Lewis Charles Securities

2 October 2009

Property Management, Construction & Services (Isle of Man)

Rating NEUTRAL

Price 15p

Speymill plc (SYG.L)

FY'09 Interims – Poised for a Return

'09 P/E	11.8 x
'10 P/E	7.5 x
'09 EV/Sales	0.3 x
'10 EV/Sales	0.2 x
'09 EV/Ebitda	4.3 x
'10 EV/Ebitda	3.2 x

Company Website
www.speymill.com

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- **Speymill's interim results show that the group is continuing to bring its overall business back on track and is now, once again, profitable in the first half. Continuing downsizing of the UK contracts business and better than expected results in both the fund and property management divisions led to a £0.65m profit before tax. The group appears to be well on the way to meeting our full year estimates.**

- **As the group has further transformed its business from construction and refurbishment into a real estate fund management and property services group, we are tempted to upgrade the shares to a Buy rating. This would acknowledge the shift in the group's business model to one of higher visibility and emphasis on recurring revenue streams, versus the older model that introduced volatility and losses by virtue of the significance of the UK contracts business. However, we believe that as the group is still in the process of managing down the UK contracts business, we would only recommend Speymill's shares as a speculative investment for the long term investor looking for potentially superior returns but also accompanied with much higher risk.**

- **Although our bias on the shares is turning more positive, we leave our current rating unchanged. We have adjusted our financial forecasts to reflect the strength in the group's fund and property management businesses and reduced our contracts revenue. Our overall PBT estimate for this year is unchanged. We have also adjusted our '10 estimates.**

- **We are encouraged by the steps taken by management to control and curb losses in the contracts business (£11m in 2008) and await signs of further progress during the second half of the year.**

- **Speymill Group trades on 11.8x our '09 earnings estimates which seems quite reasonable at the moment and is cheap versus the AIM All Share Index on 51.3x and the FTSE Real Estate Index at 20.7x. At 7.5x our '10 estimates, the company appears to be at a significant discount, and while poised for a return, we await further evidence the company has completely contained all potential volatility from the contracts business.**

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Disclosures

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

1. Within the past twelve months Lewis Charles has managed or co-managed a public offering for this company, for which it receives fees or the promise of fees
2. Lewis Charles acts as corporate broker to this company
3. Lewis Charles regularly hold trading positions (which may include options) in this company
4. Lewis Charles holds more than 5% of the securities of this company
5. The company holds more than 5% of Lewis Charles
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8. The author and/or an individual responsible for production of this report received or purchased shares in the issuer prior to a public offering of shares

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 67%
Neutral 33%
Sell none

Analyst Certification

I, Peter McNally, internal analyst employed by Lewis Charles hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

Results Overview

Group Results Overview

Speymill's first six months of operation in 2009 delivered turnover of £24.96m, or 52.8% of our full year estimate, and pre-tax profit of £0.654m or 62.2% of our estimate in print (we expect a range of £1-1.5m). The group appears to be well on track in order to achieve our full year estimates. The turnaround in the group's profit has been a significant shift since last year, aided by management actions to curb losses in the UK contracts business and the £3.3m of additional funding provided by the Chairman and CEO, of which £1.7m has been drawn down. This funding should provide an adequate cushion in the short term as the group makes further steps to bring the contracts business back to profitability. Overall group trade and other receivables have been reduced from £11.23m at 31 December 2008 to £8. 44m at 30 June 2009, as activity levels at the contracts business have reduced. In summary, it seems the group has weathered the brutal fallout from the global economic crisis, is in a weaker position, but appears to be positioned to emerge in the second half of this year.

Fund Management

Property fund management had a strong performance in 1H'09 with PBT of £1.3m from £5.3m in turnover for a 24.5% margin. This division grew by 9.9% over the same period last year (excluding the non-recurring payment received last year from the Macau Fund). This was partly due to resilient property values in **Germany** that fell less than 1% in 2H'09 as well as funds being "fully invested". Although the Hypoport Hedonic Apartment Price Index has fallen 3.3% this year to the end of July, we would note that this only considers owner occupied apartment transactions without any additional modernisation costs, which is not directly applicable to Speymill Deutsche as the company has been working on a significant refurbishment plan to a large portion of their property portfolio that should increase property valuations. Since inception, property values were +4.1% of net acquisition cost as of the end of last year.

We continue to believe Speymill is well positioned for property valuation uplifts going forward with the liberalisation of the mortgage market in Germany. In addition, the company is paid in euros which should produce some translational benefit with continuation of the quantitative easing program in the UK.

In **Macau**, we have seen the board replaced by representatives of Terra Partners, manager of the Worldwide Opportunities Fund, an existing shareholder, following an EGM. The team from Speymill's property fund management company, Speymill Property Group (SPG), has been working closely with the new board to help improve operations and undertake new investment in order to maximise shareholder value. The most recent Macau interim report (for the period ended 30 June 2009) gave an upbeat assessment of progress.

Property Services

Excluding the consolidation of the 49% of GOAL, fee revenue was up 10.4% in 1H'09 year over year. During the period, the division helped work on the refurbishment of properties in Germany for Speymill Deutsche, opened up five new offices, and started Zelos, a debt management and collection business, bringing the total employee count to 343.

GOAL has now become a broad property services company that we believe could overtake the contracts business in terms of contribution of revenue. With the addition of newly created Zelos, that company now has a broad offering that provides a full suite to offer Speymill Deutsche and potentially beyond. **We believe their range of services could soon start to be offered to third parties in the region, which we do not have in our forecasts**. We believe the potential for positive news flow in future years from this division is high.

Contracts

The UK contracts business, Speymill Contracts Limited, made a pre-tax loss of £1.28m which compares to £0.33 loss in 2H'08. We think the new measures put into place are working and management will continue to take a more prudent approach to new business which should result in a much lower level of risk. **We think the reduction in revenue and receivables for the company shows that most of the risk has been taken out of the contracts business and that it has been properly managed down by the group.** We believe its focus on risk management will further improve the results of the contracts business during the second half of the year.

We would also add that we believe there is acquisition value in the contracts business. At the very least, the company has an £11m tax loss carry forward that holds value for a profitable acquirer.

Estimates Broadly Unchanged

Our estimates for 2009 remain broadly unchanged. We have reduced our contracts revenue as this division is managed down to avoid risk, and increased our Property Management estimates to reflect the strength. We have taken a conservative approach to estimates and believe the shares can rise significantly if the group can execute on its plan to properly manage down risk. We believe the property and fund management businesses have significant inherent value that can be unlocked once the overhang of potential further unexpected contracting losses is eroded. We have adjusted our 2010 estimates to reflect further downsizing of the contracts business and the increases we expect for property and fund management.

Once we can see evidence of the group managing new projects according to their new intentions within the contracts division, and can see management execution and completion of existing ongoing business, we will look to change our rating on the shares and revise estimates.

Profit & Loss

Year to 31 December (£000s)	**2007A**	**2008A**	**2009E**	**2010E**
Construction and refurbishment	41,372	43,210	14,019	13,719
Investment fund management	6,436	9,913	8,065	8,864
Property management	4,891	12,842	18,235	19,146
Group Revenue	**52,699**	**65,965**	**40,318**	**41,729**
Gross Profit	**12,761**	**13,574**	**17,192**	**19,874**
Gross margin	*24.2%*	*20.6%*	*42.6%*	*47.6%*
EBITDA	**3,216**	**(4,468)**	**2,387**	**3,189**
EBITDA margin	*6.1%*	*-6.8%*	*5.9%*	*7.6%*
Depreciation	(124)	(312)	(463)	(487)
Impairment of Goodwill	0	*(944)*	0	0
Excpt'ls & Share-based payments	(794)	(422)	(310)	(310)
Operating Profit	**2,298**	**(6,146)**	**1,614**	**2,392**
Operating Profit (Adjusted)	**3,092**	**(4,780)**	**1,924**	**2,702**
Adj. Operating margin	*5.9%*	*-7.2%*	*4.8%*	*6.5%*
Gain on Disposals	0	0	0	0
Net Interest	(39)	(113)	(562)	(637)
Profit Before Tax	**2,259**	**(6,259)**	**1,052**	**1,755**
Profit Before Tax (Pre FRS20)	**3,053**	**(5,837)**	**1,362**	**2,065**
Profit Before Tax (Adjusted)	**3,053**	**(4,893)**	**1,362**	**2,065**
Tax	(168)	(997)	(620)	(897)
Net Income to Shareholders	**2,091**	**(7,256)**	**431**	**858**
Average Shares - Weighted (m)	57.5	58.1	58.1	58.1
Average Shares - Diluted (m)	63.8	58.1	58.1	58.1
EPS - Basic (p)	3.63	(12.48)	0.74	1.48
EPS - Adjusted (p)	**5.01**	**(10.13)**	**1.28**	**2.01**
EPS - Adjusted & Diluted (p)	4.52	(10.13)	1.28	2.01
DPS (p)	0.50	0.00	0.00	0.30

Source: Lewis Charles Estimates

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