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NORTHLAND
CAPITAL PARTNERS LIMITED

Friday, 06 February 2015

Holdings Technology (HDT.L) – CORP: Prelims

Market Cap: £1.5m; Current Price: 37.5p

Difficult FY14; some signs of improvement in FY15

- Difficult FY14 across both the LED and PCB divisions with a 6% decline in group revenue to £13.5m (NCPe: £14.2m) resulting in a £0.4m negative swing in profitability to an adj. LBT of £0.3m (NCPe: £0.2m loss). Net cash was £0.1m better than forecast at £0.6m (FY13: £1.3m) but the final dividend of 0.25p results in a FY DPS of 1.25p (NCPe: 2.00p).
- Revenue in the PCB division was flat at £11.0m but profit fell. The German business, comprising 74% of the division's revenue, had a good first half but a weaker H2. The UK business suffered from a general weakening in demand as well as two customers going into administration. In October, Holders announced the termination of a major PCB supplier agreement that accounted for c. 10% of group revenue. In light of this, the UK PCB business has been significantly restructured resulting in a £67k exceptional charge.
- The LED division saw modest progress although revenue dropped 24% to £2.5m. There was growth in both NRGstar and Opteon Germany but Holders Components UK suffered with the loss of a major customer that went into administration. The outlook is more positive with an encouraging order book and a more evenly spread customer base.
- We have reduced our forecasts at the top and bottom line and our DPS expectation for FY15 as we anticipate a more gradual recovery in trading and to reflect the loss of the PCB supplier agreement. We also introduce an FY16 forecast that sees better performance at the top and bottom lines enabling the resumption of a higher DPS.

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Year end	Revs	Adj. EBITDA	Adj. PBT	Tax	Adj.	PER	Div	Net cash	Yield
Nov	(£m)	(£m)	(£m)	(%)	EPS (p)	(x)	(p)	(£m)	(%)
2012A	13.6	0.4	0.2	NEG	(2.8)	NEG	2.0	0.7	5.3
2013A	14.3	0.4	0.3	24.7	1.8	20.8	2.0	1.3	5.3
2014A	13.5	(0.3)	(0.3)	NEG	(9.5)	(3.9)	1.3	0.6	3.3
2015E New	13.0	0.1	0.0	NEG	0.2	>100	0.5	0.5	1.3
2015E Old	15.0	0.3	0.2	22.0	4.0	9.4	2.5	0.5	6.7
2016E	14.2	0.3	0.2	22.0	3.8	9.9	2.0	0.5	5.3

SOURCE: Northland Capital Partners Limited.

NORTHLAND CAPITAL PARTNERS VIEW: A difficult FY14 with some attrition in the customer base and the loss of a long standing PCB supplier agreement. There was growth in the higher margin parts of the LED division that represents the main opportunity for the business going forward and the order book provides some cause for encouragement. The design cycle for custom LED solutions from Holders is long but once the solution has been designed in, production cycles are reasonably long – improving forward visibility. Holders has also built up a good portfolio of LED component manufacturer relationships (LEDs, heat sinks, drivers and lenses). The shares at the current level are trading at a substantial discount to NAV (c. 114p), including net cash of £0.6m.

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