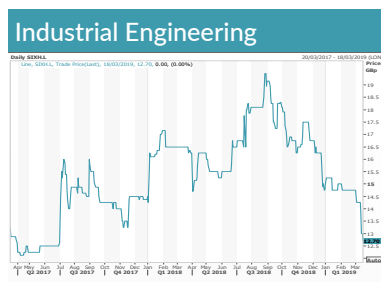




18 March 2019

**Market data**

EPIC/TKR	SIXH
Price (p)	13.0
12m High (p)	18.5
12m Low (p)	13.0
Shares (m)	113.1
Mkt Cap (£m)	14.7
EV (£m)	27.9
Free Float*	72.1%
Market	AIM

\*As defined by AIM Rule 26

**Description**

The 600 Group is a designer and manufacturer of industrial products active in machine tools, components and laser marking. The US represents around 65% of group sales and the UK 15%.

**Company information**

Executive Chairman	Paul Dupee
CFO	Neil Carrick
	+44 1922 707110
	<a href="http://www.600group.com">www.600group.com</a>

**Key shareholders**

Haddeo Partners	20.8%
Mr D Grimes (MD of ILS)	6.6%
Mr A Perloff and	5.8%
Maland Pension Fund	
Miton Group	3.4%
Others	63.4%

**Diary**

Jun/Jul'19	Final results
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**Analyst**

Paul Singer	020 7194 7622
	<a href="mailto:ps@hardmanandco.com">ps@hardmanandco.com</a>

# THE 600 GROUP

## Share price decline unmerited on current fundamentals

The most recent share price decline is unmerited on unchanged fundamentals. Business momentum is good, with a healthy order book, and with growth enhanced by new product launches and new market entry. The 600 Group remains competitively well positioned, with a world-class reputation in machine tools and laser marking. Around 65% of sales are in the US. The shares stand at a discount to the peer group and to a DCF valuation, and we now believe they offer an appealing yield.

- ▶ **Recent developments:** Trading remains healthy, despite the macroeconomic and political (trade war/Brexit) uncertainties, reflecting good enquiry and quotational activity, with a healthy order book – up 5%. Furthermore, the company has just announced the successful restructuring of its 2020 Loan Notes and associated Warrants to extend both the redemption and exercise dates, respectively, by 24 months to 14 February 2022. This transaction frees up the money from the buyout of the pension scheme liability, likely this April, to use for possible acquisitions, and also provides greater financial flexibility for the group.
- ▶ **Prospects:** Growth will be driven primarily organically, with new product developments in both business areas and new geographical market entry continuing. A recent update on the laser market from the leading consultant at Industrial Laser Solutions suggests that, despite the effects of slowing global manufacturing, and uncertainties relating to China investment intentions and global tariffs, 2019 market growth should be similar to that in 2018.
- ▶ **Restructuring programme:** The group has undertaken a UK restructuring programme to reduce capex requirements and further improve margins in both 2H'18/'19 and the medium term. Opportunities are also available for operational and distribution synergy benefits.
- ▶ **Competitive position:** The 600 Group has strong global brand recognition, with, as a key differentiator, the provision of high-service/customer support. The group is regarded as well positioned within highly competitive and fragmented industries, where barriers to entry are generally low.
- ▶ **Investment summary:** The shares offer the opportunity to invest in a de-risked cyclical stock with good operational leverage, enhanced by new product launches and new market entry. Cyclical stock has been de-risked through further development of repeat/recurring business and activities in high-margin, economically less sensitive spares/services operations. The group remains in a solid financial position. The risk/reward profile is favourable. The shares stand at a discount to the peer group and to a DCF valuation, and we now believe they offer an appealing yield.

**Financial summary and valuation**

Year-end Mar (\$m)	2017	2018	2019E	2020E
Sales	58.8	66.0	69.7	73.9
Gross profit	20.5	23.0	24.4	25.8
EBITDA	4.5	4.9	5.4	6.0
Underlying EBIT	3.8	4.2	4.8	5.4
Underlying PTP	2.7	3.1	3.7	4.4
Underlying EPS (c)	2.7	3.2	3.1	3.6
Statutory EPS (c)	2.7	3.7	3.1	3.6
Net (debt)/cash	-17.1	-15.6	-15.7	-8.9
Dividend (p)	0.00	0.50	0.60	0.72
P/E (x)	4.9	5.3	5.4	4.7
Dividend yield		3.8%	4.6%	5.5%

Source: Hardman &amp; Co Research

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