

## FY Results

### 6-Sep-06

# Avingtrans

AVG.L

143p

BUY

<b>Listing</b>	<b>AIM</b>
<b>Sector</b>	<b>Engineering</b>
<b>Market Cap</b>	<b>£22m</b>
<b>Enterprise Value</b>	<b>£26m</b>
<b>12-month high/low</b>	<b>159p/121p</b>
<b>Next results</b>	<b>Jan-07</b>

Source: DS&C/Proquote

#### Company Statistics

<b>Shares in Issue</b>	<b>15m</b>
<b>Net debt</b>	<b>£4.2m</b>
<b>Gearing</b>	<b>26%</b>
<b>Interest cover</b>	<b>8x</b>
<b>NAV per share</b>	<b>71p</b>

Source: DS&C/RNS/Co. Accounts

#### Share price performance



Source: BigCharts.com

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Source: Daniel Stewart & Co. \* pre goodwill amortisation and exceptional charges.

- **Substantial earnings growth**

Full year results to May were higher than expectations in terms of earnings, though not in profit terms. Sales of £32.5m, increased by 33% with Pre-x PTP up 27% to £2.8m. EPS increased by 19% to 16.2p. An unchanged dividend was declared at 0.5p. The group tax charge at 17% was substantially lower than our 31% expected, due to a £0.3m tax credit on share warrants exercised in the period.

- **Positive outlook, though Dollar may impact Metalcraft**

The outlook statement was positive pointing to encouraging order intake at Jena, C&H and Crown. Crown has recovered satisfactorily after a poor 1H. C&H in the aerospace sector has seen growth of around 30% and enjoyed it's second record year. However the weaker US Dollar and softening US market appears to be impacting the MRI scanner business, which has already seen weaker trading from its US customers.

- **New Chinese facility on track**

The recent acquisition of a 75% share in Sigma in June provides the platform to expand into supplying the rapidly growing aerospace components manufacturing sector. The new Chinese facility in Chengdu is progressing towards the start up of manufacturing at the end of 2006, with UMECO as a keystone customer already in place. The operation is expected to achieve breakeven in its first year, with profitability thereafter.

- **More acquisitions likely**

The group continues to actively assess acquisition opportunities. With gearing reduced from 41% to 26% and 8x interest cover, we expect the group will continue to expand by acquisition.

- **Compelling valuation**

On current forecasts this places the shares on a p/e rating of 8.3x in 2007, followed by 7.0x 2008. This is substantially lower than the UK engineering peer group average P/e at 14.9x in calendar 2006, followed by 13.0x in 2007.

- **Remains a buy, on low multiples**

Though they have reacted poorly to current results, the shares have been good performers over recent months, recovering to a level fairly close to it's 1-year high. We maintain our fair value assessment on the stock with a price target of 183p, which represents a fair value multiple of 10.3x in 2007. This gives a potential 20% upside to current values and underwrites our maintained BUY rating.

Year End	Turnover (£m)	EBITDA (£m)	DS&C PBT* (£m)	Tax (%)	DS&C EPS* (p)	DPS (p)	EV/EBITDA (x)	PER (x)	Yield (%)
05/05A	24.3	3.2	2.2	34	13.6	0.5	8.1	10.6	0.0
05/06	32.5	4.1	2.8	17	16.2	1.0	6.3	8.9	0.7
05/07E	36.6	5.1	3.7	31	17.4	1.5	5.1	8.3	1.0
05/08E	40.2	5.9	4.4	31	20.7	2.0	4.4	7.0	1.4

### **Investment Summary**

The shares stand on a compelling p/e rating, with good growth expected in most of the groups operations. We maintain our Buy rating due to this valuation, with a target fair value of 183p, which implies potential upside of 20%.

The groups earnings growth in 2007 will be affected by the changing level of tax, which has been temporarily reduced through a tax credit on share warrants exercised. The tax rate for 2007 is assumed to revert to normal levels, which will stunt EPS growth.

### **Valuation**

The shares currently trade on a p/e of 8.3 times in 2007 followed by 7.0 times in 2008. This stands out as a substantial discount to the average of the UK engineering sector, which trades on 14.9x calendar 2006, followed by 13.0 times 2007.

The table below illustrates the group's valuation matrix, based on a fair value price target of 183p. Our valuation is based on a target P/e for 2007 of 10.4x. This target points to a potential upside of 20%

#### **Valuation matrix at 183p price target**

<b>Y/e May</b>	<b>2005</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>
EV/sales	1.3	1.0	0.9	0.8
EV/EBITDA	10.1	7.8	6.3	5.5
EV/EBITA	12.6	10.0	8.1	6.9
P/e	13.4	11.3	10.5	8.9
Yield	0.0%	0.3%	0.8%	1.1%

*Source: Daniel Stewart estimates*

### **Full Year Results Summary**

Full year results to May were light of expectations at the pre-exceptional PBT line but higher than expectations in terms of earnings. Results posted saw sales of £32.5m, growth of 33% with pre-x PTP up 27% to £2.8m. EPS increased by 19% to 16.2p.

An unchanged dividend was declared at 0.5p, which was below our forecast. The group tax charge at 17% was substantially lower than our 31% expected, due to a £0.3m tax credit on share warrants exercised in the period.

The share price reacted poorly to the results, particularly we believe focussing on the rather bearish comments on trading in the MRI scanner sector and comments on the Dollar exchange rate.

### **Review of Trading**

#### **Stainless Metalcraft**

Stainless Metalcraft (SMC), the groups MRI scanner component manufacturing business has recently seen some weakness, after the first 3 quarters of the year posting strong growth. This recent weakness signals a change in the market, with SMC's largest customer Siemens experiencing some pressure in the US market. An increased level of lower specification product as well as a deterioration in the \$/€ exchange rate hit Siemens volumes, and therefore impacted SMC's call off rates. We look for some growth in the current year but not up to the 10% historic trend.

**Jena**

Jena is trading well with the German engineering sector seeing some growth, a turnaround from the lacklustre performance of recent years. The German based spindles and ball screws manufacturer benefited from a recovery in the German manufacturing sector. It appears to have had a strong year with a good year-end order book.

**C&H**

C&H saw strong growth in its aerospace operations involved with the precision finishing of aero-engine vanes and blades. C&H had its second consecutive record year, boosted by around 30% in volume terms by a buoyant aerospace market. The group announced a new contract with Rolls Royce earlier this year cementing a strong relationship and giving further upside to current volumes. The group has successfully entered the larger scale airframe component finishing area with a strong tier 1 supplier, which has significant potential to become a major customer.

**Crown**

Recovery is underway at Crown, for roadside camera mounts. The second half 2006 was markedly better than 1H, with several customers returning to order product. The order book is currently strong with a recent sizeable order for London, via TFL's strategy to substantially increase the number of cameras on London's roads. There is also the potential to gain some chunky orders on the UK rail network, though timing remains problematic.

The roadside camera mount business has proved itself to be volatile and is susceptible to government/regulatory interference. The sector has had several years of strong growth and while London is currently expanding the number of cameras, it is unclear what medium term growth will occur in the UK.

**Sigma**

The group expects to start up operations at its new Chinese facility in Chengdu by the end of 2006, initially manufacturing small mill turned industrial parts but when product accreditation is achieved, the operation has UMECO as a keystone customer already in place for making aerospace components.

The group is expected to install several CNC machines in October and the expected cost in terms of capex on the factory is estimated at \$0.6-0.7m in the current year. The facility is expected to operate at break-even in its first year with profitability forecast for 2007.

**Divisional Trading forecasts**

<b>Turnover</b>	<b>2005</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>
Precision Engineering	9.5	10.2	11.8	13.0
Medical & Scientific	14.9	22.3	24.8	27.2
	<b>24.3</b>	<b>32.5</b>	<b>36.6</b>	<b>40.2</b>

<b>EBITA</b>	<b>2005</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>
Precision Engineering	0.8	1.2	1.2	1.3
Medical & Scientific	1.5	2.1	2.6	2.8
Unallocated	-0.1	0.0	0.0	0.0
	<b>2.3</b>	<b>3.2</b>	<b>3.8</b>	<b>4.1</b>

<b>Margin</b>	<b>2005</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>
Precision Engineering	9%	11%	10%	10%
Medical & Scientific	10%	9%	11%	10%
	<b>9%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>

Source: Daniel Stewart estimates

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