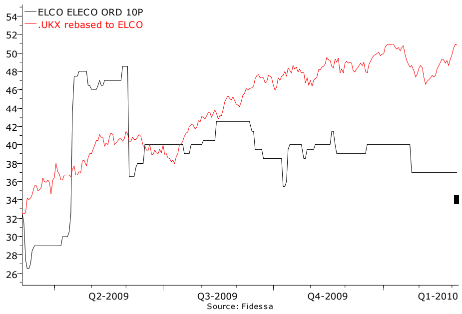
Eleco 34p

FLASH: Interim Results As Expected. Modest Full Year Downgrade

5 March 2010

Share Price: 34p



12m High: 48.5p

12m Low: 26.5 p

Market Cap: £20m

Shares in Issue: 60m undiluted 61.1m diluted

NAV/Share: 34p inc. Intangibles at 12/2009

Gearing: Net debt £2.3m at 12/2009

Interest Cover: 4.6X for y/e 6/2009

EPIC Code: ELCO

Sector: Construction & Materials

Market: London AIM

Broker: Collins Stewart

PR: Buchanan Communications 020 7466 5000

Website: www.eleco.com

Description: Manufacture and supply of building systems and products, in particular Precast concrete building systems, and the development of software systems primarily for the construction industry.

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This morning's interim results were broadly as expected following the February Trading Statement, showing:

- Revenues of £32.5m vs. our £30m. forecast
- An adjusted pre-tax loss before exceptionals of £1.04m vs. our £1m forecast.
- There is no Interim Dividend. We warned this was likely.

Compared to H1 of the previous year, revenue has fallen by 13%, but held steady compared to last year's H2 (January-June 2009). Gross margins have held steady too, at 37.5%, which we find surprising and pleasing. Damage has been done to the p & l by a rise in distribution costs and a failure to cut admin expenses to match the fall in revenue; management has clearly indicated that both these issues have since been taken in hand.

The headline loss declared by Eleco was £2.2m. In arriving at our 'adjusted' loss we have added back £0.27m of amortisation and impairment charges, £0.36m of restructuring costs and £0.55m spent so far on an intellectual property legal dispute in Germany.

This legal dispute involves German employees who allegedly left Eleco to join a competitor; and 'a legal dispute concerning the ownership and rights of software'. At Eleco's request the German Public Prosecutor is investigating. Searches of certain premises have, we understand, taken place. This is a nasty business, and without it these results would have been considerably better.

The biggest deterioration came in 'Other Building Systems', which includes the nailplate businesses, roofing systems and the timber frame housing components activities. These experienced a 37% fall in revenue and a 9.1% negative operating margin at the 'adjusted' level.

Pre-cast concrete activities also made a small loss, however, in spite of maintaining revenue – indicating how serious pricing pressures are in this market at present.

We have slightly increased our expected loss for the year.

Y/E	Group Sales	Declared Pre-tax Profit	Adjusted Pre-tax Profit	Adjusted EPS	P/E ratio	Divi	Yield
June	£m	£m	£m	p.		p.	%
2008A	84.9	8.2	9.1	12.1	2.8	3.0	8.8
2009A	70.6	-1.4	0.9	1.4	24.2	0.8	2.3
2010E	64.0	-3.0	-1.5	-2.4	-	0.4	1.1
2011E	No	Forecast					

Consolidated Income Statement

The revenue line in the Consolidated Income Statement shows that the fall in business has been well contained compared to others in the peer group. The 13% fall in revenue for the July-December half compares to a 27% decline at Alumasc, which is in some similar business areas, although Alumasc still returned a profit. Wolseley Hughes has yet to report; its half year ended in January, so it is a month behind Eleco and Alumasc in the reporting cycle.

The interest charges consist almost entirely of the net (negative) return on pension scheme assets and liabilities and are therefore a non-cash and a non-trading item.

6 m ended December	**2009 £m**	**2008 £m**
Revenue	32.50	37.16
Gross Profit	12.18	13.88
Gross Margin %	*37.5%*	*37.4%*
Distribution Costs	-2.42	-1.96
Admin Expenses	-11.67	-11.69
Trading (loss)/profit	-1.90	0.22
Finance Costs	-0.32	+0.04
Declared Loss	**-2.22**	**0.27**
Tax	+0.12	-0.07
After Tax (loss)/profit	-2.10	0.20
Declared EPS (p.	**-3.5p**	**0.3p**
Amortisation	0.27	0.29
Restructuring	0.36	0.18
Legal Costs	0.55	-
Adjustments	1.18	0.47
Adjusted Pre-tax Profit	**-1.04**	**0.69**

Divisional Contributions

Pre-Cast Concrete produces 54% of group revenue.and made a small loss. This was an improvement over the immediately preceding January-June half. We understand that the major acquisition made two years ago, Milbury Systems, was profitable. Red ink at the other two pre-cast concrete facilities appears to have been very minor and largely related to pricing pressures.

Other building systems accounted for 27% of group revenue at £8.7m and a loss at ‘segment’ level of £1.65m, equivalent to a negative margin of 19%. The Interim Statement highlights the SpeedDeck roofing systems business as being a particularly weak performer. The problems with the German nailplate business that have led management to call in the German Public Prosecutor also had a significant influence, both directly on the German results and also in the UK nailplate business because the UK factory supplies Germany with its plates. The Interim Statement says that ‘most’ of the German connector plate business was lost during the period.

Software sales were marginally ahead and profits were well up. Software accounts for 19% of group revenue.

Management	Major Shareholders
Executive Chairman: John Ketteley **Chief Operating Officer:** Craig Slater **Finance Director:** David Dannhauser	John Ketteley 12.5% Delta Lloyd Funds 10.1% H A Allen 9.3% Lowland Investment Trust 5.2% Rights & Issues Investment Trust 5.1% Other director holdings 3.2%
Key Dates	**Key Milestones**
September/October 2010: Full Year Results	**2008**: Purchase of Milbury Systems, greatly expanding Precast concrete capacity, and purchase of a third Precast concrete site. **2009:** Appointment of Craig Slater as Chief Operating Officer.

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