

Surface Transforms

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Surface Transforms funded for the next phase of commercial development

A successful £1.1m share placing and open offer will help fund the next phase of development for Surface Transforms (LON:SCE), which has created a state-of-the-art carbon ceramic brake disc used in high performance cars and military jets.

Specifically, it will provide the first stage equity component for a £3m pilot facility capable of turning over sales in excess of £8m in a year.

This may be some way short of the £60m in annual revenues generated by its only other competitor, Brembo, but it will provide a major stepping stone.

It's more than proof of concept; it gives Surface Transforms (ST) the ability to scale up, reduce costs, and lead times (crucial in the automotive industry) and create a product that is equal in price, if not cheaper than Brembo's.

Before assessing the investment case, it is perhaps worth looking more closely at the technology and why it stands out from the crowd.

Chairman David Bundred likens its process to creating plywood when rivals are producing chip-board.

What he means is Surface Transforms uses long fibres that it knits together to produce discs that are structurally sounder than the competitor's technology that presses together short fibres using a resin as the glue.

The make-up of the ST product means the heat dissipates from the discs more efficiently, ensuring they are on average 100 degrees cooler than the competition.

"This is the difference between oxidization that leads to a rough surface finish on the disc causing vibration and the infamous 'brake squeal'," said Bundred.

Carbon Ceramic brakes are corrosion-free, generally lasting the life of the vehicle, and there are significant weight savings, as well as performance and handling improvements.

In September ST revealed it had landed a deal in the aerospace sector with a military jet maker that is having problems with the existing carbon ceramic brakes.

Worth £1.3m annually, it introduces a good early revenue stream, but as Bundred pointed out it has another beneficial effect.

"It provides a reference site. One of the problems with disruptive technology is getting people to take it on board. So, having a customer like this is an incredible sales tool," the chairman explained.

The new plant that is being planned, and which will be up and running progressively over a three year period, will have

Price: 60.8

Market Cap: £94.19 m

1 Year Share Price Graph



January 2020 July 2020 January 2022

Share Information

Code: SCE

Listing: AIM

52 week High Low
63 13

Sector: Manufacturing & engineering

Website: www.surface-transforms.com

Company Synopsis:

Surface Transforms PLC is engaged in the development and manufacture of carbon fibre-reinforced ceramic products (CFRC) for aircraft brake, automotive brake and rocket component applications.

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the capacity to produce 10,000 discs a year.

This is a significant ramp-up in activity, but is still only a tenth of Brembo's annual output.

"That plant [Brembo's] has 100,000 disc capacity and our customers are telling us we have to match that," said Bundred.

"We won't go all in straight away, but having demonstrated we can do it with a pilot plant we will then build the plant that matches the competition."

Success in landing orders has alerted the market to the potential of the ST technology. So much so it is having a beneficial impact on lead generation, Bundred revealed.

"We have moved from push to pull in the last 18 months. By that I mean we have gone from potential customers not returning calls, to them ringing us directly about the product."

While the business is starting to flow in, it takes two years for the average order to transform into sales.

This has much to do with getting the car or plan off the drawing-board and into full-scale production, which doesn't happen overnight.

"The process is a slow build," Bundred admitted.

"But it is a bit like an annuity: once you are on [a vehicle or aircraft] you are on. Certainly when you are on a car you are there for the model life, which tends to be five to seven years."

Analysts believe September's tie-up with the unnamed military aerospace customer could be followed by other substantial orders. Eyes are on the automotive space.

However, the chairman is keen, given the commercial sensitivities, to keep his counsel until the deals are definitively in the bag.

"There is a lot happening. Silence does not imply inactivity," he explained.

The company's broker Cantor Fitzgerald recently raised its price target on the stock to 20p from 15p a share (current price 13p)

In a note to clients, it said: "ST is just at the beginning of a journey that should see it develop into a significant automotive supplier over the rest of the decade.

"In our view this transformation is yet to be reflected in the share price."

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