

Company

28 August 2009 | 6 pages

Marshall's PLC (MSLH.L)

Equity

Interims – Managing the Lower Volumes

- **No surprises in interim results** — with turnover down 21% and operating profits at £11.3m, down 58% before closure costs. The group though has finalised the closure of another plant at a £5m gross cost. The dividend has been reset at 1.75p.
- **Domestic conditions now better than commercial** — with a decline of 16% versus 21% in public sector/commercial in the first half on a like-for-like basis. Underlying prices are up 4% across the board.
- **Balance sheet in good shape** — following the £34m rights issue the group's net debt position is down at £73m. We expect the year-end position to be around £64m. We do not see much change over the following year.
- **Trading conditions remain tricky** — but like-for-like comparisons will get easier in H2 and the group has been active in cutting costs. There is also a modest but growing pot of Olympic orders. Overall, we do not expect to see any change in normalized profits for the year albeit the tax rate will likely be lower than currently estimated.
- **Longer term attractions remain** — while short-term profit-based valuations look demanding the group's strong niche in the UK's hard landscaping market remains attractive. This shows through in the EV/IC ratio of 0.9x vs the long run average of 1.5x.

Buy/Medium Risk	1M
Price (27 Aug 09)	£1.23
Target price	£1.20
Expected share price return	-2.0%
Expected dividend yield	4.3%
Expected total return	2.2%
Market Cap	£235M
	US\$382M

Price Performance (RIC: MSLH.L, BB: MSLH LN)



Marshall's PLC (GBP)

Year to 31 Dec	2007A	2008A	2009E	2010E	2011E
Sales (£M)	402.9	378.1	319.2	325.5	348.7
Profit Before Tax (£M)	42.1	-4.5	12.3	14.0	17.0
Diluted EPS (p)	21.2	22.1	5.2	5.1	6.2
Diluted EPS (Old) (p)	21.2	22.1	5.2	5.1	6.2
PE (x)	5.8	5.6	23.7	24.0	19.8
EV/EBITDA (x)	4.9	6.5	8.5	8.0	7.5
DPS (p)	13.8	6.0	5.3	5.3	5.3
Net Div Yield (%)	11.3	4.9	4.3	4.3	4.3

Clyde Lewis

+44-20-7986-4272
clyde.lewis@citi.com

Aynsley Lammin

+44-20-7986-4092
aynsley.lammin@citi.com

Mike Pinkney, CFA

mike.pinkney@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

Marshalls PLC

Company description

Marshalls is a pure UK company which specialises in hard landscape products for both domestic and commercial end markets. For 2007 the group estimates that 55% of its sales were in commercial markets and 45% in residential. While its largest products are concrete-based, the group also produces natural stone and other complementary products for commercial and domestic markets.

Investment strategy

We have a Buy/Medium Risk (1M) recommendation and a 120p target price. Marshalls has an attractive niche position in the UK heavyside market. The group's products are likely to continue taking a bit more share from the key competing product, asphalt, over time. In addition, the cash flow that Marshalls generates is being used to further reinforce its leading position in its core products as well as expanding its addressable market via bolt-on acquisitions. This is especially true in the commercial sector. If the performance slips at any point, we believe a number of other bigger heavyside companies could be interested in acquiring the group. While the tougher conditions are putting more pressure on the immediate trading, we believe the group will emerge with a stronger position relative to its peers than it went in with due to its robust financial position. The rights issue has strengthened the group's balance sheet and given the group more flexibility on how it currently runs the business.

Valuation

We have a target price of 120p. We derive this price target by weighting the results of our four valuation methodologies (range of 82-214p). We use target 2010E multiples of 16x for P/E (82p, 30% weighting) and 7.5x for EV/EBITDA (111p, 30% weighting), a 4% target dividend yield (131p, 30% weighting) and a DCF valuation (214p, 10% weighting) based on a range of discount rates from 6% to 9%.

Risks

Our risk rating on Marshalls is Medium Risk. Our risk rating is derived from an analysis of various factors such as industry, market and financial risks, management competence and the historical volatility of the share price. Our rating reflects the increasingly uncertain outlook in the UK.

While Marshalls operates in an industry that we term 'heavyside', it is unusual in that it is solely focused on the UK and it has a very large market share in its core products. One of the main characteristics of heavyside products is that they have a low value relative to their weight, which, in turn, means that they cannot be transported over long distances. This gives the heavyside producer good pricing power due to the natural barriers to entry that exist.

We would highlight the most important company-specific risks to our target price as a big and prolonged downturn in either the consumer/DIY sector or commercial construction sector and an inability to pass on higher cement and aggregate costs. In the near term, the risk relates to the size of the slowdown in the housing- and consumer-related markets and how much it will feed through to the wider UK economy.

Appendix A-1

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Marshall's PLC (MSLH.L)

Ratings and Target Price History

Fundamental Research

Analyst: Clyde Lewis

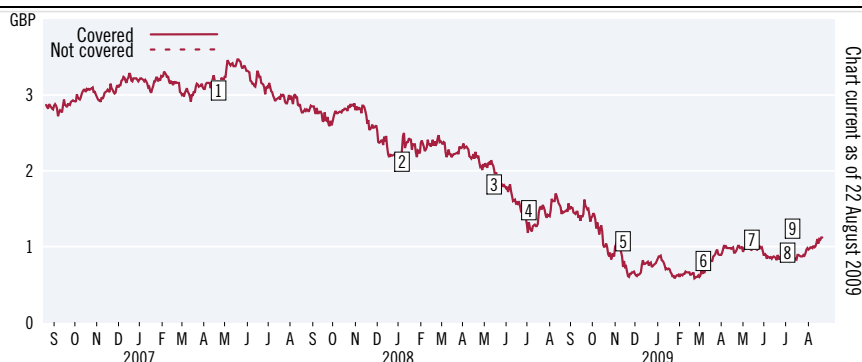


Chart current as of 22 August 2009

	Date	Rating	Target Price	Closing Price
1	23-Apr-07	1L	*3.39	3.12
2	7-Jan-08	1L	*2.69	2.28
3	15-May-08	*1M	*2.28	2.01

	Date	Rating	Target Price	Closing Price
4	3-Jul-08	1M	*1.61	1.32
5	13-Nov-08	1M	*1.16	0.73
6	6-Mar-09	1M	*0.90	0.67

	Date	Rating	Target Price	Closing Price
7	14-May-09	1M	*1.24	0.96
8	3-Jul-09	1M	*1.24	0.83
9	10-Jul-09	1M	*1.20	0.82

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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