

Daily Opinions

31 May 2007

Today's Comments			
Kingfisher	KGFL	HOLD	247p
Leisure & Gaming	LNG.L	CORPORATE*	19.2p
Swallowfield	SWL.L	CORPORATE*	80p

General Retailers

Kingfisher

HOLD

Q1 Results

247p

Year-end Jan	2006A	2007A	2008E	2009E	Key Data	
Turnover (£m)	8,010	8,676	9220	9830	Ticker	KGFL
Adj. Pre-tax Profit (£m)	445.7	396.6	420.0	480.0	Shares in issue	2,342m
Adj. Tax (%)	36.0	30.2	30.0	30.0	Market capitalisation	£5,784m
Adj. EPS (p)	12.3	11.9	12.5	14.3	12-month price range	217p-287p
DPS (p)	10.65	10.65	10.65	10.65		
Net Debt (£m)	(1355)	(1294)	(1547)	(1662)		
PER (x)	20.1	20.8	19.8	17.3	Net debt/equity	29% Jan 07
Yield (%)	4.3	4.3	4.3	4.3	Next event	Q2 Update
EV/EBITDA (x)	10.4	10.0	10.3	9.6		

Source: Company, Blue Oar Securities Estimates.

Kingfisher has made a reasonable start to the year, but the comparatives get tougher from now on and we have made only a minor adjustment to forecasts. Recovery is still very much a work in progress and Kingfisher has still got a good deal to prove in these terms. The rating looks rather stretched, relative to KGF's retail peers, but a combination of speculative interest and recovery hopes should permit the shares to perform in line.

- Q1 profits are ahead by 30%, but are still well below the 2005/6 level. B&Q had little to beat in the quarter and like for like sales rose by 6%; profits rose 82%, but are still less than half the level of two years ago. The quarterly comparisons now become more difficult and rising interest rates can hardly help, although there has been no significant impact thus far.
- Profits were flat in France, after an unusually high level of pre-opening costs. The market remains very competitive, with pressure on gross margins, and our view at this stage is that Castorama may struggle to make headway this year, although Brico should continue to do well.
- Rest of Europe is very much the star performer, driven by astronomical figures from Poland, which it would be imprudent to project forward. Italy has also done well against an unhelpful economic background. A decline in Asia is perhaps a disappointment, but significant seasonal factors are involved and we still expect progress for the year as a whole.
- For the full year we have marginally increased our full year forecast to £420m, although matters will become much clearer after the interims. It's still the case that major recovery will have to wait for 2008/9.

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AIM Travel and Leisure

Leisure & Gaming Plc

CORPORATE*

AGM and Betshop Trading Update

19.2p

Year-end December	2006A	2007E	2008E
Turnover (€m)	454.4	173.2	226.7
Adj. Pre-tax Profit (€m)	4.5	2.0	6.4
Adj. Tax (%)	7	32	32
Adj. EPS (p)	7.6	1.3	4.2
DPS (p)	-	-	-
Net Cash/Debt (€m)	2.1	0.8	5.8
PER (x)	2.5	15.1	4.6
Yield (%)	Na	Na	Na
EV/EBITDA (x)	3.7	8.4	2.9

Key Data	
Ticker	LNG.L
Shares in issue	71.45
Market capitalisation	13.68
12-month price range	157.5p – 3.5p
Next event	Ints, Sep
Equity under option	2.4%
Free float	69%

*Blue Oar Securities Plc acts as Nominated Adviser and Broker to Leisure & Gaming. Blue Oar Securities Plc does not publish recommendations on companies with which it has a corporate relationship. Source: Company, Blue Oar Securities Estimates.

Despite today's disappointing news concerning gross losses in May at Betshop of €1.4m because of adverse sporting results, and our subsequent EPS downgrade, the shares are still on an 8% discount to the peer group for 2007. With projected EPS growth of over 200% in 2008 LNG is on a PE rating of just 4.6x for next year.

- As at 12th March the company was ahead of our expectations at the gross profit level. Whilst April was a poor month, which is part and parcel of doing business in the gaming industry, May has been very unfortunate. A substantial run of adverse sporting results including AC Milan winning the Champions League resulted in a gross loss for May at Betshop of approximately €1.4m. The Board regards this as an exceptional occurrence. Encouraging betting volumes mean our turnover estimates remain unchanged. But we are downgrading our 2007 PBT forecasts from €3.8m to €2.0m and EPS from 2.5p to 1.3p. On this basis no earnout will now be payable in 2008. With the football season over we expect a quiet summer. Q4 will be critical to our forecasts. Working capital is adversely affected with year end net cash estimates dropping €2m to €0.7m. Save for a fall in interest income our 2008 profit forecasts currently remain largely unchanged. Recent events have highlighted LNG's exposure to volatility and we will revisit our forecasts as a clearer picture of trading patterns and new revenue streams emerges.
- Betshop (LNG's main operating subsidiary) added 90% to its turnover in the 7 weeks between 12th March and the end of April, giving a 4 month total of €44.6m, up 91% on the equivalent period in 2006. However net win progressed just 58% over the same period (+71% y/y to €11.9m). Net win margins were down 550 bp vs the 10 weeks to 12th March suggesting that the company achieved lower betting margins in April. Betshop recorded EBIT of €1.1m for the four months to April 2007, +31% year on year.
- Among the resolutions passed at yesterday's AGM was a share capital restructuring returning the shares' nominal value to below market price. This has no direct effect on shares in issue or market value but gives LNG flexibility for future equity fundraisings which the company hints could be used to expand the business offering into new products, and territories such as Romania where the company holds a betting licence.

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AIM – Personal Goods

Swallowfield*

Upgrade Earnings

CORPORATE*

80p

Year-end June	2005A	2006A	2007E	2008E
Turnover (£m)	43.5	49.0	45.0	48.0
Adj. Pre-tax Profit (£m)	-0.2	0.1	0.9	1.1
Adj. Tax (%)	Cr.	Cr.	0.3	0.3
Adj. EPS (p)	-0.8	1.1	5.6	7.0
DPS (p)	-	-	-	-
Net Cash/Debt (£m)	-8.4	-7.1	-5.3	-4.1
PER (x)	n/a	71.5	14.3	11.4
Yield (%)	-	-	-	-
EV/EBITDA (x)	n/a	27.1	11.0	8.7

Key Data	
Ticker	SWL.L
Shares in issue	11.3m
Market capitalisation	£9.0m
12-month price range	83.0p / 37.5p
Next event	Prelims - Sept
Free float	c. 87%

*Blue Oar Securities Plc acts as Nominated Adviser and Broker to Swallowfield Plc. Blue Oar Securities Plc does not publish recommendations on companies with which it has a corporate relationship.

Source: Company, Blue Oar Securities Estimates.

We upgrade our 2007 earnings estimate by 50% to 5.6p (3.7p) to reflect a stronger than anticipated second half and further cost savings. This puts the stock on a 2007 prospective PER of 14.6x falling to 11.7x in 2008 with 400%+ and 25% earnings growth respectively. The latter, in conjunction with the strong asset backing (net assets per share = 88.6p) makes the valuation look compelling.

- Swallowfield formulates, manufactures and packages fine quality cosmetics, toiletries and household goods across the whole spectrum of consumer markets for retailers and famous brand names such as Next, PZ Cussons, Marks and Spencer and others.
- On the back of a positive trading statement, we upgrade our 2007 estimates. We retain our £45m revenue forecast, but increase our gross margin estimate by one percent to 14% to reflect a shift in the full sales mix from service to fill only. The latter in conjunction with further reduction in overheads from the close-out of the Marks and Spencer contract prompts us to increase our normalised pre-tax profit by 50% to £0.9m. We have also increased our normalised EPS forecast by 50% to 5.6p, representing more than 5x earnings growth from the previous year.
- The company is cautious about H1 08, but new contract wins provide it with optimism for the coming year. For 2008, we estimate sales to increase by 2% to £48m, flat gross margins at 14%, normalised PBT up 12% to £1.1m and normalised eps up 25% to 7.0p. We do not expect such marked seasonality as in 2007 in the coming year and believe the Group is en route to turn round the business.

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Recommendation Tracker

Kingfisher	Rec	Price at Rec. (p)	Current Price (p)	% Change in Price	Target Price (p)	Target Price Date
31 May 2007	HOLD	247	247		250	May 2008

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