



Specialist Energy Group

Sep 20th 2011

Specialist Energy Group's Lloyd-Baker says power generation market remains buoyant

Specialist Energy Group (LON:SEGR) chairman Ewan Lloyd-Baker told investors that the longer term outlook for the international power generation market remains buoyant, despite the current global economic uncertainty.

In this morning's interim results statement, for the six months ended June 30 2011, the specialist power plant engineering group reviewed a period of contrasting results for the group's primary operating subsidiary, Hayward Tyler.

The group's higher margin aftermarket' division which deals with spares, field service and repairs showed a strong performance, while the manufacturing division which makes new pumps and motors for power plants suffered weaker trading due to delayed shipments.

Importantly SEGR confirmed that the majority of these delayed units have now been shipped. According to SEGR the delays have highlighted some supply chain problems relating to the sourcing and quality of larger bespoke castings.

This issue has been addressed with new investments in the UK operational team and additional support for the procurement team. The company has also introduced a supply chain training initiative and a new enterprise resource planning system.

Overall first half revenues were down at £14.4 million, compared with £18.1 million in the comparative period of last year, mainly because of the problems in the manufacturing business.

SEGR reported an operating profit of £0.5 million (H1 2010: £1.1 million) and an adjusted pre tax profit of £0.2 million (H1 2010: £1 million). Earnings (EBITDA) were down from £1.4 million in the first half of last year to £0.8 million.

There were also positives. Order intake increase by 20 per cent to £16.5 million, compared with £13.8 million in the first half of last year.

Breaking it down into its component parts the £16.5 million order intake, which puts the order book at £21.5 million at June 30 2011, was split with £6.7 million in manufacturing and £14.8 million in aftermarket. This order book provides delivery coverage into the second quarter of 2012, SEGR said.

Thanks to the strength of the aftermarket division gross profit margin increased to 34.1 per cent compared with 32.3 per cent last year.

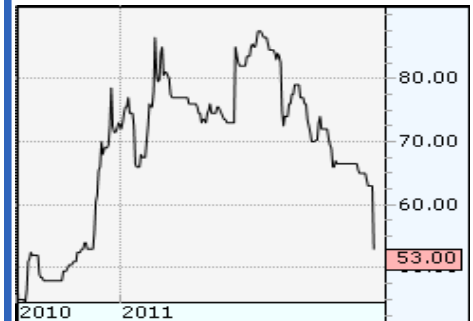
Net debt reduced to £9.3 million from £10.5 million in the first half of last year, but this is actually up from the £6.7 million reported at the 2010 year end, due to a temporary increase in working capital.

"We are pleased that order intake levels in Hayward Tyler have continued to grow in line with previously stated expectations. It is also encouraging to see a further improvement in gross margin levels," said chairman Ewan Lloyd-Baker.

Price: 53p

Market Cap: £18.82M

1 Year Share Price Graph



Share Information

Code: SEGR

Listing: AIM

Sector: Engineering

Website: segrouplc.com

Company Synopsis:

Specialist Energy Group plc (SEG plc) is a niche engineering and manufacturing group. 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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"However, it is disappointing that delays in the manufacturing division have impacted our half year numbers.

"We nevertheless expect to see a substantial improvement in the operational performance of the business in the second half though inevitably the timing of certain contracts completing will ultimately determine the scale of our full year results."

Highlighting a more positive outlook for that current period, SEGR said: "With the majority of the delayed units now shipped the second half outlook for the manufacturing division is more encouraging with margins expected to improve albeit not to the levels achieved last year."

In the short term there are still question marks over demand, although SEGR said that the softening in new unit demand' experienced in China and India is expected to be only temporary in nature and the longer term outlook is positive for new build power plants in both countries.

"Likewise, given the events earlier in the year (the Fukushima disaster) it is encouraging to see activity levels in nuclear new-build increasing and this sector remains a critical part of the future energy plans of China, India, the UK and USA (all markets in which Hayward Tyler has a strong presence)."

"The board expects to see a substantial improvement in the operational performance of the business in the second half driven by the higher margin aftermarket business," SEGR added.

"Management is currently focused on restoring the manufacturing division to profitability."

In a separate statement today SEGR confirmed that it is no longer in talks, with an un-named third party, over a potential sale of the company.

At 9:00 the group's shares were down 10.5 pence, about 16 per cent, trading at 52.5 pence a share.

"(The) interims show a decent improvement in service profits while manufacturing was disappointing, with slippage in some contract deliveries out of the first half into the second," finnCap analyst David Buxton said in a note to clients.

"There has also been a boost from the shift in the product mix towards the higher gross margins of the services operation.

"India and China should both resume orders as their inexorable growth demands significant increases in power generation equipment," he added.

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