

Spice issues profit warning

SUPPORT SERVICES

Move follows £43m goodwill writedown

By Alistair Gray

Shares in Spice dropped more than 17 per cent yesterday after a £43m goodwill writedown forced the utility services specialist to issue a profit warning.

The company signalled a shift away from the acquisitive-led growth strategy it has pursued for the past five years following continued difficulties at its social housing gas business.

Simon Rigby, chief executive, blamed “huge pricing pressure” as a result of increased competition from Corgi-registered gas engineers. “Everyone wants to work for local authorities because you know you’re going to get paid,” he said.

Mr Rigby said Spice had already received “both trade and private equity approaches” but that they “fell short of expectations”.

Analysts downgraded their forecasts for the year by about 10 per cent after problems at the lossmaking division dragged the company into the red in the six months to October 31.

They said the company would also consider disposing parts of its telecommunications and facilities management operations.

Alex Magni, at Noble, said yesterday was a “turning point for Spice to reconsider its strategy for building a business”.

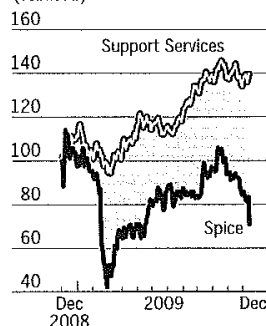
Pre-tax losses amounted to £31.5m against a profit of £9.4m a year earlier. Sales fell in the UK and the US but a strong performance elsewhere helped group revenue edge up from £192.6m to £193.4m.

Losses per share were 9.27p compared with earnings of 2.14p last time. The company said a focus on core “regulatory and environmentally” driven markets allowed it to increase the interim dividend from 0.36p to 0.4p. The shares fell 12½p to 58½p.

• FT Comment

Little more than five weeks after the board said trading had proceeded “in line” with expectations, yesterday’s update will come as a shock – especially for those who had assumed Spice had put its difficulties behind it. Concerns over accounting changes knocked more than half off the share price at the start of the year, but they have since rebounded as confidence returned. Connaught and Mears have had an easier time in the social housing sector – the latter disclosed a further £200m of contract wins yesterday – but they enjoy the kind of long-term, multi-service contracts that Spice does not. Still, investors should welcome a renewed focus on core markets. Bulls argue the company is well placed to benefit from regulatory changes in the water industry. Yesterday’s sell-off, which leaves it trading on just 7.6 times prospective earnings, presents a buying opportunity.

Spice
Share price and FTSE index (rebased)



Source: Thomson Reuters Datastream

RESULTS

Name	Turnover	Pre-Tax	EPS (p)	Div (p)	Pay day	Total
Canisp	Int --	0.143L 0.026L	0.05L 0.12L	--	--	--
India Star Energy	Fin --	0.058L 0.063L	0.03L 0.04L	--	--	--
IngeniousMediaActive	Int 0.139 0.221	4.62L 9.2L	3.23L 6.36L	nil nil	--	-- nil
Innovision Research	Int 1.04 0.83	0.045 0.142	2.26L 1.78L	--	--	--
O Twelve Estates	Int 8.91 9.12	2.97 16.8L	2.38 13.77L	--	--	--
RWS	Fin 55.3 54.1	14 13.7	35 23.5	8.85 7.9	Feb 19	11.65 10.4
Spice	Int 193 193	31.5L 9.4	9.46L 2.33	0.4 0.36	Feb 10	-- 1.5
Ten Alps	Int 35.4 37.1	1.8 1.25	2.05 1.64	--	--	--

Figures in £m. Earnings shown basic. Figures in light text are for corresponding period. For more information on dividend payments visit www.ft.com/marketsdata