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Specialist Energy Group

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Specialist Energy Group's Ewan Lloyd-Baker expects stronger second half

Specialist Energy Group (LON:SEGR) has overcome the supply chain problems that caused shipment delays and a shortfall in revenue in the first half of this year, and it now expects to book a stronger second half performance, according to chief executive Ewan Lloyd-Baker.

In Tuesday's interim results statement, for the six months ended June 30 2011, the 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.

"There were problems with the quality of the pump castings that we received from our suppliers and given the fact that our products are mission critical, we weren't prepared to ship a sub-standard product," Lloyd-Baker told Proactive Investors.

"So we had to re-weld all the cavities in the pump cases and that meant that sixteen units were delayed.Most of these have already been shipped, except for three units that have been put back to 2012 at the customer's request."

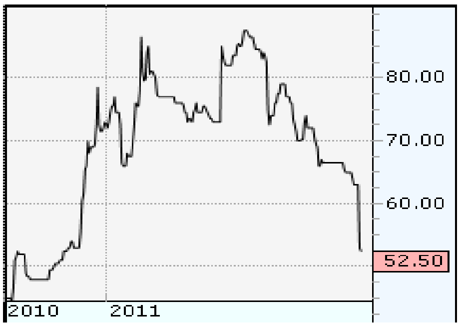
"I very much expect that this was a one off situation.

"At the half year this has had a £600,000 impact on operating profit which is expected to flow through to the full year. That is why our outlook figures have been reduced for 2011.

"But what it also means is that a higher proportion of our revenues are in the aftermarket',so our margins have gone up and ultimately we also expect net debt to come down, because we've now got a shorter working capital cycle, a higher profit and quicker cash generation."

Price:	52.5p
Market Cap:	£18.64M

1 Year Share Price Graph



Share Information

Code:	SEGR
Listing:	AIM
Sector:	**Engineering**
Website:	**segroupplc.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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One of SEGR's main goals is to improve its supply chain to make it more reliable and efficient, Lloyd-Baker explained. The company has made new investments in the UK operational team and additional support for the procurement team. It has also introduced a supply chain training initiative and a new enterprise resource planning system.

"That's all work in progress and we certainly don't anticipate the same kind of issues again."

In Yesterday's results SEGR revealed that 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.

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."

Looking ahead to the group's financial performance in the months ahead, and into 2012, Lloyd-Baker highlighted that the most recent analyst numbers for the current year are looking at revenues of £36 million, adjusted EBITDA of £3.6 million, and adjusted EBIT of £2.9 million.

Then in 2012 analysts see revenues improving to £38 million, adjusted EBITDA improving to £4.7 million and adjusted EBIT rising a million pounds to £3.9 million, he added.

In the short term there are still question marks over demand, although SEGR believe 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.

"(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 on Tuesday.

"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."

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