

Cosalt plc

5.125p

27 July 2010

FLASH: Cosalt delivers on its entry into the renewable energy sector

Share Price: 5.125p



12m High: 32p

12m Low: 4.375p

Market Cap: £20.8m

Shares in Issue: 404.4m

Gearing: 41%

Interest Cover: 3.0x (over last 12 months)

EPIC Code: CSLT.L

Sector: Diversified Industrials

Market: London Full List

Broker: Evolution Securities

PR: Cardew Group

Website: www.cosalt.com

Description: Cosalt supplies the marine and offshore oil & gas markets with a range of safety and protection products and services. Its marine safety business operates in the top cargo and cruise ports in Europe and it is the only company in the industry with a pan-North Sea oilfield servicing capability.

Analyst: Stephen Thomas (Sonia Kaur is on leave)

Tel: +44 (0)20 7929 3399

Email: Stephen@hardmanandco.com

Cosalt has today announced the formation of a joint venture – Cosalt Wind Energy (“CWE”) – with the Danish engineering company APRO. This is being achieved by Cosalt acquiring an 80% stake in a UK subsidiary of APRO, which is retaining a 20% interest. Initial consideration is £0.2m in cash. Deferred consideration of up to £0.43m is payable in cash, dependant upon the trading performance in the year ending 31 December 2011.

Established in 1998, APRO is a provider of engineering services to the wind energy market in Denmark, where it has established a reputation for the installation and servicing of wind turbines, both onshore and offshore. CWE’s operations will benefit from many of Cosalt’s 11 operational bases being located close to areas where UK offshore wind farms are being built, as well as from Cosalt’s logistical expertise.

In the wind turbine market, under either warranty or maintenance agreements, maintenance is provided by the OEM, and CWE has a framework contract with Siemens to provide engineers to service its UK offshore wind turbine activities. It is intended that CWE will build a UK workforce – initially of up to 20 people, but with a budget to expand to 100 - to deliver this.

Looking further ahead, CWE will be focused on winning further agreements from other OEMs, as well as securing contracts with wind farm operators covering the 20-25 year life of a wind farm beyond the initial warranty period. Given that offshore wind farm maintenance is currently provided from vessels, and may in future also be provided from fixed platforms within a wind farm, there is also scope for cross selling of the range of personal protection and lifesaving equipment currently provided by Cosalt, as well as its inspection and lifting equipment services.

CWE is starting from a small base, but with significant growth potential given the number of wind farms that have been licensed in the UK, and especially offshore. There is also scope to expand the business into Europe. It is difficult to quantify the impact of CWE on Cosalt’s financial performance at this early stage. However, we believe that, based on 20 engineers, it could be a business with revenues of c£1.8m and, with a margin of c28%, an EBIT contribution to Cosalt of c£0.4m. On the 100-engineer target we see potential revenues of c£7-8m, and a possible EBIT contribution to Cosalt of c£1.7m.

What is certain, though, is that this announcement marks a successful start to the next phase of management’s strategy to refocus and develop the business. As such, it augurs well for the delivery of shareholder value.

Y/E	Group Sales	Declared Profit	Adjusted Profit	Adjusted EPS	P/E ratio	Dividend	Yield
October	£m	£m	£m	p	x	p	%
2008A	105.0	1.5	7.2	7.7	0.7	6.0	117.1
2009A	107.8	(3.4)	5.5	4.2	1.2	0	0
2010E	104.1	0.4	4.7	0.8	6.1	0	0
2011E	109.7	2.2	5.3	0.9	5.4	0	0

Disclaimer

The conclusions and opinions expressed in the investment research accurately reflect the views of the first named analyst. Hardman & Co provides professional independent research services and the companies researched pay a set fee in order for this research to be made available. While the information in the research is believed to be correct, this cannot be guaranteed. There are no other conflicts of interest.

Neither Hardman & Co nor the analysts responsible for this research own shares in the companies analysed in this research note. Neither do they hold any other securities or derivatives (including options and warrants) in the companies concerned. Hardman & Co does not transact corporate finance and therefore does not earn corporate finance fees. It does not buy or sell shares, and does not undertake investment business either in the UK or elsewhere.

Hardman & Co does not make recommendations. Accordingly we do not publish records of our past recommendations. Where a Fair Value price is given in a research note this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price.

Our research is issued in good faith but without legal responsibility and is subject to change or withdrawal without notice. Members of the professional investment community are encouraged to contact the analyst concerned.

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 to be made available to unsophisticated individuals. In the UK, any such individual who comes into possession of this research should consult their properly authorized professional adviser, or undertake one of the 'self certified' sophisticated investor tests that are available.

This research is not an offer to buy or sell any security.

Past performance is not necessarily a guide to the future and the price of shares, and the income derived from them, may fall as well as rise and the amount realised may be less than the original sum invested. For AIM and PLUS shares, it is the opinion of the regulator that risks are higher. Furthermore the marketability of these shares is often restricted.

This document must not be accessed or used in any way that would be illegal in any jurisdiction.

In some cases research is only issued electronically and in some cases printed research will be received by those on our distribution lists later than those receiving research electronically.

The report may be reproduced either whole or in part on condition that attribution is given to Hardman & Co, and on condition that Hardman & Co accepts no liability whatsoever for the actions of third parties in this respect.

Hardman & Co is not regulated by the Financial Services Authority (FSA).

© Hardman & Co.

Hardman & Co

4-5 Castle Court
London
EC3V 9DL
United Kingdom

Tel: +44(0)20 7929 3399
Fax: +44(0)20 7929 3377

www.hardmanandco.com

