

The GCI Digest

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As expected, interim results at Hayward Tyler showed that there's a lot of catching up to do in the second half. However, management reiterated its confidence in making the £80 million sales forecast for the full year, compared with the £23 million recorded at half-time.

Going through the arithmetic with CEO Ewan Lloyd-Baker, he has £21 million already booked, leaving a £36 million gap to fill. £11 million of orders were received in the first six weeks of the period and a further £60 million is under negotiation. Not all of that will be signed, of course, but it shows that the numbers are achievable.

The depreciation of sterling should also act as a boost to competitiveness, with 80 per cent of sales being exported.

If turnover builds as hoped, the company will enter next year with a lot of momentum, which implies scope for substantial upgrades. Clearly no one wants to get ahead of the game at this delicate stage, but the potential is clear.

Borrowing facilities have been revised and the current period should see the debt position improve. The dividend was also raised 5 per cent, which is a positive signal. On a current-year p/e of 9.6, there's plenty of potential here if Hayward Tyler can pull it off. ■

KEYWORDS STUDIOS Ticker KWS Sector Support Services Market cap £270m Share price 495p**HOLD/BUY**

Keywords continues to perform strongly and has strengthened its business by acquiring Canada's Enzyme Testing Labs for €3.7 million.

Enzyme tests the localisation and functional aspects of video games and should fit nicely with existing operations in this field. There should be meaningful cost benefits to be extracted once the business is integrated, and the purchase price looks very reasonable. Brokers are therefore upgrading earnings by around 5 per cent.

This follows on from the trading update earlier in November that said sales and profits were expected to be 'significantly ahead' of market expectations. The earlier acquisition of Synthesis, which

focuses on video game localisation and audio services, has sustained higher second-half activity levels than forecast. Like-for-like growth across the business has also been strong, with the artwork operation cited as another good performer.

Keywords continues to have a healthy acquisition pipeline of specialist providers to the video game industry under review. Enzyme follows on from the October acquisition of Player Research, which focuses on player behaviour and experience testing. The industry is huge and constantly changing, with virtual and augmented reality emerging as new technologies among other developments. This should keep the growth opportunities coming, justifying the p/e of 24 times 2017 earnings. ■

KROMEK Ticker KMK Sector Healthcare Equipment Market cap £42m Share price 28p**HOLD**

Kromek has been a disappointing investment since listing in 2013. It has interesting technology used in sectors where there are good growth opportunities, but so far the company hasn't delivered the sort of revenues originally targeted. However, recent contract wins hold out the prospect of improved visibility.

Kromek uses high-performance sensor materials (mainly cadmium zinc telluride) to detect radiation in the medical, nuclear and security markets. This year has brought some positive news on contracts. In particular, deals with US agencies responsible for homeland security could prove crucial in producing a vital ramp-up in sales. The first 10,000 units for the early detection of

radiological 'dirty bombs' have been delivered. After this initial deployment and testing in Washington there's the prospect of the product being rolled out into other cities.

Several other deals were recently announced that should underpin short-term activity, including work for customers in medical and airport security. Breaking even at the EBITDA level will still require a 40 per cent jump in sales for the April 2018 year to £12.5 million.

The current £42 million market cap still looks to be running ahead of the game, but Kromek is worth keeping an eye on given the potential for those US defence contracts to scale up. ■

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