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Tellings Golden Miller 26p Interim Results Update

6 October 2006

Interim results from this bus and coach operator showed a small rise in turnover but a pre-tax loss of £99k. Key points are:

- Rising fuel, engineering and driver's payroll costs continue to hurt margins.
- In addition, price increases at the National Express and AirCrews operations have taken longer to secure than hoped. As a result, these divisions operated at a loss during the first half of the year. The benefits of the price hikes will now be felt in H2 2007 and beyond.
- The loss of the Dial-A-Ride flat rate bus service contract to an uneconomic tender has come as a blow. New contracts will replace some of the lost income here, however, and we believe further earnings accretive acquisitions are on the cards.
- Costs have been cut and there will be more to come in 2007 as the group continues to consolidate its businesses according to geographic region.
- Net debt at the end of the first half was £13.37m, giving gearing of 135%. While the company has £6m of unused credit facilities, interest cover is slim.

Current year sales and profits will be below our original estimates, but we are raising our estimates for 2007 profits and eps. It is worth pointing out that our 2006 net asset per share forecast of 45p/share is well above the current share price.

Share Price: 26p

12m High: 46.5p

12m Low: 22p

Market Cap: £6m

Shares in Issue: 22.94m

NAV/Share: 43.5p (2005 actual)

Gearing: 130%

Interest Cover: negative in 2005

EPIC Code: TGM.L

SEDOL No: 338418

Sector: Transport

Market: London AIM

Website: www.tellingsgolden miller.co.uk

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Analyst: Sonia Kaur

Y/E December	Sales £m	Declared Profit £m	Adjusted Profit £m	Adjusted Eps p.	P/e ratio	Div p.	Nav/share p
2004A	38.4	2.9	2.9	9.1	2.9	0	44.0
2005A	41.5	14.0	-0.9	-4.0	-	60	43.5
2006E	29.71	0.34	0.34	1.0	25.2	0	45.0
2007E	30.36	0.84	0.84	2.6	10.0	0	46.0

Interim Results

6 months to June (£m)	2006	2005
Sales	16.04m	26.89m
Gross Profit	1.86m	3.44m
Gross Margin	11.6%	12.8%
Admin Expenses	1.64m	2.88m
Operating Profit	216k	555k
Operating Margin	1.35%	2.1%
Profit on Disposals	-	15.19m
Interest Charge	315k	386k
Declared Pre-tax Profit	-99k	15.36
Adjusted Pre-Tax Profit	-99k	169k
Adjusted EPS	-0.51p	0.51

Care must be taken when comparing the first half results to end June 2006 with those of the prior half. This is because the results to end June 2005 include a significant contribution from the London bus business which was sold to WMT for £20.4m in cash in June 2005. Stripping out the London bus business, as we have done in the table below, allows for a more direct comparison of the performance of the group's continuing businesses. It shows sales rose from £15.46m in H1 2005 to £15.99m in the first half of 2006, representing modest growth of 3%. Hylton Castle Motors, the small private bus and coach operator acquired in April 2006, produced sales of £44k in the period.

6 months to June (£m)	2006	2005
Sales	15.99m	15.46m
Gross Profit	1.86	1.91
Gross Margin	11.6%	12.4%
Admin Expenses	1.64	1.78
Operating Profit	216k	135k
Operating Margin	1.35%	0.87%

Gross margins, at 11.6%, were lower than the 12.4% reported in the prior half year. Rising fuel, engineering and payroll costs account for most of the decline here - cost pressures that continue to affect the entire industry. In addition, we understand rate review negotiations at two subsidiaries, AirCrews and National Express Coaching, took longer to agree than originally anticipated. As a result these businesses, which together accounted for c.£7m of sales in 2005, operated at a loss during the first half of the year. This has exacerbated the decline in margins over the period.

Cuts in administration expenses have produced cost savings totalling £140k to date. This has pushed operating margins up from 0.8% in H1 2005 to 1.35% in the first half of 2006, though at these levels they remain wafer thin.

Despite reporting operating profits of just £216k, the operating cash inflow on continuing activities was £1.5m in the first half to June 2006, and £1.185m after interest charges. After deducting a hefty capital spend and financial investment charge of £1.58m, free cash flow was a negative £375k. No corporation tax was payable in the period because Telling's is carrying forward losses.

At the pre-tax level the company registered a loss of £99k, giving a loss per share of 0.51p. There is no interim dividend, as expected.

In terms of the balance sheet net debt at the end of the first half was £13.37m, for gearing of 135%. This compares to a net cash position of £2.59m in the prior half year following the sale of the London bus business. Whilst most of the debt relates to HP against bus purchases and the company has £6m in unused credit facilities, the debt level needs watching. In 2005 the company's operating profits did not cover interest payments and on our 2006 estimates, interest cover is slim at just 1.5X.

It is worth pointing out that our forecast 2006 net asset per share of 45p is well above the current share price.

Dial-A-Ride

Telling's North East subsidiary Classic was unsuccessful in retaining the flat rate Dial-A-Ride bus service contract run for the Tyne and Wear Passenger Transport Executive (Nexus). The contract came up for re-tender in April this year, ironically after Telling's was awarded a six month extension on the original renewal date for running the service so effectively.

The Chairman's Statement says the contract went to a 'competitor offering a daily rate substantially below that which we considered economically viable'. Since Tellings has worked hard to re-negotiate loss-making contracts over the past 6 months, management were unwilling to submit a re-tender at sub-standard rates, and rightly so in our view.

The Dial-a-Ride contract was worth £2.1m per annum and generated good margins so its loss is clearly a disappointment. Management is working to replace the lost income here, however, and we understand three small new contracts have already been won. It is also possible that the revenue gap will be filled with further bolt-on acquisitions that can be integrated into Classic's existing operations in the North East at little extra cost.

Prospects and Forecasts

The loss of the Dial-a-Ride contract together with the axing of loss-making routes (we understand business worth £1m has been axed at subsidiary Burtons Buses alone) means current year sales will be below our original forecasts. Profits will be lower too reflecting delays in the rate review process at subsidiaries AirCrews and National Express Coaching.

The National Express Coaching operations, where Tellings acts as a sub-contractor to National Express out of depots in Portsmouth and Cambridge, generated sales of £4m in 2005 but reported an operating loss of £197k. Following the conclusion of a successful rate review in June 2006, we believe this division will generate operating profits of c. £147k this year and that a second price hike will kick in from February 2007.

At Aircrews, the business providing transport for aircrew at London’s Heathrow Airport, two contracts have been lost. The good news is that the first round of price increases appears to have stuck and the division broke into profitability on a monthly basis in July 2006.

On our new 2006 forecasts we look for sales of £29.7m, a 1.3% decline on the previous year and a 2.3% reduction on our previous forecast. Our pre-tax profit estimate has been reduced from £525k to £337k, for eps of 1p.

For 2007 we are raising our estimates for pre-tax profits and eps to reflect the fact that management is actively targeting a minimum 5% operating margin across all its major business divisions in 2007. This will be achieved by a full year contribution of price increases at Aircrews and National Express Coaching and further cost savings. In particular, we believe some of the group’s depots will be consolidated according to geographic region. A review of the size of the vehicle fleet is also underway following the decision to axe a number of loss-making routes as Telling’s looks to maximise key metrics such as fleet utilisation and revenue per vehicle.

Despite the downgrade to forecasts this year we believe Telling’s has worked hard to transform its continuing businesses from cash cows to profit generators. The benefits of this action should start to come through to shareholders from 2007 onwards.

Y/e December £000	2003A	2004A	2005A	2006E	2007E
Sales					
Coaches*	5373	7077	17490	16791	17210
National Buses	1000	5295	8419	7914	6331
National Express*	500	2000	4100	4900	6713
Other Income (Rental etc)	0	100	100	100	100
Total Sales - Continuing Businesses	**6873**	**14472**	**30109**	**29705**	**30355**
Discontinued Businesses					
London & Surrey buses**	20692	23910	11424	0	0
Total Group Sales	**27565**	**38382**	**41533**	**29705**	**30355**
Total Sales Change %	-	39.2%	8.2%	-28.5%	2.2%
Cost of Sales including depreciation	21536	30757	37545	26400	27600
Gross Profit	6029	7625	3988	3305	2755
Gross Profit Margin	21.9%	19.9%	9.6%	11.1%	9.1%
Operating Margins (%)					
Continuing Businesses					
Coaches	9.8%	11.0%	-2.9%	3.2%	5.5%
National Buses	9.3%	9.5%	-2.5%	2.8%	3.2%
National Express	-2.0%	-3.3%	-4.8%	3.0%	5.0%
Other Income	-	100.0%	100.0%	100.0%	100.0%
Discontinued Businesses					
London & Surrey buses	12.9%	8.8%	3.7%	-	-
Group Operating Margin	**14.4%**	**8.9%**	**-1.0%**	**3.4%**	**5.2%**
Operating Profit					
Continuing Businesses					
Coaches	524	778	-514	529	947
National Buses	92.5	503	-206	222	203
National Express	-10	-66	-197	147	336
Other Income	0	100	100	100	100
Continuing Businesses Operating Profit	**606**	**1315**	**-817**	**997**	**1585**
Discontinued Businesses					
London & Surrey buses	2669	2114	420	0	0
Share of Associate Profit	82	0	0	0	0
Total Group Operating Profit	**3964**	**3414**	**-397**	**997**	**1585**
% Change in Operating Profit	59%	-14%	-112%	351%	59%
Profit on Sale of Subsidiary	0	0	14835	0	0
Interest In / (Out)	506	533	459	660	750
Interest Cover X	7.8	6.4	-0.9	1.5	2.1
Declared Pre-Tax Profit	**3458**	**2881**	**13979**	**337**	**835**
Adjusted Pre-Tax Profit	**3458**	**2881**	**-856**	**337**	**835**
Tax (%)	29%	29%	7%	30%	30%
Tax Charge	1003	842	63	101	250
After Tax Profit Reported	2455	2039	13916	236	584
After Tax Profit Adjusted	2455	2039	-919	236	584
Cost of Dividend	201	0	13762	0	0
Minority Interests	39	0	0	0	0
Retained Earnings	2254	2039	154	236	584
Average No of Shares in Issue 000	20143	22330	22937	22940	22940
Adjusted Earnings Per Share p.	**12.19**	**9.13**	**-4.01**	**1.03**	**2.55**
Declared Earnings Per Share p.	**12.19**	**9.13**	**60.67**	**1.03**	**2.55**
Dividend Per Share p.	**1.0**	**0.0**	**60.0**	**0.0**	**0.0**