

Annual Results

7 April 2015

Somero Enterprises

129p



Somero has produced another strong set of full year results with EBITDA, PBT, EPS and DPS coming in ahead of analysts' expectations. With continued strong trade in the US, increased penetration of the products into China and growth in a number of other markets, we believe the company will again demonstrate very good growth in 2015.

2014 results overview

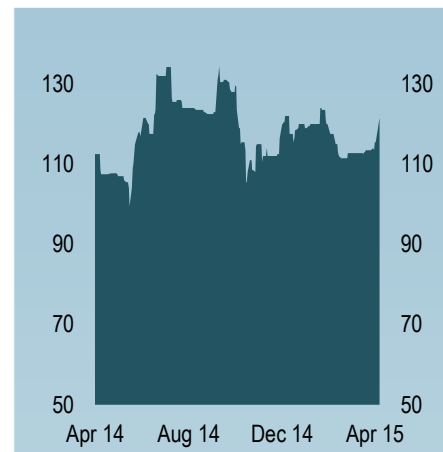
Somero reported 32% growth in revenues during the 12 month period to \$59.3m. This compared to our forecast of \$57.9m. Significant sales growth gave the business much improved overhead recovery, enabling the EBIT Margin to increase from 14.2% to 21.2% (we believe the margin will continue to edge up over the next 4-5 years, settling at c23-24% by 2018). The combination of excellent top line growth coupled with margin expansion drove PBT growth of 91% to \$12.4m versus our forecast of \$12.0m, and PAT of 14.5m versus our forecast of \$15.0m. Basic EPS came in at 26c, well ahead of our forecast of 23c (higher profits and a lower number of shares in issue), and the company has also surprised on the upside on DPS with 4.0c announced for 2014 versus our forecast of 3.5c. The company has net cash of \$6.6m. Overall these are an excellent set of results.

2014 results in more detail

Overall the company enjoyed sales growth in 7 of its 10 markets. The US and China remain the largest markets from the businesses perspective and the company enjoyed significant progress in both. Sales in the US grew by 46% to \$37.2m and it is worth bearing in mind that the company achieved over 40% sales growth the previous year. A combination of solid construction sector growth, new product sales and healthy levels of machine replacement demand is driving this growth. In China, the company achieved 44% sales growth to \$9.5m with increased sales and service presence. Penetration rates in this key growth market continue to improve and overall investment in Asia by Somero is leading to sales growth in a number of important growth markets. The market will be pleasantly surprised to see 20% sales growth in Europe during 2014. On product, the new S-485 Laser Screed machine was introduced in October 2014 and achieved \$0.9m of sales in the short period to Dec 31. From a margin perspective, the impressive top line growth achieved by the company in recent years has led to significantly improved overhead recovery. The EBITDA margin achieved in 2014 (25.2%) is almost double that achieved just 2 years ago (2012: 13.1%) and we believe this level of EBITDA margin is sustainable.

The potential for significant growth in the dividend

The company's 5.5c DPS is well ahead of analyst forecasts. Interestingly the dividend cover ratio (30% payout) is still relatively conservative and the company has a healthy net cash position. The long term goals for the company currently include this 30% DPS payout ratio and this offers significant dividend growth prospects based on our EPS growth forecasts for the next 4-5 years. However, given the company's strong market position, its growth prospects and healthy balance sheet, management could consider adjusting its long term dividend payout ratio to 33%, 35% or even 40%. This would provide significant growth in the dividend.



TDIM	SOM
Market cap (£m)	64.9
Dividend Yield	1.7%
Broker	Canaccord Genuity
Listing	AIM

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Current trade

The company is trading very well in its largest market, North America. A combination of growth in the underlying construction market, good growth in new product sales and replacement demand continues to support the top line. The company believes that this will lead to strong sales into 2015. It also sees strong growth in Asian markets in 2015 and a Latin and South American top line improvement based on good growth coming out of Mexico.

Broker Profile forecasts

We are just 3 months into the current financial year and therefore we will be publishing a detailed review of forecasts out to 2019 in the coming months. At this early stage in the year, we believe given the healthy current trade statement, our forecasts for 2015 look well underpinned. We currently forecast total sales of \$63.8m, PBT of \$13.2m and Basic EPS of 16.4c. We are upgrading our DPS forecast from 4.0c to 6.0c.

Previous research on Somero by Broker Profile

We published two detailed notes on Somero in H2 2014. These notes outline the business, its strategic review and objectives, and growth prospects out to 2019. We would recommend these notes to interested investors who are not familiar with the business.

Somero Income Statement

	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	32.20	45.1	59.32	63.77	70.17	76.91	84.29	90.95
Gross Profit	15.70	23.50	31.96	34.88	38.95	43.07	47.20	50.93
Ebit	1.40	6.40	12.60	13.18	14.71	17.01	19.48	21.91
Ebitda	3.90	9.00	15.05	15.58	17.11	19.21	21.78	24.11
EPS (c) (basic)	1.77	9.75	25.76	16.45	17.63	20.13	22.72	24.96
EPS (p) Adj dil	3.76	8.07	12.17	11.38	12.18	13.62	15.10	16.81
DPS (c)	0.80	2.20	5.50	5.98	6.30	7.19	8.11	8.91

Source: Broker Profile, Somero Enterprises

**Somero
Cash Flow**

	2012A	2013A	2014A	2015E	2016E	2017E	2018E	2019E
Operating Cash Flow	3.00	7.70	15.00	14.20	15.71	18.01	20.58	23.11

Source: Broker Profile, Somero Enterprise

**Somero
Balance Sheet**

	2012A	2013A	2014E	2015E	2016E
Total Assets	26.90	32.10	39.20	48.20	55.62
Total Liabilities	-6.80	-8.20	-8.40	-13.46	-14.06
Net Assets	20.10	23.90	30.80	34.73	41.57

Source: Broker Profile, Somero Enterprise

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