

Begbies Traynor Group plc 59.25p

FLASH: Short term caution on subdued levels of insolvencies

8 July 2010

Share Price: 59.25p



12m High: 115p

12m Low: 53.75p

Market Cap: £53m

Shares in Issue: 89.5m

Gearing: 30%

Interest Cover: 20.5x

EPIC Code: BEG.L

Sector: Support Services

Market: London AIM

Nominated Adviser & Broker:

Shore Capital and Corporate

PR: Hogarth

Website: www.begbies-traynorgroup.com

Description: An independent corporate insolvency practitioner with national coverage in Great Britain. Also offers corporate finance, tax consultancy and forensic and investigative services.

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Begbies' preliminary results were in line with our revised forecast. We were pleasantly surprised, though, to see cash outflow better than anticipated, at £2.75m. This left net debt also lower than expected, at £20.2m, and resulted in net gearing falling to 30%, from 31.5% at the half-year.

The two key features of the P&L were the strong performance of the core Business Recovery division and the second-half return to profitability of the Taxation division.

Business Recovery grew revenue by £6.9m (13%). This growth was, we believe, a combination of a recovery in Corporate Finance, no longer separately disclosed, and an increase – against a background of insolvency statistics for the year to March being up by <3% – in core insolvency revenues. This reflects Begbies' success in growing market share, increasing overseas activity and raising the average value of cases.

EBITA from Business Recovery grew by £2.2m (21%). Again, we expect this upturn to be split between a recovery in Corporate Finance (loss £1.1m last year) and growth in Insolvency. With the overall margin maintained, we believe Insolvency margins to have been reduced in the short term, to reflect investment in growth.

Taxation reported a fall of <£0.8m (11%) in revenue y-o-y, after a £1.2m (49%) recovery between H1 and H2. This higher workload, and a restructuring, resulted in an H2 EBITA of £0.4m, after the H1 loss of £1.02.

The Group result saw adjusted EBITA marginally ahead, at £11.07m, after expensing £1m of investment in growth. Adjusted PBT benefited, too, from a sharp fall (54%) in the underlying net interest charge, to £0.54m. Average debt levels increased, but this was more than offset by average rates for both Base Rate and LIBOR falling by >80% y-o-y.

Given the continued subdued performance of insolvency statistics, Begbies remains cautious about the short term outlook. It expects activity levels to pick up in the medium term as support measures unwind and public expenditure cuts bite, and in line with historic trends after a recession

We are maintaining our FY 2011 forecast ahead of a more detailed note, in which we will release forecasts for FY 2012.

Y/E	Group Sales	Declared Profit	Adjusted Profit	Adjusted EPS	P/E ratio	Dividend	Yield
April	£m	£m	£m	p	x	p	%
2008A	48.1	5.7	7.0	6.0	9.9	2.5	4.2
2009A	62.1	7.2	9.8	7.8	7.6	2.8	4.7
2010A	69.1	8.7	10.5	7.9	7.5	3.1	5.2
2011E	75.0	10.6	11.6	8.7	6.8	3.4	5.7

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