its financial position recently strengthened. The shares, however, are likely to tread water in the near term, despite standing at a discount to the peer group and to a DCF valuation.

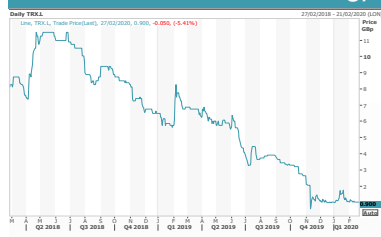
- **Trading update:** The latest trading update reveals further weakening in activity with volatile order intake across both business areas and projects being delayed into the next financial year. The group has also faced shipping disruption in the Far East pushing sales into the next financial year. UK trading is seeing good progress.
- **Financial forecasts:** Consequently, earnings forecasts for 2019/20 and 2020/21 have been reduced by a further ca.50% and ca.30%, respectively, with increased net debt level expectations offset by proceeds (\$0.5m) from the forthcoming sale of the Gamet site in the UK, part of the group's UK rationalisation programme.
- **Strategy:** The strategic objective is to grow the business into a global industrial concern. The recent US acquisition of CMS significantly strengthens the competitive position of the group's TYKMA industrial laser systems subsidiary, being complementary and adding significant engineering expertise.
- **Competitive position:** The 600 Group is regarded as well positioned within highly competitive industries. The group has undertaken a UK restructuring programme to reduce capex requirements and further improve margins. Opportunities are also available for operational and distribution synergy benefits.
- **Investment summary:** The shares offer the opportunity to invest in a de-risked cyclical stock with good operational leverage, enhanced by new product launches and new market entry. Cyclicalities has been de-risked through further development of high-margin repeat/recurring business. The risk/reward profile is favourable, but the shares are likely to tread water until improvements in the weak markets become visible.

Financial summary and valuation

Year-end Mar (\$m)	2018	2019	2020E	2021E
Sales	63.9	65.2	63.3	67.1
Gross profit	21.6	23.6	24.4	27.5
Underlying EBIT	1.8	5.2	2.6	3.5
Underlying PTP	0.6	4.0	1.2	2.3
Underlying EPS (c)	1.0	3.5	0.9	1.8
Statutory EPS (c)	1.5	3.5	0.9	1.8
Net (debt)/cash	-15.6	-14.5	-17.9	-16.4
DPS (p)	0.50	1.00	1.00	1.00
P/E (x)	25.1	7.2	15.2	8.0
Yield	2.5%	5.0%	9.1%	9.1%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	TRX
Price (p)	0.98
12m High (p)	7.25
12m Low (p)	0.45
Shares (m)	1,172.0
Mkt Cap (£m)	11.5
EV (£m)	12.2
Free Float*	52%
Market	AIM

*As defined by AIM Rule 26

Description

Tissue Regenix (TRX) is a medical device company focused on regenerative medicine. Patented decellularisation technologies remove DNA, cells and other material from animal/human tissue and bone, leaving scaffolds that can be used to repair diseased or worn-out body parts. Its products have multiple applications.

Company information

CEO (Interim)	Gareth Jones
Group Finance Director	Kirsten Lund
Chairman	John Samuel

+44 330 430 3052

www.tissueregenix.com

Key shareholders

Directors	4.3%
Link Fund Solutions	20.0%
IP Group	13.7%
Jupiter AM	8.5%

Diary

1Q'20	Potential EU approval of OrthoPure XT
Mar'20	Final results

Analysts

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

TISSUE REGENIX

Restructured to satisfy product demand

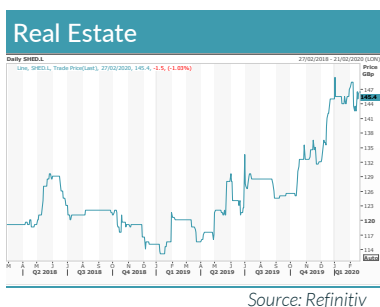
TRX has a broad portfolio of regenerative medicine products for the biosurgery, orthopaedics, dental and cardiac markets. It has two proprietary decellularisation technology platforms for repair of soft tissue (dCELL) and bone (BioRinse). Following the acquisition of CellRight in 2017, TRX revised its commercial strategy, to service the strong demand for its products. However, this necessitated capacity expansion and realignment of its supply chain, which affected 2019 trading and forced renegotiation of its MidCap loan arrangement. In our view, the current share price reflects TRX's need for a capital injection.

- **Strategy:** TRX is building an international regenerative medicine business with a product portfolio using proprietary dCELL and BioRinse technology platforms, underpinned by compelling clinical outcomes. It aims to expand its global distribution network, via strategic partnerships, to drive sales momentum.
- **Forecasts:** Sales forecasts have been revised to reflect the investment in new manufacturing capacity to satisfy demand. However, refinements in the commercial model, coupled with some cost savings, have limited the impact on operating losses. Gross cash at 31 December 2019 was £2.4m.
- **Expansion:** Extra staff were employed to enable two-shift manufacturing. However, training time, coupled with the natural business cycle, meant the tangible benefit of this only became apparent towards the year-end. Investment in an adjacent building in San Antonio will free up space for further clean rooms.
- **Risks:** Although demand for its products is very positive, the above has caused some challenges, notably reorganisation of the manufacturing facility – to the short-term detriment of BioSurgery sales. The current share price, in our opinion, is reflecting the urgent need for more capital.
- **Investment summary:** The strategy to focus on maximising sales potential has paid off through increased demand for products. However, this has resulted in the need for an expansion of capital. Two major shareholders have sold down their holdings recently, and the ex-Woodford holding has been temporarily transferred to Link Fund Solutions. The shares are trading at a discount of 87% to the £95.8m (8.2p per share) that has been invested in the company to date.

Financial summary and valuation

Year-end Dec (£m)	*2016	2017	2018	2019E	2020E	2021E
Sales	1.44	5.23	11.62	12.50	15.75	21.25
EBITDA	-11.14	-9.01	-7.09	-7.82	-3.90	0.01
Underlying EBIT	-11.44	-9.72	-8.27	-9.00	-5.11	-1.23
Reported EBIT	-11.44	-10.82	-8.69	-9.00	-5.11	-1.23
Underlying PBT	-11.33	-9.67	-8.46	-9.29	-5.96	-2.14
Statutory PBT	-11.33	-10.77	-8.88	-9.29	-5.96	-2.14
Underlying EPS (p)	-1.35	-0.90	-0.67	-0.76	-0.29	-0.08
Statutory EPS (p)	-1.35	-1.02	-0.70	-0.76	-0.29	-0.08
Net (debt)/cash	8.17	16.42	7.82	-0.72	-0.07	-6.73
Equity issues	0.00	37.99	0.00	0.00	9.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	2.3	1.1	1.0	0.8	0.6

*11 months to December; Source: Hardman & Co Life Sciences Research



Market data

EPIC/TKR	SHED
Price (p)	145
12m High (p)	145
12m Low (p)	113
Shares (m)	198
Mkt Cap (£m)	287
EV (£m)	189
Market	AIM

Description

Urban Logistics 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

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www.urbanlogisticsreit.com

Key shareholders

Directors	1.1%
Allianz	11.6%
Janus Henderson	10.7%
Rathbone I M	10.5%
Sir John Beckwith	8.0%
Premier	7.9%

Diary

May'20	Final results
Jul'20	AGM

Analyst

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URBAN LOGISTICS

Transformational expansion, with strong track record

Urban Logistics invests in “mid-box”, “last-stage” distribution warehouses. A fund raise was announced in February, aiming to raise £100m minimum. On 14 February, it was announced that £130m had been raised at 137.5p per share: 109.7m shares. Directors participated in the placing. A significant pipeline has been assembled, and investment of the new equity should be complete in under 12 months. The company has also declared a special dividend for the financial year ending 31 March 2020 (3.85p ex dividend 6 March). Even excluding this, the dividend increase at the interims was well ahead of most UK REITs – all very encouraging, and more to come.

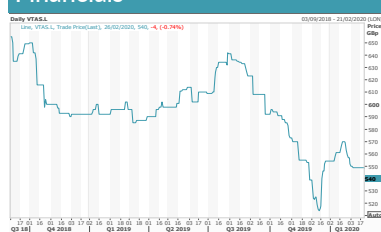
- **Acquisition pipeline:** The pipeline update, provided on 6 January 2020, indicates £146m assets in advanced stages of negotiation, with a similar amount for the medium term. The former comprises three portfolios, plus 12 individual assets, on a 6.8% net initial yield and average 7.8 year leases.
- **Growth strategy:** The management team has deep specialist knowledge, and has delivered strong, consistent returns as a result. To fund a potential pipeline, an equity fund raise is being considered. Liquidity (percentage of shares traded over a given period of time) tends to be enhanced by greater market capitalisation.
- **Valuation:** On a 5.7% dividend yield (2H'19 plus 1H'20), and with momentum behind earnings and NAV, and compared with other yields in the peer group, we consider the rating attractive. We contend there is insufficient appreciation of the investor benefits of this last-step logistics supply chain into growing conurbations.
- **Risks:** A 6.1-year (5.4 to tenant break option) WAULT (weighted average unexpired lease term) means reversionary rent rises are set to come, but also that new leases must be secured. In the past ca.20 years, aggregate rent rises have been minimal. Physical reduction in supply and strong demand mitigate risk.
- **Investment track record:** Urban Logistics owns a £195m warehouse portfolio. Since listing on the AIM in April 2016, it has generated annual NAV and dividend returns of 16.0%. The experienced management team has bought well. Market rents are ca.9% above the REIT's current levels, as evidenced by two recent reviews. Market vacancies are only ca.5%, and Urban Logistics' vacancy is nil.

Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019	2020E	2021E	2022E
Rental income	2.28	5.56	10.80	12.20	Review	
Finance costs	-0.60	-0.93	-2.20	-2.60	post	
EPRA operating profit	1.76	3.40	8.18	9.90	growth	
Declared profit	4.89	9.86	18.88	18.40	equity	
EPS reported (p)	46.80	19.54	22.12	20.97	raise	
EPRA EPS (dil., post LTIP, p)	7.82	4.91	7.01	8.32		
DPS (p)	6.23	6.32	7.00	11.65*		
Net debt	16.52	44.39	61.64	66.12		
Dividend yield	4.29%	4.36%	4.82%	5.27%**		
Price/EPRA NAV (x)	1.25	1.18	1.05	0.98		
NAV per share (p)	118.26	123.62	137.39	148.47		
EPRA NAV per share (p)	116.11	122.49	137.96	148.47		

*Includes 3.85p special. **Ordinary dividend yield; Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	VTA.NA, VTA.LN, VTAS LN
Price (€)	6.62/6.56/549p
12m High (€)	6.74/7.04/642p
12m Low (€)	6.04/6.14/515p
Shares (m)	36.6
Mkt Cap (€m)	242
Trail. 12-mth. yield	9.4%
Free Float	70%
Market	AEX, LSE

Description

Volta Finance (Volta) is a closed-ended, limited liability investment company with 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	Serge Demay
AXA IM Paris	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%
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Diary

Mid-Mar	Feb estimated NAV
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Analyst

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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, therefore, is excluded from the FCA's restrictions that apply to non-mainstream pooled investments (NMPs).

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 note, [Investment opportunities at this point of the cycle](#) (14 January 2019), the manager's [March 2019](#) and [June 2019](#) presentations, our 7 October 2019 report, [9%+ yield in uncertain times](#), and our note, [Follow the money](#), published on 3 February 2020, as well as links to our Directors Talk interviews on the company.

Notes

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