

BUY

unchanged

Price 86p
Target price 95p

Reuters/BBG NGR.L / NGR LN
Index FTSE AIM
Sector Support Services
Market Cap £66.7m

MORNING COMMENT

Nature Group*

Prelim Results – Results in-line, benefits of ISD set to come through

Nature Group has reported its preliminary FY10 results, reflecting trading pre the ISD and Ecosrub acquisitions, which are in line with our earnings expectation of 4.3p. The ISD acquisition and supporting equity fundraise were completed just prior to the year-end. As such, the newly enlarged group is poised to deliver substantial earnings growth, supported by a strong balance sheet (net cash of £3.8m). We see the combination of Nature Group and ISD as a compelling business proposition. Nature Group has proven waste treatment capabilities in both the onshore and offshore markets and ISD has the logistics capabilities, management and relationships to enable the combined entity to become a leading global marine waste services provider. An immediate earnings enhancement is expected to come through from the transshipment of waste oil from Rotterdam to the treatment facility in Gibraltar, the first such shipment taking place in March. We retain our BUY recommendation and increase our price target to 95p.

- FY10 results reflect the trading of Nature Group, pre-acquisitions only and are in line with our earnings expectation. The company reported revenue of £6.8m (lower than our £7.3m estimate due to the reclassification of SARS as an Associate), adjusted EBITA of £1.7m (FY09: £1.5m), adjusted PTP of £1.8m (FY09: £1.6m) and EPS of 4.3p (FY09: 4.0p). A final dividend of 0.7p (FY09: 0.6p) has been proposed and Nature closed the year with net cash resources of £3.8m.
- Nature has the potential to become a leading global marine waste services provider. FY10 was a year of growth for Nature's European Port Reception Facilities, waste oil shipments increasing 25%. Further growth is expected in FY11 (a 70% capacity increase is planned) with further waste oil contract opportunities identified in Southern Europe, including the announcement of the transshipments of oil from Italy, commencing in 2011.
- Nature's solutions to the oil services sector (Nature Oil & Gas) suffered in the year due to the cessation of certain contracts and reduced role out of OTUs. A restructuring and refocusing on broader international markets (aided by ISD) is expected to yield upside in H2:11, this aided by the launch of a new compact treatment unit in the year.
- Nature's contract to supply and build a turnkey port oil waste treatment facility to Duqm Oman was formally initiated in 2010, although progress was slower than expected due to factors outside of its control. Encouragingly, a new international port location (for waste oil treatment services) has been identified and an agreement made in principle. We believe its scale could be similar to that of Nature's existing port reception facility in Gibraltar.
- Based on our estimates, the shares are trading on a FY11 P/E of 13.1x and EV/EBITDA of 8.5x. Backed by expected strong cash generation and attractive dividend policy, we retain our Buy recommendation and increase our 12-month share price target to 95p (from 80p).

| Y/E December | FY09A | FY10E | FY10A | FY11E | FY12E |
|--------------------------------|-------|------------------|-------|-------|-------|
| Sales (£m) | 5.1 | 7.3 [#] | 6.8 | 21.2 | 23.8 |
| PTP Adjusted ¹ (£m) | 1.6 | 1.9 | 1.8 | 6.1 | 8.2 |
| EPS Adjusted ¹ (p) | 4.0 | 4.3 | 4.3 | 6.6 | 8.7 |
| P/E (x) | 21.5 | 20.0 | 19.8 | 13.1 | 9.8 |
| DPS (p) | 0.6 | 0.7 | 0.70 | 1.6 | 2.2 |
| Dividend Yield (%) | 0.7 | 0.8 | 0.8 | 1.9 | 2.5 |

*WH Ireland acts as Broker. This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research.

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Source: WH Ireland estimates [#]SART business now treated as an Associate – revenue there not consolidated
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¹ Pre share based payments and exceptional one off acquisition costs

Disclosures

WH Ireland Recommendation Definitions

Buy

Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

Outperform

Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

Market Perform

Expected to perform in line with the FTSE All Share over the next 12 months.

Underperform

Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

Sell

Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

Speculative Buy

The stock has considerable level of upside but there is a higher than average degree of risk.

Share Price Target

The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

Stock Rating Distribution

As at the quarter ending 31 March 2011 the distribution of all our published recommendations is as follows:

| Recommendation | Total Stocks | Percentage % | Corporate |
|-----------------|--------------|--------------|-----------|
| Buy | 34 | 67% | 26 |
| Speculative Buy | 7 | 13% | 7 |
| Outperform | 4 | 8% | 1 |
| Market Perform | 4 | 8% | 3 |
| Underperform | 0 | 0% | 0 |
| Sell | 2 | 4% | 0 |
| Total | 51 | 100% | 37 |

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

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