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[← BACK TO CONTENTS](#)



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Hayward Tyler is powering ahead

This maker of motors and pumps is turning its Luton factory into a 'centre of excellence', and is proof that the UK still has a thriving manufacturing sector

The business

Services now account for 80 per cent of the UK's economic output, so it's easy to forget that we're still quite good at making things. Hayward Tyler (HT) traces its roots back 200 years, to an era when the country was becoming the most important manufacturing force in the world. Today, the company makes motors and pumps for use in demanding operating environments, while the recent strategic acquisition of Peterborough-based Peter Brotherhood (PB) adds turbine generators. This purchase provides plenty of upside opportunities, while at the same time there's a substantial increase in capacity under way at HT's Luton factory. Together these developments should provide a solid platform for growth and improved performance.

The group's largest end market is power generation, which accounts for around half of current revenues. HT has the world's largest installed base of 2,300 boiler circulating pumps. These improve the efficiency of coal-fired power stations, and demand for new equipment is expected to be strong with 1,200 new stations planned in the next 20 years, led by China and India.

The large existing base provides plenty of aftermarket demand, which is more profitable than sales of original equipment. PB also sells its steam turbines to the power generation industry and has similar opportunities for new build and aftermarket sales, having a base of 2,000 units.

In the oil and gas sector, both businesses are strong in offshore applications. HT builds submersible pumps and motors, while PB provides steam turbine generators for the floating tanker and LNG vessels that service offshore fields, as well as supplying units for onshore assets like refineries. A notable feature of the recent results announcement was the sharp recovery in order intake from this sector, with it accounting for 21 per cent of the group's new orders, against a mere 2 per cent in the prior year.

Nuclear accounts for around a quarter of the group and has been growing nicely. Again, there is major aftermarket demand related to HT's installed base of specialist pumps and the fact that 75 per cent of the world's nuclear reactors are over 25 years old. There are plenty of new reactors planned around the world, and the small modular reactor design presents a further opportunity.

New Recommendations

 [BACK TO CONTENTS](#)



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These are all global industries and the company exports over 80 per cent of its sales. The US is the biggest single market, with revenues last year approaching a quarter of the group total. The Far East as a region is also key, with China 13 per cent of sales and other Asia-Pacific countries 25 per cent. Clearly, the devaluation of sterling will only help competitiveness when bidding on new business.

There are two major internally driven growth opportunities for the company that should have an impact in the next few years. The first is the acquisition of PB for £10 million. This business was an unwanted and neglected subsidiary of Dresser-Rand, itself a unit of the engineering giant Siemens. The PB brand has been restored and the focus is on building a sales pipeline by exploiting its significant installed base and benefiting from HT's industry contacts. Current capacity utilisation is only 30 per cent, so converting the sales pipeline into new orders is the priority. Extra volumes should have a meaningful impact on profitability. The other initiative is the £10 million investment in turning the Luton factory into a 'centre of excellence'. Capacity has more than doubled and there has been major investment in staff training.

It's also worth mentioning two strategic alliances that have been instigated. FMC Technologies is a global leader in subsea systems for the oil and gas industry. HT has done a deal to make motors for FMC's subsea pumps which underpins some of the investment in Luton. Meanwhile, a partnership with Ebara of Japan should open up new opportunities in that country's power sector for HT's pumps.

Financials and management

Hayward Tyler reversed onto AIM in 2010, and the key board members were in place at that time. CEO Ewan Lloyd-Baker

joined the company ten years ago, and has a background in corporate finance and consultancy, which is how he found the original opportunity to buy into HT. He owns 7.6 per cent of the company. Significant institutional holders are Harwood Capital with 20 per cent and Henderson with 9.8 per cent.

The balance sheet reflects the £10 million acquisition of PB last November and the heavy capex programme, which amounted to £11.6 million last financial year. This was offset by disposals and an £8 million share placing at 90p. Net debt was £8.6 million, which is a comfortable level and should decline into next year as profits rise and capex declines. Cash conversion was over 100 per cent last year.

Outlook and valuation

The significant capacity created by the capex programme and PD acquisition provides a major growth opportunity if the company can generate the business to fill it. As a well-invested exporter it should be well placed, and order intake stood at a promising 1.3 times historical revenue at the year-end. The rebound in oil and gas ordering is especially pleasing given the problems in that sector. This year's performance will have a second-half bias but the board is 'confident in the prospects for the business'.

Smaller engineering companies can trade at a discount to the sector's blue-chips, but Hayward Tyler has bulked up with the PB deal and looks to have plenty of scope to grow. The shares have frankly gone nowhere for over two years, trading in a broad 70p to 90p range. As a result, they offer good value on a p/e of 10 for the current year, falling to 9 times March 2018 earnings. There should be scope for upgrades as sales momentum picks up and PB benefits from more focused ownership as part of the HT group. ■

HAYWARD TYLER ► READ MORE

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GCI Recommendation – **BUY**



Ticker: AIM:HAYT
Sector: Industrial Engineering
Mid-price: 82.5p

Spread: 80p-85p
12-month high/low: 98p/71.5p
Market cap: £45m

RESULTS	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	DPS (p)	p/e	Yield (%)
Mar 2015 (A)	48.6	4.4	7.5	1.3	10.9	1.6
Mar 2016 (A)	61.6	5.1	8.1	1.4	10.1	1.7
Mar 2017 (E)	80.2	6.4	8.2	1.5	10.0	1.8
Mar 2018 (E)	82.3	7.1	9.1	1.6	9.0	2.0

SECTOR PEERS	Ticker	Market cap (£m)	Pre-tax profit (£m)	p/e
Weir Group	WEIR	3,436	-199.8	11.7
IMI	IMI	2,926	162.7	13.9
Renold	RNO	98	7.4	7.1