

Half-year loss sees Spice look at division sale

YR
14 Dec
2009

Company's strategic review of gas arm

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UTILITIES support services group Spice is considering selling its poorly performing gas social housing business after it drove the company to a half-year loss.

Spice yesterday revealed a £42.9m writedown on its gas arm, which provides registered social landlords with gas safety checks, based on its "continuing underperformance".

Shares in the Leeds group slumped almost 18 per cent on the writedown, falling 12.5p to close at 58.5p.

The gas division has been hit hard by increasing competition from out-of-work gas engineers during the recession. Spice said it has started a strategic review to determine its future.

For the six months to the end of October, Spice posted a pre-tax loss of £31.5m, compared with a £9.4m profit last year.

The group's public-facing distribution arm, of which gas is a part, reported revenues down 22 per cent to £48m and almost breakeven earnings. Spice warned conditions are likely to remain tough.

"Rather than having the market worrying about it for years to come we thought the best thing to do was a clean sweep," said chief executive Simon Rigby. "We believe this is a good medium-term step for us to take."

"Rather than having this as a running sore this has been a very prudent step for us."

Mr Rigby said Spice has had two offers for its gas business over the past six months, but is prioritising turning it around, with the intention of "hopefully releasing some good value either for trading it for years to come or by selling it".

Before the exceptional writedown, Spice reported pre-tax profits up 14 per cent at £16m. Revenue was up marginally at £193.5m.

Spice is bullish about its medium and long-term prospects, indicated by its decision to hike its interim dividend



SIMON RIGBY: 'A very prudent step for us.'

by 11 per cent to 0.40p per share from 0.35p last year.

The company is reliant on regulation for around 80 per cent of its revenues, which it believes ensures a strong future.

Legal changes such as the Carbon Reduction Commitment Energy Efficiency Scheme, which comes into effect next year, plus roll-out of smart meters for homes, should drive its energy business, the com-

WARNING OF HIT TO PROFITS

Analysts warned of a hit to Spice's full-year profits because of the impact from its struggling gas social housing business and start-up costs from new contracts.

Analysts at Altium Securities cut their recommendation from buy to hold and reduced earnings forecasts for the current year from £39.6m to £36m and for 2011 from £45m to £40.5m.

WH Ireland downgraded its full-year pre-tax profits estimate by nine per cent to £36.2m.

However, the brokerage maintained its "outperform" stance and said: "Whilst this is clearly disappointing, we continue to view the positioning and prospects for the group's core businesses as remaining positive."

pany said. "Economic uncertainty continues to drive interest in our services with industrial and commercial customers seeking to reduce costs," said the group.

Its billing business, which works for utility companies to identify properties which have been underbilled, helped the group's supply division grow revenues by 39 per cent to £20.5m. During the six months it renewed contracts with customers including Shell and GDF Suez.

Spice is now looking to the United States to grow this business, where it intends to offer utilities companies billing services, but serviced from the UK.

Mr Rigby said: "The exciting thing for us is the UK market is about a £300m recurring revenue market. (The US is) about a £3bn recurring revenue market."

The group's distribution arm lifted revenues seven per cent over the six months to £124.9m.

It has won preferred bidder status from United Utilities for network and overhead line engineering and maintenance. Mr Rigby said this potentially opens up three contracts worth a total £20m annually for the next 10 years – although the firm warned this will mean start-up costs.

Spice said energy regulator Ofgem's recent five-year pricing review, which ordered electricity firms to increase capital spending by 25 per cent to £6.6bn, also creates opportunities for it to work on the significant upgrades this will entail.

Ofgem, which estimates 9,000 newly-trained engineers and technicians are needed by 2015, also allocated £213m to attract new recruits into the industry.

The group has completed its £6m investment in a new training centre for engineers in Corby, which will mirror its Rotherham training centre and tap into this fund. As well as gas and electricity training, Corby will equip its own staff and those employed by rivals with skills for the rapidly-growing renewable energy sector.

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