

Speymill plc (SYG.L)

Acquisition of GOAL & further MCAU investment

Rating Buy
Price 47p

Share Data

52-wk range (p) 31.75-123
Market Cap (£m) 27.3
Shares o/s (m) 58.1
Free Float 50%
Dividend Yield 1.1%
Ticker SYG

Ord. Shares Perf.

1m perf. -10%
3m perf. +42%
12m perf. -54%

Rel. FTSE All-Share

1m perf. -2%
3m perf. +42%
12m perf. -40%

Rel. FTSE Real Estate

1m perf. 0%
3m perf. +59%
12m perf. -15%

Balance Sheet (2007)

Sh. equity (£m) 5.07
Net cash (debt) (£m) 1.5

Key Dates

Financial Year End 31 Dec
Next Interims (TBC) Sep

Company Website

www.speymill.com

Share Price Performance



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Speymill has recently acquired the remaining 49% of GOAL Service GmbH. This acquisition is immediately earnings enhancing for Speymill and the full consolidation of the German funds' property adviser into Speymill simplifies the ability to model recurring fund management fees and property management income. Furthermore this acquisition reaffirms the long term opportunity that Speymill sees in the German residential property market and its importance as a core part of the business. Speymill Macau has also announced a further investment in Macau for a high-end US\$132m residential development to be located in the inner harbour area close to the central business and gaming districts.

- The remaining 49% of GOAL Service that Speymill did not own has been purchased from Florian Lanz providing Speymill with full ownership, control and consolidation of the subsidiary.
- Consideration consists of an immediate cash payment of €1 million plus a deferred component relating to performance fees payable by the SDIC funds up to March 2013. Lanz will be entitled to 49% of performance fees earned by GOAL, which itself is entitled to a maximum of 16% of fees generated by SDIC assets.
- Net assets of GOAL at the date of acquisition are approximately €2 million, of which the value of the 49% that has been acquired represents the cash payment.
- Florian Lanz has resigned from the board of GOAL but will stay on as a consultant for a minimum term of 12 months.

The up front consideration paid for the remaining stake results in a net 10% increase in our estimate for 2008 PBT of approximately £0.5m to £5.25m. The effect on 2009 should be more significant given consolidation during the full year resulting in a net 30% uplift on our previous estimate for the year.

- Consolidated revenue in 2008E increases by £3.23m to £70.4m (+4.8%) reflecting the partial effect on the year given the effective acquisition date of 1 June. 2009E revenue increases by £5.4m to £79.7m (+7.3%). The increase in revenue reflects almost exclusively the full consolidation of GOAL's revenue during the relevant periods relating to its share of fund management fee income, property management income and project management income relating to construction contracts. We do not model any performance fees relating to the SDIC funds.
- Recent currency movements has marginally affected fund fee income projected from Germany and Macau.
- Macau fund management fee income following the most recently announced MCAU deal is not affected until any NAV revaluation announcement.
- Gross profit in 2008E increases by £2.42m to £20.4m (+13.7%) increasing projected gross margin from 26.7% to around 29%.
- The net increase in admin expenses (including staff costs) in 2008E is approximately £1.6m bringing total costs pre bonus and share based payments to £13.15m. Total general administrative expense projection (excluding share based payments) increases from £12.6m to £14.6m. We have assumed an equal weighting of cost increases through the year.
- Resulting 2008E PBT increases by £0.5m to £5.2m (+10.5%).

We are revising upwards our profit before tax projection in 2008 to between £5.0m and £5.5m. Depending on assumptions on taxable income for the Group, Speymill trades on an attractive adjusted 2008 PER multiple of 5.6x. We still expect realistic upside to forecasts that can come from improving profitability of the UK construction business, further performance fee impact, let alone any short term impact of potential new funds, alliances or joint ventures. We maintain our Buy recommendation on Speymill.

Figure 1: Forecasts

Financial Year	Revenue (£000s)	EBITDA (£000s)	Reported PBT (£000s)	Adj. PBT ⁽¹⁾ (£000s)	PBT (Pre FRS20) (£000s)	Shares Out ⁽²⁾ (m)	Basic EPS (p)	Adj. EPS ⁽¹⁾ (p)	DPS (p)	EV/EBITDA (x)	Adj. PER (x)	Dividend Yield (%)
2005A	15,323	(857)	(1,650)	(981)	(1,540)	38.8	(4.3)	(2.5)	0.0	n/a	n/a	0.0%
2006A	22,305	725	(525)	631	381	56.4	(0.5)	1.5	0.0	35.7	31.3	0.0%
2007A	52,699	3,216	2,259	3,053	3,053	57.5	3.6	5.0	0.5	8.0	9.4	1.1%
2008E ⁽³⁾	70,398	5,957	5,221	5,777	5,777	58.1	7.4	8.4	1.0	4.3	5.6	2.2%
2009E	79,663	5,425	4,823	5,250	5,250	58.1	6.7	7.5	1.5	4.8	6.3	3.1%

(1) Pre exceptional items, share-based payments, impairments and income from disposals

(2) Weighted average

(3) Only 2008E Revenue includes performance fee and commission earned on Macau fund

Source: Lewis Charles Forecasts; Fund management forecasts relate only to existing property funds

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Company	Code	Disclosure
Speymill	SYG	2, 6
Speymill Deutsche Immobilien Company (ORD)	SDIC	None
Speymill Deutsche Immobilien Company (C)	SDCC	None
Speymill Macau Property Company	MCAU	None

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Research Ratings

Buy - The Company is profitable, cash generative, with established operations, a credible management team and proven execution of strategy. Absolute share price return expected to increase by more than 10% over the next twelve months.

Speculative Buy - The Company has operations that are either early stage or loss-making, and/or there is uncertainty over the management's ability to deliver on its strategy. The valuation appears to reflect risks but could reward shareholders if the operations are successful. Absolute share price return expected to increase by more than 10% over the next twelve months contingent upon success of certain operations.

Neutral - Shareholders should await key developments from the company, which may have a positive or negative impact on the company's prospects. Absolute share price return expected to change by between -10% and 10% over the next twelve months.

Sell - the Company's share price and/or valuation does not reflect current underlying prospects for the company. The company may require additional funding above what can be reasonably expected to raise or the company has failed to deliver on key operations that now risk the future success of the company. Absolute share price return expected to decrease by more than 10% over the next twelve months.

Not Rated - Lewis Charles has either not initiated research on this company or is restricted from publishing a recommendation.

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Speymill Macau \$132m Residential Investment

MCAU has announced an agreement to enter into a forward funding arrangement with a prominent local Macau developer (Ho Chun) to finance the development of a high-end residential building in the inner harbour area on the southwest of the peninsula. MCAU has committed to acquire 259 residential units in a landmark 4-tower development with the expectation to sell units prior to completion at the back-end of 2010. Ho Chun, one of Macau's prominent developers began real estate development in the late 1970s and has constructed more than 100 buildings in Macau.

The total consideration is for US\$132m, of which 30% is to be settled immediately and the remainder payable upon completion. Construction has already begun and all relevant government approvals, planning and building permits and licences for the development have been gained by the developer. The development is currently undergoing the formal process of achieving government gazetting for its revised land conditions and this process is expected to be completed within 12 months (the formal process to register each unit with the land registry). The 2 and 3-bedroom units (870 and 1,300 sq ft floor area respectively) are small enough to be attractive also to local residents as well as international buyers. We understand that the overall acquisition price is just below HK\$ 4,000 per sq ft which is in line with the rest of the market. We expect Speymill to attempt to follow the same model as it had done with Lot U with a beneficial tax structure such that no capital gains tax is paid upon disposal of SPVs. We have left Macau fund management fee income projections unchanged until any NAV revaluation announcement is made.

Forecast Changes

The table below summarises projections down to the operating profit level for 2008 and compares them with our previous forecasts published in our previous note on 10th April.

Figure 2: Forecast Comparison

	Previous FY 2008E forecast (£000)	New FY 2008E forecast (£000)	Change	Comment
Speymill Contracts Ltd: Construction and refurbishment	52,000	52,000	+0.0%	Guidance of at least £50m target based on current contracts and pipeline
Speymill Property Group Ltd: Investment and fund management	8,998	8,926	-0.8%	Net effect of EUR and USD movements against GBP
GOAL Service GmbH: Property management	6,170	9,472	+53.5%	Full consolidation of GOAL's revenue for remaining 7 months relating to its share of fund management fee income, property management income and project management income relating to construction contracts
Group Turnover	67,168	70,398	+4.8%	
Cost of sales	(49,214)	(50,026)	+1.6%	Full consolidation of GOAL's cost of sales for remaining 7 months
Gross profit	17,954	20,372	+13.5%	
Gross profit Margin	26.7%	28.9%		
General administrative expenses	(12,645)	(14,595)	+15.4%	Full consolidation of GOAL staff costs and overheads for remaining 7 months
Share based payments	(555)	(555)	+0.0%	Shares vesting in 2008 of £450k plus bonus-related share based payments deferred charge of £105k relating to 2007 award
Operating Profit	4,754	5,221	+9.8%	
Operating profit Margin	7.1%	7.4%		
Net Interest	0	0		2007: All remaining debt extinguished with the improvement in cash balance towards the back-end; 2008: Nominal net interest income assuming a requirement for cash resources for investment in new fund setups
Profit Before Tax	4,754	5,221	+9.8%	2008E estimate of £5.0m - £5.5m

Source: Lewis Charles Forecasts

Figure 3: Speymill Model

Year to 31 December (£000s)	2004A	2005A	2006A	2007E	2008E ⁽¹⁾	2009E
Profit & Loss						
Construction and refurbishment	11,534	13,249	18,143	41,372	52,000	60,000
Investment fund management	0	22	2,745	6,436	8,926	8,339
Property management	0	63	1,417	4,891	9,472	11,323
Discontinued activities	6,644	1,988	0	0	0	0
Group Revenue	18,178	15,323	22,305	52,699	70,398	79,663
Gross Profit	689	1,674	5,467	12,761	20,372	22,335
<i>Gross margin</i>	3.8%	10.9%	24.5%	24.2%	28.9%	28.0%
EBITDA	(3,173)	(857)	725	3,216	5,957	5,425
<i>EBITDA margin</i>	-17.5%	-5.6%	3.3%	6.1%	8.5%	6.8%
Depreciation	(217)	(89)	(86)	(124)	(180)	(175)
Amortisation	(2,636)	(56)	0	0	0	0
Exceptionals	(3,026)	(613)	(1,156)	(794)	(555)	(427)
Operating Profit	(6,612)	(1,615)	(516)	2,298	5,221	4,823
Operating Profit (Adjusted)	(3,390)	(946)	640	3,092	5,777	5,250
<i>Adj. Operating margin</i>	-18.6%	-6.2%	2.9%	5.9%	8.2%	6.6%
Gain on Disposals	0	104	0	0	0	0
Net Interest	(181)	(139)	(9)	(39)	0	0
Profit Before Tax	(6,793)	(1,650)	(525)	2,259	5,221	4,823
Profit Before Tax (Pre FRS20)	(6,793)	(1,540)	381	3,053	5,777	5,250
Profit Before Tax (Adjusted)	(3,571)	(981)	631	3,053	5,777	5,250
Tax	88	(3)	217	(168)	(905)	(918)
Minorities	0	0	0	0	0	0
Net Income to Shareholders	(6,705)	(1,653)	(308)	2,091	4,316	3,905
Average Shares - Weighted (m)	8.9	38.8	56.4	57.5	58.1	58.1
Average Shares - Diluted (m)	8.9	49.5	56.4	63.8	64.3	64.3
EPS - Basic (p)	(75.11)	(4.26)	(0.55)	3.63	7.43	6.72
EPS - Adjusted (p)	(39.02)	(2.53)	1.50	5.01	8.38	7.46
EPS - Adjusted & Diluted (p)	(39.02)	(1.99)	1.50	4.52	7.57	6.73
DPS (p)	0.00	0.00	0.00	0.50	1.04	1.48
Balance Sheet						
Fixed Assets	1,756	1,024	1,396	2,142	4,997	4,892
Intangible Fixed Assets (Goodwill)	1,000	944	944	944	944	944
Tangible Assets	756	80	197	486	2,905	2,800
Current Assets	3,118	4,424	8,111	19,480	27,350	34,403
Stocks	59	11	33	43	54	62
Debtors	3,059	3,283	7,431	17,934	22,541	26,009
Cash	0	1,130	647	1,503	4,755	8,332
Total Assets	4,874	5,448	9,507	21,621	32,347	39,295
Current Liabilities	5,422	3,696	7,263	16,524	22,684	25,904
Borrowings	1,071	155	49	11	11	11
Other Current Liabilities	4,351	3,541	3,748	12,981	18,268	20,816
Long Term Liabilities	1,426	190	39	31	31	31
Total Liabilities & Provisions	6,848	3,886	7,302	16,555	22,715	25,935
Net Assets	(1,974)	1,562	2,205	5,066	9,632	13,360
Cash Flow						
EBIT	(6,612)	(1,615)	(516)	2,298	5,221	4,823
Tax	86	(3)	213	(171)	(905)	(918)
NOPLAT	(6,526)	(1,618)	(303)	2,127	4,316	3,905
Depreciation & Amortisation	2,853	145	86	124	180	175
Cash from Earnings	(3,673)	(1,473)	(217)	2,251	4,497	4,080
Change in Working Capital	551	(986)	(497)	(1,214)	1,542	(256)
Net Capital Expenditure	(330)	(31)	(203)	(396)	(70)	(70)
Cash before Financing (FCF)	(3,452)	(2,490)	(917)	641	5,969	3,754
Dividends	0	0	0	0	(291)	(604)
Post Tax Interest and Financing Costs	(179)	(35)	(5)	(36)	0	0
Change in Investments & Deferred tax	0	0	(255)	(457)	(436)	0
Change in Debt	375	(2,152)	(257)	(46)	0	0
Capital, Reserves and Provisions	2,678	5,189	729	771	557	427
Disposals / (Acquisitions)	165	619	0	(17)	(2,547)	0
Transfers	0	1	222	0	0	0
Change in Cash	(413)	1,130	(483)	856	3,252	3,577

(1) Revenue includes performance and brokerage fee earned on Macau fund

Source: Lewis Charles Forecasts

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