



Sweett Group

40p

Positive trading update

- The trading update has re-affirmed the robust, underlying performance of the group's core operations, especially in the UK. The net result is an underlying FY14E performance likely to be marginally ahead of (already upgraded) expectations. This makes for a welcome counterpoint to the news relating to the WSJ allegation. Although a legacy issue, this has undoubtedly cast a pall over what remains a strong story. The shares have declined 24% year to date; reflecting a perceived lack of clarity on underlying profit growth (unfair, in our view) and the WSJ internal investigation. The final results will allow the company to address the latter in more detail but in the meantime Sweett trades on an underlying FY14E PE of 8.6x (a 35% discount to the peer group). This looks undemanding given the strength of the underlying business.

H2 trading performance continues to be robust

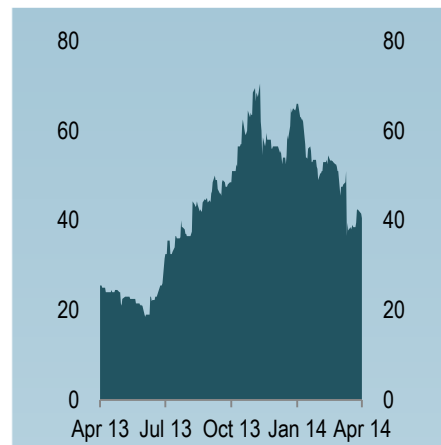
The group continues to benefit from both the recovery in the UK and growth opportunities overseas. The order book is up 6% y/y to £105m despite sterling strength (on a constant currency basis it would have been c.£110m). Net debt continues to decrease (£6.2m in March 2014 vs £7.1m in FY13), with net debt to EBITDA approaching parity. We will revisit our estimates after the final results.

Underlying performance clouded by non-recurring items

Visibility of underlying performance has not been aided by a number of non-core and non-recurring items in the current and prior years. FY14E is likely to see a one-off hedging gain of £1.0m (already disclosed) offset by a £0.6m share option charge as well as a likely exceptional charge relating to the WSJ investigation. In previous years, the group had also benefited from gains relating to historic PFI exposure (FY14E likely to see the last such contribution). Underlying EBIT, adjusting for all of these items, in FY14E is expected to be c.£3.4m, compared to £2.9m in FY13 and £1.1m in FY12. Despite all the distractions, this is the metric that really matters, and all things being equal, continued progress here should drive the valuation over the medium term.

Valuation and catalysts

Having declined 31% YTD, Sweett currently trades on an underlying FY14E PE of 8.6x (ex-hedging gain), a 35% discount to the peer group, despite consistently positive commentary regarding current trading and a number of earnings upgrades. Underlying trading performance has, to a degree, been clouded by non-recurring items and news regarding the WSJ internal investigation has also been a blow to sentiment. The final results in July will allow the company to address the latter in more detail but in the meantime the relative valuation looks undemanding.



TIDM	CSG
Market cap (£m)	27.0
Net cash (FY1)	-5.4
Free float (%)	70%
Avg daily volume (3m)	25k
Broker	Westhouse
Listing	AIM

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Year to Mar	Revenue (£m)	Adj PBT (£m)	EPS (p)	Net Cash (£m)	EV/EBITDA (x)	P/E (x)	Yield (%)
FY13a	80.6	3.7	3.7	-7.1	6.6	11.8	2.3
FY14e	85.6	5.2	6.3	-5.4	5.7	6.4	2.7
FY15e	90.8	4.3	4.9	-4.0	5.0	8.2	3.1

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Financial Summary – year ended 31 March

INCOME STATEMENT, £m	FY12A	FY13A	FY14E	FY15E	FY16E
Europe	39.8	42.1	44.6	46.9	49.2
Middle East, Africa and India	9.8	11.9	11.3	12.2	13.1
Asia Pacific	22.9	26.0	29.6	31.7	33.9
Investments	0.4	0.6	0.0	0.0	0.0
Group revenue	72.8	80.6	85.6	90.8	96.2
Europe	2.9	2.9	3.6	3.7	3.9
Middle East, Africa and India	(0.7)	1.3	1.3	1.4	1.5
Asia Pacific	1.9	1.3	1.8	2.0	2.1
Investments	(0.7)	0.8	0.0	0.0	0.0
Central costs	(2.0)	(2.0)	(2.2)	(2.4)	(2.6)
Group EBIT	1.4	4.3	4.5	4.6	5.0
Exceptional items	(1.3)	(1.5)	0.0	0.0	0.0
Goodwill amortisation	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Net interest	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net hedge costs	(0.6)	(0.3)	1.0	0.0	0.0
Reported PBT	(1.0)	1.8	4.7	3.8	4.2
Adjusted PBT	0.7	3.7	5.2	4.3	4.7
Tax	(0.4)	(0.5)	(0.9)	(1.0)	(1.1)
Reported EPS - basic	(2.1)	1.9	5.6	4.2	4.5
Adjusted EPS - diluted	0.5	3.7	6.3	4.9	5.3
DPS	0.5	1.0	1.1	1.3	1.5
CASH FLOW, £m	FY12A	FY13A	FY14E	FY15E	FY16E
EBITDA	2.7	5.5	5.7	6.3	6.7
Working capital	(2.9)	(0.3)	(1.3)	(0.9)	(1.1)
Other	(2.5)	(3.1)	(0.2)	(0.2)	(0.2)
Operating cash flow	(2.8)	2.2	4.3	5.2	5.5
Net interest paid	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)
Net tax	0.6	(0.8)	(0.9)	(1.0)	(1.1)
Net capital expenditure	(1.4)	(1.2)	(1.0)	(1.7)	(1.1)
Net acquisitions / disposals	(0.7)	(1.0)	(0.8)	0.0	0.0
Other	1.7	2.5	1.0	0.0	0.0
Pre financing cash flow	(2.7)	1.4	2.3	2.2	3.0
Dividends	(0.7)	(0.4)	(0.7)	(0.8)	(0.9)
Net movement in debt	0.6	0.4	0.0	0.0	0.0
Net change in cash	(2.6)	1.5	1.7	1.4	2.1
BALANCE SHEET, £m	FY12A	FY13A	FY14E	FY15E	FY16E
Goodwill	16.1	16.3	16.0	15.7	15.4
Intangible assets	3.4	2.7	2.6	2.4	2.3
P,P & E	1.5	1.8	2.6	2.8	2.2
Other	3.4	1.7	1.7	1.7	1.7
Fixed assets	24.4	22.6	22.9	22.6	21.6
Net working capital	12.6	12.5	13.4	14.7	16.2
Total capital employed	37.1	35.0	36.3	37.3	37.8
Net cash / (debt)	(8.2)	(7.1)	(5.4)	(4.0)	(1.9)
Net Assets	28.8	28.0	30.9	33.3	35.9

Source: Broker Profile estimates

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