

Whitman Howard Corporate

Hydrogen*

Small Cap Growth | 18 September 2018

BUY**Interims | Substantially ahead of expectations**

With PBT at the interims increasing by a factor of 6x to £1.1m and with the guidance for the full year that PBT will be 'substantially ahead of current market expectations' we are upgrading our adj. PBT, dividend and net cash forecasts for the period 2018-2020. We also increase our price target from 55p to 80p and reiterate our buy recommendation.

Clearly the acquisition of Argyll Scott is working. The 2017 acquisition has been successfully integrated with all the key objectives at the time of the acquisition realised i.e. accelerated growth, scaling of APAC operations, key hires in new geographies, increased productivity per employee, cost synergies of £1.5m and a diversified customer revenue base such that 53% of net fee income (2017: 43%) is now derived from faster growing overseas markets.

Upgrading adj. PBT and net cash forecasts. With our forecast conversion factor in 2018 (operating profit/net fee income) increasing from 2.2% to 7.2% we are upgrading our 2018 and 2019 adj. PBT from £1.9m and £2.3m to £2.3m and £2.7m respectively. In doing so, we expect adj. PBT in 2018 to grow by a factor of 3.3x. We have also increased our year end net cash forecast from £1.7m to £2.3m which represents a significant improvement from the net debt position which was reported in December 2017 and would support a continuation of its M&A strategy to strengthen its geographical or sector presence.

Re-installed interim dividend. As a sure sign of increasing confidence, Hydrogen has re-installed the interim dividend at 0.5p. For the full year we have now upgraded our total dividend expectation from 1.1p to 1.3p. This is 4x covered and can easily be met from free cash flow. On the revised dividend expectation the yield is 2%, thus Hydrogen is increasingly becoming attractive to income funds.

Revised price target of 80p. Based upon our revised 2019 estimates we have upgraded our price target. That said, 80p is still below the recent peak of 118p in 2013 when Hydrogen reported a PBT of £2.4m, a level we expect it to achieve in 2018/2019. At 80p, the 2019 PE rating would be 13x – a level which is consistent with recent M&A activity in the sector.

On the front foot. A good set of results which emphatically draws a line under the recent underperformance and over reliance on the Energy sector. We also note management has also been buying shares, a good indicator of internal confidence.

Whitman Howard acts as Joint Broker to Hydrogen*TARGET PRICE**

80p

PREVIOUS TARGET

55p

SHARE PRICE

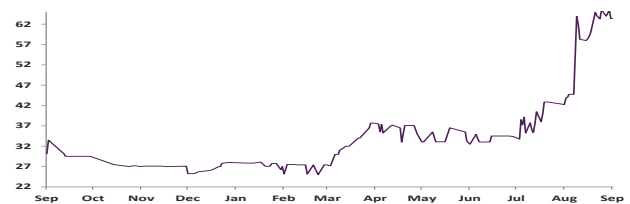
65.5p

UPSIDE

22%

Market Data

Ticker	HYDG.L
Market Cap	£22.3m
52 Week High/Low	67.5p – 25p
Avg. Daily Volume	104K
Shares in issue	34.1m
Free Float	75%

**Whitman Howard Estimates**

Year end Dec	2017	2018E	2019E	2020E
Net fees (£m)	22.8	30.0	31.0	31.6
Adj. PBT (£m)	0.7	2.3	2.7	3.0
Adj. EPS (p) - FD	2.4	5.5	6.4	7.1
P/E (x)	26.8	11.9	10.3	9.2
Dividend (p)	0.8	1.3	1.5	1.7
Dividend Yield (%)	1.2	2.0	2.3	2.6
Net cash (£m)	(0.3)	2.3	3.1	4.2

Next Event**Full year trading update – January 2019**

Analyst

Andy Smith

+44 (0) 20 76591269

a.smith@whitman-howard.com

www.whitman-howard.com

Hydrogen | Substantially ahead of expectations

Financials and Valuations

Year to December (£m)					Cash Flow (£m)				
	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E	
Income Statement					EBITDA - recruitment	0.9	2.7	2.9	3.1
Perm	11.6	17.6	17.9	18.3	Other income	0.5	0.4	0.5	0.6
Contract	<u>11.2</u>	<u>12.4</u>	<u>13.0</u>	<u>13.3</u>	Share based payment	0.2	0.0	0.0	0.0
Net fees	22.8	30.0	31.0	31.6	Working capital	(3.2)	1.7	(0.2)	(0.1)
Rent received	0.5	0.5	0.4	0.4	Cash - exceptional items	<u>(0.6)</u>	<u>(0.7)</u>	<u>0.0</u>	<u>0.0</u>
Income from investments	(0.1)	(0.1)	0.1	0.2	Gross Op. cashflow	(2.2)	4.1	3.1	3.6
Operating costs	<u>(22.3)</u>	<u>(27.8)</u>	<u>(28.6)</u>	<u>(29.0)</u>	Interest expense	(0.1)	(0.3)	(0.2)	(0.2)
Operating profit	0.9	2.6	2.9	3.2	Interest income	0.1	0.0	0.0	0.0
Interest expense	(0.2)	(0.3)	(0.2)	(0.2)	Tax	<u>(0.4)</u>	<u>0.0</u>	<u>(0.3)</u>	<u>(0.4)</u>
Interest income	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	Net Op. cashflow	(2.5)	3.8	2.6	3.0
Adjusted Pre-Tax profit	0.7	2.3	2.7	3.0	Capex	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.5)</u>
Exceptional expense*	<u>(2.3)</u>	<u>(0.1)</u>	<u>(0.1)</u>	<u>(0.1)</u>	Free cash flow	(3.0)	3.3	2.1	2.5
Profit before tax	(1.5)	2.2	2.6	2.9	Deferred consideration	<u>0.0</u>	<u>(0.2)</u>	<u>(0.8)</u>	<u>(0.9)</u>
Tax	0.0	(0.3)	(0.4)	(0.5)	Cashflow - investing	0.0	(0.2)	(0.8)	(0.9)
Minority interests	<u>0.0</u>	<u>(0.2)</u>	<u>(0.3)</u>	<u>(0.4)</u>	Dividends	0.0	(0.4)	(0.5)	(0.5)
Retained profit	(1.5)	1.7	1.9	2.0	Other	<u>0.7</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Balance Sheet (£m)	2017	2018E	2019E	2020E	Cashflow - financing	0.7	(0.4)	(0.5)	(0.5)
Fixed assets	<u>14.4</u>	<u>14.4</u>	<u>14.4</u>	<u>14.4</u>	Incr/(Decr) in net cash	(2.3)	2.7	0.8	1.0
Receivables	23.8	25.1	26.1	26.6	Opening net (debt)/cash	<u>2.0</u>	<u>(0.3)</u>	<u>2.3</u>	<u>3.1</u>
Others	0.0	0.5	1.1	1.9	Closing net (debt)/cash	(0.3)	2.3	3.1	4.2
Prepayments	0.3	0.3	0.3	0.3					
Cash	<u>2.8</u>	<u>4.3</u>	<u>5.1</u>	<u>6.2</u>					
Total current assets	<u>26.9</u>	<u>30.3</u>	<u>32.6</u>	<u>35.0</u>					
Total assets	41.3	44.7	47.0	49.4					
Payables	15.7	18.7	19.4	19.8					
Provisions	0.7	0.7	0.7	0.7					
Other	0.0	0.4	1.0	1.8					
Current portion debt	<u>3.1</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>					
Total current liabilities	19.5	21.8	23.1	24.3					
Long term debt	0.0	0.0	0.0	0.0					
Redemption liability	1.0	1.0	1.0	1.0					
Provisions	0.5	0.5	0.5	0.5					
Other	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>					
Total long-term liabilities	1.7	1.7	1.7	1.7					
Shareholders' funds	20.1	21.1	22.2	23.3					
Total liabilities and equity	41.3	44.7	47.1	49.3					

*Exceptional expense in 2018 – 2020 refers to the amortisation of acquired intangibles

Hydrogen | Substantially ahead of expectations

Disclaimer

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Whitman Howard Limited (“WHL”), a company authorized to engage in securities activities in the United Kingdom. WHL is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through WHL. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not ‘beneficially own,’ as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither WHL nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report’s preparation or publication, or any losses or damages which may arise from the use of this research report.

WHL may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups, or affiliates of WHL.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by WHL with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of WHL and WHL accepts no liability whatsoever for the actions of third parties in this respect.

Hydrogen | Substantially ahead of expectations

NON-US DISCLAIMER

I, Andy Smith, hereby certify that the views about the companies and their securities discussed in this report are accurately expressed and I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Whitman Howard publishes investment recommendations, which reflect the analyst's assessment of a stock's potential absolute total return and, where appropriate, its expected return performance relative to specified peer groups. When relative recommendations are applied, this will be noted in the body of the report. Our research offers 3 absolute recommendations: BUY stocks are expected to have an absolute total return of at least 20%. HOLD stocks are expected to have an absolute total return of between 0-20%. SELL stocks are those which expect to produce a negative total return in excess of 20%. For the purposes of its investment recommendations, Whitman Howard defines total return as the sum of capital appreciation and dividends paid to shareholders on an annual basis. Relative recommendations are OUTPERFORM and UNDERPERFORM. These are not bound by absolute total return parameters but will reflect the individual analyst's assessment of the stock and the identified peer group. The time horizon for which the recommendation is deemed valid is 12 months unless otherwise specified in the particular research.

Information relating to any company or security is for information purposes only and should not be interpreted as a solicitation to buy or sell any security or to make any investment. The information in this communication has been compiled from sources believed to be reliable but it has not been independently verified. No representation is made as to its accuracy or completeness, no reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. All expressions of opinion are subject to change without notice. Opinion may be personal to the author and may not reflect the opinions of Whitman Howard Ltd.

WHL's Research publications are not for Retail Clients as defined by the Financial Conduct Authority ("FCA"). The information contained in research publications are obtained from various sources believed to be reliable, but have not been independently verified by WHL. WHL does not warrant the completeness or accuracy of such information and does not accept any liability with respect to the accuracy or completeness of such information, except to the extent required by applicable law. Research publications are for information purposes only and shall not be construed as an offer or solicitation for the subscription or purchase or sale of any securities, or as an invitation, inducement or intermediation for the sale, subscription or purchase of any securities, or for engaging in any other transaction. Research publications are not for private individuals. Any opinions, projections, forecasts or estimates in research reports are those of the author only, who has acted with a high degree of expertise. They reflect only the current views of the author at the date of the report and are subject to change without notice. WHL has no obligation to update, modify or amend any publication or to otherwise notify a reader or recipient of a publication in the event that any matter, opinion, projection, forecast or estimate contained herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. The analysis, opinions, projections, forecasts and estimates expressed in research reports were in no way affected or influenced by the issuer. The authors of research publications benefit financially from the overall success of WHL. The investments referred to in research publications may not be suitable for all recipients. Recipients are urged to base their investment decisions upon their own appropriate investigations that they deem necessary. Any loss or other consequence arising from the use of the material contained in a research publication shall be the sole and exclusive responsibility of the investor and WHL accepts no liability for any such loss or consequence. In the event of any doubt about any investment, recipients should contact their own investment, legal and/or tax advisers to seek advice regarding the appropriateness of investing. Some of the investments mentioned in research publications may not be readily liquid investments. Consequently it may be difficult to sell or realize such investments. The past is not necessarily a guide to future performance of an investment. The value of investments and the income derived from them may fall as well as rise and investors may not get back the amount invested. Some investments discussed in research publications may have a high level of volatility. High volatility investments may experience sudden and large falls in their value which may cause losses. International investing includes risks related to political and economic uncertainties of foreign countries, as well as currency risk. To the extent permitted by applicable law, no liability whatsoever is accepted for any direct or consequential loss, damages, costs or prejudices whatsoever arising from the use of research publications or their contents.

WHL has written procedures designed to identify and manage potential conflicts of interest that arise in connection with its research business. Chinese Wall procedures are in place between the research analysts and staff involved in securities trading for the account of WHL or clients to ensure that price sensitive information is handled according to applicable laws and regulations.

United Kingdom: Research publications are for persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restriction in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Articles 19(5) (Investment professionals) and 49(2) (High net worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. Any investments to which the research publications relate are available only to such persons, and other classes of person should not rely on the research publications. For the purpose of UK regulation, WHL produces both independent and non-independent research which is a marketing communication under the FCA Conduct of Business rules and has not been prepared in accordance with the legal requirements to promote independence of investment research nor is it subject to the prohibition on dealing ahead of the dissemination of investment research. However, the firm does have procedures in place to manage conflicts which may arise in the production of research, please refer to WHL research policy, which, inter alia, prevents dealing ahead. The research and conflicts of interest policies can be obtained from the Compliance Officer at WHL. Authorised and regulated by the Financial Conduct Authority No. 514466. Registered in England & Wales No. 06944529.

EU Investors: This communication is issued by Whitman Howard Limited ("WHL"). WHL is authorised and regulated in the United Kingdom by the Financial Conduct Authority in connection with its distribution and for the conduct of designated investment business in the European Economic Area. The registered address Whitman Howard Limited is First Floor, Connaught House, Mount Street, London, W1K 3NB. Tel: +44 (0)20 7659 1234.

Other countries: Laws and regulations of other countries may also restrict the distribution of this report. Persons in possession of Research publications should inform themselves about possible legal restrictions and observe them accordingly.