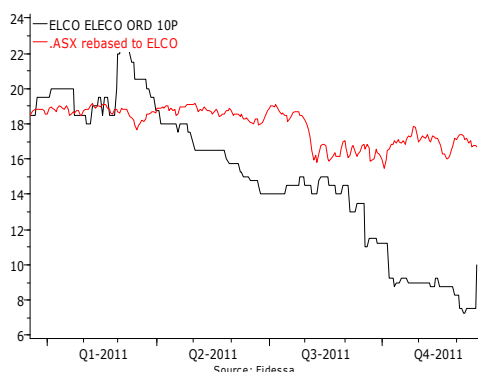


# Eleco 9.5p

## Disposal reduces risks, supports growth

20 December 2011



12m High: 23p

12m Low: 8p

Market Cap: £6.1m

Shares in Issue: 60.6m

Gearing: 38%

Interest Cover: lossmaking

EPIC Code: ELCO

Sector: Construction & Materials

Market: London AIM

Nominated Advisor & Broker: Cenkos

PR: Buchanan

Website: www.eleco.com

**Description:** Eleco provides project management software (3D design) and is in the process of reducing/eliminating losses in other operations.

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Yesterday's disposals are furthering the stated aim to refocus the Group onto its profitable, growing, international software business. On 31<sup>st</sup> August Eleco sold Timber Frame.

Yesterday Eleco announced the disposal of the remainder of its Timber Engineering interests. This latter comprised two businesses, sold for £7.96m. We anticipate results for the 18 months to December 2011 to be released in late March. However, we would expect, in due course, more news on the stated strategic rebalance to the well established software operations.

**There is a clear purpose underpinning the Group: these disposals bring Eleco much closer to its stated aim to "concentrate on expansion of Software activities reducing historic emphasis on Building Products and Precast Concrete". The businesses sold at a clearly good price. Debt has been significantly reduced and should end December 2011 well down on the June 2011 £8.6m level.**

Trading in the building sector has been difficult, particularly in recent months and Eleco retains its precast concrete business which we understand remains loss making although at a much reduced level. Yesterday's disposals may not be the end of the re-positioning, but they are crucial in setting the balance sheet on a strong footing and making Eleco as of now, much more balanced towards the software operations.

The share price bounced yesterday and rightly so – this is a good price achieved and it means Eleco's historic results six months to June 2011 (excluding illustratively the whole Building segment, a large majority of which has been disposed, but including Concrete), would total £8.33m revenue in Software and £7.25m revenue in Concrete products. Six months to June 2011: £0.84m EBITA Software; £1.39m loss Concrete products. With debt now significantly reduced (not eliminated), a doubling of the Software six monthly historic run rate of profits and a halving of the annual finance costs (we would hope more than halving will be achieved), implies £1.3m illustrative PBT pa. This is only once the strategy of eliminating losses in the non Software operations is achieved, and also allows for possible small losses in the remaining Building products - equating to 1.53p EPS fully taxed. This is an illustration and hard work is required to bring Concrete products around.

This is a major advance, and a thriving software focused group at Eleco is coming into clear shape.

Y/E	Sales	Declared Profit	Adjusted Profit	Adjusted EPS*	P/E ratio	Div	Yield
Dec (June 09, 10A)	£m	£m	£m	p.	X	p.	%
2009A	70.6	-1.4	0.9	1.4	6.8	0.8	5.5
2010A	58.0	-5.9	-5.4	-8.4	-	0.0	0.0
2011E	Under	Revision	-	-	-	-	-
2012E	Under	Revision	-	-	-	-	-

Source: Eleco account, Hardman & Co. estimates \*Adjusted EPS after adding back exceptional items, acquisition goodwill

**INVESTMENT CASE**

On 31<sup>st</sup> August Eleco announced a disposal of the loss making business and assets of Eleco Timber Frame and yesterday announced the disposal of the remainder of its Timber Engineering interests. This latter comprised two businesses, sold for £7.96m (£6.76m up-front).

**There is a clear purpose underpinning the Group: these two disposals are continuation of the stated aim to “concentrate on expansion of Software activities reducing historic emphasis on Building Products and Precast Concrete” as stated at the last results. The businesses sold achieved over 4x NAV and 8.8x pretax historic profits (we would not be surprised if profits were on a falling trend) – not only fitting the “repositioning” strategy and shutting off downside risk on the Group revenue account and balance sheet, but achieving a clearly good price.**

The disposal comprises Gangnail Systems’ UK timber engineering business, and Eleco’s International Truss Systems’ South African timber engineering business. The purchaser is a very large international business focused in this area, so operationally this makes sense.

The Group retains its core Software operation, selling in Sweden, UK and internationally. Also remaining are the Concrete products operations and certain Building products. The latter include roofing, wall cladding operations, significantly smaller in quantum than the timber businesses disposed of yesterday.

On 19th September, at the time of the results announcement, the company management stated: “improved operational performance of remaining Building Systems activities, before exceptional items, due to better margin performance and reduced fixed costs.” Trading in the building sector has been difficult, particularly in recent months and Eleco retains its precast concrete business which we understand remains loss making.

Eleco plc

20 December 2011

Management	Major Shareholders										
<p><b>Chairman:</b> John Ketteley</p> <p><b>Group Finance Director:</b> Matthew Turner</p>	<table> <tr> <td>John Ketteley esq.</td> <td>12.2%</td> </tr> <tr> <td>Delta Lloyd</td> <td>10.5%</td> </tr> <tr> <td>HA Allen esq</td> <td>9.3%</td> </tr> <tr> <td>Lowland Investment</td> <td>5.2%</td> </tr> <tr> <td>Rights &amp; Issues Inv Trust</td> <td>5.1%</td> </tr> </table>	John Ketteley esq.	12.2%	Delta Lloyd	10.5%	HA Allen esq	9.3%	Lowland Investment	5.2%	Rights & Issues Inv Trust	5.1%
John Ketteley esq.	12.2%										
Delta Lloyd	10.5%										
HA Allen esq	9.3%										
Lowland Investment	5.2%										
Rights & Issues Inv Trust	5.1%										
	Key Milestones										
<p><b>Next Full Year Results:</b> End February 2012</p> <p><b>AGM:</b> Late April 2012</p> <p><b>Next Interim Results:</b> Early September 2011</p>	<p><b>Dec 2006</b> Asta Development (software) acquisition</p> <p><b>Y/e June 2007</b> Software division turnover exceeds £10m, up 57% yoy</p>										

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