CES 2016

21 January 2016

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As the tech dust settles!

CES 2016 has come and gone, and every little tech wizard in the world was buzzing around Las Vegas sprawling through the seemingly endless technology showcases that seem to extend to more venues every year! But what indications has this technology circus given us of 2016?

2015 could be considered the year of the wearables, but 2016 may be the year we start to see this area begin to slip away. **Fitbit (NYSE:FIT)**, the consumer electronic company that IPO'd in June 2015, unveiled their new fitness watch called "Fitbit Blaze", their share price plunged 18 percent. Fitbit have now been taken to court over their devices being accused of giving 'dangerously inaccurate' heart rate readings in the US putting users' lives at risk. Flying the British flag AIM quoted **CloudTag (LON: CTAG)** also launched its new wearable fitness tracker, targeting consumers who want a cost effective and efficient way of being in control of achieving their own weight loss and fitness goals, whilst also receiving guidance to help keep them on track to do so. Sounds all too similar!

We consider that the idea of an all-round device that acts as a counterpart or companion to your phone is just not the way to attract the masses. There were 58 wearable companies exhibiting their Fitbit-like products, but none produce anything novel, which suggest that the industry is maturing. So the question is, "What will the turnout be next year?" It's a recurring theme at the CES; it's called follow the leader. Growth is no longer the main focus; companies will jostle for their main goals: market share and cash flow, with only those with monumental marketing budgets surviving.

Altered realities flourished at the CES gadget-fest, Virtual Reality (VR) headsets immersed people in fictional worlds, while Augmented Reality (AR) eyewear overlaid digital data on the scenes around them. The potential of altered reality has taken giant strides since the first prototypes were released. While gamers have been natural early targets for VR, the technology is being put to use for education, medicine, sports and more. 2016 could be the year it moves from something we read up on or see at tech conventions to something gamers and consumers start to use at home.

Facebook (NYSE:FB) owned Oculus began taking pre-orders for its Rift VR headsets at a price of $599 when the CES show floor opened. That said VR still has a way to go before it's an accessible and comfortable experience for the average consumer. Despite this high price point and the need for a high-end PC to run the software, demand on the first day of presales was enough to overwhelm the Oculus website. There is still a way to go before VR and AR find their way into most people's everyday lives, but the innovations on show at CES certainly provided a window into this exciting new dimension. It will require computational brute force but so did television, movies and music.

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Hybridan team's "10 Stocks to Watch" in 2016

APC Technology Group (LON:APC 8.5/£7.79m)

An investment in APC Technology is a recovery play in a group which provides technologies and services to improve organisational sustainability and distributes advanced power components to some of the most demanding and innovative of markets. New management and an operational review has moved the Group away from the troubled generation division which was struggling against a backdrop of falling mainstream energy prices. The Board is fully focussed on rationalising its supply chain and driving profitability, and maximising cross selling opportunities across its 1,500 regular customers. The order book has strengthened post year end with over £6m of contracts announced.

In energy and water whilst LED supply is a core component of revenues the high margin solutions business can add real value to minimise its clients' environmental footprint. The components division, services high reliability sectors which operate in harsh environments such as aerospace and automobiles. Increasingly the specialist technical sales team is becoming involved in its clients design processes.

With projected revenue of over £30m (consensus forecasts) the business has a solid top line and trades on an EV/Revenue multiple of under 0.5x. Forecasts suggest that £1.4m in profits can be achieved in FY Aug 2017 (more than treble current year forecasts) and equating to an EPS multiple of just 7.2x.

Avingtrans (LON:AVG 112.00p/£31.20m)

The company is engaged in the provision of engineered components, systems and services to the aerospace, energy and medical industries around the world. The aerospace market is strong with key customers now being stable, shown by contract wins with Aibus/PFW and Sonaca, with also the RMDG acquisition now fully integrated. The medical market has seen steady growth with long term contract signed with Alltech. The energy market has deflated however the nuclear market has seen a huge rise, shown by the exciting new £47m/10y contract win with Sellafield. The group is in a very niche engineering market, led by a strong and experienced management team (as we have seen how they have dealt with the oil price), a good visibility of earnings and a robust financial position. Moreover, it has increased full year dividends by 11% to 3.0p per share allowing for a yield of circa. 2.7%.

BELLUS Health* (TO:BLU C$1.03/C$48.8m)

BELLUS Health enters 2016 with its lead programme KIACTA™ for AA Amyloidosis at a pivotal moment. The Phase III confirmatory study reached completion this month with top line data expected in Q2. We believe the protocol of the current trial design gives BELLUS Health and its partner Auven Therapeutics a good chance of achieving the criteria for approval as previously set out by the FDA. According to research by KMR Group the success rate for Phase III trials for small molecule candidates is 65%. Given the late stage of the study, and the lower risk profile as compared to a first time Phase III study, we believe the current fully diluted market capitalisation of C$67.7m or £32.8m offers an attractive risk/reward profile in view of the potential upside in the event of positive top line data.

A strong balance sheet and further programme in the pipeline offers some downside protection. Other drug discovery companies with Phase III candidates (albeit often earlier on in the process) have attracted much higher valuations. Valuations on NASDAQ are more aggressive. Prothena Corp whose lead candidate NEOD001 for AL Amyloidosis is now in Phase III, is capitalised at over US$2bn albeit with two earlier stage programmes running concurrently. The strategy is to divest KIACTA™. We now believe this to be more likely after the release of top line data. We presume that the sale process has already attracted significant interest and would expect such a novel, orphan designated, first in class treatment for an unmet need to invite competitive bids.

Best of the Best (LON:BOTB 176p/£17m)

We first covered BOTB back in June 2015 at 145p. The company's grass roots were established in airport locations offering customers a chance to win luxury cars for a modest ticket price entering into a ballot competition. BOTB has now spread its wings to a fully-fledged multi-channel business displaying luxury cars as competition prizes not only in retail spaces across the country but more importantly in a rapidly growing online presence. At the recent 2015 interims, online revenues were up 82.9% yoy, representing 66.5% of total revenue which stood at £4.98m (up 30% from 2014 interim period). Profit before tax also increased by 10.9% to £0.48m with healthy cash balances standing at £2.19m. BOTB is in a great place, cash generative, dividend paying and their growing online revenues creates a much more scalable model.

Johnston Press (LON:JPR 39.5p/£41.82m)

Johnston press shares continue to languish near long term lows leaving the shares on a sub 2x earnings rating, meaning that if forecasts are achieved, the company will generate cumulative profits equal to the current market valuation in under two years! The challenge for the local and regional multimedia organisation is to manage the decline in print revenues whilst leveraging its unique position in local communities and driving digital growth.

The January trading update suggests this is the case with EBITDA and net debt in line with expectations for FY Jan 2016 and the decline in circulations improving by 1.5% for daily titles and 2.6% for weekly titles. The number of unique digital users has grown to 22.6m in December 2015 vs an average of 16.7m over 2014. Audience numbers like these mean that the major local news groups cannot be ignored by the nationals as per the acquisition of Local World by Trinity Mirror for circa £220m.

Whilst net debt of £183.3m and the £87m pension deficit currently dwarf equity holders, Johnston Press generates circa £50m per annum in cash from underlying operations. The debt reduction combined with a refinancing in 2014 allowed for H1 2015 net finance costs to contract by 35.8% to £20m. A successful delivery of strategy may allow for a further reduction of the cost of debt in due course.

Lombard Risk (LON:LRM 12p /£36.65m)

Lombard Risk delivers risk management and regulatory compliance solutions to the financial services industry and large corporations around the world. Currently it has two business lines; Risk (Collateral) Management and Regulatory Compliance. The new management team is making some very positive changes to focus on and accelerate the return to profitable growth. Obviously there have been re-structuring charges, but early green shoots in terms of pipeline build-up are looking good. At the interim stage it had a record order book of £6.8m and bookings were up 48% on last year. If the collaboration with Oracle catches fire, the 10% revenue growth forecast for next year (to March 2017) could be significantly breached on the upside driving high operational gearing at the bottom line.

Obtala Resources (LON:OBT 5.00p/£13.16m)

Obtala Resources is a vertically integrated agribusiness, timber and retail company. 2015 was a transformational year for the company with the last set of interims portraying a strong platform for growth reporting revenues of £2.3m, net profit of £3.92m and net assets of £95.8m. Kevin Milne, Executive Deputy Chairman was appointed to the Board in August 2015 as a part of a wider push to strengthen the management team and to refocus the business going forward. In October 2015, the Board commenced a process to separately list their forestry division on to AIM during Q1 2016. The timber business holds an NPV of $161m at a 12% discount based on a ten year cash flow model across their 11 concessions in Mozambique. The revenue values attributable to the company's operations across all its concessions are projected at $395m over a ten year period. The market for high quality timber is ever increasing against a backdrop of constrained supply. The proposed spinoff of their timber business represents the intrinsic value within the group against a current market cap of £14.5m. Placing these assets within a separate vehicle will help deliver a renewed focus to their timber assets helping maximise value for shareholders.

REACT Group (LON:REAT 1.45p/£3.99m)

REACT Group is a specialist 24/7, 365 days a year provider of contract and rapid response deep cleaning and emergency decontamination services. The company demerged from Autoclenz and reversed into AIM shell, Verdes Management back in August 2015 raising £2.17m. The company has a strong reputation in providing specialist extreme cleaning servicing to numerous blue chip clients such as Amey, Balfour Beatty, G4S, Serco, Network Rail and the Home Office to name but a few. REACT operates in a multitude of sectors including facilities management, commercial, transport, emergency services and custodial to name but a few. The industry of deep cleaning and decontamination holds very high barriers to entry presenting extremely high standards and REACT sets itself apart from the competition but offering a completion certificate and a full Health and Safety audit trail for its contracts. Since their AIM debut, REACT has made strong headway in enhancing its portfolio of services to existing clients and entering into new national account customers. Management also intends to make suitable niche acquisitions when appropriate. YE Dec 2014 figures showed revenues of £1.56m with net profit of £225k.

Redhall Group (LON:RHL 6.125p / £12.25m)

Redhall Group has been to a dark place, but it is now considerably de-risked and firmly back on track. The balance sheet is back in shape and the business firmly refocussed on the strong growth nuclear and infrastructure sectors. The debt, risk profile & costs are all reduced. The bidding process has been streamlined – and there is a strong bid book (£150m) and order book. The customers are high quality as are the barriers to entry. Market expectation is for break-even run-rate midway through next year. The enterprise value is around 0.4x FY 9/2016 sales of £48m (est.) and 0.34x £55.5 (est.) FY 09/2017, which is 15% growth albeit off a low number. All of which gives a forward PE of around 12x for FY 9/2017. Post kitchen-sinking, surprises are more likely to be on the upside and it will not take a huge percentage of the £150m bid program to hit, in order to drive the top-line faster than the current estimates.

Vipera (LON:VIP 3.125p /£8.08m)

The Company supports and enhances the mobile banking capabilities of financial institutions. The Company is currently valued at around 1.6x its 12/2015 forecast. Given the pace of growth and the likelihood of profitability next year, this seems pretty reasonable. It will take time for the 'transactional' and recurring revenues to build, but the type of contracts that Vipera are currently landing, gives comfort that the top line can grow not only fast but with increasing visibility. Additional growth will come from new customers brought in through the expanded sales team, and through channel partners as well as organically through increasing take up from end users as mobile banking becomes more mainstream.

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