

Corporate

 Current price **35.5p**

 Sector **Engineering**

 Code **HDD**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **18.9**

 Shares in issue (m) **53.22**

52 weeks	High	Low
	66.0	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 completed

Hardide has announced preliminary results for the year ended September 2020 in line with prior guidance. Despite the headwinds of COVID-19 the Company has delivered resilient results with revenues down just 6% in the year. Furthermore, during 2020 Hardide completed a relocation to a new larger, more modern facility in the UK and expanded its reactor capacity from six to nine (two new reactors added in the UK and one new reactor added in the US). Of Hardide's end markets Oil & Gas has been impacted most by COVID-19 but other end markets such as Aerospace, flow control and precision engineering have remained relatively resilient. Uncertainty remains around end market demand until we move to a post COVID-19 world and this is represented in our cautious forecasts. However, the Company has a strong balance sheet (net cash of £2.2m at period end) which places it in a position of strength should we face continued COVID-19 induced weakness through 2021.

- Resilient FY 2020 results.** We view the 6% decline in 2020 revenues as resilient given that the second half of Hardide's financial year (April to September 2020) encompassed the main part of the COVID-19 global economic slowdown. Management adjusted the cost base accordingly and the increase in the EBITDA loss (pre exceptionals and pre IFRS16 adjustments) was contained to only £110k to £0.74m.
- Move to new facility completed on time and on budget.** The Company's plan to expand reactor capacity from six to nine by the end of 2020 was achieved despite complexities from COVID-19. The phased relocation to the new larger and modern UK facility was completed by August 2020. Some Aerospace work continues at the original site until new site is fully approved by Airbus which is expected to occur in spring 2021. Two new reactors have now been added in Bicester, taking UK reactor numbers to five. A further reactor was also added in North America taking the US to four reactors and nine in total for the Group, a 50% capacity expansion from 2019.
- Operating from a position of strength as we move to a post COVID-19 world.** With a more impressive and functional UK facility, 50% additional Group capacity and combined with being able to produce product on two continents we view Hardide as perfectly positioned to win and fulfil orders from an expanding client base. The demand for its products was growing pre COVID-19 (2019 revenues grew 10% and 1H 2020 by 29%) and we expect this demand to return as we move to a post COVID-19 world. The well-timed January 2020 £2.5m fundraise strengthened the balance sheet and we feel the Company has adequate cash resources to weather at least another year of economic weakness should it continue.

Year End: September

(£'000)	2017	2018	2019	2020	2021E
REVENUE	3,241	4,613	5,052	4,756	4,518
REVENUE GROWTH	51.3%	42.3%	9.5%	-5.9%	-5.0%
EBITDA	(735)	(299)	(620)	(541)	(1,017)
EBITDA MARGIN	-22.7%	-6.5%	-12.3%	-11.4%	-22.5%
PROFIT/(LOSS) BEFORE TAX	(1,235)	(913)	(1,190)	(1,356)	(1,964)
NET DEBT/(CASH)	(1,195)	(3,234)	(4,595)	(2,217)	(512)
EV/SALES (x)	5.15	3.61	3.30	3.51	3.69

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

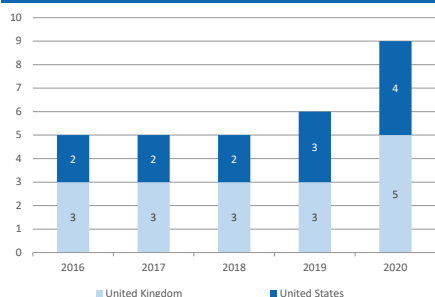
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2020 results - Summary financials

	2018	2019	change
Revenues	5,052.0	4,756.0	-5.86%
Gross Profit	2,417.0	2,320.0	-4.01%
Gross Margin	47.84%	48.78%	+94bp
Adj. EBITDA (IAS 17)	(627.0)	(741)	
Net Debt/(Cash)	(4,595.0)	(2,217.0)	

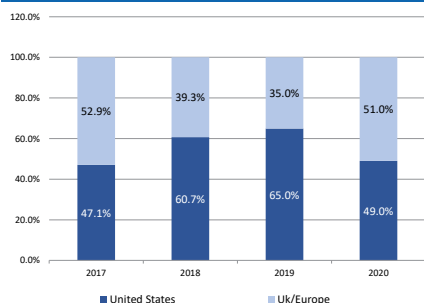
Source: Company data

Three new reactors added in 2020



Source: Company data, Allenby Capital

Revenues equally split between N. America/Europe



Source: Company data

FY 2020 RESULTS

In a year heavily impacted by COVID-19, Hardide returned a solid financial performance. Revenues were down just 6% and Gross Margins were expanded by almost a full percentage point. The increasingly diverse client base meant that the impact from the slowdown felt in the Oil & Gas market was mitigated by strength in other end markets. Other achievements included a well-timed £2.5m fundraise in January ahead of the market fall, installation of a new reactor at the US facility and successfully move to the new UK facility which adds a further two new reactors.

Growth in all sectors except Oil & Gas

After a first half which saw year on year revenue growth of 29% the second half of the year faced the COVID-19 headwind and revenues fell 36% against H2 2019. The net result being an annual revenue decline of 6% against that achieved in 2019. Within these numbers there was resilience in all sectors apart from Oil & Gas which has traditionally been the dominant end market for Hardide:

- **Oil & Gas, revenues down 14%.** Work for a major project has moved into the next financial year. High number of new oil and gas applications remain in development and in test programmes providing optimism for 2021.
- **Flow control, revenues +9%.** Sales rose to a long standing customer as they used Hardide-coated parts in new applications, including pumps for medical sanitisers.
- **Aerospace, revenues +19%.** Largely driven by demand for military aircraft especially for BAE Systems’ Typhoon and Lockheed Martin’s F35 Joint Strike Fighter. Airbus production orders being received for the A380 wing compression flap pads.
- **Precision engineering, revenues +4%.** Uses include x-ray baggage screening parts, motorsport components and complex 3D printed components.
- **Coated industrial diamonds, revenues +56%.** This was a resilient area for oil & gas customers although we note the sales were heavily weighted to H1.

Revenues by geographical end market were relatively equally split with 49% being generated in North America, 49% from the UK and 2% from Europe. Revenues generated from North America increased by 10% and the Martinsville facility, with four of the nine group wide reactors, accounted for 33% of 2020 revenues.

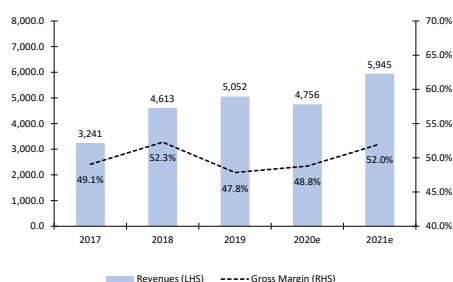
Relocation to new UK facility achieved on time and on budget

The phased relocation to the new larger and more modern UK facility was completed in August. Two new reactors have been installed, taking UK reactor numbers to five. One of the new reactors is particularly large so as to enable larger components to be coated such as from the renewables sector. One Airbus approved reactor is still operational at the former site and will remain in place until the new facility is approved by Airbus which is expected to complete in spring 2021. In addition to the two new reactors being installed in the UK, a fourth reactor has been installed at the Martinsville, Virginia facility making a total of nine reactors in the Group.

Gross margin improvement in 2020 to 48.8%

Despite the lower revenue, gross margin improved by 94bps from 47.84% to 48.78%. The Drivers behind this include direct production costs, including salaries, being decreased by 8% against a fall in revenues of 6%.

2020 Gross margin improvement to 48.8%



Source: Company data, Allenby Capital

EBITDA loss reduced but impacted by IFRS 16

The Group’s EBITDA loss pre exceptionals was £0.54m. Excluding £200k of costs relating to the relocation to the new UK facility the loss would have been £0.34m. However, the Group has now adopted IFRS 16 which had a beneficial impact on EBITDA in FY2020 of £0.4m. We therefore calculate the 2020 EBITDA pre exceptionals and pre IFRS 16 impact to be a loss of £0.74m. This compares to the comparable loss in 2019 of £0.63m. A deterioration but we believe a noteworthy performance given the impact on COVID-19 on the Company in the second half of the year.

Balance sheet remains healthy, net cash position of £2.2m at the end of September

After the capex spend of £4.1m in 2020 we now believe that only £0.5m remains to be spent in the current year to complete the new site move and installation of the new reactors. The spend was financed by existing cash resources available coming into the year but also from the January 2020 £2.5m equity raise at 63p. At year end, with £2.7m of cash (offset by £0.5m of debt), we feel the Company has sufficient resources to complete the remaining capex requirements and to be resourced if 2021 is negatively impacted by further COVID-19 induced economic weakness.

2020 results – Summary Financials – Y/E September

	2019	2020	YoY change
Revenue	5,052.00	4,756.00	-5.86%
Cost of sales	(2,635.00)	(2,436.00)	
Gross profit	2,417.00	2,320.00	-4.01%
<i>Gross profit margin</i>	47.8%	48.8%	1.96%
Administrative expenses	(3,037.00)	(2,861.00)	-5.80%
as a % of sales	60.1%	60.2%	
Depreciation & Amortisation	(481.00)	(765.00)	59.04%
Provisions for grant repayment/oneros lease and dilapidations	(101.00)	42.00	-141.58%
Operating profit/(loss)	(1,202.00)	(1,264.00)	5.16%
Net profit	(1,136.00)	(1,291.00)	13.64%
EPS - diluted	(2.49)	(2.50)	0.24%
EBITDA (pre exceptionals)	(620.00)	(541.00)	-12.74%
Cash	4,809.00	2,715.00	-43.54%
Net Debt/(Cash)	(4,595.00)	(2,217.00)	-51.75%

Source: Company data.

FINANCIAL STATEMENTS

Income Statement - Year End September - £'000

	Sep-17	Sep-18	Sep-19	Sep-20	Sep-21e	Comments
Revenue	3,241.0	4,613.0	5,052.0	4,756	4,518	
Growth	51.3%	42.3%	9.5%	-5.9%	-5.0%	
Cost of sales	(1,651.0)	(2,201.0)	(2,635.0)	(2,436)	(2,485)	
Gross profit	1,590.0	2,412.0	2,417.0	2,320	2,033	
Gross profit margin	49.1%	52.3%	47.8%	48.8%	45.0%	Product mix driving margin expansion in 2020
Administrative expenses	(2,325.0)	(2,711.0)	(3,037.0)	(2,861)	(3,050)	
as a % of sales	71.7%	58.8%	60.1%	60.2%	67.5%	
Depreciation & Amortisation of owned assets	(503.0)	(373.0)	(481.0)	(477)	(550)	
Depreciation of right of use assets				(288.0)	(300.0)	
Exceptional item	-	(246.0)	(101.0)	42.0	-	
Operating profit/(loss)	(1,238.0)	(918.0)	(1,202.0)	(1,264)	(1,867)	
Finance income	4.0	8.0	15.0	11	5	
Finance costs	(1.0)	(3.0)	(3.0)	(12)	(12)	
Finance costs on right of use asset				(91.0)	(90.0)	Increase from IFRS 16 - interest on lease liability
Profit/(loss) before tax	(1,235.0)	(913.0)	(1,190.0)	(1,356)	(1,964)	
Tax	139.0	48.0	54.0	65	50	
tax rate	11.3%	5.3%	4.5%	4.8%	2.5%	
Net profit	(1,096.0)	(865.0)	(1,136.0)	(1,291)	(1,914)	
Earnings per share						
Basic	(2.86)	(2.08)	(2.49)	(2.60)	(3.60)	
Diluted	(2.86)	(2.08)	(2.49)	(2.50)	(3.60)	
Wtd average number of shares (m)	38.4	41.5	45.6	50	53	
FX difference on translation of foreign operations	(42.0)	47.0	50.0	-	50	
Total comprehensive profit/(loss) for the year	(1,138.0)	(818.0)	(1,086.0)	(1,291)	(1,864)	
EBITDA (underlying)	(735.0)	(301.0)	(627.0)	(541)	(1,017)	

Source: Allenby Capital, Company data

Balance Sheet - Year End September - £'000						
	Sep-17	Sep-18	Sep-19	Sep-20	Sep-21e	Comments
Goodwill	69.0	69	69	69	69	
Intangible assets	1.0	25	30	50	50	
Property, plant & equipment	1,490.0	2,033	2,745	6,337	6,287	
Right of Use Assets	-	-	-	2,130.0	1,830.0	IFRS 16 impact from 2020
Non-current assets	1,560.0	2,127	2,844	8,586	8,236	
Inventories	160.0	286	691	565	497	
Trade & other receivables	622.0	749	1,003	486	723	
Other current financial assets	242.0	265.0	277.0	395.0	395.0	
Cash & cash equivalents	1,212.0	3,302	4,809	2,715	1,010	
Current assets	2,236.0	4,602	6,780	4,161	2,625	
Total assets	3,796.0	6,729	9,624	12,747	10,861	
Trade & other payables	488.0	1,336	1,351	906	994	
Financial liabilities - borrowings	5.0	10	50	91	91	
Right of use lease liability	-	-	-	193.0	193.0	IFRS 16 impact from 2020
Provision for onerous lease	-	-	-	45.0	45.0	
Provision for grant repayment	-	246.0	260.0	116.0	116.0	
Current liabilities	493.0	1,592	1,661	1,351	1,439	
Financial liabilities - borrowings	12.0	58	164	407	407	
Right of use lease liability	-	-	-	2,046.0	1,946.0	IFRS 16 impact from 2020
Provision for onerous lease	-	-	101.0	106.0	106.0	
Non-current liabilities	12.0	58	265	2,559	2,459	
Total liabilities	505.0	1,650	1,926	3,910	3,898	
Net assets	3,291.0	5,079	7,698	8,837	6,963	
Share capital	3,242.0	3,405	3,673	3,836	3,836	
Share premium	10,306.0	12,676	15,987	18,196	18,196	
Retained earnings	(10,060.0)	(10,925)	(11,964)	(13,210)	(15,034)	
Share-based payments reserve	235.0	308	274	360	360	
Translation reserve	(432.0)	(385)	(272)	(345)	(395)	
	3,291.0	5,079	7,698	8,837	6,963	
Balance Sheet ratios	Sep-17	Sep-18	Sep-19	Sep-20	Sep-21e	
Short term debt	5.0	10	50	91	91	
Long term debt	12.0	58	164	407	407	
Gross debt	17.0	68	214	498	498	
Cash	1,212.0	3,302	4,809	2,715	1,010	
Net debt/(cash)	(1,195.0)	(3,234)	(4,595)	(2,217)	(512)	

Source: Allenby Capital, Company data

Cashflow statement – Year End September - £'000

	Sep-17	Sep-18	Sep-19	Sep-20	Sep-21e	Comments
Operating loss	(1,238)	(918)	(1,202)	(1,264)	(1,867)	
Impairment of intangibles	1	2	7	13	-	
Depreciation on owned assets	503	371	474	464	550	
Depreciation on right of use asset	-	-	-	288	300	
Share option charge	51	73	62	86	40	
(Increase) in inventories	(100)	(124)	(392)	126	68	
(Increase) in receivables	(91)	(149)	(266)	388	(237)	
Increase in payables	78	793	73	(445)	88	
Increase in provisions	-	246	116	(144)	-	
Cash generated from operations	(796)	294	(1,128)	(488)	(1,058)	
Finance income	4	8	16	11	5	
Finance costs	(1)	(3)	(3)	(12)	(12)	
Right of use asset interest	-	-	-	(91)	(90)	
Tax received	207	93	-	76	50	
Net cash generated from operating activities	(586)	392	(1,115)	(504)	(1,105)	
Purchase of property, plant and equipment	(152)	(887)	(1,106)	(4,089)	(500)	2020 new UK facility and 3 new reactors
Net cash used in investing activities	(152)	(887)	(1,106)	(4,089)	(500)	
Net proceeds from issue of ordinary share capital	-	2,533	3,578	2,372	-	
Finance lease repayment	(17)	(3)	-	-	-	
Loans raised	-	55	139	402	-	
Loans repaid	-	-	(27)	(75)	-	
Grant repaid	-	-	-	-	-	
Lease principal repayments	-	-	-	(221)	(100)	
Net cash generated from financing activities	(17)	2,585	3,690	2,478	(100)	
Net increase /(decrease) in cash and cash equivalents	(755)	2,090	1,507	(2,094)	(1,705)	
Cash and cash equivalents at the beginning of the year	1,967	1,212	3,302	4,809	2,715	
cash and cash equivalents at the end of the year	1,212	3,302	4,809	2,715	1,010	

Source: Allenby Capital, Company data

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