



15 April 2019



**Market data**

EPIC/TKR	FLTA
Price (p)	230
12m High (p)	282
12m Low (p)	176
Shares (m)	29
Mkt Cap (£m)	67
EV (£m)	64
Free Float*	33%
Market	AIM

\*As defined by AIM Rule 26

**Description**

Filta Group provides cooking oil filtration, fryer and drain management services in North America and Europe to commercial kitchens.

**Company information**

CEO	Jason Sayers
CFO	Brian Hogan
Chairman	Tim Worledge
	+44 1788 550100
	<a href="http://www.filtapl.com">www.filtapl.com</a>

**Key shareholders**

Directors	67%
Gresham House	12.5%
Blackrock	5.6%
Ennismore FM	5.0%
Cannacord Genuity	3.7%

**Diary**

Jun'19	AGM
Sep'19	Interims
Apr'20	Prelims

**Analyst**

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## FILTA GROUP

### Strong and transformative year in 2018

Filta Group (Filta) provides cleaning services to commercial kitchens in North America, the UK and, more recently, mainland Europe. The company reported a strong set of figures for FY18, in line with our expectations. In addition to buying in the European master franchise, it has made a major step in acquiring Watbio, which will increase the company-owned operations and reinforce the UK side of the business. Revenues should prove both consistent and persistent, and there is scope for continuing growth for many years, in our view.

- **Strategy:** Filta provides a professional service, via franchisees, to kitchens to filter their cooking oil, improving taste and saving money. Grease emanating from commercial kitchens causes problems in main drains and sewer systems and also needs managing. There is scope for Filta to become the major player in the fragmented UK grease management business.
- **FY18 results and outlook:** Filta delivered adjusted EBITDA of £2.64m, up 25% on last year and broadly in line with our expectations. Adjusted EPS was up 7% at 5.4p and full-year dividend up 26% to 1.64p. The new year is said to have started well with growth in all core businesses and management pleased with what it has acquired with Watbio.
- **Valuation:** Filta has no directly comparable companies. We have used a DCF to derive a value range of 226p to 282p per share, using a 10% discount rate and a mid-term (2021-25) growth rate of between 6% and 12%. Our central estimate is 262p. No account is taken of future added-value acquisitions.
- **Risks:** In addition to normal commercial risks, Filta is dependent on the behaviour of its franchisees, which it cannot control but can help to influence by means of thorough training. It has also recently made a sizeable acquisition, the integration of which will inevitably involve managing some unknowns. It is exposed to FX risk, too, although most costs are local.
- **Investment summary:** Filta is an attractive business, in our view, combining the capital-light franchise model in North America and Europe with company-owned operations in the UK. With only a tiny proportion of the market currently served and with little or no competition, we see potential for years of profitable growth ahead. Please see our [initiation report](#), published on 3 April.

**Financial summary and valuation**

Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	7,925	8,469	11,547	14,213	26,363	29,626
EBITDA	594	1,193	2,116	2,642	4,850	5,350
Underlying EBIT	450	1,011	2,059	1,941	4,000	4,550
Reported EBIT	450	-249	1,699	1,782	3,850	4,350
Underlying PTP	376	932	1,968	1,900	3,750	4,300
Statutory PTP	376	-329	1,608	1,742	3,600	4,100
Underlying EPS (p)	1.39	3.66	5.05	5.39	9.88	11.25
Statutory EPS (p)	1.39	-1.51	3.85	4.88	9.37	10.57
Net (debt)/cash	-619	3,271	2,992	2,040	2,723	5,289
Shares issued (m)	22	23	27	27	29.2	29
P/E (x)	162.0	61.5	44.5	42.7	23.3	20.4
EV/EBITDA (x)	83.5	40.1	27.6	23.1	13.3	11.6

Source: Hardman &amp; Co Research

## Forecasts

Our forecasts are mostly unchanged and largely anticipate 'more of the same'. We expect the core FiltaFry business to continue growing at ca.10% p.a., and the FiltaSeal business to grow at around a similar level. There is a small positive operational gearing impact as overheads grow at a slower rate.

We have added the Watbio business and we expect approximately half the £900k synergies to be realised in 2019, with the balance in 2020.

## Profit & Loss

Income statement, 2015-20E						
Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	7,925	8,469	11,547	14,213	26,363	29,626
Cost of sales	-4,208	-4,449	-5,870	-7,131	-14,500	-15,998
Gross profit	3,718	4,019	5,677	7,083	11,864	13,628
Other income	36	25	38	25		
Distribution costs	-84	-80	-125	-151	-300	-390
Admin. expenses	-3,220	-2,953	-3,532	-5,015	-7,563	-8,688
Operating profit	450	1,011	2,059	1,941	4,000	4,550
<i>EBITDA</i>	<i>594</i>	<i>1,193</i>	<i>2,116</i>	<i>2,642</i>	<i>4,850</i>	<i>5,350</i>
Finance expenses	-74	-80	-91	-40	-250	-250
PBT	376	932	1,968	1,900	3,750	4,300
Exceptional costs		-1,261	-360	-159	-150	-200
Tax	-74	-101	-590	-422	-862	-1,012
PAT	302	-430	1,017	1,320	2,739	3,088
Discontinued ops.		87	33	19		
Net profit	302	-343	1,050	1,339	2,739	3,088
Exchange differences	-45	-186	-94	-29		
Comprehensive income	257	-528	956	1,309	2,739	3,088
Avg. no. of shares (m)	21.8	22.7	27.3	27.4	29.2	29.2
EPS (p)	1.4	-1.5	3.9	4.9	9.4	10.6
Statutory EPS (fully-dil., p)	1.4	-1.5	3.9	4.9	9.4	10.6
Underlying EPS (fully-dil., adj., p)	1.4	3.7	5.1	5.4	9.9	11.3
DPS (p)			1.3	1.6	3.3	3.8
GP margin	47%	47%	49%	50%	45%	46%
Admin. as % of revenue	41%	35%	31%	35%	27%	27%
EBIT margin	6%	12%	18%	14%	15%	15%
Tax rate	20%	11%	30%	22%	23%	24%
Growth YoY						
Revenue	20%	7%	36%	23%	85%	12%
Operating profit	45%	125%	104%	-6%	106%	14%
PBT	64%	148%	111%	-3%	97%	15%
EPS	63%	164%	38%	7%	83%	14%

Source: Hardman & Co Research

We have stripped out the exceptional costs incurred in acquisitions and the IPO. We have also adjusted for the tax in 2017. When the US tax rate was cut, it caused a substantial reduction in the value of deferred tax assets, and so pushed up the tax charge significantly. We have used an estimated normalised tax rate of 30% for the year, and put the balance in exceptional costs.

## Balance sheet

Balance sheet, 2015-20E						
@ 31 Dec (£000)	2015	2016	2017	2018	2019E	2020E
<b>Non-current assets</b>						
Property, P &E	1,121	1,191	1,216	1,493	1,393	1,293
Intangible assets	90	167	485	7,186	6,586	5,986
Goodwill			631	1,640	3,540	3,540
Contract acquisition costs	170		157	343	343	343
Deposits	2	3	2	2	2	2
Trade receivables	215	379	302	325	357	402
Deferred tax assets	520	756	652	755	905	1,105
Total non-current assets	2,117	2,495	3,446	11,744	13,126	12,670
<b>Current assets</b>						
Trade receivables	1,591	1,961	2,311	4,821	5,544	6,376
Contract acquisition costs			38	52	52	52
Inventories	299	288	438	1,386	1,525	1,714
Cash	979	4,392	4,031	6,790	6,073	7,739
Total current assets	2,870	6,641	6,818	13,049	13,194	15,881
Assets held for sale		88	74			
Total assets	4,987	9,224	10,339	24,793	26,321	28,551
<b>Current liabilities</b>						
Trade payables	-1,726	-1,990	-2,143	-6,510	-7,161	-8,048
Borrowings	-597	-104	-108	-841	-841	-841
Due to directors/deferred consideration	-1,522					
Deferred income	-194	-401	-533	-869	-869	-869
Total current liabilities	-4,039	-2,495	-2,783	-8,220	-8,871	-9,757
<b>Non-current liabilities</b>						
Borrowings	-1,001	-1,018	-932	-3,909	-2,509	-1,609
Deferred income	-1,555	-2,310	-2,405	-2,791	-2,991	-2,991
Deferred tax			-95	-1,291	-1,291	-1,291
Total non-current liabilities	-2,556	-3,328	-3,432	-7,992	-6,792	-5,892
Liabilities held for sale		-33	-66			
Total liabilities	-6,595	-5,856	-6,281	-16,211	-15,663	-15,649
<b>Net assets</b>	-1,609	3,368	4,057	8,582	10,658	12,902
<b>Equity</b>						
Share capital	380	2,695	2,713	2,892	2,892	2,892
Share premium		3,480	131	3,372	3,522	3,722
Accumulated losses/profits	-1,914	-2,257	1,863	2,711	4,638	6,682
Other reserves	-75	-551	-650	-394	-394	-394
Total equity	-1,609	3,368	4,057	8,582	10,658	12,902

Source: Hardman & Co Research

## Cashflow

Cashflow, 2015-20E						
Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
<b>Operating activities</b>						
PBT	376	-218	1,641	1,760	3,600	4,100
Finance costs	74	80	91	42	250	250
Depreciation	90	119	110	187	300	300
Amortisation	54	63	100	212	700	700
Other	9	49	97	310	-150	-200
Working capital changes	17	-53	-197	-490	-243	-178
Cash from operations	620	40	1,842	2,021	4,457	4,972
Tax paid	-54		-510	-1,216	-862	-1,012
Net cash from operations	566	40	1,332	805	3,595	3,960
<b>Investing activities</b>						
Purchase of P,P&E	-180	-43	-113	-316	-200	-200
Purchase of intangibles	-60	-154	-55	-105	-100	-100
Sales of assets	64		25	49		
Acquisitions			-1,138	-3,738	-1,700	
Net investing cash	-176	-197	-1,281	-4,110	-2,000	-300
<b>Financing activities</b>						
Issue of shares		3,999	149	2,870	150	200
Net borrowings	291	-146	-47	3,538	-1,400	-900
Interest paid	-70	-105	-91	-42	-250	-250
Dividends paid			-226	-372	-812	-1,044
Net financing cash	221	3,748	-215	5,994	-2,312	-1,994
Net change in cash	611	3,591	-165	2,689	-717	1,666
Cash at beginning of year	452	979	4,392	4,031	6,790	6,073
FX	-84	-178	-196	70		
Cash at end of year	979	4,392	4,031	6,790	6,073	7,739

Source: Hardman & Co Research

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