Lewis Charles Securities

26 November 2008

Property Management, Construction & Services (Isle of Man)

Rating NEUTRAL

Price 11.63p

Speymill plc (SYG.L)

Reducing Estimates and Lowering to Neutral

Company Website
www.speymill.com

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- **We are lowering our rating from Buy to Hold and are reducing estimates further on Speymill as the UK Contracts business has seen changes that could result in further potential delays, payment shortfalls or cancellations to projects previously expected to contribute to 2008 results. We believe the fund management and property management businesses continue to perform well. Although we believe the shares offer long term value, we are reducing our rating until we have greater visibility.**

- **Because of the uncertainty of the business outlook to the end of the year we now forecast FY'08 pre-tax profit to be in a range between £1.6-2.3m. Since the scope of potential outcomes of current trading has broadened and become less clear, we have chosen to adopt a range within which we think PTP will fall.**

- **We might be wrong in our assumption, and the actual results may come in as we previously expected (£2.3m), however we believe that our new estimates more accurately reflect the inherent risk in the current market and the potential for contract delays, cancellations, or payment shortfalls.**

- **While there have been positive signs in the budget hotel space with builders, such as Travelodge announcing they are moving forward with construction projects, and with economic conditions suggesting a shift toward low cost accommodation, the balance of negative industry news (see table on p.3) and the recent update that was made by Speymill have expanded the range of potential outcomes and inclined us to be more conservative in our estimates.**

- **Our 2009 estimates have also been lowered for the the UK contracts business. We believe that the construction downturn in the face of a global recession will be front loaded and while many current projects are being delayed or cancelled, we think this market could start to come back in the second half of 2009.**

- **While we are reducing our rating on Speymill Group, we believe the property and fund management businesses are quite healthy. Recent publications by the International Monetary Fund state that the German property market is 5% undervalued, which should provide a positive backdrop to fund management fees to the group.**

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Company	Code	Disclosure
Speymill	SYG	2, 6
Speymill Deutsche Immobilien Company (ORD)	SDIC	None
Speymill Deutsche Immobilien Company I	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.

Balance of Ratings

Buy none
Neutral 100%
Sell none

Analyst Certification

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Rating Reduced to Hold

We are reducing our rating purely because of the lack of visibility at this time. One can argue that we might be doing this at the wrong time – the shares have already sold off to a severely depressed level. For long term investors, we believe that the shares offer significant value, but until we get a resolution on the collection of revenue for this year, we think that the shares will most likely trade sideways.

It appears that additional risks to profitability have come to light in the UK contracts division, that involve a small number of projects that have been completed or are nearing completion. We do not know the specifics of the issues involved, but realise that the current environment is creating uncertainty with regard to their outcome.

RECENT NEWS FLOW

06-Nov-08	London hotels saw revenue per available room (revpar) drop by 18% (£104.28, down from £127.17 during the equivalent week of 2007) in the week ending 2 November, according to figures from hospitality research company STR Global. Occupancy decreased by 11.14% to 77.22%
03-Nov-08	A report by consultancy PricewaterhouseCoopers (PwC) showed that there were 281 business failures in the third quarter of this year, up from 175 last year and well ahead of the 220 insolvencies reported in the first quarter and the 212 recorded in the second. It was almost double the number reported – 144 – in the final quarter of 2006.
27-Oct-08	Average room rates in UK hotels fell in September – the first comparable monthly drop since August 2003, when customer numbers were hit by the Iraq war and the Sars health crisis, research revealed today. –Deloitte
23-Oct-08	InterContinental Hotels Group (IHG) last week conceded for the first time that its pipeline of developments will be affected by the global economic downturn. IHG was aiming to open a further 1,788 high-end hotels in the next four years, but chief executive Andy Cosslett said that some of its openings could now be delayed by "up to a few months".
23-Oct-08	Michael Wale, senior vice-president and director of operations for north-west Europe at Starwood Hotels & Resorts, this week admitted that its pipeline will also be affected.
21-Oct-08	Knight Frank's third-quarter research on single and portfolio hotel transactions of more than 10 bedrooms shows that transactions in the UK declined by 69% to just over £1.5b compared to £4.8b for the same period in 2007.

Source: caterersearch.com, Bloomberg

We thought the budget hotel sector might fare better than other industries throughout a recession. It seemed logical that a shift in consumer choice would favour low cost accommodation. Announcements such as the one from Travelodge in October about opening 22 new hotels in the UK in the remaining months of the year with an investment of £125m, were encouraging. In recent weeks however, the news started turning more negative for the industry as a whole which was bound to have some effect on even the more resilient parts of the industry. We were in the process of reducing our estimates when Speymill's trading update was announced, but unfortunately were not quick enough.

We still believe that budget hotels will fare better during the decline, but are obviously not immune to the general market conditions. We recognise the management team has taken steps to de-risk the business in order to properly manage the trading of the contracts business, but the overall trend within the industry has started pointing to a further decline in the sector.

2009 Estimates

Our 2009 estimates have also been lowered to reflect what we see happening in the industry as a whole. We think that the downturn in construction is front end loaded and that business will start to show new signs of life in the second half of 2009. We look for a move toward better profitability in 2009 as the risk measures and cost reductions start to have a greater effect on the UK Contracts business. We expect the investment management and property management businesses to continue to show growth as the business models are more resilient through an economic downturn, in our view.

Speymill Model

Year to 31 December (£000s)	2005A	2006A	2007A	2008E	2009E
Profit & Loss					
Construction and refurbishment	13,245	18,143	41,372	44,200	48,000
Investment fund management	22	2,745	6,436	9,785	8,208
Property management	68	1,417	4,891	11,221	14,119
Discontinued activities	1,988	-	-	-	-
Group Revenue	**15,323**	**22,305**	**52,699**	**65,206**	**70,327**
Gross Profit	**1,674**	**5,467**	**12,761**	**18,665**	**23,305**
Gross margin	*10.9%*	*24.5%*	*24.2%*	*28.6%*	*33.1%*
EBITDA	**(857)**	**725**	**3,216**	**2,525**	**4,865**
EBITDA margin	*-5.6%*	*3.3%*	*6.1%*	*3.9%*	*6.9%*
Depreciation	(89)	(86)	(124)	(305)	(403)
Amortisation	(56)	0	0	0	0
Exceptionals & Share based payments	(613)	(1,156)	(794)	(455)	(310)
Operating Profit	**(1,615)**	**(516)**	**2,298**	**1,764**	**4,152**
Operating Profit (Adjusted)	**(946)**	**640**	**3,092**	**2,219**	**4,462**
Adj. Operating margin	*-6.2%*	*2.9%*	*5.9%*	*3.4%*	*6.3%*
Gain on Disposals	104	0	0	0	0
Net Interest	(139)	(9)	(39)	(120)	(190)
Profit Before Tax	**(1,650)**	**(525)**	**2,259**	**1,644**	**3,962**
Profit Before Tax (Pre FRS20)	**(1,540)**	**381**	**3,053**	**2,099**	**4,272**
Profit Before Tax (Adjusted)	**(981)**	**631**	**3,053**	**2,099**	**4,272**
Tax	(3)	217	(168)	(468)	(920)
Minorities	0	0	0	0	0
Net Income to Shareholders	**(1,653)**	**(308)**	**2,091**	**1,175**	**3,042**
Dividend	0	0	0	(291)	(165)
Average Shares - Weighted (m)	38.8	56.4	57.5	58.1	58.1
Average Shares - Diluted (m)	40.4	56.4	63.8	64.3	64.3
EPS - Basic (p)	(4.26)	(0.55)	3.63	2.02	5.24
EPS - Adjusted (p)	**(2.53)**	**1.50**	**5.01**	**2.81**	**5.77**
EPS - Adjusted & Diluted (p)	(2.44)	1.50	4.52	2.53	5.21
DPS (p)	0.00	0.00	0.50	0.28	1.15

Source: Lewis Charles Forecasts

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