

Speymill plc (SYG.L)

Volatility and Value Remain – Reducing Estimates

Rating Buy
Price 28p

Share Data

52-wk range (p)	24–112½
Market Cap (£m)	16.2
Shares o/s (m)	57.0
Free Float	49.6%
Dividend Yield	0%
Reuters	SYG.L
Bloomberg	SYG LN

Ord. Shares Perf.

1m perf.	-32%
3m perf.	-34%
12m perf.	-71%

Rel. FTSE All-Share

1m perf.	-27%
3m perf.	-22%
12m perf.	-53%

Rel. FTSE Real Estate

1m perf.	-32%
3m perf.	-19%
12m perf.	-34%

Balance Sheet 2007

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

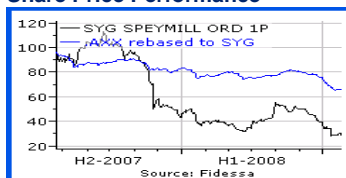
Key Dates

Financial Year End	31 Dec
2008 Interims (TBC)	Sep 08

Company Website

www.speymill.com

Share Price Performance



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- **Reducing '08 Revenue from £70.4m to £62.5m, PBT from £5.2m to £3.5m (we expect a range of £3.2-3.7m), and EPS from 8.4p to 5.4p.** Reductions come entirely from two customers in the UK Contracts business where one is deferring until 2009 and another that has gone into administration. The stock price has been punished in line with the sector that has seen similar setbacks this year, suggesting investors may have been expecting this. While the bad news is now out, we believe the shares will continue to be volatile in both directions as continued bad news from the sector continues to emerge. However, the current price level and valuation offers tremendous value over the long term, which is why we stick with our Buy rating. We feel investors will be rewarded over the long term as the future prospects remain strong, and the company continues to grow in the face of one of the most difficult markets ever.
- **Customers in the UK Contracts business are the cause. Property Management remains on track for growth.** Two customers who were/are involved in development properties in the UK Contracts business are the reason behind the estimate reductions.
- First, a client who is a developer of a substantial hotel project in the UK has gone into administration. Therefore, the company is not able to fully collect money owed on work already done. We believe this customer is definitely the smaller of the two and while some of the money will be recoverable, not all will.
- Second, another developer has postponed business until 2009. This is apparently due to a customer specific change that is not necessarily related to general economic issues. Work is scheduled to resume in Q1 and the company seems confident that the risk to any further changes was low. While we are unclear on the specific circumstances, we recognize that the current economic environment could worsen and bring unforeseen delays. In addition, the nature of projects in this type of business can be variable. However, the current forward order prospects of £150m give us confidence that this is just a timing issue.
- **Forward Order Prospects now at £150m vs. £140m in April** - While orders have been pushed back we are encouraged that the forward order prospects remains solid. The company announced £140m at the 2007 results in April and it has now been raised. This makes sense to us as the current estimate reductions are due to work being pushed back. We are leaving our 2009 estimates unchanged at this time until we get more visibility to the timing and amount of work that is ongoing.
- **2008 should still see growth** - A cursory look around the property sector would see year over year declines in the fundamentals of many companies in the sector. However, despite the hiccups, Speymill should still deliver growth this year.
- **Valuation offers amazing value** - Speymill currently trades at 5.2x our '08 and 3.8x'09 earnings estimates – While the shares will likely continue to be volatile, we believe the current price level presents an opportunity to build a holding in the shares that will outperform the market over the long term.

Year to 31 December (£000s)	2004A	2005A	2006A	2007A	2008E ⁽¹⁾	2009E
<u>Profit & Loss</u>						
Construction and refurbishment	11,534	13,249	18,143	41,372	44,200	60,000
Investment fund management	-	22	2,745	6,436	8,905	8,315
Property management	-	63	1,417	4,891	9,479	11,331
Discontinued activities	6,644	1,988	-	-	-	-
Group Revenue	18,178	15,323	22,305	52,699	62,584	79,647
Gross Profit	689	1,674	5,467	12,761	18,141	22,319
<i>Gross margin</i>	3.8%	10.9%	24.5%	24.2%	29.0%	28.0%
EBITDA	(3,173)	(857)	725	3,216	4,243	5,389
<i>EBITDA margin</i>	-17.5%	-5.6%	3.3%	6.1%	6.8%	6.8%
Depreciation	(217)	(89)	(86)	(124)	(180)	(175)
Amortisation	(2,636)	(56)	0	0	0	0
Exceptionals & Share based payments	(3,026)	(613)	(1,156)	(794)	(555)	(325)
Operating Profit	(6,612)	(1,615)	(516)	2,298	3,507	4,889
Operating Profit (Adjusted)	(3,390)	(946)	640	3,092	4,062	5,214
<i>Adj. Operating margin</i>	-18.6%	-6.2%	2.9%	5.9%	6.5%	6.5%
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	3,507	4,889
Profit Before Tax (Pre FRS20)	(6,793)	(1,540)	381	3,053	4,062	5,214
Profit Before Tax (Adjusted)	(3,571)	(981)	631	3,053	4,062	5,214
Tax	88	(3)	217	(168)	(905)	(916)
Minorities	0	0	0	0	0	0
Net Income to Shareholders	(6,705)	(1,653)	(308)	2,091	2,602	3,974
Average Shares - Weighted (m)	8.9	38.8	56.4	57.5	58.1	58.1
Average Shares - Diluted (m)	8.9	47.1	56.4	63.8	64.3	64.3
EPS - Basic (p)	(75.11)	(4.26)	(0.55)	3.63	4.48	6.84
EPS - Adjusted (p)	(39.02)	(2.53)	1.50	5.01	5.43	7.40
EPS - Adjusted & Diluted (p)	(39.02)	(2.09)	1.50	4.52	4.91	6.68
DPS (p)	0.00	0.00	0.00	0.50	0.63	1.50
<u>Balance Sheet</u>						
Fixed Assets	1,756	1,024	1,396	2,142	4,896	4,791
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	23,219	32,996
Stocks	59	11	33	43	46	62
Debtors	3,059	3,283	7,431	17,934	19,160	26,009
Cash	0	1,130	647	1,503	4,013	6,925
Total Assets	4,874	5,448	9,507	21,621	28,115	37,787
Current Liabilities	5,422	3,696	7,263	16,524	20,166	25,904
Borrowings	1,071	155	49	11	11	11
Other Current Liabilities	4,351	3,541	3,748	12,981	16,276	20,816
Long Term Liabilities	1,426	190	39	31	31	31
Total Liabilities & Provisions	6,848	3,886	7,302	16,555	20,197	25,935
Net Assets	(1,974)	1,562	2,205	5,066	7,917	11,851
<u>Cash Flow</u>						
EBIT	(6,612)	(1,615)	(516)	2,298	3,507	4,889
Tax	86	(3)	213	(171)	(905)	(916)
NOPLAT	(6,526)	(1,618)	(303)	2,127	2,602	3,974
Depreciation & Amortisation	2,853	145	86	124	180	175
Cash from Earnings	(3,673)	(1,473)	(217)	2,251	2,782	4,149
Change in Working Capital	551	(986)	(497)	(1,214)	2,413	(1,127)
Net Capital Expenditure	(330)	(31)	(203)	(396)	(70)	(70)
Cash before Financing (FCF)	(3,452)	(2,490)	(917)	641	5,126	2,951
Dividends	0	0	0	0	(291)	(364)
Post Tax Interest and Financing Costs	(179)	(35)	(5)	(36)	0	0
Change in Investments & Deferred tax	0	0	(255)	(457)	(335)	0
Change in Debt	375	(2,152)	(257)	(46)	0	0
Capital, Reserves and Provisions	2,678	5,189	729	771	557	325
Disposals / (Acquisitions)	165	619	0	(17)	(2,547)	0
Transfers	0	1	222	0	0	0
Change in Cash	(413)	1,130	(483)	856	2,510	2,912

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Company	Code	Disclosure
Speymill	SYG	2, 6
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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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