Sales Perspectives

Going for Gold

Issue No: 3

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Introduction

Going for Gold

Welcome to issue 3 of finnCap's Sales Perspectives. It's been another interesting year for markets, and for small companies in particular. We stated in previous issues that we view smaller caps as a 'stock picker's market' and this has certainly been the case for the year so far. Whilst the FTSE Small Cap Index (ex IT) is currently up 5.7% YTD, this only tells half of the story. Having started the year drifting downwards, reaching a nadir in mid-February, we had a strong spring until Brexit, after which, all bets were off. Having collapsed to the lowest point of the year, we have surprisingly seen a powerful rally, with the Index up over 17% in the last 2 months. So where next?

Well, whilst the first issue covered our stocks for the year, and the second was a selection of names we like, this issue focuses on our preferred growth plays. We are pushing the names we know can perform. The kind of stocks that can continue to show exciting growth and exceptional share price performance whatever the market is up to. Businesses that have strong market positions, even overseas earnings, or maybe IP backed growth. In short, stocks that had a real competitive position, or as Buffet says, a strong economic MOAT.

As with previous editions, we will also summarise our past selections, updating them and reiterating whether our investment thesis still stands. We feel it is important to push stocks that we think can add value, but also to keep up on the names and not 'pump and dump'. We clearly don't always get them right, but I hope you all feel it is not from a lack of effort.

Finally, it is time to introduce our latest recruit. Sunila de Silva has joined the sales desk as a graduate trainee, and will support the rest of the team in providing key investment ideas and promoting our corporates, as she learns the job before taking on her own institutional accounts. We also need to get the photographer back in so we can add her picture to the bottom of this introduction!

With all the pleasantries done, it leaves me to wish you all the best for the final 5 months of the year, and I look forward to speaking to you about the enclosed ideas over the next few weeks.

Rhys

Note: The views expressed in 'Sales Perspectives' are solely those of the finnCap sales team.

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Performance Review

Which stocks?

Looking at the performance of our recommendations so far, and again, if we were marking ourselves out of 10, I believe we would get a decent 6. We have promoted 17 stocks in total, with 9 of them in positive territory, and only 3 down more than single digits. Below is a quick review, summarising whether we still rate the business or not.

Petra – Our investment thesis remains in place. Growing production coming on-stream, the company targeting 4.6m carats in 2018 (up from 3.2m last year), leading to improved cash generation (FCF $230m in FY18e), it continues to offer real upside. BUY.

Skyepharma – Merged with Vectura. The combination is creating a powerhouse in respiratory product development with multiple value drivers. However, we haven't caught up with the company for quite a while and feel off the pace.

Somero – Our investment case remains clear. Growing demand globally, driven by increased usage of flatness standards, as well as a wider more accessible product suite is driving revenue and profit growth. Low valuation remains attractive. BUY

Utilitywise – Forecasts have been rebased again. However, with improving terms from its suppliers, the issue with cash is beginning to look historic. Utilitywise remains great value. BUY

Communisis – The stock remains in the doldrums following the profit warning at the end of last year. It remains cheap, but what is the trigger to a re-rating? Not obvious at this point.

CityFibre – Following its transformational transaction in January, we expected increased newsflow on new contracts, and the company has delivered. We expect more to come too. Long term, it offers huge value. BUY

Norcros – Numbers have been in line with expectations, and with the South African business moving from being a drag to a draw, its surprising that the price remains so low. However, the trigger for a re-rating remains hard to call.

dotDigital – The company continues to perform strongly, with numbers in line with expectations and cash generation still strong. Interim CEO now made permanent, it looks well placed. BUY

Constellation Healthcare – Results have been great, last reporting organic growth up 22%. Despite this, the share price has been weak of late. We believe the stock will recover strongly as the year progresses. BUY

Castleton Technology – Underlying performance by the group has been good, with profits in line with expectations. The rating is reasonable for this high growth, 'high margin' software play for the housing association market. BUY

4imprint – Continuing to motor along. One of our key Growth ideas. BUY

Centaur Media – Missed numbers since our update, though much improved cash performance. Share buyback announced too. Unclear on direction at this time.

Finsbury Food Group – Been a good performer of late (well done us!). Valuation remains reasonable. BUY

Flowtech Fluidpower – Tough market conditions currently. Though we still buy in to their long term buy and build strategy. Attractive low valuation. BUY

Solid State – Numbers have been fine since our update. Adds real value to its customers. Fantastic value. One to get to know. BUY

Telecom Plus – Coming out the other side. Been a tough couple of years, but beginning to see its offer come to fore, particularly its bundle pricing. Improved customer quality and lower churn. BUY

Victoria – Strong reaction post Brexit, with the shares recovering nicely. Management remain confident on future growth, both organic and acquisitive. BUY

Company	Issue	% Change
Petra Diamonds	1	58.04%
Somero	1	25.82%
Solid State	2	16.31%
4imprint	2	16.29%
Finsbury Foods	2	15.02%
Telecom Plus	2	13.46%
Victoria	2	11.32%
Constellation	1	11.11%
CityFibre	1	7.99%
Flowtech Fluidpower	2	-1.90%
dotDigital	1	-2.11%
Communisis	1	-10.11%
Centaur Media	2	-10.13%
Norcros	1	-13.08%
Castleton	1	-14.62%
Utilitywise	1	-22.62%
Skyepharma	1	410.15*

* take out price

4imprint

Scope for further returns to investors

We pushed 4imprint in our last issue of Sales Perspectives, and since we are focusing on growth stocks, we are happy to do so again. With 97% of sales generated in the US, the promotional products specialist looks like a safe place to ride the weak sterling storm. The US market, we believe, will continue to offer good growth prospects for the group, as 4imprint continues to flex its muscles in a highly fragmented market.

Management believes the US promotional market is worth c.$25bn per annum. Within this, 4imprint currently has under 2% market share, despite being the clear market leader. As such, whilst we are expecting the underlying US market to grow 14% both this year and next, with further gains in share, we believe 4Imprint can advance at a faster pace, underpinning a very attractive growth story.

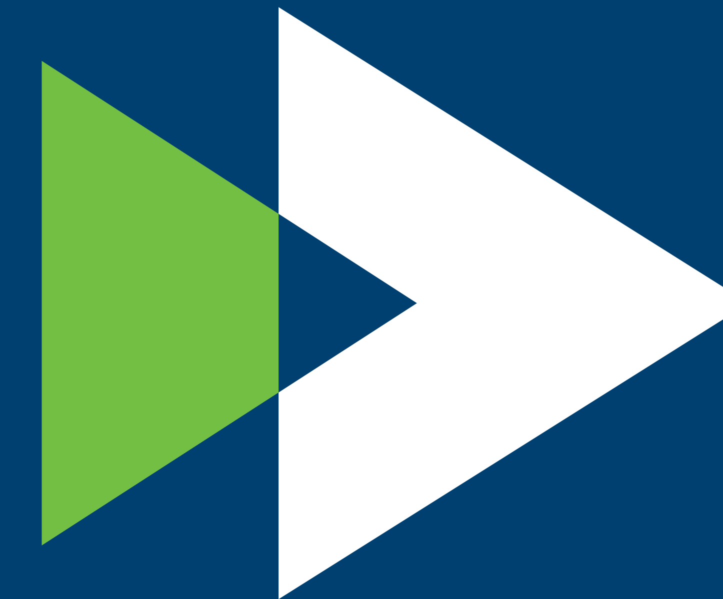
Marketing is central to driving organic growth and the company uses a combination of catalogue marketing , internet search optimisation and e-mail campaigns to grow sales. The Group uses its sophisticated data techniques and an extensive database to target existing customers, whilst SEO investment helps drive new customers to its platform. It is this cost and investment that their smaller counterparts do not have the financial muscle to make, and this allows the group to outperform and take share.

But it's not just its top line growth that attracts us to 4Imprint. It is also a cash machine. With the majority of customers paying on cards before receiving their products, whist the products are sent direct from the third party manufacturer, 4Imprint runs a very attractive negative working capital model.

It is its growing cash generation that we believe is currently being undervalued by the market. Looking at our forecasts, we expect 4Imprint to throw off $25m free cash flow this year, rising to $31m in 2018.

Historically, its cash generation has had to go towards its pension deficit, as well as further investment before it can be used for dividend payments. However, the company has recently significantly reduced its pension deficit via a one off $14.5m payment, so the contribution profile has reduced too. Having made a substantial investment in the business last year, we also believe capex will return to a more maintenance based level of c.$2m per annum from FY17 onwards. This will free up further cash to be returned to shareholders, and we estimate dividend growth of 15% per annum for the next 3 years. Even with such strong payout growth, we forecast the group's net cash balance to grow from $17m to $46m, and so we could see special dividends in the not too distant future.

We note that since our last review, at the start of the summer, 4imprint's share price has risen by 20%. However, we continue to believe there is still considerable scope for further appreciation. The de-risking of the pension deficit removes a drag on cash returns, its scale allows for further market share gains, and the positive outlook for the US economy means the group should continue to perform well over the medium term. We see 4Imprint as a core small cap holding on this basis.



'The US market is worth $25bn, and 4imprint currently has under 2% market share – so there is everything to go for'

‘We feel that there is potential for an enhanced dividend policy to be instituted’

4imprint

BUY

Ticker	FOUR
Price	1,550p
Target Price	1,790p
Upside	15%
Market Cap	£435m
Index	FTSE All Share
Sector	Media
Net Cash	$20m
Shares in Issue	28.1m
Next Results	FY - March 2017

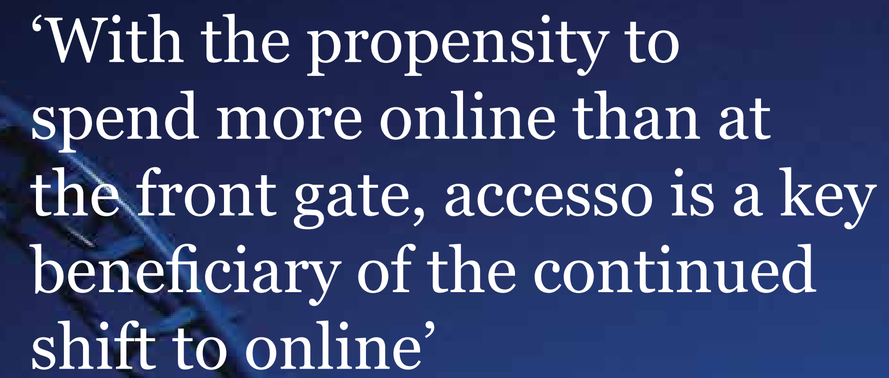
%	1M	3M	12M
Actual	-4.1	+14.3	+40.8
Relative	-2.3	+7.0	+32.1

Share Price Performance

Source: Thomson Reuters

Year ending March ($m)	2015A	2016E	2017E	2018E
Data				
Sales ($m)	497.2	560.4	632.7	714.3
Adj EBITDA ($m)	35.5	41.4	47.1	53.4
Adj PBT ($m)	33.5	38.4	44.1	50.4
Tax rate (%)	27	28	29	30
Adj EPS (FD) (c)	87.5	97.6	109.8	122.8
DPS (c)	38.9	52.5	59.0	66.1
Ratios				
EV/Sales (x)	1.1	1.0	0.9	0.8
EV/EBITDA (x)	15.8	13.6	11.9	10.5
P/E (x)	23.6	21.1	18.8	16.8
Yield (%)	1.9	2.5	2.9	3.2
Cash flow yield (%)	1.8	4.1	4.8	5.4
EPS growth (%)	22	11.5	12.5	11.9

Source: finnCap estimates



‘With the propensity to spend more online than at the front gate, accesso is a key beneficiary of the continued shift to online’

accesso

Jump the queue to growth

accesso has established itself as a clear market leader in the technology behind a customer’s “digital guest journey” at entertainment venues. This includes a customer’s initial research, to buying a ticket, to buying a Q-jump product, to sharing their experience online and staying in touch with the venue thereafter. Shares in the company have almost doubled year to date to leave the stock trading on a punchy multiple of c.40x 2017. Despite this, we think there exists further long term upside from a host of factors, including the continued structural shift from physical ticketing to online, increased customer penetration, crossing-selling between multiple venue owners (eg Merlin), new customer acquisitions (particularly within Asia), and M&A.

With the consumer’s propensity to spend more online than at the front gate these days, accesso is a key beneficiary of the continued shift to online, and in particular to mobile. In 2013, less than 5% of accesso’s online ticketing revenue was attributable to mobile sales. Last year, that figure approached c.25% and look sets to continue to grow rapidly, further driving accesso’s top line performance.

Elsewhere, the Merlin contract, signed in July 2015, is transformational and will see accesso provide an online ticketing solution for Merlin’s global portfolio of over 100 venues. In addition to providing substantial revenues, which are highly visible and repeatable in nature, the contract will open the door for potential cross-selling opportunities such as their Q-jump solution, which is currently offered in just four Merlin Parks. More significantly, it also acts as the perfect marketing tool for further international roll out. In fact, the Merlin roll-out was signed on a non-exclusive basis across 22 countries and 18 languages, so Merlin is essentially paying accesso to globalise their product. In a recent meeting with management they expressed a keen desire to focus on China, which is expected to account for c.30% of total global theme park growth over the next five years. They also expect to make some key executive hires in the territory to spearhead this charge.

Looking further out, our recent meeting with management also brought into focus the strategic value of what it is building. In our view, accesso possesses what the likes of Priceline, booking.com and Hotels.com would find extremely valuable – namely that all important data behind a ticket purchase for an event. Once you know someone is going to Alton Towers on a specific date, there exists the opportunity to sell them accommodation, travel insurance, car hire etc all around that event. We believe that such a platform combining all elements of a customer journey would be an extremely valuable proposition, both to a customer and to the likes of large leisure operator. accesso could either go down the partnering route (like they have with AAA) or play a part in consolidating the market. Ultimately there is a chance they could end up being consolidated themselves.

So, with such strategic options open to them, the real question is how do you value the business? Well, the simple answer is that it is not easy. We would look to its uniqueness, global potential and likely rapid growth in both revenue and profits to suggest that its share price can continue to rise from here. Whatever price you buy, it will look expensive, so maybe it’s time to jump on board, close your eyes, and enjoy the ride.

‘accesso could either go down the partnering route (like they have with AAA) or play a part in consolidating”

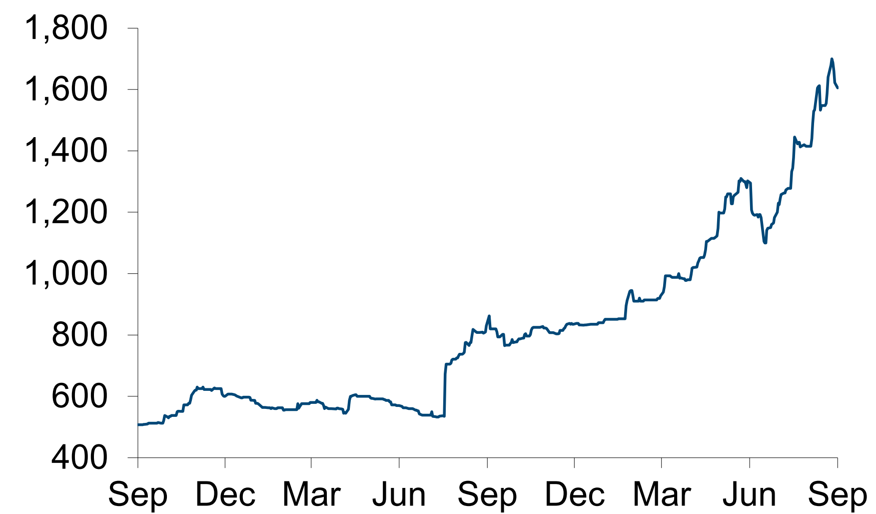
accesso

BUY

Ticker	ACSO
Price	1605p
Target Price	n/a
Downside	n/a
Market Cap	£357m
Index	FTSE AIM All Share
Sector	Software & Computer Services
Net Debt	£1.8m
Shares in Issue	22.2m
Next Results	FY – February 2017

%	1M	3M	12M
Actual	+13.4	+25.4	+96.2
Relative	+15.6	+17.4	+84.1

Share Price Performance



Source: Thomson Reuters

Year ending February ($m)	2014A	2015A	2016E	2017E
Data				
Sales ($m)	75.1	93.2	95.3	104.7
Adj EBITDA ($m)	10.4	15.2	17.6	21.3
PBT ($m)	5.1	7.2	13.1	16.1
Tax rate (%)	26.2	25.6	28.0	28.0
Adj EPS (c)	30.7	40.9	44.9	56.0
DPS (c)	0.0	0.0	0.0	0.0
Ratios				
EV/Sales (x)	5.2	4.2	3.8	3.4
EV/EBITDA (x)	33.9	32.8	28.8	23.8
P/E (x)	57.7	44.3	40.4	32.4
Yield (%)	-	-	-	-
Cash flow yield (%)	-	-	-	-
EPS growth (%)	11.7	33.1	-5.3	24.7

Source: consensus estimates

Clipper Logistics

Click and collect to drive Clipper

Early this year, Clipper Logistics launched a trial 'click and collect' service in four John Lewis stores; the system was so impressive that today Clipper is now running the service for the entire John Lewis estate.

Developing a new network to meet the needs of retailers in a multi-channel environment is always going to be well received. However, the challenge for any logistics company is to do it in a low cost manner that doesn't significantly impact short term profits. For Clipper, by setting up in collaboration with John Lewis, it provides them with a huge competitive advantage, as they can provide national coverage immediately, and with John Lewis' volumes, the network is already running at circa one third of peak capacity. At full capacity, management believes this solution could add an additional £6.5m to group profits (FY16 Group PBT was £16m to put into context). Management state that they expect full capacity to be achieved in around four years' time, however, we believe it will be less than two given how quickly the solution has developed from the initial trial. Clipper has already initiated talks with a number of other retailers who can leverage off the back of the network, sensibly targeting brands that already sell through John Lewis to begin with.

Meanwhile, the underlying business continues to perform strongly on the back of organic volume growth and new business wins. Clipper has recently won deals with Zara, Links of London and Haddad, whilst also securing more business from existing customers, such as Sainsburys', SuperGroup and Wilko. So it's little surprise that e-fulfilment EBIT posted growth of 48% last year, which is significantly ahead of the market, which management believe is growing at c.15% per annum. Non e-fulfilment EBIT also saw healthy growth of 6.4%, with management expecting further robust performance this year too.

Why is Clipper doing so well? We believe it is their focus on the customer experience (on behalf of retailers) that secures a steady stream of client wins. As a business, they consider the issues facing the end market, such as recognizing that 63% of all shoppers check a return policy before they buy, or that two-thirds of customers do not return to a brand should their returns experience be unfavorable. Taking this information and using it allows them to suggest innovative solutions to retailers. As an example, they already handle all returns on behalf of ASOS, which they complete in a 12 hours turnaround, versus the 3 weeks typically taken by other retailers to process and refund customers. This gives ASOS a key advantage in the market, and provides Clipper with a happy and loyal client.

Other areas we like about the business include the great visibility in the core business, where two-thirds of the UK logistics business' EBIT is generated on an open-book basis – so the clients are charged more if contract costs rise. Moreover, typical contract lengths are five years, with some deals such as those with John Lewis, Asda and Harvey Nicholls, ranging up to 10 years. Additionally, we appreciate the negative working capital model it runs, supported by strong cash generation. This provides the basis for the group to commit to an attractive dividend policy, as well as providing the management team with the firepower for any complimentary acquisitions.

With solid growth coming from both e-fulfilment and non e-fulfilment for the next couple of years, the consensus forecast of £18m EBIT in 2017 looks eminently achievable. Add to this any growth from the new click and collect solution, and its potential to enhance profitability by up to 50% in the next two years, and we believe Clipper is a very exciting story. At 23x FY17 shares trade at what appears to be a lofty valuation, however, with the potential to achieve such strong profit growth over the short term (not to mention locking in large blue chip retailers for the long term, and the cash flow benefits this offers) we continue to see this as a conviction BUY.

'Management believes its new click and collect solution could add an additional £6.5m to group profits'

‘Clipper’s focus on the customer experience secures them a steady stream of client wins’

Clipper Logistics

BUY

Ticker	CLG
Price	315.1p
Target price	n/a
Upside	n/a
Market Cap	£315m
Index	FTSE Small Cap
Sector	Support Services
Net Debt	£18.8m
Shares in Issue	100m
Next Results	tbc

%	1M	3M	12M
Actual	+4.2	+5.0	+18.9
Relative	+6.2	-1.6	+11.6

Share Price Performance

Source: Thomson Reuters

Year ending April (£m)	2015A	2016A	2017E	2018E
Data				
Sales (£m)	234.8	290.3	323.0	360.0
Adj EBITDA (£m)	15.4	19.3	25.9	29.8
Adj PBT (£m)	10.6	13.3	16.6	18.4
Tax rate (%)	22.8	21.2	n/a	n/a
Adj EPS (FD) (p)	0.1	0.1	0.13	0.14
DPS (p)	4.8	6.0	7.2	8.0
Ratios				
EV/Sales (x)	1.2	1.0	0.9	0.8
EV/EBITDA (x)	18.3	15.0	11.5	10.0
P/E (x)	32.0	26.1	21.1	19.0
Yield (%)	1.8	2.2	2.7	3.0
Cash flow yield (%)	3.6	4.2	3.9	6.3
EPS growth (%)	19.9	22.6	23.7	11.1

Source: consensus estimates

Majestic Wines

Scaleable platform offers substantial growth

We must admit to being rather sceptical when Majestic bought the loss making Naked Wines for £70m last year. However, now we understand the platform better – especially its upside - we can see how it offers not only scaleable growth prospects, both in the UK and overseas, but also repositions the whole group in the consumer's mind. We see Majestic as a hidden gem of an online business. Targeting a core market of £2.2bn in the UK, £14bn in the US and £1bn in Australia, its stated strategy of achieving £500m revenue by 2019 looks more than achievable.

Majestic operates four divisions; Majestic Retail; Naked Wines; Majestic Commercial and Lay & Wheeler. Investors best know the traditional wine store network, which is now up to 212 units in the UK and two in Calais. These had been on a steady decline, with new store openings masking LFL decreases. The new management team have already got to grips with the business, remodelling the store layout, freeing staff to concentrate on serving customers, and removing the bottle purchase limit. This has helped return the operation to positive LFLs, though we believe there is a lot more upside to target, through improving store IT systems, better logistics, and simplifying the marketing proposition. To afford this upgrade, the company has cut the store roll out programme (now targeting 2-3 new stores per year versus 8-10), as well as pausing its dividend payment for a year (which recommences in H1 2017). Now the group is run by internet entrepreneurs, we also expect web sales for its core brand to increase as they move the Majestic businesses onto the Naked Wines IT platform and use their experience to improve ROIs.

Its other businesses, Commercial, and Lay & Wheeler, are nice to have without being crucial to the story. We can see how an improved focus can help drive revenue and profit growth in both. However, the real driver of long term value in Majestic will be its Naked Wines operation. The model is based on wine drinkers (called Angels) paying on average £20 a month ($40 in the US and Australia) into their Naked Wines account. Naked uses the pooled funds from the Angels to pre-fund production at small independent wine producers in return for preferential rates. It basically bulk buys the wine from small producers, cuts out the middle man by arranging its own bottling, labels, and transportation, before offering it on the Naked Wines website. Angels with built up funds can then buy these wines at a discount. The customer gets great unique wines at a low cost and Naked has a loyal, repeat purchasing client base, whilst also achieving c.30% gross margins in the UK and higher in the US.

Initial profits (and cash generation) is held back due to the upfront investment spent on acquiring customers (done via direct mail and online methods). Whilst about 40% of new customers leave within three months, the remainder become very sticky, offering low churn rates. People far smarter than us have estimated that it costs Naked Wines around £50 to acquire a customer, and yet a mature Angel has a lifetime contribution value of £527 – tasty indeed! As the number of mature Angels grow, profits should come through strongly. In the year to March 2016, Naked generated revenue of £102m and made a £1m profit. The UK is now profitable (and continues to grow strongly) and we expect Australia and the US to follow suit as the operations mature. The US, being a market 7x the size of the UK, whilst also offering higher margins, is crucial, and will become the firm's main growth focus.

> 'Its stated strategy of achieving £500m revenue by 2019 looks more than achievable'

Looking at forecasts, the joint brokers have Majestic achieving its stated aim of achieving revenue of >£500m by March 2019, which produces PBT of £25.2m. This puts the stock on a FY19 rating of sub 16x (compared to its current FY17 of 24.7x). However, doing a SOTP valuation, assessing core Majestic against a group of specialist retailers (we would look at Dunelm, Topps and JD as peers) and Naked against other UK e-commerce names (think boohoo, Ocado, AO World) points to a much higher valuation. We would look for a TP today in excess of c.500p (18% upside today), and as Naked continues to develop, we could see the valuation grow substantially from here.

‘The customer gets great unique wines at a low cost and Naked has a loyal, repeat purchasing client base’

Majestic Wines

BUY

Ticker	WINE
Price	423p
Target price	n/a
Upside	n/a
Market Cap	£299m
Index	FTSE AIM All Share
Sector	Food & Drug Retailers
Net Cash	£24.6m
Shares in Issue	839.8m
Next Results	tbc

%	1M	3M	12M
Actual	+4.0	-11.5	-3.8
Relative	+6.0	-17.1	-9.8

Share Price Performance

Source: Thomson Reuters

Year ending March (£m)	2015A	2016A	2017E	2018E
Data				
Sales (£m)	284.5	404.3	434.0	480.0
Adj EBITDA (£m)	28.0	27.6	24.7	29.2
Adj PBT (£m)	18.4	4.8	16.1	21.1
Tax rate (%)	23	16	27	27
Adj EPS (FD) (p)	25.2	18.3	16.1	21.1
DPS (p)	4.2	0.0	5.8	7.4
Ratios				
EV/Sales (x)	1.0	0.8	0.7	0.6
EV/EBITDA (x)	10.2	11.7	12.6	10.3
P/E (x)	16.6	22.9	26.0	19.9
Yield (%)	1.0	0.0	1.4	1.8
Cash flow yield (%)	6.7	5.2	4.1	5.2
EPS growth (%)	-20.3	-11.6	3.5	17.2

Source: consensus estimate

‘£200m of validated sales opportunities and a £70m contracted order book’

SRT Marine

Tracking growth

SRT Marine provides maritime domain awareness (MDA) technologies and services. It supplies systems that use radar and Automatic Identification Systems (AIS) to identity vessels in a given space, allowing authorities to monitor, control and protect its territorial waters.

In meeting management, you really get the feel of all the issues that could lead authorities into making an investment in MDA technologies. These range from Ecuador, where there are 16,000 fishing vessels going out to sea without authorities knowing the destination or purpose on a weekly basis, plus where c.30 boats are robbed by drug traffickers for their engines every month. Then over in the South China Seas, where the proximity of so many countries, with overlapping jurisdictions, makes monitoring foreign vessels paramount. An MDA system will help prevent and assist in both of these scenarios.

The game changing moment for SRT Marine, in our opinion, was last month, when the group won a contract to supply a complete MDA system to Bahrain. Not only did the deal underpin current forecasts, but it also serves as a solid reference to their capabilities. SRT has just completed the first phase of the contract, worth c.$5m. Now Bahrain is looking to move into phase 2, which will encompass adding sensors, kitting out vessels with antennae and installing towers and radars. Phase 2 could be worth c.$30m to SRT if they are successful in securing it (for which they must be in the driving seat, having successfully completed phase 1). In addition, once a MDA system is up and running, SRT believes it can sell the data gathered for c.$0.5m a year on an on-going basis, building up a reasonable recurring revenue base. This project, coupled with trials and tenders with other nations, has resulted in £200m of validated sales opportunities and a £70m contracted order book – not bad compared to revenue expectations of £12m for FY17.

Large MDA systems account for c.50% of group revenues at present, though we do expect this to grow considerably and account for a larger portion of the business going forward. The other half stems from its traditional business, which sells transponders to a multitude of distributors across the globe. We expect this operation to continue to grow at around 5-10% per annum.

The main negative with SRT is that the MDA system side of the business is difficult to forecast, whilst also being very lumpy. Government based contracts, whilst sizeable, can often drag on before a final decision is made. It often involves a significant amount of time to test the technology, since MDA systems are still very nascent in their rollout. The CEO told us that it took over 12 months for Bahrain to test the technology and approve the contract. So with contract timing being largely unpredictable, estimating revenues for any 12 month period can be tricky (hence the lack of forecasts).

Despite the lack of certainty with these projects, the market has started to take note, with the share price tripling since March, on the back of contract win announcements with Panama and a ‘large Asian country’. The revenue expectations for the year ended March 2017 look more than achievable in our opinion. With the company carrying a fixed overhead of just £7m, any future revenue uplifts flows nicely to the bottom line. With phase 1 of the Bahrain project rolled out and a slew of new projects announced on the back of this, it is clear the group is gaining traction in a large and currently underserved market. With substantial growth potential we believe the share price can continue to sail away.

‘The market has certainly started to take notice, with a share price tripling since March’

SRT Marine

BUY

		%	1M	3M	12M
Ticker	SRT	**Actual**	- 3.5	+21.3	+71.7
Price	48.5p	**Relative**	-1.6	+13.5	+61.0
Target Price	n/a				
Upside	n/a				
Market Cap	£60m				
Index	FTSE AIM All Share				
Sector	Tech Hardware & Equipment				
Net Debt	£0.9m				
Shares in Issue	127.6m				
Next Results	tbc				

Share Price Performance

Source: Thomson Reuters

Year ending March (£m)	2015A	2016A	2017E	2018E
Data				
Sales (£m)	8.5	10.7	n/a	n/a
Adj EBITDA (£m)	1.2	1.7	n/a	n/a
Adj PBT (£m)	n/a	n/a	n/a	n/a
Tax rate (%)	n/a	n/a	n/a	n/a
Adj EPS (FD) (p)	0.0	0.0	n/a	n/a
DPS (p)	0.0	0.0	n/a	n/a
Ratios				
EV/Sales (x)	n/a	5.89	n/a	n/a
EV/EBITDA (x)	n/a	36.7	n/a	n/a
P/E (x)	n/a	n/a	n/a	n/a
Yield (%)	n/a	n/a	n/a	n/a
Cash flow yield (%)	n/a	n/a	n/a	n/a
EPS growth (%)	n/a	n/a	n/a	n/a

Source: consensus estimate

Tracsis

Full steam ahead

Tracsis offers software, consultancy, condition monitoring and data capture services to the transportation industry. Recent performance has been driven by a mix of both organic and acquisitive growth, particularly by deals in the data capture space. The recent signing of a significant order with a North American railroad operator for their Remote Condition Monitoring (RCM) technology signals a long awaited breakthrough in the lucrative US rail market.

On August 17 Tracsis announced their RCM deal in the US. This was the deal that the market has been waiting for, having seen the share price rise from 430p to 530p in the four weeks since. We believe this could be the start of a new engine of growth for the group as well as further validation of its technology.

RCM technology is essentially based on black boxes that sit around the network to monitor critical equipment, such as points, in real time; this allows the operator to detect, amongst other things, a potential point failure prior to the point actually failing. Management have expressed strong hope that this contract will lead to a further roll out across client's network in the fullness of time and more importantly also act as a valuable reference case with other US rail customers. We understand the total US market opportunity is vast, with seven class 1 operators, each of equal or greater size to Network Rail in the UK. Given that management recently told us that they had saved Network Rail c.450,000 delay minutes since inception, we are confident that the business case has been demonstrated, and that Tracsis will gain momentum in the key US market.

Elsewhere we understand that they continue to conduct RCM trials with the two biggest Australian rail companies. They also currently have six pilots on the go in Europe, working on small scale gas turbine projects where the conditioning monitoring software can be tweaked to measure RPM of turbines to predict failure.

Finally, we believe that the recent arrival of Chris Cole as Chairman (WSP, Ashtead) could herald a step up in the scale of deals pursued. The company has successfully integrated a number of smaller companies within the data capture and passenger counting arenas, but the scale of the business today, along with their track record of integration, warrants a bigger prize.

We like technology plays that focus on specialist niche markets, as they face less competition initially, and by solving complex issues, they can build highly profitable and fast growing businesses. Tracsis definitely fits this case, having seen great growth in the UK, and now looking to expand overseas. The first US contract, we believe, is a big stepping stone to substantial revenue growth that could see Tracsis quadruple in size over the long term. It's for this reason why, trading on a FY17 multiple of 23x, we continue to see value in the stock.

'The scale of the business today... warrants a bigger prize'

‘We understand the total US market opportunity is vast, multiple times the size of Network Rail’

Tracsis

BUY

Ticker	TRCS
Price	520p
Target price	n/a
Upside	n/a
Market Cap	£144m
Index	FTSE AIM All Share
Sector	Software & Computer Services
Net Debt	£7.3m
Shares in Issue	27.7m
Next Results	tbc

%	1M	3M	12M
Actual	+18.7	+10.1	+16.2
Relative	+17.2	+1.4	+2.2

Share Price Performance

Source: Thomson Reuters

Year ending July (£m)	2015A	2016E	2017E	2018E
Data				
Sales (£m)	23.1	31.0	34.7	37.7
Adj EBITDA (£m)	6.2	7.8	9.0	9.6
Adj PBT (£m)	4.2	4.0	5.4	5.9
Tax rate (%)	-0.7	-0.9	-1.0	-1.1
Adj EPS (FD) (p)	12.8	10.8	14.8	16.1
DPS (p)	1.0	1.2	1.4	1.5
Ratios				
EV/Sales (x)	5.5	4.1	3.7	3.4
EV/EBITDA (x)	20.5	16.4	14.2	13.3
P/E (x)	27.1	23.2	20.0	19.0
Yield (%)	0.2	0.3	0.3	0.3
Cash flow yield (%)	3.5	4.3	4.8	4.7
EPS growth (%)	41.9%	10.9	12.1	10.3

Source: consensus estimates

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The recommendation system used for this research is as follows. We expect the indicated target price relative to the FT All Share Index to be achieved within 12 months of the date of this publication. A 'Hold' indicates expected performance relative to this index of +/-10%, a 'Buy' indicates expected outperformance >10% and a 'Sell' indicates expected underperformance of >10%.

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