

Corporate

 Current price **42.5p**

 Sector **Engineering**

 Code **HDD**

 AIM **AIM**

Share Performance



| | 1m | 3m | 12m |
|------------|------|------|------|
| HDD | +39% | -31% | -18% |

Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **22.6**

 Shares in issue (m) **53.11**

| 52 weeks | High | Low |
|----------|-------------|-------------|
| | 75.5 | 16.3 |

 Financial year end **September**

Source: Company Data, Allenby Capital

Key Shareholders

| | |
|--------------------------|-------|
| R Boyce & Associates | 12.7% |
| Hargreave Hale AIM VCT | 10.9% |
| A Badenoch & Associates | 10.5% |
| Amati Global Investors | 8.5% |
| Unicorn Asset Management | 6.0% |

Source: Company Data, Allenby Capital

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Hardide Plc (HDD)

Solid results, capacity expansion on track

Against a backdrop of generally negative company announcements, Hardide bucked the trend by releasing solid interim results for the 6 months ended March 2020, noting limited impact to date from COVID-19 and a positive trading outlook. Furthermore, the all-important move to new facilities and corresponding capacity expansion is both on track and on budget. Several of Hardide's end markets will clearly be feeling the impact of COVID-19. However, we feel the importance of Hardide's technology to its customers by extending the useful life of components and its diversity of end markets across multiple sectors including oil & gas, aerospace, flow control, power generation and precision engineering is enabling it to weather the storm. We leave our forecasts unchanged and see potential for an upgrade should end markets maintain strength and H2 margins match those of H1.

- Solid H1 2020 results.** Revenues grew 29% yoy with particular strength in sales to flow control customers +49% yoy and into oil and gas +30% yoy. A stronger product mix enabled gross margins to increase to 55% from 45% in H1 2019, our FY margin forecast remains at 50% but we appreciate this could prove conservative. On a like for like basis, pre IFRS 16 adjustments, the EBITDA loss narrowed to £0.11m in H1 2020 from a loss of £0.44m in H1 2019.
- Move to new facility on track and on budget.** The Company's plan to expand reactor capacity from six to nine by the end of 2020 to meet increasing demand continues. The phased relocation to the new larger and modern UK facility remains on track for completion by end September 2020 with some staff having already relocated. Aerospace work continues at the original site until new site is fully approved by Airbus. The first new reactor has been installed and commissioned, the second larger reactor was delivered in April and transfer of the existing reactors started in May.
- Positive outlook statement.** As the impact of COVID-19 only really hit economies from mid-March onwards it is with relief that Hardide's outlook statement remains upbeat. The Company noted that H2 trading has started well and has not been significantly disrupted by effects of COVID-19 and both the UK & US sites continue to operate as normal (within the constraints of safety directives). Reassuringly, post period end, the first production order was received for Airbus A380 wing compression pads.
- Balance sheet strength, perfectly positioned.** The timely January 2020 £2.5m fundraise has placed the Company in an enviable position of being fully funded for the capacity expansion and also having sufficient working capital to protect against an economic slowdown. End March cash was £4.9m and we expect cash to remain comfortably above £2m post completion of the new site relocation.

Year End: September

| (£'000) | 2017 | 2018 | 2019 | 2020E | 2021E |
|---------------------------------|---------|---------|---------|---------|---------|
| REVENUE | 3,241 | 4,613 | 5,052 | 5,810 | 7,088 |
| REVENUE GROWTH | 51.3% | 42.3% | 9.5% | 15.0% | 22.0% |
| EBITDA | (735) | (301) | (627) | (345) | 286 |
| EBITDA MARGIN | -22.7% | -6.5% | -12.4% | -5.9% | 4.0% |
| PROFIT/(LOSS) BEFORE TAX | (1,235) | (913) | (1,190) | (981) | (359) |
| NET DEBT/(CASH) | (1,195) | (3,234) | (4,595) | (2,103) | (1,688) |
| EV/SALES (x) | 5.64 | 3.96 | 3.62 | 3.15 | 2.58 |

Allenby Capital acts as Joint Broker to Hardide Plc (HDD).

Please refer to the last page of this communication for all required disclosures and risk warnings.

FINANCIAL STATEMENTS

Income Statement - Year End September - £'000

| | Sep-17 | Sep-18 | Sep-19 | Sep-20e | Sep-21e | Comments |
|--|-----------|-----------|-----------|-----------|-----------|---|
| Revenue | 3,241.0 | 4,613.0 | 5,052.0 | 5,809.8 | 7,088.0 | |
| Growth | 51.3% | 42.3% | 9.5% | 15.0% | 22.0% | New UK facility and all three new reactors (2 UK, 1US) operational for FY 2021 |
| Cost of sales | (1,651.0) | (2,201.0) | (2,635.0) | (2,904.9) | (3,402.2) | |
| Gross profit | 1,590.0 | 2,412.0 | 2,417.0 | 2,904.9 | 3,685.7 | |
| Gross profit margin | 49.1% | 52.3% | 47.8% | 50.0% | 52.0% | Product mix driving margin expansion in 2020 |
| Administrative expenses | (2,325.0) | (2,711.0) | (3,037.0) | (3,250.0) | (3,400.0) | |
| as a % of sales | 71.7% | 58.8% | 60.1% | 55.9% | 48.0% | |
| Depreciation & Amortisation | (503.0) | (373.0) | (481.0) | (550.0) | (550.0) | |
| Exceptional item | - | (246.0) | (101.0) | - | - | |
| Operating profit/(loss) | (1,238.0) | (918.0) | (1,202.0) | (895.1) | (264.3) | |
| Finance income | 4.0 | 8.0 | 15.0 | 14.0 | 5.0 | |
| Finance costs | (1.0) | (3.0) | (3.0) | (100.0) | (100.0) | Increase from IFRS 16 - interest on lease liability |
| Profit/(loss) before tax | (1,235.0) | (913.0) | (1,190.0) | (981.1) | (359.3) | |
| Tax | 139.0 | 48.0 | 54.0 | 50.0 | 50.0 | |
| tax rate | 11.3% | 5.3% | 4.5% | 5.1% | 13.9% | |
| Net profit | (1,096.0) | (865.0) | (1,136.0) | (931.1) | (309.3) | |
| Earnings per share | | | | | | |
| Basic | (2.86) | (2.08) | (2.49) | (1.81) | (0.58) | |
| Diluted | (2.86) | (2.08) | (2.49) | (1.81) | (0.58) | |
| Wtd average number of shares (m) | 38.4 | 41.5 | 45.6 | 51.6 | 53.1 | |
| FX difference on translation of foreign operations | (42.0) | 47.0 | 50.0 | 50.0 | 50.0 | |
| Total comprehensive profit/(loss) for the year | (1,138.0) | (818.0) | (1,086.0) | (881.1) | (259.3) | |
| EBITDA (underlying) | (735.0) | (301.0) | (627.0) | (345.1) | 285.7 | Group EBITDA profitability expected FY 2021 |

Source: Allenby Capital, Company data

| Balance Sheet - Year End September - £'000 | | | | | | |
|--|----------------|----------------|----------------|-----------------|-----------------|--------------------------|
| | Sep-17 | Sep-18 | Sep-19 | Sep-20e | Sep-21e | Comments |
| Goodwill | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 | |
| Intangible assets | 1.0 | 25.0 | 30.0 | 30.0 | 30.0 | |
| Property, plant & equipment | 1,490.0 | 2,033.0 | 2,745.0 | 6,695.0 | 6,758.8 | |
| Right of Use Assets | - | - | - | 2,275.0 | 2,161.3 | IFRS 16 impact from 2020 |
| Non-current assets | 1,560.0 | 2,127.0 | 2,844.0 | 9,069.0 | 9,019.0 | |
| Inventories | 160.0 | 286.0 | 691.0 | 406.7 | 496.2 | |
| Trade & other receivables | 622.0 | 749.0 | 1,003.0 | 929.6 | 1,134.1 | |
| Other current financial assets | 242.0 | 265.0 | 277.0 | 277.0 | 277.0 | |
| Cash & cash equivalents | 1,212.0 | 3,302.0 | 4,809.0 | 2,699.6 | 2,285.3 | |
| Current assets | 2,236.0 | 4,602.0 | 6,780.0 | 4,312.9 | 4,192.5 | |
| Total assets | 3,796.0 | 6,729.0 | 9,624.0 | 13,381.9 | 13,211.5 | |
| Trade & other payables | 488.0 | 1,336.0 | 1,351.0 | 1,162.0 | 1,360.9 | |
| Financial liabilities - borrowings | 5.0 | 10.0 | 50.0 | 50.0 | 50.0 | |
| Financial liabilities - leases | - | - | - | 250.0 | 250.0 | IFRS 16 impact from 2020 |
| Provision for grant repayment | - | 246.0 | 260.0 | 166.0 | 166.0 | |
| Current liabilities | 493.0 | 1,592.0 | 1,661.0 | 1,628.0 | 1,826.9 | |
| Financial liabilities - borrowings | 12.0 | 58.0 | 164.0 | 547.0 | 547.0 | |
| Financial liabilities - leases | - | - | - | 1,952.0 | 1,852.0 | IFRS 16 impact from 2020 |
| Provision for onerous lease | - | - | 101.0 | 101.0 | 101.0 | |
| Non-current liabilities | 12.0 | 58.0 | 265.0 | 2,600.0 | 2,500.0 | |
| Total liabilities | 505.0 | 1,650.0 | 1,926.0 | 4,228.0 | 4,326.9 | |
| Net assets | 3,291.0 | 5,079.0 | 7,698.0 | 9,153.9 | 8,884.6 | |
| Share capital | 3,242.0 | 3,405.0 | 3,673.0 | 3,831.0 | 3,831.0 | |
| Share premium | 10,306.0 | 12,676.0 | 15,987.0 | 18,176.0 | 18,176.0 | |
| Retained earnings | (10,060.0) | (10,925.0) | (11,964.0) | (12,805.1) | (13,024.4) | |
| Share-based payments reserve | 235.0 | 308.0 | 274.0 | 274.0 | 274.0 | |
| Translation reserve | (432.0) | (385.0) | (272.0) | (322.0) | (372.0) | |
| | 3,291.0 | 5,079.0 | 7,698.0 | 9,153.9 | 8,884.6 | |
| Balance Sheet ratios | Sep-17 | Sep-18 | Sep-19 | Sep-20e | Sep-21e | |
| Short term debt | 5.0 | 10.0 | 50.0 | 50.0 | 50.0 | |
| Long term debt | 12.0 | 58.0 | 164.0 | 547.0 | 547.0 | |
| Gross debt | 17.0 | 68.0 | 214.0 | 597.0 | 597.0 | |
| Cash | 1,212.0 | 3,302.0 | 4,809.0 | 2,699.6 | 2,285.3 | |
| Net debt/(cash) | (1,195.0) | (3,234.0) | (4,595.0) | (2,102.6) | (1,688.3) | |

Source: Allenby Capital, Company data

Cashflow statement – Year End September - £'000

| | Sep-17 | Sep-18 | Sep-19 | Sep-20e | Sep-20e | Comments |
|--|------------------|----------------|------------------|------------------|----------------|---|
| Operating loss | (1,238.0) | (918.0) | (1,202.0) | (895.1) | (264.3) | |
| Impairment of intangibles | 1.0 | 2.0 | 7.0 | - | - | |
| Depreciation | 503.0 | 371.0 | 474.0 | 550.0 | 550.0 | |
| Share option charge | 51.0 | 73.0 | 62.0 | 40.0 | 40.0 | |
| (Increase) in inventories | (100.0) | (124.0) | (392.0) | 284.3 | (89.5) | |
| (Increase) in receivables | (91.0) | (149.0) | (266.0) | 73.4 | (204.5) | |
| Increase in payables | 78.0 | 793.0 | 73.0 | (189.0) | 198.9 | |
| Increase in provisions | - | 246.0 | 116.0 | - | - | |
| Cash generated from operations | (796.0) | 294.0 | (1,128.0) | (136.4) | 230.7 | |
| Finance income | 4.0 | 8.0 | 16.0 | 14.0 | 5.0 | |
| Finance costs | (1.0) | (3.0) | (3.0) | (100.0) | (100.0) | |
| Tax received | 207.0 | 93.0 | - | 50.0 | 50.0 | |
| Net cash generated from operating activities | (586.0) | 392.0 | (1,115.0) | (172.4) | 185.7 | |
| Purchase of property, plant and equipment | (152.0) | (887.0) | (1,106.0) | (4,500.0) | (500.0) | Assumed new UK facility (move, fit out and associated kit c. £3.0m), 3 new reactors c.£2.0m |
| Net cash used in investing activities | (152.0) | (887.0) | (1,106.0) | (4,500.0) | (500.0) | |
| Net proceeds from issue of ordinary share capital | - | 2,533.0 | 3,578.0 | 2,347.0 | - | |
| Finance lease repayment | (17.0) | (3.0) | - | - | - | |
| Loans raised | - | 55.0 | 139.0 | - | - | |
| Loans repaid | - | - | (27.0) | (19.0) | - | |
| Grant repaid | - | - | - | (94.0) | - | |
| Finance lease inception | - | - | - | 402.0 | - | |
| Lease principal repayments | - | - | - | (73.0) | (100.0) | |
| Net cash generated from financing activities | (17.0) | 2,585.0 | 3,690.0 | 2,563.0 | (100.0) | |
| Net increase /(decrease) in cash and cash equivalents | (755.0) | 2,090.0 | 1,507.0 | (2,109.4) | (414.3) | |
| Cash and cash equivalents at the beginning of the year | 1,967.0 | 1,212.0 | 3,302.0 | 4,809.0 | 2,699.6 | |
| cash and cash equivalents at the end of the year | 1,212.0 | 3,302.0 | 4,809.0 | 2,699.6 | 2,285.3 | |

Source: Allenby Capital, Company data

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