Daily comment

Tuesday 20 January 2015

Stock Spirits, Carmat, technology – Hewlett Packard

Stock Spirits STCK:LN 213p Mkt cap £426m Analyst: Sohil Chotai

Stock Spirits reported a mildly negative trading statement for Q4, stating that disruption in the supply chain in its key Polish market had continued throughout the quarter. A positive takeaway is that Stock has maintained value share (which represents good pricing discipline in our view) in a market that has seen consumer volume trends of -4.4% for January to November 2014. This compares with our revenue growth forecast for Poland of -8% for 2014. We think it is unlikely to lift sentiment on the company but at its lower valuation relative to larger peers and potential roll-up opportunity in the CEE spirits market, Stock remains a compelling investment opportunity in Emerging Europe.

Stock Spirits remains in its closed period and will only elaborate on this statement when it publishes its full year release on 12 March. Hence, this morning's conference call with management yielded little extra information other than to reiterate previous guidance, albeit at the lower end of the range, and to restate that markets outside of Poland continued to trade in line with expectations.

The trends witnessed so far this year are consistent with normal seasonal patterns. January is a short month in terms of trading, but important in terms of negotiation of new contracts.

On the acquisition front, management remains committed to purchasing assets. However, while progress is slow, Stock hopes to be in a position to close a deal in "the coming months".

Carmat ALCAR:FP €77.3 Mkt cap €331m Analyst: Emma Ulker

Carmat is running a feasibility study of its bioprosthetic heart device in four patients – the first part of the clinical development process of CE mark certification, which is being developed to provide for the significant shortfall in donor hearts for transplantation in patients with advanced heart disease.

Today's announcement that the patient implanted with the heart device on 5 August (the second patient) has returned home is notable, as not only does it show length of survival of 167 days, satisfying the 30-day survival threshold of the study, but it also confirms approval of the portable energy system, allowing patients autonomy and improving quality of life. This is a major step towards eventual commercialisation of the artificial heart.

In January, Carmat announced it received a €5.6m instalment of a subsidy from French government investment institution Bpifrance – Banque Publique d'Investissement (formerly OSEO Innovation), already factored into our forecasts, contingent on technical and medical milestones. We estimate that Carmat has a funding need of €20m during H115, although it has not confirmed its plans on financing – a major shareholder is an early-stage venture fund, Truffle Capital, and it seems logical that it may be looking for an exit this year.

The next catalysts are likely to be news of completion of the feasibility study – the company indicated that the trial was 50% recruited as at October 2014 and transition into the pivotal stage of the trial in up to 25 pts.

Our Outlook initiation outlines the full story, including the US development strategy.

Technology – Hewlett Packard: The eggs have landed Analyst: Richard Windsor

HP loses more face over Autonomy

The end of the criminal investigation into HP's allegations of fraud at Autonomy leaves HP with egg all over its face. The UK Serious Fraud Office (SFO) has declined to proceed with fraud charges against the former executives of Autonomy, stating that there is not enough evidence to be confident of a conviction. The US investigation will continue but we are almost certain that it, too, will decline to proceed to formal charges.

This is because, while HP is a US-based company, Autonomy was listed in the UK and consequently it is the jurisdiction where any crimes are most likely to have been committed. Hence, it seems even less likely that there will be enough evidence for the FBI to press formal charges.

It increasingly looks like the original conclusion that we drew over two years ago (see here) will finally be proved correct.

Ever since HP purchased Autonomy for $11bn, and less than 12 months later wrote off $5.5bn of that value, it has been clear in our view that HP failed to do its due diligence properly.

Autonomy was a listed company, and the market was well aware that one needed to tread very carefully when looking at Autonomy's published figures. Furthermore, it appears that HP was made aware of many of the contested issues prior to the closing of the deal (see here) but chose to do nothing. Consequently, it is increasingly clear that while Autonomy's accounting practices could be seen as aggressive, they remained within the rules. It therefore comes as no surprise that the SFO has declined to prosecute and that the FBI will, most likely, do the same.

This will leave HPQ's management with little option but to admit that it failed to fulfil its obligations to shareholders when carrying out its due diligence, resulting in the possibility of the filing of a class action lawsuit against HP.

This is unfortunate as HP has done a reasonable job in cutting costs and getting the ship back onto an even keel. However, the company remains without any real long-term strategy and the split into Hewlett-Packard Enterprise and HP Inc solves nothing.

We still think that HP will continue to drift along, allowing much of the technology industry to pass it by.

Best regards,
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