Capital Network

FENNER PLC - CAPITAL NETWORK: FLASH REPORT

Fenner's (FENR.LON) share price has gained 200% from its 2016 trough level. But it's worth remembering that the trough-to-peak share price move from 2009-2012 was 1,280%. The company makes polymer conveyor belts for mining and heavy industries as well as specialised polymer components for a range of applications from specialised industrial to oil and gas to medical devices. Some of these markets have been depressed in recent years, particularly the mining and energy resources segments. However, we believe that a recovery is now beginning which, like the company's conveyor belts, will keep going and going.

STRATEGY

Drivers for 2017-2020

In the oil & gas segment, Fenner (FENR.LON) is significantly exposed to US hydrofracking. This was the main driver for an almost 60% decline in Fenner's (FENR.LON) O&G revenues from 2014-2016 . However, there are signs of a healthy recovery under way in this segment, and we expect a positive incremental profit contribution starting from 2017. More details of this on page 2.

Coal markets have also been a headwind in recent years. In Australia, where Fenner is clear market leader, revenues and profitability were held back by destocking, a lack of new projects and pricing pressures. US coal revenues for the conveyor belt business declined to a near stand-still during 2015. We expect a steady recovery from 2017 onwards, although coal is now the smaller part of the US business with the industrial business (serving the construction materials and other non-coal markets) seen as having better long-term growth prospects.

In medical, Fenner has a significant pipeline of new products and stands to benefit from the move to new and much larger facilities. The company has stated that this business segment has the potential to double its revenues organically in the next 5 years at current margins. This is a useful internally generated growth driver to add to the cyclical recoveries in other segments.

VALUATION

INDUSTRIALS

22/02/2017

SHARE PRICE	52 WEEK LOW
280P	119.50P
MARKET CAP	52 WEEK HIGH
£551M	322P
NAV	NET DEBT
£279M	£150M

MAJOR SHAREHOLDERS

1) Artemis Investment Management – 3.9 %
2) Delta Lloyd Asset Management – 3.2%
3) JP Morgan Asset Management – 3.0%

Shares in Issue	194.0m
Avg Volume	606,774
Primary index	FTSE250
EPIC	FENR.L
Next Key Announcement	H1 results, 19th April 2017
Sector	Industrials

SHARE PRICE CHART

Important: All disclaimer information can be found on the last page of this document. Please note that this publication has been commissioned by the company to which this publication relates and therefore it cannot be considered independent.

Company Information

Address : Unit 5 Hesslewood, Ferriby Road, Hessle HU130PW, East Yorkshire , United Kingdom

Analyst Details

Ed Stacey
ed.stacey@capitalnetwork.com
+44(0)20 7264 3920

Optically the shares do not appear cheap on 22.3x PE for 2017e, or 15.4x EV/EBIT. However, we believe the earnings recovery could bring the operating profit level to £100m on a 3-5 year view. Assuming net debt and pension reduced to £125m, and applying an exit multiple of 10x EV/EBIT, this would take the share price to 450p, 58% upside from the current level.

y/e Aug 31st, **£m**	2014	2015	2016	2017e	2018e
Revenue	729.4	666.7	572.5	610.0	650.0
Underlying op profit	79.5	56.4	37.1	48.0	60.0
EPS (p)	23.3	15.5	8.4	12.8	17.9
Dividend (p)	12.0	12.0	3.0	3.0	3.5

	AEP revenue						
	2012%	2012 total	2016%	2016 total			
O&G	28	75.88	13	32.63			0.430021
Medical	12	32.52	22	55.22			
Industrial	20	54.2	18	45.18			
Construction	13	35.23	20	50.2			
Other (auto, agro, etc.)	27	73.17	27	67.77			
	2012	2016					
O&G	75.88	32.63					
Medical	32.52	55.22					
Industrial	54.2	45.18					
Construction	35.23	50.2					
Other (auto, agro, etc.)	73.17	67.77					

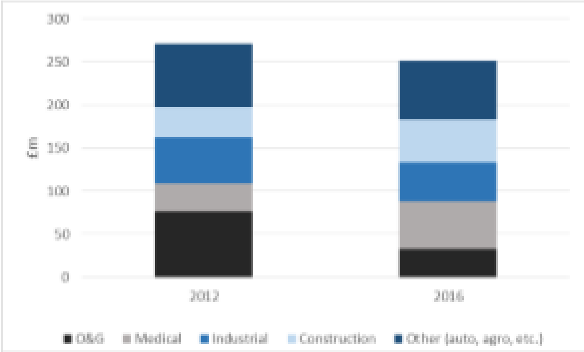
The charts above shows the numbers of drilling rigs operational in the US. This declined sharply in 2015 and early 2016 due to the decline in the oil price. However, the rig count has inflected in the last 6 months and we believe that the more supportive stance of the new US administration should support continued recovery. In addition we understand that Fenner is enjoying an increased market share of new orders, probably due to a shift towards more high-pressure systems which suit Fenner's product offering.

Furthermore we believe the drop-through ratio for this business is as high as 70%, meaning $10m of incremental revenue gives $7m incremental profit.

Other segments

In order to understand why we don't consider 2016 or 2017e earnings numbers to be a good indicator of the true value of Fenner, it's important to note the extent of the headwinds the group has faced in recent years. With most of these headwinds beginning to unwind, we see large headroom for earnings recovery.

The charts below show the revenue per customer segment, for the ECS (Engineered Conveyor Systems) and the AEP (Advanced Engineered Products) divisions. These show that the last few years have seen particularly sharp falls in the oil & gas segment for AEP, and also within the ECS division in the markets for thermal coal and for mineral ores, especially iron. We believe there are encouraging signs that equipment demand has bottomed out in the coal and iron ore segments and will begin to gradually recover. Meanwhile in oil and gas a brisk recovery already appears to be under way.



LEGAL NOTICE – IMPORTANT – PLEASE READ:

Proactive Research is a trading name of Proactive Investors Limited which is regulated and authorised by the Financial Conduct Authority (FCA) under firm registration number 559082. This document is published by Proactive Research and its contents have not been approved as a financial promotion by Proactive Investors Limited or any other FCA authorised person. This communication is made on the basis of the 'journalist exemption' provide for in Article 20 of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and having regard to the FCA Rules, and in particular PERG 8.12.

This communication has been commissioned and paid for by Fenner PLC and prepared and issued by Proactive Research for publication. All information used in the preparation of this communication has been compiled from publicly available sources that we believe to be reliable, however, we cannot, and do not, guarantee the accuracy or completeness of this communication.

The information and opinions expressed in this communication were produced by Proactive Research as at the date of writing and are subject to change without notice. This communication is intended for information purposes only and does not constitute an offer, recommendation, solicitation, inducement or an invitation by, or on behalf of, Proactive Research to make any investments whatsoever. Opinions of and commentary by the authors reflect their current views, but not necessarily of other affiliates of Proactive Research or any other third party. Services and/or products mentioned in this communication may not be suitable for all recipients and may not be available in all countries.

This communication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to their individual circumstance and objectives. Any investment or other decision should only be made by an investor after a thorough reading of the relevant product term sheet, subscription agreement, information memorandum, prospectus or other offering document relating to the issue of securities or other financial instruments.

Nothing in this communication constitutes investment, legal accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate for individual circumstances or otherwise constitutes a personal recommendation for any specific investor. Proactive Research recommends that investors independently assess with an appropriately qualified professional adviser, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences.

Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance. The investor may not get back the amount invested or may be required to pay more.

Although the information and date in this communication are obtained from sources believed to be reliable, no representation is made that such information is accurate or complete. Proactive Research, its affiliates and subsidiaries do not accept liability for loss arising from the use of this communication. This communication is not directed to any person in any jurisdiction where, by reason of that person's nationality, residence or otherwise, such communications are prohibited.

This communication may contain information obtained from third parties, including ratings from rating agencies such as Standard & Poor's, Moody's, Fitch and other similar rating agencies. Reproduction and distribution of third-party content in any form is prohibited except with the prior written consent of the related third-party. Credit ratings are statements of opinion and are not statements of fact or recommendations to purchase, hold or sell securities. Such credit ratings do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied upon as investment advice.

Persons dealing with Proactive Research or members of the Proactive Investors Limited group outside the UK are not covered by the rules and regulations made for the protection of investors in the UK.

Notwithstanding the foregoing, where this communication constitutes a financial promotion issued in the UK that is not exempt under the Financial Services and Markets Act 2000 or the Orders made thereunder or the rules of the FCA, it is issued or approved for distribution in the UK by Proactive Investors Limited.