

AB Dynamics

“Could This ‘Best-In-Class’ Business Turbo-Charge Your Portfolio?”

by Mark Rogers

What it does

AB Dynamics designs and manufactures high-end testing equipment for developing cars.

Why we're watching

- Exciting high-margin technology in high demand
- Blue chip client base — Ford, General Motors, Toyota, Volkswagen
- Founder-led company with great history

Market	Ticker	HQ	Website
Main, UK	LSE: ABDP	Wiltshire, UK	www.abd.uk.com

Market cap

£106m

Net cash

£10.4m

Recent price

564p

Price data taken on 8 Feb 2017, net cash as at 31 Aug 2016

About the company

To mark the upcoming release of *The Motley Fool's Micro-Cap Report* on **Tuesday 14th February**, I'd like to share with you an intriguing opportunity that I assessed during my research.

This candidate didn't quite make the cut for the “top five” shares that ultimately made it into the official report — but I'm fascinated by this company nonetheless, and I'll also be adding it to our Watch List in *Motley Fool Hidden Winners* next week. You may want to consider this share for your own portfolio.

AB Dynamics (LSE:ABDP) — the “AB” stands for Anthony Best, founder and Chairman — is an expert in advanced testing systems for the automobile industry.

This little-known company designs and supplies technology for testing cars during their development. AB Dynamics has worked with McLaren, Jaguar and Williams F1 in developing testing technologies including driverless test systems, steering robots and forensic laboratory testing.

It helps global car manufacturers test and develop suspension, brakes and steering systems on both mass-market and high-end vehicles, and its customer list is a who's who of the industry — Ford, Toyota,

Volkswagen, BMW, Honda, Hyundai, General Motors, Porsche... and so on.

With a state-of-the-art testing facility opening later this year, and new partnerships in the simulator market, AB Dynamics could be worth watching closely as a ‘hidden gem’ of British industry.

Why I'm watching

Given its small size, AB Dynamics has an impressive global reach spanning the United States, Europe, South America and Asia.

The range of its niche testing technologies is staggering. Here are some of the specialised applications AB Dynamics has developed:

- Suspension, chassis and steering system development
- Testing of vehicle dynamics on the track
- Development of the next generation of advanced safety system in vehicles
- Evaluation of driverless car technology
- Autonomous driverless vehicle testing
- Noise, vibration and harshness testing of powertrain assemblies
- Virtual vehicle dynamic and driving simulation

The company has 27,000 sq ft of facility space across four testing sites, with dedicated workshops, assembly and testing areas. And as I mentioned earlier a brand-new facility and group headquarters is opening later this year, potentially bringing new capabilities and capacity.

At The Motley Fool, we love finding small-cap companies led by passionate founders who still own a decent chunk of the shares themselves. Tony Best, who started the company in 1982, remains the Non-Executive Chairman after stepping back from active management of the company in October 2016.

At 79, Mr Best has contributed massively to the group's success to date. A legend of the industry, he still owns 33% of the shares. Mr Best has spent the last two years working closely with Tim Rogers, who has recently been appointed as the new CEO of AB Dynamics after joining as Managing Director in 2012.

In AB Dynamics, I see a well-run founder-led company with a strong financial history, operating in an exciting niche. Despite being a little-known business, AB Dynamics has an outstanding A-List customer base, and its financials suggest it holds a lucrative position in its niche.

Financials

Year ended 30 September	2013	2014	2015	2016
Sales (£m)	12.2	13.8	16.5	20.5
Pre-tax profits (£m)	2.1	2.6	3.8	4.5
Adjusted eps (p)	11.6	12.1	18.3	22.3
Dividend per share (p)	0	2.5	2.8	3.0

While AB Dynamics has a long history, it's only in the last few years that the business has really taken off. Revenues have grown from just £2.6m in 2010 to more than £20m in 2016. From making a small loss seven years ago, the company made £4.5m profit last year, and generated £4.1m in operating cash flow.

It gets better. AB Dynamics has no debt, and holds £10.4m — 10% of the market value of the company — in hard cash. Operating margins have been in the range of 18-22% in the last five years, reflecting a specialist company doing something important and value-adding in its niche.

I believe the company's expertise and reputation affords the company considerable pricing power, and with every major car manufacturer lining up for AB Dynamics' testing capabilities, I can see this continuing into the future.

In fact, it may make AB Dynamics a potential takeover target, now that founder Mr Best is stepping back from the company. You could certainly see the value for a car manufacturer — it looks like an excellent business, with real value in its intellectual property and technology.

When I'd pull the trigger and risks

You may wonder why AB Dynamics didn't make the cut for The Motley Fool's Micro Cap Report based on the write-up above.

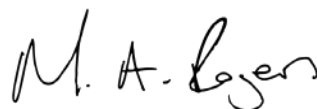
The competition to make it into the 'final five' was certainly tough. And there are still a few things I'm looking out for at AB Dynamics before I'd be comfortable calling it a "Buy".

I'd like to see how the company settles down with Mr Best taking a back seat in the management of the company. While I'm confident that Tim Rogers can lead AB Dynamics to further success, I'd want to wait and watch for a little longer, just to be sure there are no shocks on the horizon regarding the direction he wishes to take the company.

I also want to get slightly more comfortable with the current valuation before taking this idea further. Trading at 22 times forward earnings, some growth is already priced into the shares, and profits are expected to be relatively flat in 2017. That being said, with £10m in the bank, I don't believe the current valuation is outrageous by any means. This is definitely one to watch.

I hope you enjoyed this write-up — if this sort of opportunity interests you, be sure to check out *The Motley Fool's Micro Cap Report* which goes on sale on the morning of Tuesday, 14th February!

Sincerely,



Mark Rogers
Chief Investment Advisor,
Motley Fool UK

Sources: AB Dynamics website, annual reports and presentations.

Disclosure: As of 08 February 2017, neither Mark Rogers nor The Motley Fool UK owned any of the companies mentioned.

Risk Warning

- This free Motley Fool small-cap report reflects the opinions of the individual writers and give general advice only.
- The shares mentioned may not be suitable for any individual.
- You should make your own investment decisions, or consult an authorised financial adviser.
- The prices of all shares, and the income from them, can fall as well as rise.
- You run an extra risk of losing money when you buy shares in certain smaller companies including “penny shares”.
- Investment in the securities of smaller companies can involve greater risk than for larger, more established companies. Price movements may be more volatile, and they can react strongly to news or recommendations. You should always check the price before you deal. The market for smaller company shares may be less liquid, meaning they may be harder to trade.
- There may be a big difference between the buying price and the selling price of these shares. If you have to sell them immediately, you may get back much less than you paid for them. The price may change quickly, it may go down as well as up and you may not get back the full amount invested. It may be difficult to sell or realize the investment.
- You should not speculate using money you cannot afford to lose, or rely on dividend income for non-discretionary living expenses.
- Some securities may be traded in currencies other than sterling, and may also pay dividends in other currencies.
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