

Halma PLC

HLMA:LSE Sector: Industrials / Electronic & Electrical
Equipment

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Update 22/03/2019

Investment Rationale

Halma had a positive trading update released on 21/03/19 (Appendix 1). As a result, stock price reached new all-time high 1707.56 GBX. It might be worth holding the position with a tight stop loss, anticipating a new 1770 target. Updated valuation range suggests that the current 3 to 1 risk to reward ratio could lead to potential profit erosion, as we bought at 1499. So is the right time to sell or adjust a stop loss. Therefore, it is recommended to sell our holdings today.

Despite previous intention to hold the stock for a prolonged time, it is recommended to reduce current risk exposure. We could repurchase from a previous strong resistance(R2) level currently positioned between 1497-1514 levels. We anticipate it to be supportive as 50 days simple moving average (SMA) is located at 1513, within the same range.

Additional levels to watch:

Previous resistance R1 - 1595-1609 & 20 days SMA 1613,
R3 levels - 1385-1413 & SMA -100 - 1426, SMA - 200 - 1404.

Investment Risks

Halma previously acknowledged a possible short-term supply disruptions issue when Britain leaves the European Union. Mainly due to potential changes to the UK- and EU-based law and regulations such as product approvals, patents, and import-export tariffs. Also, it was confirmed that the mobility of the workforce and the availability of talent could cause additional problems. Approximately 9 percent of Halma's revenue came from direct sales between the UK and the European Union in the financial year 2017/18. 11 June 2019 Full Year Results might not be as previously anticipated if UK leaves EU before results will be announced.

Additionally, recent Jerome Powell's, Federal Reserve System, monetary policy outlook update should not be ignored. As he indicated that not only Chinese and European economies have slowed 'substantially', also the US economy is slowing.

Business Model

RECOMMENDATION

SELL

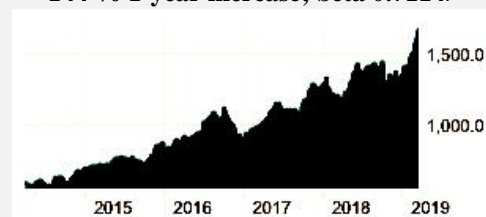
Current Price

1,675 GBX

Our Valuation Range

945 - 1,770

144 % 1-year increase; beta 0.7114.



MARKET DATA

	March 2019	February 2019
Revenue in GBP (TTM)		1.16 b
Net income in GBP		181 m
Founded in		1894
Employees	6341	6300
52-week range	1,136.00-1,707.56	1,136.00 - 1,529.00
Average volume	1.41m	1.01m
Shares outstanding	379.01M	379.65 m
Free float	376.6M	372.34 m
P/E (TTM)	37.98	37.55
Market cap	6.35 bn GBP	5.69bn GBP
EPS (TTM)	0.4410 GBP	0.4016 GBP
Cash Flow per share	0.17	0.5706
Price/Cash flow per share	26.87	26.34
Book value per share	2.45	2.44
Tangible book value per share	---	0.1101
Net profit margin	14.46%	14.46
Operating margin (TTM)	17.85%	17.35
Return on Capital Employed		13.49
Annual div (ADY)		15.08 GBX
Annual div yield (ADY)	0.90%	1.01%
Return on assets	10.82%	10.70
Return on equity	19.19%	17.87
Return on	14.29	12.13

Halma plc is involved in the manufacture of a range of products that protect and improve the quality of life for people. The Company operates through four segments: Process Safety, Infrastructure Safety, Medical, and Environmental & Analysis. The Process Safety includes products, which protect assets and people at work, including specialized interlocks, instruments, and explosion protection and corrosion monitoring products. The Infrastructure Safety includes products, which detect hazards to protect assets and people in public spaces, transportation, and commercial buildings. Its products include fire and smoke detectors and fire detection and suppression systems. The Medical includes products, which enhance the quality of life for patients and improve the quality of care delivered by providers. The Environmental & Analysis includes products and technologies for analysis in safety, life sciences and environmental markets. It also includes products to monitor water networks.

Previous Investment Rationale

Our to watch recommendation was derived mainly after conducting a technical stock price analysis. Fundamentally Halma PLC remains extremely strong, acquiring several companies every year and focusing on the new investment opportunities worldwide, which as a result lead to a very successful long-term growth. While reducing risk due to its not only global diversification over 20 countries but also operations within several sectors.

Solid P/E ratio is showing significant confidence and attraction to Halma PLC, their marketing team is doing incredible work to make investors to ‘stay in love’ and keep investing even during current market uncertainties.

Current stock price remains within ascending channel, which was formed almost 10 years ago, currently being at the all-time high, the upper boundary of the channel, so-called ‘resistance’. Therefore, it is wise to watch and wait until the lower boundary of the channel will be reached to confirm it as a support. Alternatively, break of the current resistance level, currently positioned in 1490 – 1500 range would provide a potential buy signal. Active risk management process should be in place as the stock price will reach a new all-time high. When stock price will reach support or break resistance, we could consider our investment opportunity, as long as there would not be significant fundamental changes.

Previous Investment Risks

Current Brexit and US-China trade deal uncertainties remain as the main risk factors for Halma PLC. While being well diversified over several sectors worldwide their major operations remain within the USA, Europe, and the Asia Pacific. This uncertainty could force the stock price to violate a lower boundary of the long term parabolic ascending channel, which would result in a significant price depreciation, as it could drop to the lowest boundary of our valuation range, 945 level. Therefore, it is wise to watch closely for the confirmation of the support by the prolonged uptrend line, currently positioned in 1310 – 1350 range. Weekly stock price close below 1300 level could lead to sharp price depreciation.

Appendix 1 – Halma PLC Trading Update 21/03/19

HALMA

Trading Statement

Released : 21 Mar 2019

RNS Number : 5086T
Halma PLC
21 March 2019

Halma, the leading safety, health and environmental technology group, today releases its trading update, for the period from 1 October 2018 to date.

Halma has made good progress in the period. Based on current trading and forecasts, the Board expects adjusted profit before tax for the year ending 31 March 2019 to be in line with market consensus expectations (see notes 1 and 2).

There has been widespread revenue growth geographically. The USA and the UK have seen the strongest growth, with more moderate growth in Mainland Europe and Asia Pacific. Order intake has remained ahead of revenue and the same period last year. There has been a positive currency translation effect on Group revenue and profit in the second half, resulting in a broadly neutral effect for the year as a whole.

The Safety sectors have performed in line with expectations, with the strongest progress in Infrastructure Safety, supported by positive contributions from recent acquisitions. Process Safety is expected to deliver a satisfactory performance for the full year despite planned reorganisation costs in the second half. The Medical and Environmental & Analysis sectors remain on track to deliver good full-year performances.

We made three acquisitions in the second half, all in Infrastructure Safety, for a total initial consideration of approximately £62 million. The acquisitions of Limotec and Navtech were reported in the Group's half year results announcement. In January 2019, we announced the

Appendix 1 – Halma PLC Trading Update 21/03/19

acquisition of Rath Communications, a provider of emergency communication systems for Areas of Refuge in the USA, for US\$42.4 million (£32.6 million). The integrations of all acquisitions made during the year are progressing well, and the acquisition pipeline remains healthy in all four sectors.

The Group's financial position is robust and cash generation remains strong, supporting investment in both organic and acquisitive growth.

The results for the year ending 31 March 2019 will be released on 11 June 2019.

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About Halma

Halma is a global group of life-saving technology companies, focused on growing a safer, cleaner and healthier future for people worldwide. Our innovative products and solutions address many of the key issues facing the world today. We operate in four sectors: Process Safety, Infrastructure Safety, Medical and Environmental & Analysis. We employ over 6,000 people in more than 20 countries, with major operations in Europe, the USA and Asia-Pacific. We target global niche markets where sustainable growth and high returns are supported by long-term drivers. Halma is listed on the London Stock Exchange and has been a member of the FTSE 100 index since December 2017.

Notes

1. Adjusted profit before tax is before amortisation and impairment of acquired intangible assets, acquisition items, restructuring costs and profit or loss on disposal of businesses.
2. The Board believes current market forecasts for adjusted profit before tax for the year ending 31 March 2019 to be in the range of £240.1 million to £253.4 million, with a consensus of £243.7m.
3. This Trading Update is based upon management accounts information. Forward-looking statements have been made by the Directors in good faith using information available up until the date that they approved this statement. Forward-looking statements

Appendix 1 – Halma PLC Trading Update 21/03/19

should be regarded with caution because of the inherent uncertainties in economic trends and business risks.

4. A copy of this announcement, together with other information about Halma, may be viewed on our website www.halma.com

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Appendix 2 – Halma PLC Income Statement

Income Statement	29-Mar-14 (£ m)	28-Mar-15 (£ m)	02-Apr-16 (£ m)	01-Apr-17 (£ m)	31-Mar-18 (£ m)
Continuing Operations					
Revenue	676.51	726.13	807.80	961.66	1076.21
Operating Profit/(Loss)	143.57	137.06	142.94	167.07	181.26
Net Interest	-2.46	-2.98	-3.93	-6.89	-6.93
Profit Before Tax	138.37	133.55	136.45	157.78	172.26
Profit After Tax	106.02	103.94	109.00	129.77	154.54
Discontinued Operations					
Profit After Tax	n/a	n/a	n/a	n/a	n/a
PROFIT FOR THE PERIOD	106.33	104.00	108.84	129.69	154.23
Attributable to:					
Minority Interests	n/a	n/a	n/a	n/a	n/a
Equity Holders of Parent Company	106.33	104.00	108.84	129.69	154.23
Continuing EPS					
Earnings per Share - Basic	28.14p	27.49p	28.76p	34.25p	40.69p
Earnings per Share - Diluted	28.13p	27.48p	28.76p	34.25p	40.69p
Earnings per Share - Adjusted	n/a	n/a	n/a	n/a	n/a
Continuing and Discontinued EPS					
Earnings per Share - Basic	28.14p	27.49p	28.76p	34.25p	40.69p
Earnings per Share - Diluted	28.13p	27.48p	28.76p	34.25p	40.69p
Earnings per Share - Adjusted	n/a	n/a	n/a	n/a	n/a
Dividend per Share	11.17p	11.96p	12.81p	13.71p	14.68p

Appendix 3 – Halma PLC Balance Sheet

Balance Sheet	29-Mar-14 (£ m)	28-Mar-15 (£ m)	02-Apr-16 (£ m)	01-Apr-17 (£ m)	31-Mar-18 (£ m)
Assets					
Non-Current Assets					
Property, Plant & Equipment	74.42	86.30	96.56	106.02	103.73
Intangible Assets	448.03	544.88	776.01	837.98	866.72
Investment Properties	n/a	n/a	n/a	n/a	n/a
Investments	5.09	4.24	3.72	3.55	3.99
Other Financial Assets	n/a	n/a	n/a	n/a	n/a
Other Non-Current Assets	0.00	0.00	0.00	0.00	0.00
	548.21	664.02	920.72	1004.42	1011.42
Current Assets					
Inventories	71.03	79.73	105.32	118.78	127.97
Trade & Other Receivables	135.18	156.46	167.60	193.94	218.48
Cash at Bank & in Hand	34.53	41.23	53.94	66.83	70.72
Current Asset Investments	0.00	0.00	0.00	0.00	0.00
Other Current Assets	0.50	1.07	1.13	0.60	0.70
	241.41	278.52	344.20	398.56	435.44
Total Assets	789.62	942.53	1264.92	1402.98	1446.86
Liabilities					
Current Liabilities					
Borrowings	4.14	1.70	4.75	1.35	1.14
Other Current Liabilities	54.01	69.87	38.33	41.91	41.76
	108.42	129.21	149.33	159.31	171.97
Net Current Assets	132.99	149.31	194.87	239.25	263.46
Non-Current Liabilities					
Borrowings	104.89	140.42	295.91	261.92	289.91
Provisions	n/a	n/a	n/a	n/a	n/a
Other Non-Current Liabilities	10.34	5.30	28.66	18.28	27.06
	195.21	264.38	469.25	465.03	446.48
Other Liabilities	n/a	n/a	n/a	n/a	n/a
Total Liabilities	303.62	393.58	618.58	624.35	618.46
Net Assets	486.00	548.95	646.34	778.64	828.40
Capital & Reserves					
Share Capital	n/a	n/a	n/a	37.96	37.96
Share Premium Account	22.78	23.61	23.61	23.61	23.61
Other Reserves	n/a	n/a	n/a	n/a	n/a
Retained Earnings	420.57	454.21	523.86	579.91	691.20
Shareholders Funds	486.00	548.95	646.34	778.64	828.40
Minority Interests/Other Equity	n/a	n/a	n/a	n/a	n/a
Total Equity *	486.00	548.95	646.34	778.64	828.40

Appendix 4 – Halma PLC Income Statement

In millions of GBP

(except for per share items)

Annual 

Fiscal data as of Mar 31 2018	2018	2017	2016	2015	2014
REVENUE AND GROSS PROFIT					
Total revenue	1,076	962	808	726	677
OPERATING EXPENSES					
Cost of revenue total	509	451	386	343	322
Selling, general and admin. expenses, total	343	307	249	226	197
Depreciation/amortization	35	31	23	20	18
Unusual expense(income)	7.06	4.83	6.07	(1.38)	(3.37)
Other operating expenses, total	--	--	--	--	--
Total operating expense	894	795	664	588	533
Operating income	182	167	143	138	143
Other, net	(2.01)	(1.71)	(2.1)	(1.49)	(2.05)
INCOME TAXES, MINORITY INTEREST AND EXTRA ITEMS					
Net income before taxes	172	158	136	134	139
Provision for income taxes	33	28	27	30	32
Net income after taxes	139	130	109	104	106
Minority interest	--	--	--	--	--
Net income before extra. items	139	130	109	104	106
Total extraordinary items	15	--	--	--	--
Net income	154	130	109	104	106
Inc.avail. to common excl. extra. items	139	130	109	104	106
Inc.avail. to common incl. extra. items	154	130	109	104	106
EPS RECONCILIATION					
Basic/primary weighted average shares	379	379	378	378	378
Basic/primary eps excl. extra items	0.37	0.34	0.29	0.27	0.28
Basic/primary eps incl. extra items	0.41	0.34	0.29	0.27	0.28
Dilution adjustment	--	0	0	0	--
Diluted weighted average shares	379	379	378	378	378
Diluted eps excl. extra items	0.37	0.34	0.29	0.27	0.28
Diluted eps incl. extra items	0.41	0.34	0.29	0.27	0.28
COMMON STOCK DIVIDENDS					
DPS - common stock primary issue	0.15	0.14	0.13	0.12	0.11
Gross dividend - common stock	56	52	48	45	42
PRO FORMA INCOME					
Pro forma net income	--	--	--	--	--
Interest expense, supplemental	7.94	8.02	4.67	3.62	3.29
SUPPLEMENTAL INCOME					
Depreciation, supplemental	19	18	15	14	14
Total special items	7.25	5.40	4.72	(1.97)	(1.6)
NORMALISED INCOME					
Normalized income before taxes	179	163	141	132	123
Effect of special items on income taxes	(24)	(14)	(8.93)	(6.1)	(0.34)
Income tax excluding impact of special items	8.25	14	19	24	32
Normalized income after tax	171	149	122	108	91
Normalized income avail. to common	171	149	122	108	91
Basic normalized EPS	0.45	0.39	0.32	0.29	0.24
Diluted normalized EPS	0.45	0.39	0.32	0.29	0.24

LINCOLN STUDENT MANAGED INVESTMENT FUND (LSMIF)

Founded in 2018, the Lincoln Student Managed Investment Fund (LSMIF) is exactly what it says on the tin, a fund which will analyse, determine upon, and purchase shares to create a portfolio. The only difference is we are students. No simulations, just our knowledge and ability vs the real market. The best test of our teachings and learnings.

The fund is set up with a structure similar to any other professionally run fund management company with students running every aspect of the fund, from CEO to analyst. It is designed to give any student involved the best experience of the financial world possible before getting a job.

The fund will be handed down to new students each year as those partake in this fund finish their studying. The fund aims to grow in the future, with more positions available to give the most number of students the chance to partake.

The ultimate goal of the fund is to raise the profile of each student involved to allow for them to get the best experience possible. We, however, set the following objectives to make the fund grow on sustainable basis:

- To generate long-term returns from investments using our stylized investment strategies.
- To raise funds through crowdfunding and donors to help increase the capital base.
- To increase the number of students involved in the fund with expanded capital base.
- To link the fund's activities with the related programmes and modules' assessments
- To get more outside sponsors who want to work directly with the fund as well, to further simulate the professional environment.

Contact details

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