14 May 2018

Titon Holdings Plc

Justice and favour

Kim Jong-un, North Korea's Supreme leader, has been in rehab and is finally living up to the English translation of his christian names: justice-and-favour. The World is a different place with a Trump/Kim summit pending. South Korea is a different place, too, which is very good news per se and for Titon which generated three-quarters of its net profit here in its latest half year.

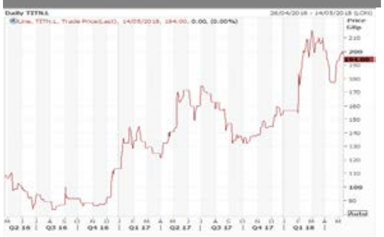
- **Results:** profit before tax in the half year to 31 March 2018 rose some 15% on a constant currency basis to £1.34m on revenue justice-ed 16% ahead at £14.5m. The dividend was also favoured by 17% to 1.75 pence with cover at 4.1x. South Korea raised its contribution 13% to almost £0.9m and contributed 74% of Titon's net profit.
- **Metrics:** Return on Net Assets in H1 was 18.9% on an adjusted basis with Capital Turn above 2.0 (we like this 'un'). Liquidity is summit-less, too, with a Quick Ratio of 1.93; while net cash is equivalent to 16% of net assets. Titon is looking forward to further progress in H2 and a performance in line with expectations.
- **Forecasts:** we have nudged up our profit and earnings forecasts and the UK can be expected to provide favour-able seasonal demand in H2 and, while domestic GDP is below trend, it should justly grow at 1% to 2% p.a. through 2020. In South Korea, ahead of any peace dividend, GDP is set to grow at 2.9% p.a.
- **Risks:** the Korean Peninsula is a dramatically safer place than it was and can build from there. Yes, there is continued Brexit uncertainty at home, but Experian is forecasting annual growth in construction of 1.1% in 2018 through 2020 with private housebuilding increasing at 3.0% p.a. Meantime, Titon's other regions are seed corn for the future. The Group produces both prosaic and truly innovative products which is both a useful combination and affords good reach.
- **Justice and favour:** The unique Hardman UK Building Materials Sector comprises 22 companies with a market value of £8.5bn and our average valuation of 8.7x EV/EBITDA on a trailing 12-month basis. Titon is in the lower half of the table at 7.7x – despite the third best Total Return to Shareholders of 42% over 12 months; note, too, the Sector TSR average is just 5.3%.

Financial summary and valuation

Year-end Sept. (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	22.3	23.7	28.0	28.6	30.2	31.9
EBITDA	2.13	2.33	2.46	2.81	3.04	3.26
Underlying EBIT	1.56	1.77	1.85	2,13	2.29	2.43
Statutory PTP	1.87	2.14	2.49	2.91	3.20	3.50
Underlying EPS (p)	12.6	15.2	16.3	18.1	19.6	21.1
Statutory EPS (p)	12.6	15.2	16.3	18.1	19.6	21.1
Net (debt)/cash	2.9	2.4	3.3	3.7	4.1	4.6
Shares issued	10.8	10.9	11.1	11.0	11.0	11.0
P/E (x)	15.9	13.2	12.2	11.1	10.2	9.5
EV/EBITDA (x)	9.0	8.4	7.6	6.5	5.9	5.4
DPS (p)	3.00	3.50	4.20	4.90	5.75	6.00
Yield	1.5	1.8	2.1	2.5	2.9	3.0

Source: Hardman & Co Research

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**TON**
Price (p)	200.0
12m High (p)	215.0
12m Low (p)	129.0
Shares (m)	11.0
Mkt Cap (£m)	22.1
EV (£m)	18.8
Free Float	97%
Market	MAIN

Description

Titon designs, manufactures and supplies a comprehensive range of passive and powered ventilation products; plus, handles, hinges and locking for doors and windows. "The home of domestic ventilation systems and door and window hardware".

Company information

Executive Chairman	Keith Ritchie
Chief Executive	David Ruffell

01206 713 800
www.titonholdings.com

Key shareholders

Rights & Issues IT	11.4%
MI Discretionary UF	7.2%
Chairman	8.8%
Other Directors	7.9%
Founder/NED	15.7%
Family	6.9%

Next event

30 Sept-17	Year end
Dec 2017	Final results

Analysts

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Prologue

In Korea, the custom is to bestow a two-syllable name on a baby, with each one usually being some Chinese character that is both meaningful and phonetically pleasing. And, the Kim dynasty in the Democratic People's Republic of Korea is no exception. For example, the leader-once removed - and the incumbent's Dad - was Kim Jong-il. The surname, of course, is Kim while "Jong" means just, justice or proper and "il" means sun. And so, eloquently translated in to English, he was the proper-or-just-sun. Not bad.

Kim Junior, or Kim Jong-un, takes the "Jong" from his father while the "un" means "favour or grateful". Hence, and using the above skill set, his name means justice-and-favour. Again, not bad.

Until recently, neither moniker would have seemed appropriate to Western eyes or ears, but the boy has been in rehab and now wants to be everyone's friend. As short a time ago as last November, Kim Jong-un fired an ICBM into the Sea of Japan and the state of alert of the US military was raised to DEFCON 4 (DEFense readiness CONdition) i.e. 'a double take' on events. It is now back to 5 (which is the lowest).

No one is really sure why North Korea's Supreme Leader is now, extraordinarily, living up to his translated name. Have the West's sanctions on his country finally taken their toll? Did Donald Trump's "fire and fury" threat ring true? Or does he simply want to occupy a seat at the top geopolitical table? He is certainly the last of the socialist hold-outs.

In any event he has already hobnobbed with South Korean President Moon Jae-in (27 April) and on 12 June he sits down with Donald Trump in Singapore (which apparently is as far as North Korean Air can fly safely, so old are its planes). This is the first ever meeting between a sitting US President and a North Korean leader.

In April, the leaders of North and South Korea committed themselves to the complete denuclearisation of the Korean Peninsula and also pledged to bring a formal end to the Korean War, 65 years after hostilities ceased. Since then, too, North Korea has scheduled the dismantling of its nuclear test site, Punggye-ri, for between 23 and 25 May.

It is a bit like those United Colours of Benetton picture adverts coming true. And if it is true, then the World is a safer place and a huge risk to South Korea has been lifted. To be fair, the Nation has been doing extraordinarily well even with a bellicose neighbour (and remember the distance between Seoul and Pyongyang is 195 kilometres). For example, South Korea is the 4th economy largest in Asia and 11th largest in the World – and it is renowned for its spectacular rise from one of the poorest countries to a developed, high-income country in just one generation. This economic transformation, commonly known as the Miracle on the Han River, brought South Korea to the ranks of elite countries in the OECD and the G-20. Its GDP is also growing at a near the top of the table rate of 2.9% p.a. i.e. last year and as forecast by FocusEconomics in 2018 and 2019.

The Nation is also something of a manufacturing titan which makes it even more surprising that Titon Holdings, in a volte face, is the market leader in natural ventilation products here. In fact, South Korea contributed 74% of the Group's net profit in the first half of the current fiscal year.

Overall, too, it was a very tidy six months for Titon with revenue rising 5% in a constant currency to £14.5m and profit before tax up by 16%, on the same basis, to £1.34m. The dividend was also hiked 17% yet cover remains very healthy at 4.1x. RoNA was also upper teens (i.e. 18.9% on an adjusted basis) and, one of our favourite metrics, Capital Turn was also north of 2.0 on the same basis. Liquidity is similarly excellent with a Quick Ratio of 1.93 and net cash equivalent to 16% of net assets.

Titon is not a titan but it is perfectly formed and a maker of both prosaic and truly innovative products. It is also looking forward to further progress in the second half and a performance in line with market expectations. Note, too, the shares have also generated a TSR (total shareholder return) of 42% over 12 months.

Unlike 'The Little Rocket Man' though there is an absence of justice and favour in its rating (a trailing EV/EBITDA of 7.6x) which is in the lower half of the Sector table. Look forward to the summit.

Half year results to 31 March 2018

Profit & loss

In the six months ending 31 March 2018, Titon's gross and net revenue rose 2% and 3% respectively to £14.7m and £14.5m (and the £204,000 difference is derived from Inter-segment trading exclusively in the UK). For the record, too, the net top line gain on a constant currency basis was +5%.

At the same time, the Gross Margin dipped a little from 28.4% to 26.2% and £181,000 in quantum due largely to poor trading in the US.

Thereafter, good housekeeping saw Administration Expenses as a percentage of net revenue 101 bps to 15.7% and was joined by Distribution Costs which declined 102 bps to 2.3% of net revenue. The latter saved thick end of £200,000. Meantime, R&D took 1.7% of revenue which was also marginally lower (2017: 2.0%).

EBITDA or earnings before interest, tax, depreciation and amortisation rose by a tidy 11% to £1.29m as did Operating Profit or Earnings before Interest and Tax (EBIT) to £0.95m. In turn, this meant EBIT margins widened from 6.1 to 6.6%. Note, too, that 2017's EBIT (£0.85m) is net of a £327,000 debit to exit a nascent UK business unit in commercial ducting fabrication (it just did not work).

Net interest contributed £9,000 (2017: £7,000) whilst the Group's South Korean Associate, BTS, increased its contribution handsomely by 18% to £379,000.

In turn, Profit before Tax (PBT) increased by 13% from £1.18 to 1.34m; and, as above, on a constant currency, the rise was +16%.

Taxation took a very significantly lower percentage in the latest half year due, unfortunately to trading losses in the US i.e. it fell from 24 to 10%.

Titon Korea, the group's 51%-owned eponymous business (like its sister subsidiary) had a very good half year raising profits by almost 19% which meant that the 'Non-controlling interest' or Minority debit was £295,000 (2017: £237,000). Unsurprisingly, Net Profits surged 42% with Basic Earnings per Share (EPS) doing the same to 8.64p. (and there were less than 1% more shares in issue in the half year).

The Interim Dividend per share was increased, very confidently, by 17% to 1.75p with cover at 4.1x (2017: 3.7x).

Profit and loss

Half years to 31 March (£m)	2017	2018	% chge
Gross revenue	14.387	14.689	
Inter-segment	-0.375	-0.204	
Net revenue	**14.012**	**14.485**	3
Cost of sales	-10.032	-10.686	
Gross profit	**3.980**	**3.799**	
Administration	-2.361	-2.278	
Distribution	-0.488	-0.326	
R&D	-0.282	-0.247	
Other income			
	0.005	0.003	
Net interest	0.007	0.009	
Associate	0.320	0.379	18
Profit before tax	**1.181**	**1.337**	13
Tax	-0.281	-0.132	
Post-tax profit	0.900	1.205	34
Minorities	-0.237	-0.258	
Net profit	**0.663**	**0.947**	**43**
Dividends	-0.245	-0.295	
Other	0.136	0.227	
Retained profit	0.554	0.879	59
Basic EPS (p)	6.09	8.64	42
DPS (p)	1.50	1.75	17
No. of shares	10.879	10.964	

Source: Company data; Hardman & Co Research

Ratios

Margins (%)	H1 2016	H1 2017
Gross	26.2	28.4
EBITDA	8.9	8.3
EBIT	6.6	6.1
PBT	9.2	8.4
Net	6.1	6.4
Retained	3.0	4.0
Tax (% rate)	*-16.3*	*-23.8*
DPS Cover (x)	4.1	3.7
EBITDA (£m):		
EBIT	0.949	0.854
Depreciation	0.233	0.214
Amortisation	0.112	0.098
Total	**1.294**	**1.166**

Source: Company data; Hardman & Co

Operations analysis

In South Korea, revenue rose 25% to £5.7m as shown in the Segmental table, and this is all from Titon Korea. The group's 51% owned subsidiary manufactures passive ventilation products principally for windows and is the national market leader in the southern half of the Korean Peninsula.

In the formal profit and loss account, Titon Korea is included in the EBIT line where it contributed £0.64m, which was 7% up year-on-year. Yes, profitability eased a little from 13.1% to 11.2% due to higher labour costs. This was driven by a shortage of labour per se and a South Korean government minimum wage scale. Note, too, that Titon Korea accounts for 100% of the group's Minorities charge which in H1 was £258,000 (H1 2017: £237,000)

Browntech Sales (BTS) which also operates exclusively in South Korea is an associate company. Its contribution can be tracked through the Associate line, where it is, again, the sole contributor. And, in the latest half year its contribution rose smartly by 18% to £0.38m. BTS distributes ventilation products in South Korea and invests in and develops schemes in the domestic residential real estate market.

It is important to note, here too that 'Segment' profit for the UK is pre-unallocated expenses while for South Korea it is 'post' (see later table). In combination, subsidiary and associate in South Korea, together, is the largest single contributor to the Group's profit after tax i.e. 74% or £0.88m in the half year which compares with 87% and £0.78m respectively in H1 2017.

The UK, with £7.3m of Revenue, accounted for half of the group total in the first half of fiscal 2018 (H1 2017: 51%) and was up 2% in the latest half year. The group's home market also contributed just under £0.5m of segment profits in H1 2018 which was a third up year-on-year (the H1 2017 segmental comparative is stated prior to the costs of closing Titon's fledgling business unit). On the same basis, UK profitability moved ahead nicely from 5.2% to 6.7%, half year on half year.

By product, in the UK, window and door hardware business did well with rising revenue and profit. Demand for a number of Titon's new trickle ventilation units also rose. Additionally, the group generated higher sales of both in-house built hardware products and those bought-in. The same was true in the Ventilation Systems Division and the sales force has been expanded here. Export sales, however, were not as strong in the half year which was not a surprise. That said, new products have been developed for cold climates in Eastern Europe and Titon has expanded its range of mechanical ventilation products – for the UK and continental Europe – including a fully accredited Passivhaus mechanical-ventilation-with heat-recovery unit for highly energy efficient homes. This is new, and this is different.

Elsewhere, the US had a very difficult year with revenue running at a third (i.e. £0.3m) of that from the corresponding half year. This means, too, that Titon Inc. incurred a trading loss in H1, albeit less than £100,000 (£2017: a profit of £261,000). The group's core US market in Washington State saw a sharp slowdown which was exacerbated the completion of a number of profitable contracts. This is disappointing. However, the region made a positive contribution because its products are manufactured at our UK facility.

'Other' nations (largely in continental Europe) had an okay half year revenue-wise with a dip of just 5% to £1.24m. However, as with the US, a modest trading loss (£85,000) which compares with a tiny profit last time (£9,000). This is for the future.

In sum, too, the US and 'Other' nations, together, accounted for 11% of the group's H1 revenue (H1 2017: 17%).

Business segment revenue and profit

Half years to 31 March (£m)	2017	2018
Revenue		
UK (net)*	7.137	7.253
South Korea	4.520	5.665
Nth America	1.047	0.330
Other	1.308	1.237
Total*	**14.012**	**14.485**
Segment profit		
UK	0.368	0.484
South Korea^	0.913	1.015
Nth America	0.261	-0.077
Other	0.009	-0.085
Total	**1.551**	**1.337**
% changes in Revenue		
UK	18	2
South Korea	34	25
Nth America	53	N/A
Other	70	-5
Total	**29**	**3**
% changes in Profit		
UK	-10	32
S. Korea^	83	11
Nth America	10	N/A
Other	N/A	N/A
Total	**25**	**-7**
Margins (%)		
UK	5.2	6.7
S. Korea^	20.2	17.9
Nth America	24.9	N/A
Other	0.7	N/A
Total	**11.1**	**9.2**
**ex Inter-segment revenue*	*0.375*	0.204

Notes: inter-segment revenue pertains to UK only*

^South Korea profit includes Group share of profit from Associate BTS

Source: Company data; Hardman & Co Research

Balance sheet

Net Assets including Minorities (*aka* Non-controlling Interest) rose 11% in the half year to 31 March 2018 to £17.4m from £15.6m; and this included a rise in Net Cash from £2.71 to £2.74m i.e. 17% of NAV versus 16% last time.

Annualised RoNA increased from 15.1 to 15.4% half-year-on-half-year although if Intangibles (around £530,000 in both periods) and Net Cash are excluded from the denominator, then the latest RONA was 18.9% (2017: 19.1%).

RoCE or Return on Capital Employed on an annualised basis was 10.9% (2017: 10.9%) with annualised Capital Turn (Revenue-divided-by-Capital-Employed) showed continued excellence at 1.7x (1.8x). As is our want, we like, the relatively neglected, Capital Turn ratio because it measures how efficiently capital is utilised. For the uninitiated on this subject, there are two ways to make a profit: maximise revenue and constrain costs on the one hand; and use your capital efficiently on the other. Preferably, it is a combination of both. Capital Turn can also be used to focus management and employees on using capital efficiently, avoiding waste etc.

However, as with RONA, if RoCE excludes Intangibles and Cash, the 2018 first half return is 13.4% (2017: 13.8%); the same goes for an adjusted Capital Turn which remained at 2.1x (2016: 2.3x) on the same basis.

Turning to liquidity, we highlight the Current and Quick Ratios which are calculated by dividing current assets by current liabilities (‘Current’) and current-assets-less-stocks divided by current liabilities (‘Quick’); and where above 1.0 is good). The former was 2.93 in H1 2018 (H1 2017: 2.96), while at the same time, the Quick Ratio was 1.93 against 1.94. All are truly mouth-watering.

Capital Employed

Half years to 31 March (£m)	2017	2018
Ordinary shares	1.095	1.113
Share premium account	0.975	1.049
Revaluation Reserve etc.	0.056	0.056
Profit & loss account	10.910	12.552
Other	0.578	0.324
Shareholders' funds	13.614	15.094
Minorities	2.000	2.304
Provisions for liabilities	0.000	0.000
Preference Shares	0.000	0.000
Other loans/leases	0.000	0.000
Bank loans & ODs	0.000	0.000
CAPITAL EMPLOYED	**15.614**	**17.398**
Fixed assets	3.576	3.418
Investments	1.824	2.411
Stocks/WIP	4.976	5.721
Corporation tax	-0.176	-0.156
Trade debtors	6.772	8.103
Other debtors	0.000	0.000
Deferred tax	0.114	0.072
Trade creditors	-4.706	-5.436
Other creditors	0.000	0.000
Intangibles/Other	0.529	0.530
Cash	2.705	2.735
CAPITAL EMPLOYED	**15.614**	**17.398**
METRICS:		
RoCE annualised 1 (%)	10.9	10.9
RoCE annualised 2 (%)*	13.8	13.4
Capital turn annualised 1 (x)	1.8	1.7
Capital turn annualised 2 (x)*	2.3	2.1
RoNA annualised 1 (%)	15.1	15.4
RoNA annualised 2 (%)*	19.1	18.9
Current ratio	2.96	2.93
Quick ratio	1.94	1.93
Stocks as % of revenue	36	39
Creditors as % of revenue	-34	-38
(Net debt)/cash (£,000)	2.705	2.735
Net assets (£,000)	15.614	17.398
Gearing % (-ve)/+ve	17	16

Source: Company data; Hardman & Co
*Notes: *adjusted for Intangibles and Net Cash*

Cashflow

In terms of cash flow, there was a £277,000 cash at the 'cash generated from operations' line which was driven by a seasonal spike on working capital, principally an increase in debtors of £1.24m. Okay, capital expenditure broadly halved but dividends were 20% higher.

Cashflow		
Half years to 31 March (£m)	**2017**	**2018**
Profit before tax	1.181	1.337
Interest etc.	0.000	0.000
Depreciation etc.	0.312	0.345
Provisions	0.000	0.000
Asset sales	-0.007	-0.012
Share issued/sold	0.042	0.092
Other	-0.320	-0.379
SOURCES	**1.208**	**1.383**
Capex	0.279	0.125
Disposals	-0.007	-0.034
Acquisitions	0.000	0.004
Stocks	0.330	0.934
Debtors	-0.024	1.235
Creditors	-0.129	-0.597
Tax	0.247	-0.045
Dividends	0.245	0.295
Other	0.000	0.000
USES	**0.941**	**1.917**
Surplus/(deficit)	0.267	-0.534
Adjustment	0.000	0.000
Movement (debt)/cash	**0.267**	**-0.534**
Reconciliation & Analysis of Balance Sheet Debt:	**Half Year 2016-17**	**Half Year 2017-18**
(Net debt)/cash	2.705	2.735
Net assets	15.614	17.398
Gearing % (-ve)/+ve	17	16
Consecutive six-months on six-months change	*0.267*	*-0.534*

Source: Company data; Hardman & Co

This meant that between 30 September 2017 and 31 March 2018, there was a net cash outflow of £534,000 (2017: inflow of £267,000). However, comparing half year with half year, the net cash outflow was just £30,000 (2017: inflow of £247,000).

Forecasts

We expect more of the same in the second half of the current fiscal year and into 2019 and 2020. In South Korea (and perhaps in time, the North too?), the expected revenue gains are in double digits with gently appreciating profitability from 2017's 17.4%. This spells, an annual contribution rising in the high teens. Note, too, the Associate contribution which we have at seven figures in fiscal 2010

In the UK, revenue will rise by single digits p.a. with steady segmental margins (2018 forecast at 22%). Both economic and construction industry growth (including private housebuilding) is steady if ambulatory.

After, a disappointing half year in the US, other locals of activity are consolidating and overall the result will be break-even this year. These are largely the US and continental Europe are very much seed corn for the future.

In sum, this produces profit before tax growth at average 12% p.a. in the period 2018 through 2020, which is very good to be getting on with. Expected annual p.a. dividend growth is slightly in advance of profit at 13% with an admittedly conservative view of 2020's pay-out.

Net cash generation is forecast to be positive to the tune of £0.4m to £0.5m each year which would mean closing net cash in 2020 between £4.5m and £5.0m. Should it choose to, also, Titon could make an acquisition or two.

Segmental Revenue and Profit

Revenue (£m)	**2016A**	**2017A**	**2018A**	**2019E**	**2020E**
UK	12.9	14.0	14.2	14.5	14.8
South Korea	7.1	9.5	11.1	12.2	13.4
Other	3.7	4.5	3.3	3.5	3.7
Total	**23.7**	**28.0**	**28.6**	**30.2**	**31.9**
Segment Profit					
UK	2.8	2.7	3.1	3.2	3.3
South Korea	1.2	1.7	2.0	2.3	2.7
Other	0.5	0.4	0.0	0.1	0.2
Total	**4.5**	**4.8**	**5.1**	**5.6**	**6.2**

Source: Company data; Hardman & Co Research

Chairman's statement

Financial performance

"It was a very good half year result for Titon with revenue of £14.5 million and a 13% increase in profit before tax to £1.34 million. The interim dividend was also increased by 17% with cover at 4.1 times.

Income Statement

In the six months to 31 March 2018, Titon's net revenue (which excludes inter-segment activity) rose 3% to £14.5 million (2017: £14.0 million). On a constant currency basis, however, the increase is 5%.

The gross margin dipped from 28.4% to 26.2% due largely to poor trading in the US. Meantime, EBITDA was 11% higher at £1.29 million (2017: £1.17 million). Earnings before interest and tax (EBIT*) or operating profit also rose 11% to £0.95 million (2017: £0.85 million) and the operating margin increased from 6.1% to 6.6%. Net interest contributed £9,000 (2017: £7,000) while the share of profits from the Group's associate rose 18% to £379,000 (2017: £320,000) resulting in profit before tax of £1.34 million, which was an increase of 13% (2017: £1.18 million) or, on a constant currency basis, the rise was 16%.

EPS were a very significant 42% higher at 8.64 pence (2017: 6.09 pence) which was driven by a much lower effective rate of tax i.e. 24% down to 10% which was on account of trading losses in the US.

Finally, the non-controlling interests' or minorities' deduction increased 9% from £237,000 to £258,000 which reflects the higher contribution from Titon Korea, 51% owned.

An Interim Dividend in respect of the six months ended 31 March 2018 of 1.75 pence per share (2017: 1.50 pence) was approved by the Directors of Titon Holdings Plc on 9 May 2018. The Interim Dividend is payable on 21 June 2018 to shareholders on the Register at 18 May 2018. The ex-dividend date is 17 May 2018.

Balance sheet and cashflow

Net assets including non-controlling interests rose 11% or £1.8 million to £17.4 million (2017: £15,6 million) with net cash at £2.74 million (2017: £2.71 million) which is equivalent to 15.7% of net assets (2017: 17.3%). Net cash at the end of the fiscal year to 30 September 2017 was £3.3 million.

In the half year, there was a £277,000 outflow at the 'cash generated from operations' line (2017: inflow of £995,000). This was driven by a seasonal spike in working capital, largely debtors at £1.24 million. In mitigation, capital expenditure was lower but dividends were 20% higher. This meant that between 30 September 2017 and 31 March 2018, there was a net cash outflow of £534,000 (2017: inflow of £267,000).

Net current assets were £11.0 million (2017: £9.6 million) with a Quick Ratio** of 1.93 (2017: 1.94).

RONA*** was 18.9% (2017: 19.1%) with Asset Turn at 2.1 (2017: 2.3).

Operations

In South Korea, Titon's subsidiary company, Titon Korea (51% owned), manufactures natural window ventilation products and is the national market leader. In the half year, it increased revenue by 25% to £5.7 million. A significant shortage of labour, combined with a government policy of aggressively increasing minimum wage rates, has led to a substantial increase in labour costs and has been the main factor in limiting Titon Korea's profit growth to 7% at £635,000 for the six months (2017: £593,000). Net Margin remained very healthy at 11.2% (2017:13.1%).

The Group's associate company, Browntech Sales Co. Limited ('BTS') also operates exclusively in South Korea and it generated an 18% increase in its contribution in the half year to £379,000 (2017: £320,000), which is the entire Associate contribution in the Group Income Statement. In terms of activity, BTS distributes ventilation products in South Korea as well as investing and developing in the domestic residential real estate market.

The combined contribution to Group Net profit after Taxation by the two South Korean companies was up 13% to £0.88 million (2017: £0.78 million). South Korea remains the most profitable area of operation for the Group, generating 74% of Group net profit after tax in the period (2017: 87%).

Revenue derived from the UK was flat at £7.5 million (2017: £7.5 million) which reflects the absence of the closure costs of the fabrication venture. The UK's segment contribution, however, increased markedly to almost £500,000 which is a 32% rise year-on-year after the exit costs are added back to the corresponding half year. Margins also rose, on the same basis, from 4.9 to 6.5%.

At home, our window and door hardware business produced a good result in the half year as both sales and profit rose. We have been pleased, too, with rising demand for a number of the Group's new trickle vents. In addition, sales of both Titon manufactured and bought-in hardware products have continued to grow. Elsewhere, sales in our Ventilation Systems Division edged up in the half year. Several new sales staff have also been added here as we expand our coverage throughout the UK. Export sales of our Ventilation Systems products, however, were not as strong in the first six months of the fiscal year as we had anticipated. In response, we have developed products for cold climates in Eastern Europe, which will allow us to broaden our market coverage in this region. We also continue to expand our range of mechanical ventilation products for UK and European markets and have also just introduced a fully accredited Passivhaus mechanical-ventilation-with heat-recovery unit for highly energy efficient homes, which distinguishes Titon from a number of its competitors here.

Finally, in the US, revenue was sharply lower in the period which led to a trading loss for our US based subsidiary, Titon Inc., and which compares with a profit in the period ended 31 March 2017. However, the region made a positive contribution because its products are manufactured at our UK facility. After a number of years of rising sales in the US, this is a disappointing result. There has been a general market slowdown in one of our core markets in Washington State as well as the completion of several profitable contracts in other areas.

Employees

In my outlook statement, I say that we have "a team that I am proud of"; and we do. Without them, we would not have the high quality, diversified business that is Titon. To all of them, I offer my and the Board's sincere thanks.

Investors

We continue to work with Hardman & Co., the corporate research house, to expand our presence in the private investor world. Hardman writes and distributes, in my view, highly cogent research on the Group. This has had a very positive effect on the Group's share price.

Since January this year, MiFID II (Markets in Financial Instruments Directive, Number 2) has been implemented across 17 EU countries including the UK. Essentially, it means that investment banks are now legally bound to charge fund managers for investment research. As a result of this Directive, it was predicted that less notes would be written on many companies particularly the small and middle-sized such as Titon. This prediction has proved to be correct and, in fact, the coverage of small market capitalisation companies is in steeper decline than expected before the change. The corporate research sector, including Hardman & Co., is not impacted by MiFID II.

Finally, I reiterate Titon's dividend reinvestment programme. This is a straight-forward and cost-effective way to increase a shareholding in Titon. It can be achieved by visiting the portal for our Registrars, Link Market Services Limited.

Outlook

It was another very good six-months for Titon with a 13% increase in profit before tax to £1.34 million. The interim dividend was also increased by 17%.

In South Korea, the geopolitical climate has taken an extraordinarily positive shift with the recent summit between South Korean President Moon Jae-in and North Korea's Leader Kim Jong-un. This was unthinkable even at the turn of the year and has been welcomed in Asia and around the Globe. It remains to be seen whether full de-nuclearisation in North Korea will follow, but this new openness, and a prospective meeting between Donald Trump and Kim Jong-un, is very good news. In any event, South Korea is an extraordinarily robust economy. GDP grew at 2.9% last year and FocusEconomics is forecasting growth of 2.9% in both 2018 and 2019.

In the UK we expect stronger seasonal growth in demand for our products through the summer. UK GDP was impacted by the weather in the first quarter of the calendar year and, while it is set to grow below trend, consensus forecasts put GDP at between +1 and 2% this year and next. At the same time, while the pace of UK housebuilding activity is expected to slow, Experian is forecasting average volume growth of more than 3% per annum through 2020. This is despite continued uncertainty surrounding the Brexit negotiations and the absence of even a transitional agreement.

Titon has a unique international spread of markets, particularly given its relative scale. We make good products, some of them prosaic, some truly innovative. Backing this up, is a traditionally strong balance sheet and a team that I am proud of. I look forward to further progress in the second half of the year in line with market expectations".

Principal risk and uncertainties

The key financial and non-financial risks faced by the Group are disclosed in the Group's Annual Report and Accounts for the year ended 30 September 2017 within the Strategic Report (page 6) available at www.titonholdings.com The Board considers that these remain a current reflection of the risks and uncertainties facing the business. The Board also considers that it is appropriate to adopt the going concern basis of accounting in preparing these financial statements and has not identified any material uncertainties which would prevent us so doing.

Responsibility Statement

"The Directors confirm that, to the best of their knowledge, this condensed set of consolidated financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that this Interim Report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R".

Keith Ritchie, Chairman

Notes:

** EBIT is shown before the contribution from the Associate.*

*** The Quick Ratio measures liquidity and is calculated by dividing Current Assets-less-inventories by Current Liabilities*

**** RONA is calculated by dividing Profit before tax by Net Assets including non-controlling interests, net of cash and intangibles and here it is an annualised number; Asset Turn is calculated by dividing the group's net revenue by Net Assets as defined above.*

Profit & Loss Account

Year-end Sept (£m)	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	**14.548**	**15.740**	**19.256**	**22.258**	**23.721**	**28.011**	**28.626**	**30.183**	**31.865**
CoGS	-11.668	-12.059	-13.926	-15.745	-16.117	-20.133	-20.535	-21.588	-22.690
Gross Profit	2.880	3.681	5.330	6.513	7.604	7.878	8.091	8.595	9.175
SG&A	-3.238	-3.034	-3.638	-3.861	-4.754	-4.966	-4.815	-5.071	-5.417
R&D	0.000	0.000	0.000	-0.535	-0.539	-0.467	-0.487	-0.513	-0.542
Depreciation & Amort.	-0.613	-0.654	-0.564	-0.566	-0.556	-0.613	-0.677	-0.748	-0.826
Licensing/Royalties	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other income	0.000	0.237	0.012	0.011	0.017	0.018	0.021	0.031	0.040
Underlying EBIT	**-0.971**	**0.230**	**1.140**	**1.562**	**1.772**	**1.850**	**2.133**	**2.294**	**2.430**
Share based costs	0	0	0	0	0	0	0	0	0
Exceptional items	0	0	0	0	0	0	0	0	0
Statutory Operating profit	-0.971	0.230	1.140	1.562	1.772	1.850	2.133	2.294	2.420
Finance income	0	0	0	0	0	0	0	0	0
Finance cost	0	0	0	0	0	0	0	0	0
Associates	-0.039	0.262	0.188	0.298	0.356	0.633	0.760	0.889	1.040
Net financial income	0.026	0.013	0.005	0.009	0.008	0.010	0.014	0.019	0.030
Pre-tax profit	-0.984	0.505	1.333	1.869	2.136	2.493	2.907	3.202	3.500
Exceptional items	0	0	0	0	0	0	0	0	0
Reported pre-tax	**-0.984**	**0.505**	**1.333**	**1.869**	**2.136**	**2.493**	**2.907**	**3.202**	**3.500**
Reported taxation	0.247	-0.029	-0.056	-0.160	-0.184	-0.269	-0.407	-0.448	-0.490
Minorities	0.016	-0.173	-0.378	-0.376	-0.317	-0.420	-0.508	-0.589	-0.684
Underlying net income	-0.721	0.303	0.899	1.333	1.635	1.804	1.992	2.165	2.326
Statutory net income	-0.721	0.303	0.899	1.333	1.635	1.804	1.992	2.165	2.326
Period-end shares (m)	10.6	10.6	10.6	10.6	10.9	11.0	11.0	11.0	11.0
Weighted average shares (m)	10.6	10.6	10.5	10.6	10.8	11.0	11.0	11.0	11.0
Fully diluted shares (m)	10.6	10.6	10.8	10.9	10.9	11.5	11.5	11.5	11.5
Underlying Basic EPS (p)	-6.8	2.9	8.5	12.6	15.2	16.3	18.1	19.6	21.1
U/l Fully-diluted EPS (p)	-6.8	2.9	8.4	12.2	14.9	15.7	17.3	18.8	20.2
Statutory Basic EPS (p)	-6.8	2.9	8.5	12.6	15.2	16.3	18.1	19.6	21.1
Stat. Fully-diluted EPS (p)	-6.8	2.9	8.4	12.2	14.9	15.7	17.3	18.8	20.2
DPS (p)	**1.50**	**2.00**	**2.50**	**3.00**	**3.50**	**4.20**	**4.90**	**5.75**	**6.00**

Source: Hardman & Co Research

Balance Sheet

Year-end Sept (£m)	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Shareholders' funds	9.197	9.517	10.678	12.093	14.774	16.201	17.848	19.744	21.808
Cumulated goodwill	0	0	0	0	0	0	0	0	0
Total equity	**9.197**	**9.517**	**10.678**	**12.093**	**14.774**	**16.201**	**17.848**	**19.744**	**21.808**
Share capital	1.056	1.056	1.056	1.063	1.091	1.098	1.103	1.108	1.113
Reserves	8.010	8.157	8.940	9.987	11.969	13.117	14.530	16.210	18.023
Capitalised R&D	0.000	0.000	0.000	0.000	0.000	0	0	0	0
Minorities	0.131	0.304	0.682	1.043	1.714	1.986	2.215	2.427	2.672
Provisions	0	0	0	0	0	0	0	0	0
Deferred tax	0.210	0.105	-0.027	-0.064	-0.133	-0.077	-0.081	-0.121	-0.120
Long-term loans	0	0	0	0	0	0	0	0	0
Bank overdrafts	0.027	0.035	0	0	0	0	0	0	0
less: Cash & securities	-1.840	-2.151	-2.149	-2.870	-2.438	-3.269	-3.684	-4.142	-4.619
less: Marketable securities	0	0	0	0	0	0	0	0	0
less: Non-core investments	0	0	0	0	0	0	0	0	0
Invested capital	**7.594**	**7.506**	**8.502**	**9.159**	**12.203**	**12.855**	**14.083**	**15.482**	**17.069**
Fixed assets	3.532	3.608	3.667	4.014	4.975	5.514	5.790	6.079	6.383
Intangible assets	0.886	0.825	0.661	0.623	0.627	0.638	0.582	0.631	0.776
Capitalised R&D	0	0	0	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0	0	0	0
Stocks	2.578	2.855	3.479	3.786	4.586	4.670	6.000	6.500	7.000
Trade debtors	*2.314*	*2.019*	*2.510*	*2.530*	*3.111*	*3.249*	*3.411*	*3.500*	*4.000*
Other debtors	*0.707*	*1.175*	*2.079*	*2.462*	*3.591*	*3.395*	*3.565*	*3.700*	*3.900*
Trade creditors	*-1.394*	*-1.987*	*-2.250*	*-2.221*	*-2.718*	*-2.686*	*-2.820*	*-2.800*	*-2.800*
Tax liability	*0.055*	*-0.042*	*-0.162*	*-0.125*	*-0.161*	*0.016*	*-0.407*	*-0.448*	*-0.490*
Other creditors	*-1.084*	*-0.947*	*-1.482*	*-1.910*	*-1.808*	*-1.941*	*-2.038*	*-1.700*	*-1.700*
Debtors less creditors	0.598	0.218	0.695	0.736	2.015	2.033	1.711	2.252	2.910
Invested capital	**7.594**	**7.506**	**8.502**	**9.159**	**12.203**	**12.855**	**14.083**	**15.482**	**17.069**
Net cash/(debt)	1.8	2.2	2.1	2.9	2.4	3.3	3.7	4.1	4.6
Net debt/equity (%)	20.0%	22.6%	20.1%	23.7%	16.5%	20.2%	20.6%	21.0%	21.2%
After-tax RoIC	-9.5%	4.0%	10.6%	14.6%	13.4%	14.0%	14.1%	14.0%	13.6%
Interest cover (x)	-	-	-	-	-	-	-	-	-
Dividend cover (x)	-4.6	1.4	3.3	4.1	4.3	3.7	3.5	3.3	3.4
Cap-ex/depreciation (x)	0.5	0.4	0.5	0.9	1.3	1.4	1.3	1.6	1.6
Cap-ex/sales (%)	2.2%	1.8%	1.5%	2.2%	3.0%	2.9%	3.1%	3.3%	3.1%
Net asset value/share (p)	87.1	90.2	101.2	113.8	135.4	146.2	161.6	178.8	197.5
Stock days	65	66	66	62	71	61	77	79	80
Debtor days	58	47	48	41	48	42	43	42	46
Creditor days	35	46	43	36	42	35	36	34	32

Source: Hardman & Co Research

Cashflow

Year-end Sept (£m)	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Profit before tax	-0.984	0.505	1.333	1.869	2.136	2.493	2.907	3.202	3.500
Depreciation	0.496	0.462	0.419	0.403	0.400	0.438	0.477	0.520	0.567
Amortisation	0.117	0.192	0.145	0.163	0.156	0.175	0.200	0.227	0.259
Stocks	0.021	-0.323	-0.564	-0.363	-0.370	-0.133	-1.330	-0.500	-0.500
Working capital	0.006	0.287	-0.473	-0.037	-1.140	-0.104	-0.085	-0.518	-0.700
Exceptionals/provisions	0	0	0	0	0	0	0	0	0
Disposals	-0.011	-0.019	-0.015	-0.004	-0.019	0.000	0.000	0.000	0.000
Other	0.039	-0.262	-0.188	-0.298	-0.356	-0.633	-0.657	-0.89	-0.897
Company op cashflow	**-0.316**	**0.842**	**0.657**	**1.733**	**0.807**	**2.236**	**1.512**	**2.041**	**2.229**
Net interest	0	0	0	0	0	0	0	0	0
Tax	0.074	-0.037	-0.068	-0.234	-0.217	-0.390	-0.407	-0.448	-0.490
Operational cashflow	-0.242	0.805	0.589	1.499	0.590	1.846	1.105	1.593	1.739
Capital Expenditure	-0.327	-0.280	-0.290	-0.498	-0.721	-0.520	-0.300	-0.300	-0.400
Capitalised R&D	0	0	0	0	0	0	0	0	0
Sale of fixed assets	0	0	0	0	0	0	0	0	0
Free cashflow	**-0.569**	**0.525**	**0.299**	**1.001**	**-0.131**	**1.326**	**0.805**	**1.293**	**1.339**
Dividends	-0.211	-0.158	-0.211	-0.289	-0.324	-0.410	-0.540	-0.635	-0.663
Acquisitions etc.	-0.305	-0.128	-0.096	-0.128	-0.163	-0.186	-0.100	-0.300	-0.399
Disposals	0.040	0.023	0.015	0.052	0.050	0.045	0.150	0.000	0.000
Other investments	0	0	0	0	0	0	0	0	0
Cashflow after investments	**-1.045**	**0.262**	**0.007**	**0.636**	**-0.568**	**0.775**	**0.315**	**0.358**	**0.377**
Share repurchases	0	0	0	0	0	0	0	0	0
Share issues	0.011	0.041	0.026	0.085	0.136	0.056	0.100	0.100	0.100
Currency effect	0	0	0	0	0	0	0	0	0
Borrowings acquired	0	0	0	0	0	0	0	0	0
Change in net debt	-1.034	0.303	0.033	0.721	-0.432	0.831	0.415	0.458	0.477
Opening net cash	2.847	1.813	2.116	2.149	2.870	2.438	3.269	3.684	4.142
Closing net cash	**1.813**	**2.116**	**2.149**	**2.870**	**2.438**	**3.269**	**3.684**	**4.142**	**4.619**

Source: Hardman & Co Research

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(Disclaimer Version 4 – Effective from April 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman research and, specifically, whether it can be accepted without a commercial arrangement. Hardman's company research is paid for by the companies about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are' (b) 'written material from a third party that is commissioned and paid for by an[sic] corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public;'

The fact that we are commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman is not inducing the reader of our research to trade through us, since we do not deal in any security.

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