finnCap

Facts & Figures

24/03/10

Markets (previous close)

		% change			% change
FTSE	5673.63	0.52	Dow Jones	10888.83	0.95
Hang Seng	20987.78	0.26	Nikkei	10774.15	-0.47
Currencies					
£/$	1.5034	-0.34	£/Euro	1.1139	0.13
Commodities					
Gold	$1,102.05	0.22	Copper	$7,402	-0.12
Platinum	$1,604.25	0.25	Oil (Brent)	$79.45	-0.50

IQE - IQE.L – (17.75p) - Strong results and positive outlook

FY09 results illustrate the strong recovery over the 2H09 which really began to take effect from July. FY09 revenue of £52.7m (FY08: £60.5m) was slightly ahead of our £52.5m forecast with 46% 1H/2H sequential growth highlighting the strong recover from the effects of destocking during 1H09. 2H09 EBITDA of £6.1 (1H: £2m) resulted in FY09 EBITDA of £8.1m against our forecast £8m. EBT of £2.1m was ahead of our £1.8m forecast due largely to the reduction in net6 debt dropping the interest charge to £0.99m (FY08: £1.45) against our £1.5m estimate. EPS was therefore ahead at 0.47p (FY08: 0.6p). From an operational perspective, the management of the strong growth in demand over 2H09 has been strong, without which many customers would have reduced IQE's allocation. Evidently this has not been the case an IQE has notably invested considerable time, effort and money in IP surrounding next generation technologies which should largely future proof the company across the CPV, III-V's on Si and Blue-Ray verticals. The outlook for FY10 is also positive with the company e4xperiancing sustained growth across 1Q10. We are therefore holding our FY!0 forecasts at this stage which reflect revenue growth to £61m and EPS acceleration to 1p. However, we highlight that our note published in January contained a scenario to highlight the operation gearing of the company which illustrated a further 5% growth on revenue and 10% growth in EPS. **IQE is clearly benefiting from structural growth in its industry and accelerating demand from its end markets. Furthermore, the newsflow from the AGM in July and at the interims in September should also be positive and prompt forecast upgrades during 2H10. IQE is currently trading on a FY10 PER of 17x against a semiconductor sector average of approximately 30x. We therefore maintain our BUY recommendation and price target of 25p.**

(Analyst: Paul Cornelius 0203 207 3231)

Healthcare Locums- HLO.L - (34.75p) – Dividend increases give a strong yield attraction

As the dust starts to settle, it is worthwhile remembering that HCL remains at its core a very cash generative stock where they have posted 23% growth in gross profit, versus market growth of c20% and with margins continuing on an upward trend moving from 11.7% to 14.6% reported, with management indicating some further margin advance in 2010. Cash always tells the correct story and in this case cashflow has remained strong, by the June half year net debt is expected to reduce from £17.3m to between £6-8m and by December 2010 is expected to be cash positive. On the basis of strong cash flows and a better than expected 5p dividend declared, management indicates that a 10p dividend would be "a base level". As the income recognition debacle essentially has moved income from 2009 into 2010 the group already appears to have good visibility on its International perms operations (at a high margin). With indications that they are aiming for a PTP profit of £40m. **We prefer a more conservative line at this point with a PTP forecast of £36m, giving EPS of 24.7p. This means that the reduction in expectations is nothing like as great as the 29% share price reaction and leaves the shares looking cheap but friendless. Sentiment and management credibility has taken a huge dent as expectations have been poorly managed. Nevertheless, at a 6.0% yield the price now factors in the risks. The shares should be bought for their income in the short term and further out for the shares rehabilitation. Income BUY**

(Analyst: David Buxton 0203-207-3229)

Bellway – BWY.L – (744p) – Recovery but at a snails pace

BWY's interim figures show increased revenue £361m against £320m from a 10% increase in unit sales to 2,247 homes but the fly in the ointment is a marginally lower average selling price £155.9k reflecting more lower price, lower margin housing association sales. The profits swing was £67.5m to £19m for actual earnings of 11.6p and an interim dividend of 3.3p which is up 10%, indicates more than a token gesture about future prospects. The group is cash positive (£61m) and the balance sheet is stronger with an NAV of 842p. The order book is up 17% to £435m but, more importantly, the number of active sites is due to rise from 180 to 200 during the next year which dataBUILD believes is almost perfect timing. There is no point in thinking about price earnings multiples for at least another two years. This year, we are looking for 25p of eps but the real issue will be the tension between the rating and the discount to the NAV which currently stands at about 12%. From a trading point of view, BWY is the best but there are still a number of hurdles to be overcome such as mortgage availability for first time buyers, a big part of the BWY business, the usual uncertainties around a General Election and the fear that many four day weeks eventually manifests itself in greater unemployment should the economy fail o improve. **Taking a two year view, BWY shares are at the upper end of our buying zone.**

(Analyst: Les Kent 0203 207 3222)

RSM Tennon – TNO.L – (744p) – Rating too cautious

The interim results to end December are not too exciting - adjusted operating profits were £8.8m (£8.7m) and EPS was unchanged at 3.01p - but in general the numbers reflect the difficult conditions for the wider marketplace in advisory accounting and tax services, with the exception of recovery work, where revenues advanced 20%. Cost control remains a group strength - operating margins edged forward to 12% (11.6%). The results also reflect the acquisition impact of RSM Bentley Jennison from December (net debt £35.8m) but none of the trading benefits or synergies to be derived from the deal. Tenon believes synergies could amount to £10m, which is an increase on estimates made at the time of the deal. **Therefore looking out to a full year's trading from the enlarged group covering the period to June 2011, we see scope for a reappraisal of Tenon shares which at 43p (market cap £140m) currently trade at a discount to the eventual assumed 1x revenue valuation which would be appropriate for a general practice professional services grouping. As the Bentley Jennison earnout is self-funding, it should not stress the group valuation. BUY**

(*Analyst: Duncan Hall 02 3207 3231)*

Jubilee Platinum* - JLP.L - (41p) – Jubilee's flagship project takes another step forward

For us, this morning's announcement to retain the services of Snowden to complete a pre-feasibility study for the flagship Tjate platinum project in South Africa, serves as a useful reminder as to what underpins Jubilee's current market valuation. We expect the work to cost a maximum of $2 million, depending on how much additional drilling is required to increase indicated resources. Despite the ConRoast process flow sheet attracting much benign attention of late from both the investment community and the platinum industry, Jubilee has yet to announce how it intends to commercialise this part of its business. Until it does so, we believe that Tjate will continue to make up most of Jubilee's current market valuation. This in itself is no bad thing because ConRoast has the potential to give Jubilee a major differential advantage over its peers. In our initiation note, we assumed that Tjate would cost $560 million to build with production starting in 2015. The projected escalation in power costs in South Africa over the next three years means that operating costs are likely to be higher than our previously assumed $478 per 3PGM ounce. But we also think that, with platinum miners finding it increasingly difficult to maintain production at current levels, the price of platinum is set to rise to satisfy demand – particularly from the automotive sector. Our estimates show that applying the ConRoast process flowsheet to Tjate increases the NPV by 25 per cent. But the current strong Rand is having a detrimental impact on the value of most platinum miners and Tjate is not an exception to this**. When Jubilee releases details on how it plans to build the next generation of ConRoast smelters, we will release an update on the company and explain the impact this would have on the share price.**

(Analyst: Joe Lunn 0203 207 3238)

Alliance Pharma - APH.L - (34.75p) – Full year results

Alliance Pharma's full year results were in-line with consensus: sales of £31.2m (£30.9m); PBT pre-exceptionals of £8.6m and EPS of 3.55p (3.6p). Net debt was much better than expected at £21.7m vs. £29.1m. **On consensus forecasts the top line will grow +45% this year and the shares are trading on 7.6x prospective earnings. Alliance is a member of a growing band of speciality pharmaceutical companies that have eschewed capital intensive risky research & development for a sales and marketing-focused model: the group includes IS Pharma* (ISPH.L, 59p, TP 125p), Prostrakan (PSK.L, 100p, NR), Sinclair Pharma (SPH.L, 30.5p, NR) and Plethora Solutions* (PLE.L, 13.75, TP 57p). The full year dividend provides only a 0.8% yield, but the stock should be one for growth investors, trading on a PE around half that of, for example, Shire (SHP.L, 1478p, NR) and Prostrakan. The current re-structuring of the major pharmaceutical companies presents companies in this group with opportunities for further product acquisitions to deliver the growth that major pharma has lost.**

Nichols - NICL.L - (367.5p) – Strong results

The 3rd and smallest of the quoted soft drinks producers, its main brand being Vimto. Sales in 2009 rose by 29% (28% in the UK vs market value growth of 2%) and PBT by 22% to £12.2m with EPS 17% higher and the dividend raised by 9%. Net cash rose by £5.2m to £11.2m. £12.2m was as per the market consensus. The outlook statement is upbeat with confidence of *"further growth in 2010 and beyond"*. Assuming EPS grow by at least 10% to 25.8p in 2010, the PE is 14.2x which places the shares on a rating below that of AG Barr on a CY basis but above that of Britvic. All 3 of the quoted soft drinks producers have recorded strong share gains and the loser appears to have been GSK (which has brands such as Lucozade and Ribena inherited via the Beecham merger) and small private label producers.

*denotes a research client of FinnCap

Tomorrow's World

3i Group (III.LN)	Trading Statement (pre-close)
Camellia plc (CAM.LN)	IMS
Churchill China (CHH.LN)	Full Year 2009 Prelims
Clinton Cards (CC.LN)	Interim 2010 Results & EGM
Evolution Group (EVG.LN)	Full Year 2009 Prelims
Image Scan Holdings (IGE.LN)	Full Year 2009 AGM
Kingfisher Group (KGF.LN)	Full Year 2009 Prelims

London Stock Exchange Group (LSE.LN)	Trading Statement (pre-close)
Moss Bros (MOSB.LN)	Full Year 2009 Prelims
Next Plc (NXT.LN)	Full Year 2090 Prelims
Office2office (OFF.LN)	Full Year 2009 Prelims
Petropavlovsk PLC (POG.LN)	Full Year 2009 Prelims
Premier Oil (PMO.LN)	Full Year 2009 Prelims
PV Crystalox Solar (PVCS.LN)	Full Year 2009 Prelims
SkyePharma (SKP.LN)	Full Year 2009 Prelims
Sportech (SPO.LN)	Full Year 2090 Prelims
Stanelco (SEO.LN)	Full Year 2009 Prelims
Ted Baker Plc (TBK.LN)	Full Year 2009 Prelims
Thomas Cook Group (TCG.LN)	Full Year 2009 AGM & Trading Statement
United Utilities (UU.LN)	Trading Statement (pre-close)

finnCap

4 Coleman Street
London EC2R 5TA
Tel 020 7600 1658
Fax 020 7600 1659
Email info@finncap.com
Web www.finncap.com

Sales

Michael Bell
mbell@finncap.com
020 3207 3264

Chris Jeffrey
cjeffrey@finncap.com
020 3207 3221

Elizabeth Johnson
ejohnson@finncap.com
020 3207 3294

Dwight Burden
dburden@finncap.com
020 3207 3266

Rhys Williams
rwilliams@finncap.com
020 3207 3225

Sales Traders

Mick McNamara
mmcnamara@finncap.com
020 3207 3223

Mike Nally
mnally@finncap.com
020 3207 3224

Jeremy Smith
jsmith@finncap.com
020 3207 3226

Ben Tonnison
btonnison@finncap.com
020 3207 3227

Daniel Smith
dsmith@finncap.com
020 3207 3210

Corporate Broking

Eddie Edmonstone
eedmonstone@finncap.com
020 3207 3209

Tom Jenkins
tjenkins@finncap.com
020 3207 3263

Stephen Norcross
snorcross@finncap.com
020 3207 3211

Joanna Weaving
jweaving@finncap.com
020 3207 3248

Brian Patient
bpatient@finncap.com
0203 207 3225

Simon Starr
sstarr@finncap.com
0203 207 3251

*Denotes corporate client of FinnCap.