

ISG

157p

Order book update; life carries on

■ ISG has announced an additional £80m of UK and European Data Centre contract awards. As a result, the group order book now stands at £1.1 billion. This is a welcome piece of good news, following the difficulties experienced in UK Construction, and demonstrates the benefits of management focus on this growth market. The order book update is also a timely reminder of the strength in the group's core businesses (ex UK Construction). Coupled with the swift action taken to strengthen the equity capital base, this indicates that clients have moved on from the issues announced in February. On a calendarised basis and on our revised estimates, the 12 month forward PE / dividend yield is 6.5x / 5.9%. With ISG undertaking to pay a final dividend, the yield looks well supported at current levels.

■ Data Center business is a welcome source of good news

The UK and European Data Centre business, alongside UK Fit Out, has been a significant source of growth for ISG over the last two years. Today's announcement follows the earlier announcement (16th February) of two new data centre contract wins totalling c.£150m in value. This now sees the group order book up by 10% against both last year and the level reported at the interims.

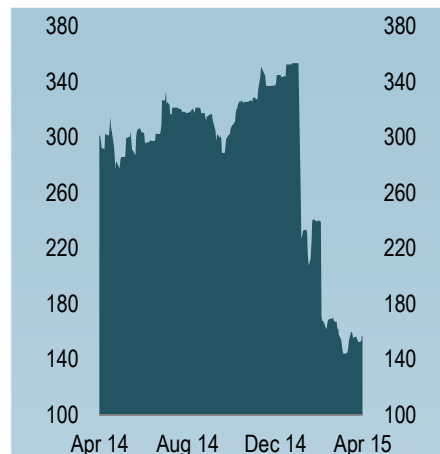
■ Looking forward

Investor attention is likely to remain focused on the outlook for UK Construction. Although disappointing, the charges announced in February (and the closure of the London Residential business), we suspect represent a clearing of the decks. We remain strongly of the view that positive momentum (ex UK Construction) is set to continue over the medium term. The UK Construction business is now leaner and less exposed to older, less commercially attractive contracts. In fact a consistent message (repeated by ISG and others in the sector) over the last year has been the steady improvement in terms for newer construction business.

■ Changes to estimates

Following the February trading update, we downgraded a number of our estimates to reflect the challenges in UK Construction. These downgrades would have been greater but for upgrades to UK Fit Out, UK Retail and Asian segments, reflecting continuing positive trading trends in those segments. Subsequent to this trading update, ISG has announced first half results and a £17m equity fundraising (9.9m shares issued at 170p). The group also made the decision to forgo the interim dividend, although the intent remains to pay a final dividend in line with FY14 (4.91p). We have updated our model to reflect all of these impacts. Our FY15E adjusted PBT/EPS moves to £7.0m/13.2p (£8.0m/15.1p). We now look for FY15E net cash of £50.0m (£38.0m).

Year to June	Revenue (£m)	Adj PBT (£m)	EPS (p)	DPS (p)	Net Cash (£m)	P/E (x)	Yield (%)
FY14a	1,455.2	15.3	30.7	9.5	46.3	5.3	6.0
FY15e	1,737.0	7.0	13.2	4.9	50.0	12.0	3.1
FY16e	1,817.5	18.0	29.4	10.0	54.0	5.4	6.4



TIDM	ISG
Market cap (£m)	77.0
Net cash (FY1)	50.0
Free float (%)	100%
Avg daily volume (3m)	78k
Broker	Numis
Listing	AIM

Iain Daly
research@broker-profile.com
+44 20 7448 3244

This document provides information on ISG plc - it is not a solicitation of an offer to buy or sell securities. See the disclaimer on the back page.

Financial Summary – Year ended 30 June

INCOME STATEMENT, £m	FY12A	FY13A	FY14A	FY15E	FY16E
UK Fit Out	202.1	287.5	519.5	710.2	724.4
UK Retail	322.8	267.3	283.2	317.1	323.5
Europe	101.3	91.6	102.8	92.5	97.2
Asia	81.0	73.5	79.4	110.0	115.5
Middle East	20.7	26.1	34.6	49.8	57.3
UK Construction	553.6	498.8	435.7	457.4	500.0
Revenue	1,281.5	1,244.8	1,455.2	1,737.0	1,817.8
Group EBIT	7.8	9.8	15.9	8.4	19.0
Exceptional items (incl. discontinued ops)	(3.3)	(3.9)	(6.5)	(18.5)	(0.5)
Goodwill amortisation	(2.9)	(2.2)	(2.0)	(2.0)	(2.0)
Net interest	(0.3)	(0.7)	(0.7)	(1.4)	(1.0)
Reported PBT	1.2	3.0	6.8	(13.5)	15.5
Adjusted PBT	7.5	9.1	15.3	7.0	18.0
Tax	(0.2)	(0.2)	(1.6)	3.5	(2.8)
Minority interests	0.0	0.2	(0.0)	(0.3)	(0.3)
Average no shares - diluted (m)	31.8	32.7	39.5	41.5	49.9
EPS - Reported, basic (p)	3.2	7.9	6.2	(25.0)	25.2
EPS - Adjusted, basic (p)	18.1	22.1	30.7	13.2	29.4
DPS	9.0	9.0	9.5	4.9	10.0

CASH FLOW, £m	FY12A	FY13A	FY14A	FY15E	FY16E
EBITDA	10.3	12.5	18.6	11.0	21.8
Working capital	(5.2)	1.0	25.0	(5.6)	(6.0)
Other	(4.1)	(5.4)	(15.2)	(7.9)	0.5
Operating cash flow	1.0	8.1	28.4	(2.5)	16.3
Net interest paid	(0.1)	(0.3)	(0.2)	(0.3)	(0.3)
Net tax	(2.6)	0.4	(2.5)	0.7	(2.8)
Net capital expenditure	(2.7)	(1.8)	(4.4)	(2.2)	(2.6)
Net acquisitions / disposals	(0.8)	(0.2)	(2.8)	(0.2)	(2.0)
Other	(0.2)	(0.0)	(4.4)	(5.9)	0.0
Pre financing cash flow	(5.2)	6.2	14.0	(10.4)	8.6
Dividends	(4.8)	(2.8)	(3.4)	(1.9)	(4.6)
Net equity issued	(0.7)	7.4	(0.3)	16.0	0.0
Net movement in debt	(3.8)	1.7	(2.7)	(3.6)	(1.2)
Net change in cash	(14.5)	12.5	7.6	0.1	2.8

BALANCE SHEET, £m	FY12A	FY13A	FY14A	FY15E	FY16E
Goodwill	82.3	83.2	82.8	83.3	83.8
Intangible assets	7.0	5.0	3.8	3.8	3.8
P,P & E	6.4	5.6	7.2	6.2	6.1
Other	0.1	0.1	1.9	1.9	1.9
Fixed assets	95.8	93.9	95.7	95.2	95.5
Net working capital	(71.5)	(71.1)	(85.1)	(81.1)	(84.5)
Total capital employed	24.2	22.8	10.6	14.1	11.0
Net cash / (debt)	25.4	36.1	46.3	50.0	54.0
Net Assets	49.7	58.9	56.9	64.1	65.0

Source: Broker Profile

This document is a marketing communication which is designed to educate and inform professional investors about the subject company. The subject company pays Broker Profile Research a fixed annual fee to cover the costs of research production and distribution, and the research has not been prepared in accordance with regulatory requirements designed to promote the independence of investment research. Broker Profile Research does not make recommendations. Any comments in this report regarding the valuation of a financial security are based on comparisons with similar securities; they are not forecasts of a likely share price. This document is not an offer to buy or sell, or a solicitation of an offer to buy or sell, the securities mentioned.

Broker Profile does not buy or sell shares, nor does it conduct corporate finance transactions, nor does it undertake investment business either in the UK or elsewhere. Broker Profile Research is not regulated by the Financial Conduct Authority (FCA). Neither Broker Profile Research nor the analyst responsible for this research owns shares or other securities issued by the company analysed in this research note, nor do they have a position in any derivative contract based on those securities.

This research is provided for the use of the professional investment community, market counterparties and sophisticated and high net worth investors as defined in the rules of the regulatory bodies. It is not intended for retail investors. Any such individual who comes into possession of this research should consult an authorised professional adviser.

The information contained in this document has been compiled from sources believed to be reliable, but no guarantee whatsoever is given that the information is complete or accurate, or that it is fit for a particular purpose. This document was issued by Broker Profile Research without legal responsibility, and is subject to change or withdrawal without notice. By reading this document, you confirm that you have read and understand the above, and that you shall not hold Broker Profile Research or any of its members and connected companies liable for any loss that you may sustain should you decide to buy or sell any of the mentioned securities."

Broker Profile Research
Augustine House
6A Austin Friars
London EC2N 2HA
www.brokerprofileresearch.com



BROKER
PROFILE
RESEARCH