

PILLING & Co

STOCKBROKERS LIMITED



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Innovative Ideas



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History shows that companies adopting innovative ideas and concepts often become market leaders. The substantial investment in exciting stocks within sectors such as technology and more recently artificial intelligence is evidence of this. Previously niche companies, like Nvidia, have grown into global behemoths. Driven by a combination of consumer demand and company ambitions to dominate their sectors, innovation has become central to many corporate philosophies and mission statements. As Albert Einstein said, "If you always do what you always did, you will always get what you always got".

However, innovation and technological advances are not restricted to those areas that we see in everyday products and services such as mobile phones, the internet and online banking, but are also being adopted in those more traditional industries that acknowledge the importance and benefits that innovative thinking can generate.

Two such long standing industries are manufacturing and shipping, and we highlight one company in each sector that is implementing and benefitting from innovation.

Founded in 1824, **Hill & Smith** was renowned for its range of products including fencing, wrought iron shafts, piston rods and crank shafts. A stock market listing followed in 1969, and through a combination of organic growth and acquisitions the group now has a market value of £1.6bn. The modern-day business is now described as one of 'creating sustainable infrastructure and safe transport through innovation'; three core divisions comprise the company structure.

Firstly, the engineered solutions division focuses on supplying composite and steel solutions for the energy generation, marine, rail and housing sectors. The galvanizing services part of the business provides services to increase the sustainability and maintenance free life of steel products such as lighting, bridges and agricultural equipment. The third component is the roads and security department which supplies products and services for road infrastructure and includes safety barriers, street lighting columns and bridge parapets.

Most of the group's revenue is generated from projects within the UK and US, but there are small operations in Australia and India. Although the group has made a big name for itself in what are often niche markets, they do benefit from high barriers to entry, moderate competition and solid margins. Macroeconomic drivers such as an increasing population, climate change and increasing health and safety standards have benefitted the group, whilst the need to replace ageing infrastructure has become more critical.

Innovation remains a core driver within the group, and a recent example of this is in response to the wildfires in California (a trend set to continue as climate change continues to increase global temperatures) with the development of a new technology that protects the fiberglass reinforced polymer poles used to carry electricity. This provides cost savings and greater life expectancy of such products.

As well as a commitment to innovation and technological advances, the company aims to always ensure a strong balance sheet and sustainable cash generation to maintain its growth strategy. Growth is derived from its own internal product development as well as bolt on acquisitions, thus feeding expansion opportunities and the dividend policy.

The group's financials over the past four years show group revenue rising strongly from £588m to £829m in 2023. Underlying operating profits have risen from £64.7m to £122.5m whilst the dividend per share has risen from 26.7p to 43p during this time.

The dividend policy aims to be a progressive one, although the target dividend cover of approximately 2.5 times underlying earnings is seen as key to a strong financial position. The groups objective also remains one of delivering cash conversion in excess of 80%, targeting a net debt to EBITDA ratio of 1 to 2 times.

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It is hoped that a highly disciplined approach ensures the long-term success of the business. Priced at 1920p, the shares offer capital growth potential and a respectable yield of 2.4%.

Another traditional sector embracing innovation is the shipping industry. With over 85% of world trade carried by sea, and the growing pressures to reduce carbon emissions, the challenges facing the industry require innovative thinking and a more advanced technology infrastructure.

Clarkson is a global leader in maritime consultancy and integrated shipping services, covering areas such as ship broking, research and port services. Aiming to provide a comprehensive end-to-end shipping consultancy service, the group is split into several key divisions.

The Global ship broking services division offers services such as vessel chartering, covering the main global routes and transportation of assets such as oil, dry cargo, gases, and cars. The financial services division offers clients access to project and structural asset finance, whilst the port services arm of the group provides services such as logistics, offshore oil platform support, helicopter operations and customs clearance.

One of the major areas of innovation has been within the groups expanding research division, which collates data and insights around shipping and trade. Delivered through its flagship platform, the group's analysis tracks and projects shipping market supply and demand, freight, vessel earnings and macroeconomic data around global trade flows which can be relayed to clients.

In addition, Clarkson also operates a world fleet register system which tracks the world shipping fleet (150,000 ships) including information on vessel equipment, companies, shipbuilding activity, emissions regulations and deployment and trading patterns.

Turning to the financials, 2023 was another record for the group despite headwinds such as inflation, global growth concerns and ongoing conflicts in key areas of the world. Group revenue for 2023 came in at £639.4m, up 5.9% on the previous year, whilst profit before tax was up 8.7% to £108.8m.

The company remains debt free, cash generative and its progressive dividend policy is now into its 21st year. Priced at 4140p, the shares offer a respectable yield of 2.5%.



15/06/2022 - 14/06/2024 Data from FE fundinfo 2024

Important Information

The value of investments and income can fall as well as rise and your capital may be at risk. Past performance is not a guide to future returns. Any opinions are not advice, if you are unsure about suitability, you should take independent advice. Any relevant HMRC or tax rules may be subject to change. Opinions and information are correct as at the time of writing and sources are believed to be reliable. Staff members and/or the author may hold the investment featured and receive remuneration linked to transactions in the recommendation. Where featured, prices are the most recent market price, not price targets for investment decisions. All investments are subject to our current terms and conditions. Whilst every effort is made to ensure accuracy, we cannot be held liable for errors or omissions.