

# Morning Wrap

## Today's Newsflow

Select headline to navigate to article

**Molten Ventures** Molten Updates: Endomag Exit; Buyback and Funding

**Keywords Studios** KWS Trading update - signals volatility around project spend

**Building Materials** Saint-Gobain - Sequential improvement in European volumes

**Economic view** Completions down in H1, but pipeline is strong

Equity Research

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### Upcoming Events

#### Company Events

29-Jul	Cranswick; Q125 Trading Update
30-Jul	ConvaTec Group; Q224 Results Diageo; FY24 Results Games Workshop Group; FY24 Results Greggs; Q224 Results Heidelberg Materials; Q224 Results Paragon Banking Group; Q324 Trading Upd Smurfit Westrock; Q224 Results
31-Jul	Bank of Ireland; Q224 Results GSK; Q224 Results Kerry Group; Q224 Results Lufthansa; Q224 Results Taylor Wimpey; Q224 Results
1-Aug	Mondi; Q224 Results NCC Group; FY24 Results Permanent TSB; Q224 Results Wizz Air; Q125 Results
2-Aug	Virgin Money UK; Q324 Trading Update

#### Economic Events

31-Jul	Retail Sales Live Register ILO Unemployment Rate
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#### Ireland

#### United Kingdom

29-Jul	BoE Mortgage Approvals M4 Money Supply
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#### United States

#### Europe

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## Molten Ventures Molten Updates: Endomag Exit; Buyback and Funding

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Hologic, a leader in women's health, has completed the acquisition of UK-based medical technology business Endomag for \$310m. It follows the July 12th announcement which had stated the acquisition was progressing through closing stages. The transaction provides net proceeds to Molten of c.\$46m, marginally above the group holding value of £35m; delivering a return of 3.9x on Invested Capital. This provides the latest validation on valuation methodologies in the portfolio with another exit closing ahead of holding value; and confirms what Molten had signalled regarding Endomag on July 12th.

The group has pointed to realisations of £100m in the calendar year and with £70m now received through Perkbox, Graphcore and Endomag sales, a further announcement has been released by Molten which sees the commencement of a share buyback of £10m (a minimum of 10% of the £100m proposed realisations). The buyback should support underlying momentum in the short-term and a further reflection of confidence in the company's prospects and is in line with the stated capital allocation strategy.

**Molten also announced that it has put in place a new debt facility of up to £180m effective from 7th September 2024. The facility includes a £120m 3-year tenor term loan drawn on day one and an RCF of up to £60m also over 3 years. This replaces an existing facility of £150m with JP Morgan Chase and HSBC. The new debt facility will replace in full the £90m drawn term loan component of the current facility which is entering its final year. The balance will be for investment and corporate purposes. In terms of covenants, drawdown of the new facility is subject to a maximum LTV of 12.5% with the value related to the value of the company's investment portfolio. The interest remains at the same level (SONIA + a margin of 5.5% p.a). The enhanced debt facility provides enhanced investment runway and headroom to Molten than the prior facility and executed at the same margin by the same banks which is a signal of confidence in execution/model. It also shows prudent capital management by the business.**

[Home...](#)

**Recommendation: Buy**  
**Closing Price: £3.49**

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## Keywords Studios KWS Trading update - signals volatility around project spend

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The update confirms what the group flagged in the last update that 2024 H1 has been volatile and left gaps in it create (engineering and art businesses) due to cancellations or deferrals at the last minute which the business could not reallocate. Added to this; demand has been softer in globalise (localise and test) and Hollywood content demand ramp up was slower than expected. Bringing these together, this has driven revenue growth of 7% in H1 or -2% in organic terms; its worst performance since we covered the stock in 2018. The group noted growing spend from larger clients during H1; continues to anticipate recovery from US strikes during H2 reinforcing the view of an improved second half performance though organic growth levels in H2 are now tempered by further delays and project scope reductions. The Board remains confident in the group's ability to outperform the market and deliver on its medium-term guidance beyond 2024.

Whilst the group continues to manage costs including cost actions and a restructuring of its go-to market approach in globalise; due to the timing of the cost saving and reduction in volumes; the group report a H1 adjusted operating profit margin of 13%; below historic norms/guidance of 15% though flags expected improvements here during H2 as volume improves/cost savings flow through. On the M&A front; the group continue to expect to commit c €100m per year noting deals in the UK and Australia. In relation to the pending potential acquisition of Keywords Studios; **the group expects to post the Scheme document "in the coming days"**.

**This is the weakest update we have seen from KWS in my time covering the stock since 2018 and particularly to see it weaker again in H2 and a clear sign of constrained spend amongst publishers globally who are watching their margin base closely and being conservative on new content spend; though it should remain a 2024 effect as new content should begin to start to pick up again from 2025. KWS remains the key beneficiary when overall industry momentum returns positive and new content switches back on in a meaningful way. Its growing scale; focus on higher margin areas; continued appetite to expand via M&A position it well for market share gains.**

[Home...](#)

**Recommendation: Buy**  
**Closing Price: £23.80**

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## Building Materials Saint-Gobain - Sequential improvement in European volumes

Type Saint-Gobain published Q2/H1 results post close yesterday evening. Sales came in at EUR 23,464m, -6% yoy, broadly in line with Visible Alpha consensus. LFL sales during the second quarter came in at -3.9%, an improvement on the -5.8% reported in Q1. The Group experienced a sequential improvement in volumes in Q2 (-3.1% in Q2 versus -4.7% in Q1) whilst pricing remained broadly stable sequentially (-0.8% in Q2 versus -1.1% in Q1). From a profitability perspective, the Group delivered a H1 operating profit of EUR 2,751m (-2.2% yoy) which translated into a "record" operating margin of 11.7% (+40bps yoy). The operating profit outturn in H1 was c.4% ahead of Visible Alpha consensus.

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In terms of the regional detail: **i) In Northern Europe** there was a clear sequential improvement with LFL sales down 3.2% in Q2 (-1.2% price; -2% volume) versus the -11% (-1.7% price; -9.3% volume) reported in Q1. The Group notes that despite a challenging H1 in Northern Europe, it believes that most countries are now "at or near a low point". Within Northern Europe, a slowdown in new building impacted the Nordic countries and Germany, although it notes that RMI activity in those regions proved more resilient. In the UK, it believes that activity levels have troughed. In Eastern Europe, volume growth accelerated for the third consecutive quarter; **ii) Southern Europe, Middle East & Africa** reported a LFL sales decline of 7.1% in Q2 (-2.4% price; -4.7% volume), an improvement on the decline of 10.1% reported in Q1 (-2.4% price; -7.7% volume). The Group specifically note that new construction remained "significantly down in France" but Spain and Italy reported "good" growth supported by more buoyant renovation markets. Middle East and African countries delivered "strong" growth during the period; **iii) In the Americas** LFL sales came in at -2.8% in Q2 (+0.9% price; -3.7% volume) a significant delta on the +5.9% (+0.7% price; +5.2% volume) reported in Q1. Specifically in North America LFL sales came in at -2.3% in Q2 versus the +12.2% reported in Q1 whilst Latin America LFL sales declined by 4.5% in Q2 versus a decline of 10.8% in Q1. Talking about the H1 period as a whole (rather than Q2 vs Q1), management notes that new construction in North America has stabilized at a good level whilst the RMI market has been "dynamic". The Group also notes that its roofing business reported "robust" growth in North America; **iv) In Asia-Pacific** Q2 LFL sales slid to -1.8% versus +4.5% reported in Q1. It is noted that India continues to outperform, China is struggling given slow new build activity and South East Asia (led by Malaysia, Indonesia and Singapore) is at "a good level".

In terms of the outlook for the second half, the Group expects some of its markets to remain difficult in H2 but easier comps and a sequential improvement seen in Q2 versus Q1 should benefit. In Europe, it expects resilience in RMI and although it anticipates new build will remain difficult, it notes that most countries are reaching a low point (trough levels). In North America it expects construction to hold "firm" (new build and RMI) whilst in Latin America it expects a continued recovery. In Asia-Pacific it expects good growth led by India. In terms of quantifiable guidance, the Group simply notes that it expects to deliver a double digit operating margin in H2 (Visible Alpha consensus stands at 10.8% for H2).

**In terms of readacross, the comments around Europe being at or nearly at trough levels from a new build perspective is notable and the sequential improvement in volumes in Europe generally is positive to see. The slowdown in LFL trends in North America is cause for question (conference call at 8:30am - GMT +1) but some level of comfort should be taken from the outlook noting that it expects H2 construction activity in the region to remain "firm".**

[Home...](#)

## **Economic view** Completions down in H1, but pipeline is strong

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There are conflicting signals in relation to new housing supply in Ireland in the first half of 2024. While housing commencements have surged, new CSO data published yesterday show that completions fell again in Q2, putting full-year forecasts at risk.

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New dwelling completions fell by 5% yoy in Q2 in Ireland. This followed a 12% yoy decline in Q1, resulting in completions being 9% lower in H1 overall. The weaker quarter was due to a fall in apartment completions, which were down 15% in Q2 and by 25% in H1 overall. Apartments are the most volatile component of residential output. Scheme housing completions fell by 2% yoy in Q2 and were down 1% yoy in H1 overall.

**The data contrast with trends in commencements, which grew by 116% yoy in H1. Over the past twelve months, there has been 31K completions, but 51K units have been commenced. This suggests that output should grow over the coming twelve months, but there is greater uncertainty about the scale of output due to the volatility caused by the surge in commencements at the end of the waiver on development levies and the water charge rebate.**

[Home...](#)

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