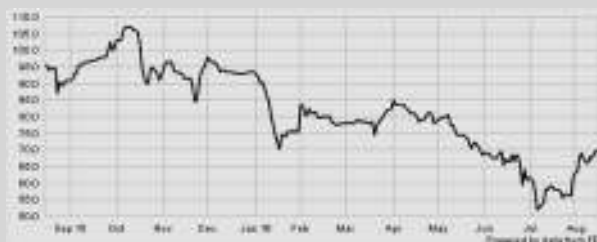


Key Statistics

| | |
|--------------------|----------------------------|
| Code | : MBH |
| Listing | : AIM |
| Sector | : Construction & Materials |
| Market Cap | : £57.05m |
| Share in issue | : 81.23m |
| Current Price | : 72.00p |
| 12 month High/Low: | : 110.00/50.00p |

Stock Performance



Source: InvestEgate

Financials

| £'m | 2015 | 2014 | 2013 | 2012 |
|------------|-------|-------|-------|-------|
| Revenue | 29.07 | 28.48 | 25.93 | 24.51 |
| PBT | 4.56 | 2.6 | 0.41 | 0.05 |
| Profit | 3.61 | 2.2 | -1.55 | 0.01 |
| Dividend | 1.0p | 0.5p | - | - |
| Net assets | 49.22 | 46.69 | 45.5 | 35.53 |

Source: Final Results

Michelmersh Brick Holdings PLC is a business with five leading market brands: Blockleys, Charnwood, Freshfield Lane, Michelmersh and Hathern Terra Cotta. These divisions operate within a fully integrated business combining the manufacture of clay bricks, tiles and pavers. The Group also includes a landfill operator, New Acres Limited, and seeks to develop future landfill and development opportunities on ancillary land assets. Established in 1997 the Company has grown through acquisition and organic growth into a profitable and asset rich business, producing approximately 72 million clay bricks, tiles and pavers per annum. MBH currently owns most of the UK's premium manufacturing brands and is a leading specification brick and clay paving manufacturer. It aims to lead the way in producing some of Britain's premium clay products and enhancing the built environment by adding value to the architectural landscape for generations to come.

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Michelmersh – Baked in Value

Michelmersh has a market cap of £57m with no debt. At the half year stage to 30 June 2016 it reported net assets of £50.6m. It also reported earnings for the half year of £2.1m. So it is currently trading at 113% of its NAV and around 14x the brokers' FY 12/2016 EPS forecast with a yield of 1.7%.

- **Deep Value – NAV & EPS Multiple**
- **High Barriers to Entry**
- **Strong management**
- **Growing underlying market**

Michelmersh operates four different brick plants. In total it has around 300 acres of land/quarry that ensures around 25/30 years of 'consented' clay supply; and probably more behind that that is not yet consented. Where a quarry is exhausted, it is able to utilise the pit as landfill and when that is complete and the 'brown-field' land fully restored it will be sold for residential building. (Which potential value is not included in the NAV)

The current management joined the business in 2010. At that point the net debt was £23m and the net loss around £10m. Obviously there has been a significant turnaround since then.

The Company makes specialist bricks, commanding a 40% premium to volume bricks, and the market for specialist bricks is less volatile too, with around 50% of stock used for repair, maintenance and improvement projects. That said the long-term demand for construction in the UK is still growing - Brexit panic or no - and is likely to grow year on year for the foreseeable future. Capex and working cap are very high so that chances of new competitors coming into the market is also low. Shipping bricks long distances is not cost effective thus eliminating much competition.

This is a strong management with a solid business model on a very reasonable valuation. Looks like very good value here.

Consolidated Income Statement for 6 months ended 30 June 2016

| | 6 months ended 30 June 2016 £'000 Unaudited | 6 months ended 30 June 2015 £'000 Unaudited | 12 months ended 31 December 2015 £'000 Audited |
|-------------------------------|--|--|---|
| Revenue | 15,292 | 15,327 | 29,071 |
| Cost of sales | -9,581 | -9,411 | -17,961 |
| Gross profit | 5,711 | 5,916 | 11,110 |
| Administration expenses | -3,126 | -3,244 | -6,468 |
| Other income | 13 | 41 | 68 |
| Operating profit | 2,598 | 2,713 | 4,710 |
| Finance income/(costs) | 8 | -209 | -153 |
| Profit before taxation | 2,606 | 2,504 | 4,557 |
| Taxation | -521 | -501 | -951 |
| Profit for the period | 2,085 | 2,003 | 3,606 |
| Basic earnings per share | 2.57 p | 2.47 p | 4.44 p |
| Diluted earnings per share | 2.55 p | 2.46 p | 4.42 p |

Source: *Michelmersh Brick Holdings plc*

Consolidated Balance Sheet as at 30 June 2016

| | As at 30 June 2016 £'000 Unaudited | As at 30 June 2015 £'000 Unaudited | As at 31 December 2015 £'000 Audited |
|--|---|---|---|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 2,475 | 2,475 | 2,476 |
| Property, plant and equipment | 41,354 | 42,472 | 40,810 |
| | 43,829 | 44,947 | 43,286 |
| Current assets | | | |
| Inventories | 7,278 | 6,239 | 7,195 |
| Trade and other receivables | 6,045 | 8,198 | 4,308 |
| Investments | 30 | 30 | 30 |
| Cash and cash equivalents | 2,747 | 132 | 2,935 |
| Total current assets | 16,100 | 14,599 | 14,468 |
| Total assets | 59,929 | 59,546 | 57,754 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 4,899 | 4,840 | 4,165 |
| Provisions | - | 6 | - |
| Interest bearing borrowings | - | 906 | 456 |
| Corporation tax payable | 521 | 871 | - |
| | 5,420 | 6,623 | 4,621 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 3,914 | 4,593 | 3,914 |
| Total liabilities | 9,334 | 11,216 | 8,535 |
| Net assets | 50,595 | 48,330 | 49,219 |
| Equity attributable to equity holders | | | |
| Share capital | 16,247 | 16,247 | 16,247 |
| Share premium account | 11,495 | 11,495 | 11,495 |
| Reserves | 16,953 | 17,564 | 16,850 |
| Retained earnings | 5,900 | 3,024 | 4,627 |
| Total equity | 50,595 | 48,330 | 49,219 |

Source: *Michelmersh Brick Holdings plc*

Consolidated Statement of Cash Flows for 6 months ended 30 June 2016

| | 6 months ended 30 June 2016 £'000 Unaudited | 6 months ended 30 June 2016 £'000 Unaudited | 12 months ended 31 December 2015 £'000 Audited |
|---|--|--|---|
| Net cash generated by operating activities | 1,628 | 2,799 | 5,778 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | -1,004 | -958 | -1,734 |
| Proceeds from sale of investment | - | - | - |
| Proceeds from sale of land | - | - | 1,500 |
| Proceeds on disposal of property, plant and equipment | - | - | 7 |
| Net cash used in investing activities | -1,004 | -958 | -227 |
| Cash flows from financing activities | | | |
| Repayment of interest bearing borrowings | - | -5,000 | -5,000 |
| Dividends paid | -812 | -406 | -406 |
| Repayment of finance lease obligations | - | -2 | -5 |
| Net cash used in financing activities | -812 | -5,408 | -5,411 |
| Net (decrease)/increase in cash and cash equivalents | -188 | -3,567 | 140 |
| Cash and cash equivalents at beginning of period | 2,935 | 2,795 | 2,795 |
| Cash and cash equivalents at end of period | 2,747 | -772 | 2,935 |
| Cash and cash equivalents comprise: | | | |
| Cash at bank and in hand | 2,747 | 132 | 2,935 |
| Bank overdraft | - | -904 | - |
| | 2,747 | -772 | 2,935 |

Source: Michelmersh Brick Holdings plc

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