Client:	Chi Med
Source:	Small Company Sharewatch (Main)
Date:	01 January 2013
Page:	3
Reach:	0
Size:	1087cm2
Value:	6087.2

Citigate Dewe Rogerson

UPDATES

Findel (FDL) **9.01p**

FT : Retailers

Shares in Findel shot ahead helped by some aggressive institutional buying; a purchase of 7m shares at 8p was followed by a bigger purchase of 35m shares at 8.5p some days later, each time at a premium to the prevailing price.

Higher levels look likely; keep buying.

Optimal Payments (OPAY) **115p**

FT : Aim, Support Services

Two interesting announcements. The first is a five-year deal with MasterCard to become a direct issuer of prepaid cards. At present as part of its stored value business, Optimal operates the Net+ card under the auspices of a sponsoring bank but with this now going in-house it should enhance margins (already 82% on this side) and provide control/opportunities (e.g. to launch third party branded cards).

Separately, the company is extending its reach into the US via an agreement with Vantiv. This agreement gives Vantiv, the third largest payment acquirer in the US, access to Optimal customers who need a merchant acquirer in the US; likewise, Vantiv doesn't have much of an own online presence so it gives Optimal access to Vantiv's merchant customer base in the US. Vantiv could also be a key partner in the online poker sector as that market reopens on a state-by-state basis. *With eps forecasts of 12.1p this year and a pile of cash building, the shares are a buy.*

Quindell Portfolio (QPP) **16.6p**

FT : AIM, Not listed in FT

We said a month ago that QPP's results would blow out the lights. So it proved with the company saying that Q4 has exceeded Q3 and full year results will exceed expectations. Much of this is to do with the phasing-in of acquisitions but QPP has announced that various small outsourcing contracts with run-rate revenues of £80m a year have been won. These cover around 15 customers, including a large UK motor insurance company.

Separately, QPP has acquired Abstract Legal for £66m (£19.75m cash plus 296.3m shares). This adds a consumer channel to QPP's business as AAH operates the Accident Advice Helpline where the business model is the preparation of the documentation necessary for a legal services firm to pursue a claim for consumers using a no-win no-fee model.

It might look like a haphazard deal but Silverbeck Rymer is a member of the panel and the plan now is to carry out all the legal work itself. Other work presently also referred away (e.g. accident hire, medical reporting) will come in house. AAH has sales of £20m and made £5.1m operating profit but by bringing all bits in house in his hands, chief executive Robert Terry told Sharewatch that it adds £40m-£50m to sales and £15m-£20m to the bottom line - making it very eps enhancing. To help fund the upfront element, QPP has raised £17m through a placing of 97m new shares. That is on top of the £26.5m and £20m raised in the placing a month ago, although we understand these were for "supporting organic growth, not acquisitions."

QPP's contract momentum comes from the Jackson Review, which reviewed civil litigation costs and has recommended that by April 2013 lawyers should no longer be able to pay referral fees (typically to insurance companies) for cases. With that deadline approaching - and lock-ins expiring on past acquisitions - it is a good time to top-slice. *If you haven't already done so, we suggest selling half and keeping the remainder for free.*

Hargreaves Services (HSP) **669p**

FT : *AIM, Support Services*

Hargreaves had hardly put a foot wrong in the first six years as a PLC but towards the end of 2012 the newsflow became problematic with the company last month identifying a fraud at the Belgium subsidiary. The company said that the operation contributed a £2m operating profit last year and the potential impact is £15m. At this early stage, prior to the results of a forensic investigation, Jeffries has reduced its full year pretax/eps estimates to £44.4m/113p for the year to end March with £52.3m/135p next year. *Nonetheless, the shares are a Buy. See page 7.*

Client: Chi Med
Source: Small Company Sharewatch (Main)
Date: 01 January 2013
Page: 3
Reach: 0
Size: 1087cm2
Value: 6087.2

Citigate Dewe Rogerson

➔

Anite (AIE) ***142p***

FT : Tech - Software & Services

Anite has issued another outstanding H1. Sales were up by 11% to £61.2m but pretax profit and earnings went up by 30% to £14.3m and 3.4p, respectively. Net cash finished the half at £16.8m.

The blistering performance comes despite a tough comparable in H1 last year when Anite's handset testing side had been boosted by one customer ordering a whole year's supply in one go. But this division has proved to be the success driver once again with sales 17% higher at £40.5m (now two thirds of sales) and profit up 27% at £9m. Helped by more software in the mix margins improved 200 basis points to 28%.

LTE 4G products and 2G/3G were strong with the split now 50:50. Chief executive Christopher Humphrey notes that increasingly the larger network operators are setting the tests, which they want devices to adhere to in the lab, rather than the haphazard way of developing phones that existed previously. As a consequence the tests are becoming exhaustive and interoperability testing - checking the phone works with older networks - has been the strongest segment with sales up 36% whilst conformance testing - the mandatory tests laid down by standards bodies - grew 7%. Development testing was flat year-on-year but is a tiny element.

The network testing side finished off the period strongly, with Q1 a bit soft but Q2 strong, helped by the recently launched Invex benchmarking product, which replaced externally sourced scanners helping margins to rise by 2% to 22%. The Euro weakness was a bit of an issue, resulting in sales of £11.8m down 7% with profit of £2.6m, flat on a reported basis.

The travel side was helped by the First Thomas Cook @com phase, delivered following

➔

Client: Chi Med
Source: Small Company Sharewatch (Main)
Date: 01 January 2013
Page: 3
Reach: 0
Size: 1087cm2
Value: 6087.2

➔

a short implementation and sales were flat at £8.9m and operating profit up 6% at £1.7m. The order book is £85m of which £9m is for H2 delivery, £1m more than last year.

Eps forecast for the full year to end April is 7.9p with 8.5p next year. *Tipped at 43p in Aug '10, the shares are overdue a pause for breath.*

Silverdell (SID) 15.5p

FT : AIM, Support Services

Silverdell has reported its full year figures, which showed adjusted pretax profit of £4.3m, up from £1.3m although with a higher number of shares in issue due to the acquisition of EDS, adjusted eps was up 7% from 1.4p to 1.5p, slightly light on the numbers. The company is paying a maiden dividend of 0.18p.

Turnover increased from £60m to £82.5m and with the acquisition of EDS contributing £18.9m (for three months) and RDS, the small consulting business completed in 2011, another £4.7m, there was virtually zero organic growth at "old" Silverdell although the company says it outperformed the construction market, which declined by 11%. Meanwhile, EDS, which is the exciting part, is going like a train.

The enlarged business now has three divisions: Remediation, Decommissioning (including EDS) and Consulting.

Within remediation, Silverdell has combined its two UK asbestos remediation businesses (Silverdell UK and Kitsons) to form a single unit operating under one manager. Market conditions were tough but the closure of four offices should save £1.2m annually. Divisional sales were down 4% to £49.4m with operating margin of 5.7% down from 6.9%.

Consulting had a strong year, bolstered by RDS and recorded sales of £14.3m up from £8.2m, however there was £3m of low margin sub-contract work, which meant that consulting margins slipped from 15.3% to 10.8%.

Decommissioning is however the really exciting part now. It is high margin and high growth. This generated £18.9m in revenues at an operating profit margin of 11.4% and helped by this, overall group margin came in at 5.5%.

EDS has brought in industrial service skill-sets (e.g. construction, deconstruction, project management) and the model is very different to Silverdell's historical activity. Almost all work derives from the utilities, oil & gas and pharmaceutical sectors and speaking to the company we note the mix of work usually comprises an element of services (with some cost overrun risk), profit from the sale of metals found on site and from the sale of other assets found. Accurately estimating the value of metals and other assets is key to success.

Tendering activity is strong in the UK and Canada and the order book stands at £219m. Against that Silverdell is setting out its stall to grow sales by 15% annually and deliver a 10% blended margin but with 12 months from EDS this year, margins should perk up naturally. Finncap forecast eps of 2.1p this year. *Keep holding.*

Hutchison Chi Med (HCM) 455p

FT : AIM, Pharmaceuticals

HCM's news that its R&D arm has finally partnered with Nestlé Health Science seems to have been largely ignored by the market because it wasn't the usual licencing route. Nestle and HCM are forming a new 50:50 joint venture into which Nestlé is injecting an undisclosed amount of cash whilst HCM is injecting a library of 50,000 plant extracts held by it. The jv will fund the Phase III trials for HCM's lead compound, HMPL-004 for treatment of ulcerative colitis and Chron's disease. A 2,700 patient study will start shortly in the US and Europe. Panmure says it might have cost US$150m-US$200m for the trials indicating the amount Nestle is committing. The broker suggests a £6 sum of the parts. *Strong hold.*

Photo-Me (PHTM) 63.8p

FT : Retailers

Lots of new highs following Photo-Me's interims, which were accompanied with a bullish statement, more positive in tone than we have been accustomed to seeing from it. In fact, the numbers were excellent too as the first half outcome almost equalled last year's full year outcome with pretax profit up 17% to £19.5m on sales down 7% to £107m. On a constant currency basis, profit would have been £1.5m higher or up by 26% with eps up by 21% to 3.9p.

During the last six months, the cash pile continued to mount and rose by £18.2m to £70m - 19.3p a share. It is therefore one third of the market cap and comes despite higher r&d spend, increased dividends and tax. The interim dividend rises again by 20% to 1.5p and speaking to finance director Madame Coutaz-Replan, there appears a good chance of a special dividend "this financial year."

The vending side, which operates the unattended coin operated vending machines, recorded an 18% uplift in operating profit to £21.7m on sales of £98.9m. Continental Europe where Photo-Me has 20,000 photobooths generated £16.3m operating profit. The period is described as "outstanding" with operating margins up from 19.3% to 24.8%. Coutaz-Replan says this is sustainable and if anything there is scope for further improvement. She says more booths are being added Europe-wide, which are the Starck designed one (incorporating touchscreen, webcam and virtual reality options). Some 630 Starck units are now in place and will increase at a rate of 200 a month. These machines have takings c.50% higher than older models and also lower running costs including the fact that their "newness" enables Photo-Me to renegotiate commissions paid to site owners.

But the big new news is the move outside the id market with Photo-Me unveiling a new coin-operated laundry machine. Two dozen machines used for washing and drying large laundry items such as duvets are already in place in supermarket car parks in Belgium and France. The target is to add 3,000 machines including the UK and Coutaz-Replan says if the margins of 50% achieved from these are repeated then this has scope to be a massive money-spinner.

Elsewhere, Photo-Me's two smaller operating territories taken together are now only a third of Europe and also showed some legs. The UK side recorded a slightly better £2.6m profit. The photobooth side was generally OK (benefiting from moving to better quality sites) although the company also has many coin-operated kiddie rides that have been impacted by the consumer downturn. Meanwhile, Asia is going great guns with operating profit up from £1.7m to £2.6m, helped by a strong performance in Japan and has launched in Malaysia.

Elsewhere, the manufacturing / servicing arm has returned to profitability following extensive restructuring. Sales were down 20% to £14.3m, but the operating profit improved to £1.3m and the business should continue to operate profitably.

Finncap has increased its pretax profit forecast by 9% to £24m and introduced a forecast of £27m for next year, for eps of 4.6p and 5.2p respectively. The latest share price strength suggests an exciting breakout to higher levels. *Strong hold.*

Tribal Group (TRB) 110.5p

FT : Support Services

Tribal has acquired i-graduate, an independent benchmarking and analytics business, for up to £7.5m. It is paying £2.86m upfront with the rest based on future performance. i-graduate provides benchmarking and analytics systems to c.1,500 universities, colleges and schools in Europe, North America and Asia. In the year to March, it generated a pretax profit of £0.4m on revenues of £3m, a good portion of which is recurring. The acquisition is expected to be eps enhancing from day one. *Buy.*

May Gurney (MAYG) 182p

FT : AIM, Support Services

No more skeletons emerged in the first interims since the departure of May Gurney's chief executive. Sales were up 4% to £339m for the six months to end September but pretax profit was £11.4m, down from £14.7m. Eps were down from 14.8p to 11.8p. Net debt excluding £74m of vehicle leasing was £3m.

It looks like two of the three issues that dogged the business have been sorted. The FM business has been discontinued whilst Scottish Utilities business has been scaled down after losing a contract to maintain gas mains for Scotia Gas. The only ongoing matters are the two problematic municipal waste collection contracts.

These issues impacted margins on both sides to varying degrees. The Public Sector services arm (58% of sales) saw its margins down from 5.1% to 4.3%. Performance was a curates egg; a good performance from local authority highways maintenance and also from fleet & passenger services for local councils overshadowed by the issues on the municipal waste collection and

Editorial shareholdings of companies covered in this issue:Photo-Me, Supergroup, Clinigen, Optimal, Eros.

➔

Client: Chi Med
Source: Small Company Sharewatch (Main)
Date: 01 January 2013
Page: 3
Reach: 0
Size: 1087cm2
Value: 6087.2

➔

facility services business.

The Regulated side (42% of sales) saw good demand for utility maintenance and asset enhancement services in the water sector whilst rail work stalled and resulting margins were down from 3.7% to 3%.

The order book is stable at £1.5bn with £1.7bn of potential extensions, which supports N+1 Singer's forecast of 25p for the current year. *Results imminent; recovery buy.*

James Fisher (FSJ) 825p

FT : Industrial Transportation

Fisher has sold its rail division, The Railway Engineering (TRE), to Hitachi Europe for £25.5m. Wiltshire-based TRE, which was acquired in 2006 when James Fisher purchased Strainstall Group, supplies signalling simulators and automatic routing systems for use on the railway networks. In 2011, TRE reported profit before tax of £2m - so it looks like a very good exit multiple. Now over £8. *Strong hold.*

OPG (OPG) 50p

FT : Utilities

Having reclassified the group's two minority owned power plants as investments last year, latest H1 results do not consolidate them this time round. Instead, the numbers reflect only the income from the 77MW Chennai I power station. Pretax profit was flat at £2.51m for eps of 0.4p.

There were 25 days lost during a planned shutdown whilst Chennai I was integrated with its twin, Chennai II, in the final few days of September so the latter did not contribute in these results. The average tariff at Chennai I was higher at Rs5.67/kWh but currency and the fewer operational days meant sales came in £1m light at £17.8m. The average cost of power produced was up 18% from Rs2.75 to Rs3.26 mainly due to the rupee depreciation, which left EBITDA from the single plant at £4.65m.

OPG says it is contracted to sell the output from the two plants to the local state utility at Rs5.50/kWh until May but there should be no transmission costs associated with this (typically 8%). Bringing in coal from Indonesia will also lower its coal costs in due course, although a lag effect will arise as OPG consumes existing stockpiles first.

This is one where patience is needed given that OPG is fully funded for another 540 MW. Chennai III, a 80MW plant, will kick in this March taking annualized run rate of earnings to c.3p (although it is better than this as the unit cost begins to spread over more stations). This will be followed by the monster 160 MW Chennai IV & 300 MW Gujarat in 2014 so it is easy to see a real jump off in earnings. By then OPG should also be generating a tidal wave of cash with EBITDA of over £100m to keep expanding organically. *Very strong hold for that.*

Advanced Computer Software (ASW) 76p

FT : AIM, Not listed in FT

Advanced Computer Software has acquired Serco Learning for a £7.25m. Serco Learning provides software solutions to educational institutions and UK local authorities, mostly in the UK. It has sales of £13.5m, of which £11m is recurring. It is eps enhancing from day one.

Cannaccord has upgraded to eps of 4.5p for this year. Gain to date: 347%. *Hold for £1 in due course.*

■