

HARDIDE CHEMICALS

HDD.L

1.825p

Market Cap: £30.8m

SHARE PRICE (p)



12m high/low

2.17p/1.52p

Source: LSE Data

KEY INFORMATION

Enterprise value	£28.5m
Index/market	AIM
Next news	FY18 Trading update - Oct
Gearing	N/A
Interest cover	N/A

**HARDIDE IS A RESEARCH CLIENT OF
PROGRESSIVE**

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1H18 Interims deliver positive progress

FY18E well underpinned

Hardide announced strong 1H18 interim results today with the continuation of positive trends experienced in 2H17. Oil & Gas, Flow Control and Precision engineering all delivered between 22-54% y/y sales growth. Progress in Aerospace continues with trials and commercial discussions with Airbus and Leonardo ongoing. The Group has delivered an improved 1H18/1H17 performance across all financial metrics with a confident outlook for 2H18. We believe our FY18E are firmly underpinned by the 1H18 interim results and take a conservative stance leaving estimates unchanged.

- The Group delivered revenue of £2.2m up 43% y/y (1H17 £1.5m). The operating loss was £0.3m vs. a 1H17 loss of £0.7m, a 57% improvement. The PBT loss was c. half that of 1H17 even as the Group absorbed a rise in overheads from £1.1m in 1H17 to £1.3m in 1H18. That reflected the absence of the US grants that were previously received in FY17 & adverse FX movements. Period end cash stood at £3.2m.
- The first volume orders from the oil & gas supply agreements announced with the FY17 results were received within and post the period. Significant technical achievements in fulfilling one of the supply agreements are expected to lead to further applications. The Group continues to make good progress with the Airbus engineering teams and expects significant aerospace business in the near future, which should result in lengthy commercial supply agreements. Upgrades to the UK facility to an aerospace standard are complete, the accreditation of the US facility is on track and the first new reactor is due for delivery and commissioning in 2H18.
- Post the period end, the Group completed its annual Nadcap audit at the Bicester facility, and saw an existing customer commence production on a new downhole tool that features Hardide coatings which should become a long-term revenue stream. The Group announced its intention to enlarge its business development team in North America to focus on the growth opportunities in the region.
- Hardide is confident in the outlook for FY18E and expects trading to be in line with market expectations. Were the positive trends the group is experiencing to continue, we could see upward pressure on our maintained estimates as the Group progresses through the year.

FYE SEP (£M)	2016	2017	2018E	2019E	2020E
Revenue	2.1	3.2	4.1	5.0	6.0
Adj EBITDA	(1.3)	(0.7)	(0.3)	0.2	0.8
Fully Adj PBT	(1.7)	(1.2)	(0.8)	(0.2)	0.3
Fully Adj EPS (p)	(0.1)	(0.1)	0.0	0.0	0.0
EV/Sales (x)	13.3	8.8	7.0	5.7	4.7
EV/EBITDA (x)	(21.8)	(38.7)	(82.3)	127.6	35.2
PER (x)	N/A	N/A	N/A	N/A	95.8

Source: Company Information and Progressive Equity Research estimates

Financial Highlights

Hardide announced 1H18 interims today, delivering a strong first half result with the positive trends experienced in 2H17 continuing into 1H18. The Group delivered revenue of £2.2m up 43% y/y against 1H17 of £1.5m and our FY estimate of £4.1m. The Oil & Gas segment saw growth as the recovery experienced in FY17 continued in 1H18. Sales from the segment increased 54% against 1H17 and 20% against 2H17. Strong growth in flow control was delivered with sales increasing 33% against 1H17 and 43% against 2H18. Precision engineering also achieved positive results with sales increasing by 22% 1H18 on 1H17.

Gross profit came in at £1.2m up 67% y/y versus 1H17 at £0.7m. The Group operating loss came in at £0.3m versus a 1H17 loss of £0.7m, a 57% improvement. Within the period, the Group completed a successful fundraising of £2.54m (net £2.45m) in two tranches, at 1.7p per share to fund additional capacity in anticipation of future demand. The Group ended the period with £3.2m in cash.

1H18 vs 1H17 & FY18E

£m unless stated	1H18	1H17	1H18/1H17	FY18E PR Estimate
Revenue	2.2	1.5	43%	4.1
Adj EBITDA	(0.1)	(0.4)	67%	(0.3)
Reported PBT	(0.3)	(0.7)	53%	(0.8)
Fully adj PBT	(0.3)	(0.7)	53%	(0.8)

Source:

As can be seen in the exhibit above, Hardide has delivered an improved 1H18/1H17 performance across all metrics. The PBT loss was c. half that of 1H17 even as the Group absorbed a rise in overheads from £1.1m in 1H17 to £1.3m in 1H18 resulting from the absence of the US grants that were previously received in FY17 and adverse FX movements.

Operational Highlights

1H18

With the FY17 results, Hardide announced the signing of two framework supply agreements. The first volume orders from the agreement with a North American customer of high value completion technology for onshore drilling commenced in 1H18. Initial feedback from the customer is that the Hardide coating is providing a competitive advantage through the increased production efficiency and lower costs of extraction which it is able to provide to its customers.

The Group continues to make good progress with the Airbus engineering teams, which are committing considerable resources and time on pre-production parts in anticipation of future contracts. Although the time to the emergence of contracts post the receipt of Airbus-approved supplier status in 1H17 may appear to be lengthy, given the safety critical nature of the parts being coated, it is well within industry norms. At the time of our initiation in September 2017, we highlighted that it would be our expectation for orders to emerge within 12-18 months. The Group continues to remain confident that its work with Airbus will lead to commercial orders in the near future. We are mindful that once Hardide has entered into supply agreements for a given series, it should enjoy commercial sales for the life of the program which can be upwards of 20 years. As a reminder, Hardide is in commercial and technical discussion and trials for coatings on the wing structure and hydraulic actuators for landing gear for the A320, A330, A380 and A400M programmes. Its approved supplier status also allows it to provide coatings to Airbus component suppliers and Maintenance and Repair organisations (MROs).

Also, within A&D, the Group continues to make progress with Leonardo Helicopters toward production orders as well as other OEMs on various parts. Leonardo transmission parts are to commence final system tests imminently with results expected in 2H18. Similarly, with Airbus, once commercial supply agreements are secured the Group should enjoy commercial sales over a very long period.

The US facility continues to perform positively with the Martinsville, Virginia site producing consistent quality product for large North American customers. In 2H18 the balance of a production order for a large US customer will be transferred from the Bicester facility to Martinsville,

Proceeds from the fundraising undertaken in October 2017, were to be primarily used to fund additional capacity with two new coating reactors in the US facility, an upgrade to one of the UK reactors and the whole US facility to an aerospace standard in anticipation of future demand. As of the interim statement, the UK upgrade at Bicester has been completed and the accreditation of the US facility to the aerospace quality management system AS9100 is on track. In the US, the first of two new reactors is due for delivery and commissioning in 2H18 and plans for the second reactor remain on target.

Lastly, Hardide announced several changes to its board on the 20th March 2018 which bring a wealth of experience in the A&D and engineering sectors. Tim Rice and Charles Irving-Swift have joined the board and Jan Ward has stepped down. Tim brings with him extensive A&D experience having held senior positions at Vector Aerospace, Safran, Spirent and Dowty. Charles Irving-Swift brings vast experience in the engineering and construction sector where he focused on strategic planning, managing transformation projects and re-organisations at organisations such as Armstrong Flooring products, TT electronics plc and Dana Corporation.

Post Period Events

Post the period end, the Group completed its annual Nadcap audit at the Bicester facility. Hardide first gained Nadcap accreditation in June of 2017. Nadcap is the top approval for global A&D standards and is run by an independent agency, called the Performance Review Institute (PRI), for a collective of A&D primes (Airbus, Boeing, Lockheed Martin, Raytheon etc).

The Group received its first of significant expected volume production orders from the new supply agreement with a North American based, major international operator in the oil & gas sector. Significant technical challenges were overcome, due to the complex design of the part resulting in a new capability from which Hardide expects to lead to a new range of applications. In addition, an existing customer, which has been developing a downhole tool using a Hardide coating has now started production on that tool. The Group anticipates the development should become a longer-term revenue stream.

Lastly, as Aerospace in North America is a key growth market for the Group it has announced that it intends to enlarge the business development team and dedicate a full-time country manager to focus on growing the Aerospace business in the region.

Outlook and Estimates

The Group is confident of the outlook for 2H18E and expects trading performance to be in line with market expectations.

We retain our full year estimates as can be seen in the table below. We believe the 1H18 performance firmly underpins our FY18E estimates but remain aware that visibility for the Group is limited.

Hardide has delivered 53% of FY18E revenue in 1H18 and we would highlight that in both 2016 and 2017 the Group delivered higher second half sales than that of the first. Were the trends currently being experienced in the oil & gas, flow control and precision engineering sectors to continue into 2H18 as indications suggest, as well as the potential for the emergence of initial A&D sales, upward pressure on estimates could result as the Group progresses through 2H18E.

Our FY18E Net cash position against the interim position of £3.2m reflects the increased capex spend expected. 1H18 capex of £0.4m was incurred versus our FY18E estimate of £1m.

Estimates			
	FY18E	FY19E	FY20E
Revenue	4.1	5.0	6.0
Adj EBITDA	(0.3)	0.2	0.8
Adj EBIT	(0.8)	(0.2)	0.3
Reported PBT	(0.8)	(0.2)	0.3
Fully adj PBT	(0.8)	(0.2)	0.3
NOPAT	(0.8)	(0.2)	0.3
Reported EPS (p)	(0.0)	(0.0)	0.0
Fully adj EPS (p)	(0.0)	(0.0)	0.0
Net Debt/Cash	2.3	1.4	2.0

Source: Progressive Equity Research estimates

Financial Summary: Hardide

Year end: September (£m unless shown)

	2016	2017	2018E	2019E	2020E
PROFIT & LOSS					
Revenue	2.1	3.2	4.1	5.0	6.0
Adj EBITDA	(1.3)	(0.7)	(0.3)	0.2	0.8
Adj EBIT	(1.7)	(1.2)	(0.8)	(0.2)	0.3
Reported PBT	(1.5)	(1.2)	(0.8)	(0.2)	0.3
Fully Adj PBT	(1.7)	(1.2)	(0.8)	(0.2)	0.3
NOPAT	(1.7)	(1.2)	(0.8)	(0.2)	0.3
Reported EPS (p)	(0.1)	(0.1)	0.0	0.0	0.0
Fully Adj EPS (p)	(0.1)	(0.1)	0.0	0.0	0.0
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(1.4)	(0.8)	(0.3)	0.2	0.8
Free Cash flow	(1.9)	(0.7)	(1.3)	(0.9)	0.6
FCF per share (p)	(0.1)	0.0	(0.1)	(0.1)	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	1.6	0.0	2.4	0.0	0.0
Net cash flow	(0.4)	(0.8)	1.3	(0.9)	0.6
Overdrafts / borrowings	0.0	0.0	(0.2)	(0.2)	(0.2)
Cash & equivalents	2.0	1.2	2.5	1.6	2.1
Net (Debt)/Cash	2.0	1.2	2.3	1.4	2.0
NAV AND RETURNS					
Net asset value	4.4	3.3	4.9	4.8	5.1
NAV/share (p)	0.3	0.2	0.3	0.3	0.3
Net Tangible Asset Value	1.9	1.5	2.0	2.7	2.4
NTAV/share (p)	0.1	0.1	0.1	0.2	0.1
Average equity	4.1	3.8	4.2	5.0	5.1
Post-tax ROE (%)	(32.6%)	(28.6%)	(19.9%)	(3.8%)	6.7%
METRICS					
Revenue growth	(28.7%)	51.3%	26.2%	22.6%	20.0%
Adj EBITDA growth	301.2%	43.6%	52.9%	164.5%	262.3%
Adj EBIT growth	(273.6%)	28.7%	31.9%	76.5%	158.2%
Adj PBT growth	264.4%	15.5%	32.1%	77.0%	155.7%
Adj EPS growth	211.4%	15.6%	32.5%	77.0%	155.7%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	(81.0%)	(38.2%)	(20.6%)	(4.0%)	5.7%
VALUATION					
EV/Sales (x)	13.3	8.8	7.0	5.7	4.7
EV/EBITDA (x)	(21.8)	(38.7)	(82.3)	127.6	35.2
EV/NOPAT (x)	(16.4)	(23.0)	(33.8)	(143.5)	83.4
PER (x)	N/A	N/A	N/A	N/A	95.8
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(6.2%)	(2.4%)	(4.3%)	(3.0%)	1.8%

Source: Company information and Progressive Equity Research estimates

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