

The Scotsman

One to Watch: Add a pinch of Spice

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Spice

81p -0.25p

Scotsman says BUY

SPICE provides utility support services. It has two divisions: the supply side, offering billing and energy services; while the distribution operations include the electricity, gas, facilities, telecoms and water businesses.

Spice has not had a particularly happy time over the past couple of years. The defensive charms of the utility sector have been largely overlooked, while investors have focused instead on more obviously oversold propositions. This is to ignore Spice's fundamental appeal. The firm is a classic "outsourcing" proposition and, as legislative demands on concepts such as climate change and carbon reduction intensify, Spice can only benefit.

The group's business profile still depends pretty heavily on meter installation and reading, but regulatory reviews in the water and electricity sectors may well increase demand for Spice's allied support services. The recent trading update from Spice was encouraging, stressing the regulatory and environmental prospects.

The group's shares have been recovering ground of late, but they still look relatively conservatively valued – given the importance of its core markets. Spice's shares are on a prospective p/e of about nine, based on forecasts that may well prove over-cautious. During times of economic austerity, companies are keen to identify areas of cost containment and economies of scale and Spice's services should be in the vanguard of such a prospect. Spice should also benefit from the roll-out of smart metering.

Spice's business model looks sound and the market may be ignoring the potential that may be crystallised over the next two or three years. In the utilities, the stock may be worth a look.