

AIM: INDUSTRIAL ENGINEERING

SPECIALIST ENERGY (SEGR)

**BUY**

## SE set to sparkle



The urgent need to build and replace thermal and nuclear power stations bodes well for Specialist Energy

### Bear points

- Strong niche position in energy generation and oil & gas industries
- Growing sales to emerging markets
- Exposure to US nuclear opportunity

### Bull points

- High level of debt
- Acquisition risk

Specialist Energy only came to the Aim market in January, via a reverse takeover of struggling clean-tech company Nviro, but it is already establishing a following among investors seeking ways to play the global themes of energy and oil and gas.

Its main subsidiary, Hayward Tyler, was founded in 1815, but in recent years it has forged a niche supplying specialist parts, such as boiler circulation pumps, to the power generation industry. It has around 60 per cent of the global market in such pumps and, in the US nuclear market, this share rises to 70 per cent.

This strong market position bodes well for the company as developing economies, especially India and China, are investing huge sums in a new generation of thermal power

stations, as well as unveiling plans for large numbers of nuclear power stations. Furthermore, in the developed world, old nuclear power facilities need replacing and Hayward Tyler's position in the US is particularly promising.

The company's growing position in emerging markets was emphasised recently with the announcement of £3m-worth of orders from India and China, followed by a similar-sized order win in the US nuclear market in November. Specialist Energy has also attracted the attention of Indian engineering group McNally Bharat, which took a 10.8 per cent stake in the company in September.

On top of its strong presence in power generation, where service revenues are also growing, Hayward Tyler has built revenues from the oil and gas sector, where its subsea pumps are in demand as deep-sea drilling becomes increasingly prevalent. In the first half of 2010, 22 per cent of this division's orders came from the oil and gas industry, compared with just a tenth in the same period of 2009.

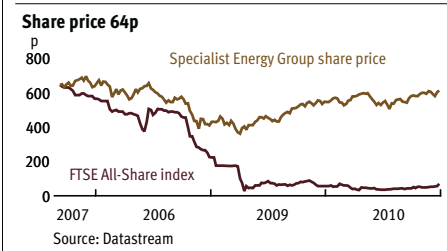
Specialist Energy's latest results, for the first half of 2010, showed a modest increase in

revenues and a further improvement in profit margins as service contracts contributed more to the mix. The order book stood at £273m at the end of June, before recent contract wins in the US, India and China.

Most of the legacies of Nviro, which Specialist Energy reversed into, have been cleared up, but the company has kept Nviro's intellectual property for an interesting clean-coal technology. The share quote on Aim was sought to give management the share currency to seek out complementary acquisitions, although the likelihood of imminent action is slim.

Management recently moved to shore up concerns about the company's balance sheet, where debt looked too heavy. A £5m share placing has eased pressure on working capital and should allow for a renegotiation of banking facilities. It will also provide a down payment on a new manufacturing plant in the US, which will help address opportunities in nuclear power generation there.

Specialist Energy's debt is still on the high side, but as the business grows this should drop to more comfortable levels. The enthusiasm for the share placing bodes well and, even with the extra shares in issue, the rating is still below 11 times forecast earnings for 2010-11. That's well below the average for small-cap engineering companies, which broker finnCap calculates at 16 times, and for shares in similar specialists, such as Hamworthy and Melrose. Buy.



### Specialist Energy

Ord Price: 64p Market Value: £16.1m  
 Touch: 59-64p 12-Month High: High: 70p Low: 34p  
 Dividend Yield: nil PE Ratio: 9  
 Net Asset Value: 14p Net Debt: 300%

Year to 30 Sep	Turnover (£m)	Pre-tax profit (£m)	Earnings per share (p)	Dividend per share (p)
2009	nil	-9.5	-144	nil
2010*	40.7	1.0	2.4	nil
2011*	40.7	3.1	5.9	nil
2012*	42.9	3.6	7.0	nil
% change	+5	+16	+19	-

Normal market size: 1,000 Market makers: 5 Beta: -0.5  
 \*finnCap estimates (year-end to change to Dec from 2010)  
 Last IC view: na