



Somero Enterprises

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North American engine, Asian upside

□ In this note we assess the investment case for Somero. With a highly profitable and cash generative North American business, an excellent medium term growth opportunity in China and longer term growth prospects in India and other key markets in South East Asia, we believe that despite a good run of late in the share price, the investment case remains compelling.

□ Profitability and cash generation in North America

The well-established North American business has enjoyed a significant recovery in sales, margins, profitability and cash generation in recent years due to a combination of a strong market position, increased economic and construction market activity, and new product introductions. We see the North American business as the primary growing cash generator of Somero.

□ Medium term growth opportunity in China

The medium term growth opportunity is huge. With the China market 30x larger than the US. Penetration of Somero's products continues to increase. However, at just 1% penetration of the concrete flooring market growth prospects for Somero are significant, should last for many years and importantly are not dependent on headline economic growth.

□ Long term growth in India and other South East Asian markets

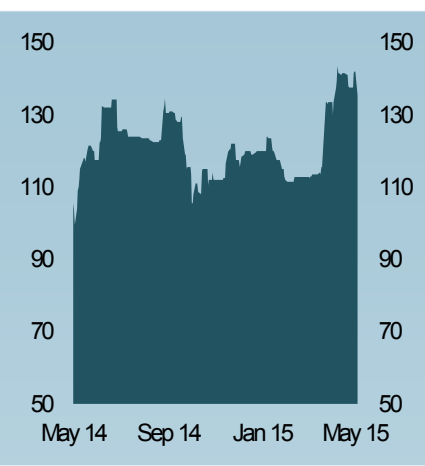
The company sees longer term growth opportunities in important growth markets such as India and other areas of South East Asia in particular.

□ The potential for significant growth in the dividend

The 5.5c DPS is well covered (30% payout) and is still relatively conservative, particularly given the company's healthy net cash position. The long term long term dividend growth is a strategic goal of the company. The current 30% payout ratio offers significant growth over the next 4-5 years, as EPS rises. However, given the strong market position, Somero's growth prospects and healthy balance sheet, management could consider adjusting the long term payout ratio to 33%, 35% or even 40% providing additional dividend growth.

□ Forecasts and valuation

We have upgraded our EPS forecasts for 2015E. Based on new forecasts, the stock is trading on 12.2x 2015E falling to 11.1x with a 2.7% dividend yield.



TIDM	SOM
Market cap (£m)	79.8
Net cash (FY1, \$m)	8.0
Broker	Canaccord
Listing	AIM

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Year to Dec	Revenue (\$m)	Adj PBT (\$m)	EPS (USc)	DPS (USc)	Net Cash (\$m)	P/E (x)	Yield (%)
FY14a	59.3	14.5	19.7	5.5	5.4	11.3	2.5
FY15e	65.7	15.5	18.3	6.0	8.0	12.2	2.7

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Investment Case

Previous research on Somero by Broker Profile

We published two detailed notes on Somero in H2 2014. These notes outline the business, its strategic review and objectives, and growth prospects out to 2019. We would recommend these notes to interested investors who are not familiar with the business.

Introduction

Somero Enterprises is the world leader in a niche market, namely precision concrete placing and levelling equipment. As such it achieves very high margins and is highly cash generative. With the US recovery in full flight, the market has become increasingly interested in and excited about the medium to long term growth story in Asian markets (principally China and India), making the Somero investment proposition a self-help story as opposed to a pure cyclical play.

About Somero Enterprises

Somero is a leading manufacturer (the company assembles component parts and therefore requires very low levels of ongoing capital expenditure) of laser-guided, technologically innovative machinery used in horizontal concrete surfaces such as industrial warehousing, factories, car parks and big box retail outlets.

The investment opportunity

Somero's products are sold to concrete contractors for non-residential construction projects in over 92 countries across the world. However, in terms of the investment opportunity, we highlight three key geographic and business dynamics which when coupled with the current strength of the balance sheet and cash flow profile, offers both dividend and capital growth.

These three key points include:

- **Current** - A cash generative, growing US business
- **Medium term** - A significant growth opportunity in China
- **Long term** - A growth opportunity in India and other Asian markets.

Central case

The central case includes the following key points which we will discuss in detail:

- The company is ahead of plan on its strategic goal to double revenues over 5 years
- A strong balance sheet including net cash
- A highly profitable and cash generative North American business funding both growth in other markets and strong dividend distributions
- A significant medium term growth opportunity in China
- Longer term growth opportunities in India and other important markets in South East Asia
- Strong dividend