



Specialist Energy Group

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Specialist Energy Group: going nuclear

Specialist Energy Group was formed in January this year after the reverse takeover of Southbank UK by Alternative Investment Market-quoted Nviro Cleantech. The takeover has transformed the group into a tangible business that is focused on providing specialist pumps, motors and associated equipment and services to the worldwide power and oil and gas industries via its subsidiary company, Hayward Tyler Group Ltd.

Clearly the transformation from a pre-revenue renewable energy business to a profitable energy related engineering business has been one the market has yet to fully understand.

According to SEG's house broker, the investment bank Fairfax, the company through Hayward Tyler is this year expecting again to increase revenues by 11% and net profit by almost 20% to £1.9m. In comparison to its peer group this certainly takes some beating. It is forecasting that around two-fifths of the group's sales in 2010 should come from sales of Hayward Tyler's pumps, including its key product: the boiler circulating pump (BCP). Hayward Tyler, a firm that was founded in 1815, first developed the BCP in 1957 so that water could be pumped through a power station's boiler tubes at high temperatures and pressures.

Today, the company sells its BCPs to large power utilities and leading boiler manufacturers from around the world. As well as being able to operate at high temperatures and pressures, BCPs also make power generation more efficient by shortening boiler start-up times.

Each BCP sells for between £150,000 and £300,000, and a power station will typically use three BCPs per boiler plant— with two in continuous operation and a third kept in reserve. According to Fairfax, the BCP manufacturing business has historically been loss making, but the firm has recently booked higher margin orders, and has also taken action to reduce its costs which is resulting in improving gross and operating margins.

Hayward Tyler also makes pumps for a variety of other applications, including sea water lift and fire water pumps for the oil industry, nuclear process pumps and pumps for diesel engine manufacturers.

Recently, the group announced it had won a number of major contract wins in the US nuclear sector for its high-pressure canned motor pumps (CMPs). Already, Hayward Tyler has installed and/or serviced equipment at almost 70% of North America's nuclear power stations. Meanwhile, it has also won an order for its CMP product in China via its 'Nuclear' stamped US facility. The combined value of these new nuclear power-related orders in the US and China is in excess of \$1.5m. Nuclear-related activities accounted for more than 15% of Hayward Tyler's 2009 revenues.

Fairfax expects the remaining 60% of group sales for this year to come from services connected mainly to its BCP business. Hayward Tyler's worldwide installed base of BCPs amount to 2,230 pumps, with 600 located in Europe, 520 in the US and another 600 in Asia (predominantly China & India). The services offered by the firm include: testing, repair and overhaul, asset management, spare parts and replacement unit sales.

Given the numbers Fairfax is forecasting and at a profit after tax of £1.9m this should translate to around seven pence earnings per share. Such an EPS figure would be a very decent result for a share that is trading at a price of 37 pence currently, a discount according to Fairfax's analysis of almost 50% to a comparable peer group.

Price: 34.50p

Market Cap: £8.63m

1 Year Share Price Graph



Share Information

Code: SEGR

Listing: AIM

52 week High: 91.25p

52 week Low: 33.00p

Sector: Manufacturing

Website: <http://segrouplc.com/>

Company Synopsis:

Specialist Energy Group plc (SEG plc), a niche engineering and manufacturing group, was formed through the reverse of Southbank UK plc and Nviro Cleantech plc. Through its main operating subsidiary Hayward Tyler Group Limited, the worldwide market leaders in boiler circulating pumps, its focus is on the energy sector.

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While the new group is focused on the growth prospects of Hayward Tyler's pumps business there still remain the potential benefits offered by the legacy Nviro business (& its 'clean coal' technology), and any potential to monetise these technologies either through licensing or asset sales could provide further upside.

Certainly, finance director Nick Flanagan has faith in SEG's prospects. He recently bought 140,000 shares at 42.5 pence each.

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