

Morning Notes – 19 August 2008

Company	Event	Estimates	Old	New	Price	Mkt Cap.
Avingtrans	Appointment of new CEO	No Change	CORP#	CORP#	51.5p	£9m
Brixton plc	Interim results	No Change	HOLD	HOLD	249p	£676m
Mears	Strong interim results	Up	BUY	BUY	320p	£220m
Primary Health Properties Plc	Interim results	Up	CORP#	CORP#	274p	£92m

This company is a corporate client therefore research should be viewed as a Marketing Communication

Avingtrans (AVG) – Appointment of new CEO – EST: No Change, REC: CORPORATE#

Avingtrans has announced the appointment of Stephen McQuillan as CEO, commencing 1st October. He was previously MD of Serco Defence Operations from 2005 to 2008. Prior to this, Stephen was the MD of Oxford Instruments Superconductivity Ltd, a subsidiary of Oxford Instruments plc.

Roger McDowell, currently acting CEO and non-executive chairman, will revert to non-executive chairman once Stephen McQuillan starts in October.

Avingtrans will announce their FY results to 31st of May in early September.

Dominic.Convey@kbcpeelhunt.com / +44 (0)20 7418 8936

Brixton plc (BXTN) – Interim results to 30 June 2008 – EST: No Change, REC: HOLD

No. shares 271.6m

Price 249p

Market Capitalisation £676m

12 month share price range: 406p-208p

Result

Headline Nav 448p (-18% since 545p at December 07) for discount 44%

The result is consistent with our expectations with the portfolio valuation down -10% at the property level, due to outward yield shift of 40bps. The portfolio now has a starting yield of 4.3%, and we believe this still has some way to go (see below).

Interim dividend 4.9p for the first half, up 2.1% for the first half of 2007

Adjusted EPS 8.2p (-4.7%)

Leverage 69% (up from 63% at year-end)

The yield on the portfolio is still too low in our view. Compare the current 5.9% equivalent yield with that of peer SEGRO, 6.1% on its UK portfolio at December 2007. As a result, we assume a further write-down in property values of -8% to December for Nav 389p, and another -5% in 2009 for a cycle low point Nav 353p.

Estimates for December 2008

Headline Nav 389p for discount 36%

Adjusted EPS 17.5p

Dividend 14p for dividend yield 5.6%

Investment Conclusion

Brixton offers one of the highest dividend yields in the sector, and the company presents a strong case to expect further rental growth, which was again strong in the first half at 4%. The company's balance sheet strength (£185m committed undrawn debt facilities, average cost of debt 5% and no refinancing until September 2009) give the company potential strength in this uncertain period for commercial property. However, against the background of softening property yields the NAV will fall and we maintain our hold recommendation.

Keith Crawford / +44 (0)20 7418 8973

John.Cahill@kbcpeelhunt.com / +44 (0)20 7418 8824

Matthew.Churstain@kbcpeelhunt.com / +44 (0)20 7418 8895

Specialist Sales: Dominic.Delmar@kbcpeelhunt.com / +44 (0)20 7418 8945

Mears (MER) – Strong interim results – EST: Up, REC: BUY

Mears has announced interim results slightly ahead of our expectations (3%). Importantly, the outlook statement remains positive and the order book has shown further good growth to £1.7bn. This provides 80% coverage of 2009 group revenues. Ahead of the analyst meeting we anticipate upgrading our 2008 adjusted pre-tax estimates (below) by 4% to £21.0m (EPS of 19.6p). However, the key observation today is proof that the return of CEO Bob Holt has reinvigorated Mears. We think the rating offers investors modest upside and we therefore maintain our BUY recommendation and increase our target to 360p from 350p.

Headline results

The **Social housing division** reported 38% EBITA growth to £7.5m (KBCPHe £6.0m) on the back of strong organic top line growth (34%) and margins at 5.6%. We think that this margin performance is noteworthy given the contract mobilisations in the period. It is also encouraging to note the positive recent contract momentum (£430m of new work to give a group order book of £1.7bn). We think that reflects improved commercial practices (integrated bidding), strong service delivery across the portfolio (good client references) and a refocus on core disciplines (repair and maintenance). Furthermore, these contract wins have ensured that group earnings visibility remains high (80% of 2009 revenues secured and 53% of 2010). The **M&E division** saw a modest decline in EBITA from £1.0m to £0.8m (KBCPHe £1.0m) given the significant top line growth (37% growth) as margin take time to build. However, despite this good H1 performance and future margin visibility we expect this market to become a little bit more challenging given macro and inevitable competitor pressures. **Domiciliary Care** reported £1.5m of EBITA (KBCPHe £1.5m) and we note the increasing success in securing and extending new and existing client relationships. Cash flow was a little disappointing with a £10m working capital outflow to finance new contract mobilisations. However, we note that despite closing cash balance of £4.9m (KBCPHe £12.0m) there was an underlying interest payable figure of £0.5m in H1 2008.

Table 1: Summary Results

Source: Company (historic) KBC Peel Hunt (estimates)

	6m to Jun 08A	6m to Jun 07A	% YoY Growth	KBC Est	Var (%)
Sales (£m)	203.3	136.9	49%	174.0	17%
EBITA (£m)	9.1	6.9	32%	8.7	5%
Adjusted PBT (£m)	8.7	6.9	26%	8.5	2%
EPS (p)	8.1	7.0	16%	7.8	3%
Net Cash (£m)	4.9	18.1	n/m	12.0	n/m

Valuation

Mears has performed well over the last six weeks as investors refocused on the trading and operating momentum. We think that this has been justified and can see the shares moving better over the coming weeks given the upgrade momentum and scope for modest re-rating.

Mears Summary Data

Source: Company (historic) KBC Peel Hunt (estimates)

Year to Dec,	2006A	2007A	2008E	2009E	2010E
Sales (£m)	241.4	304.6	386.4	437.6	496.5
EBITA (£m)	12.5	17.1	20.2	23.1	26.6
Adjusted PBT (£m)	12.5	17.0	20.1	23.1	26.6
Adjusted EPS (p)	13.6	16.4	18.7	21.7	24.4
% Growth	25%	21%	14%	16%	13%
Net Cash/(debt) £m	11.9	15.3	18.9	22.6	31.7
EV/EBITA (x)	15.6	11.4	11.1	9.6	8.1
Adjusted PER (x)	23.8	17.7	17.1	14.8	13.1
FCF Yield (%)	4.2%	4.1%	3.7%	2.8%	4.2%

Andrew.Nussey@kbcpeelhunt.com / +44 (0)131 248 2533

Primary Health Properties Plc (PHP) – Interim results to 30 June 2008 – EST: Up, REC: CORPORATE#

No. shares 33.6m

Price 274p

Market Capitalisation £92m

Share price range 2007: 389p – 237p

Declarations

- Adjusted NAV per share up 1.4% (5p) to 373.4p, discount 26.5%
- Loss after tax of £0.7m versus £5.2m for the same period last year
- Adjusted EPS up 2.6% to 8.0p (30 Jun 07: 7.8p)
- Dividend per share for the six months 8.25p. Yield 6.0%.
- Gearing up from 125% to 158%. LTV 62% (net of cash).

Comments

Primary Health Properties (PHP), the listed healthcare centre specialist, has demonstrated the defensive nature of the Company having produced an NAV increase of +1.4% or 5p to 374p per share. Though PHP did experience outwards yield in the period, this was marginal with the average yield on the portfolio having increased by 10bps (1.8%) to 5.60%. This result compares favourably against recent announcements from other listed property companies which have reported average declines in their portfolios ranging from 4% to 8%. Continued growth in rents and near 100% occupancy provided support for the valuation with PHP achieving an 11.9% increase (spread over three years) in rents renewed in the six months to 30 June 2008.

Given PHP's business model of acquiring, developing and managing primary healthcare properties the Company has a strong tenant base and long average lease length. At present 89% of the current rent roll is either directly or indirectly derived from government agencies, namely the NHS, while the average lease length stands at approximately 19 years. This gives certainty over rental income as well as the Company's earnings with PHP reporting a 2.6% or £0.5m increase in adjusted earnings for the period to £2.7m (8.0p). The dividend has been maintained at 8.25p (97% covered) for the six months representing an annualised yield of 6.0%.

PHP secured £50m of new funding in the first half of 2008 increasing total committed facilities to £250m. The new funding allowed the Company to purchase £42m of new properties and increased PHP's net borrowings to £198.7m. Gearing has increased in line with the increase in drawn down funds and currently stands at 158% (Dec 07: 125%). As at 30 June 2008 approximately 95% of borrowings were hedged at an average interest rate of 5.013% while the Company had committed undrawn facilities of £47m, representing 14% of the Company's total assets.

Forecasts

Though PHP has outperformed other listed property companies during the period, today's results are evidence the Company is susceptible to falling property values albeit any outwards yield shift is likely to be substantially less due to the nature of PHP's portfolio. Therefore we have factored a decline in the capital value of the portfolio in the second half of 2008 of -4.4% resulting in a full year adjusted NAV per share of 323p (previous 2008 NAV estimate: 289p). The narrow discount of 15.2% to our FY08 NAV estimate is justified given the metrics of the Company in its ability to generate year-on-year growth in rental income, NAV and dividend.

Keith Crawford / +44 (0)20 7418 8973

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Matthew.Churstain@kbcpeelhunt.com / +44 (0)20 7418 8895

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Recommendation structure and distribution at 31 March 2008 of companies under coverage

		No	%
Buy	> +20% expected absolute price performance over 12 months	69	31
Add	+10% to +20% expected absolute price performance over 12 months	7	3
Hold	+/-10% range expected absolute price performance over 12 months	44	20
Reduce	-10% to -20% expected absolute price performance over 12 months	6	3
Sell	> -20% expected absolute price performance over 12 months	16	7
Corporate [#]		80	36

Companies not under coverage*

Positive	Anticipate positive movement of share price
Neutral	Anticipate no movement of share price
Negative	Anticipate negative movement of share price

* Estimates provided for such companies are consensus figures.

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Please note that the share price used in the headline is the mid-market price taken at the close of trading the previous trading day.

Additional Disclosure for Avingtrans:

KBC Peel Hunt is broker to this company. KBC Peel Hunt is nominated adviser to this company. KBC Peel Hunt makes a market in this company. KBC Peel Hunt has received compensation from this company in the last 12 months for the provision of the investment banking services.

Additional Disclosure for Brixton plc:

KBC Peel Hunt makes a market in this company.

Recommendation History

Add	05-Sep-05
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Additional Disclosure for Mears:

KBC Peel Hunt makes a market in this company.

Recommendation History

Buy	14-Mar-08
Add	21-Jan-08

Additional Disclosure for Primary Health Properties:

KBC Peel Hunt makes a market in this company.

