

Morning Meeting Notes

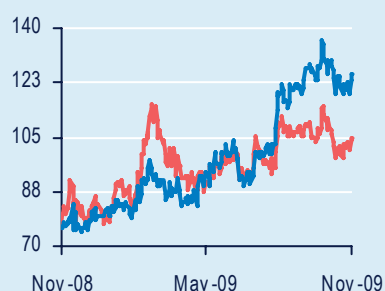
Buy **125p**

Potential upside **12%**

Target price **140p**

Market cap £204m
 12m high / low 136p/74p
 Average daily volume (000s) 260
 Sector Food Producers
 Index FTSE Small Cap
 RIC / Bloomberg DVO.L / DVO LN
 Implications for forecasts ▲

Share price performance



	1m	3m	12m
Price	(2.0)	4.4	67.8
Rel. All Share	(1.8)	(4.7)	36.8
Rel. Sector (not shown)	(1.6)	(8.3)	33.5

Source: JCF Group

Devro

Q3 shows further improvement

Devro's Q3 update confirms that further progress has been made in trading since the half year and that the group now expects to beat consensus estimates for the full year. We have increased our FY09E PBT forecast by £1.2m to £24.5m reflecting a better result from foreign exchange and manufacturing efficiencies. Our target price moves up to 140p and we continue to rate the stock a BUY.

Key Forecasts

Year end: 31 December	2008	2009E	2010E
Turnover (£m)	183.1	222.7	230.6
PBT (normalised) (£m)	18.3	24.5	26.5
EPS (norm, continuing) - FD (p)	7.8	11.0	11.7
DPS (p)	4.45	4.45	4.70
PE (normalised) (x)	16.0	11.4	10.7
EV/EBITDA (x)	7.1	6.1	5.7
FCF yield (%)	5.1	3.3	8.2
Dividend yield (%)	3.6	3.6	3.8

Source: Company accounts/Investec Securities estimates

- Devro has issued an IMS for the trading period from 1 July to date, confirming that trading has continued to improve since its half year. As a result, most areas are either now on or ahead of target and the group expects to exceed consensus forecasts for FY09.
- In terms of revenues, the key drivers remain the same as 1H. Volumes continue to show solid progress, once again driven more by the developing countries such as Latin America and the Asia Pacific region. In addition to volume growth in the period, the group continues to make progress on pricing and there has been a further notable (mid teens %) fx translation benefit as well.
- In the first half, although there was a sizeable benefit to revenue from fx (c17% or £14m), there was only a very modest addition to operating profit due to the geographic mix of profits, and also because translation benefits were offset by some adverse transaction movements. In the second half to date, the transactional movements have been less adverse, so we are expecting a slightly more favourable exchange impact on profits to feed through. This is one area in which we are adjusting our forecasts up. We had previously assumed a £1m profit reduction from fx for FY09E, but we move this up marginally to a £0.5m reduction now. This still allows for some tougher Q4 comparatives on exchange given sterling's collapse last year from November.
- The other area where the group's performance has improved is in manufacturing efficiencies. In 1H, the group was impacted by variability in the quality of its raw collagen supplies, but in 2H these issues are absent. Additionally, the benefits of the restructuring of the Czech manufacturing

Investec acts as Broker to Devro

Readers in all geographies please refer to disclosures on page 4.

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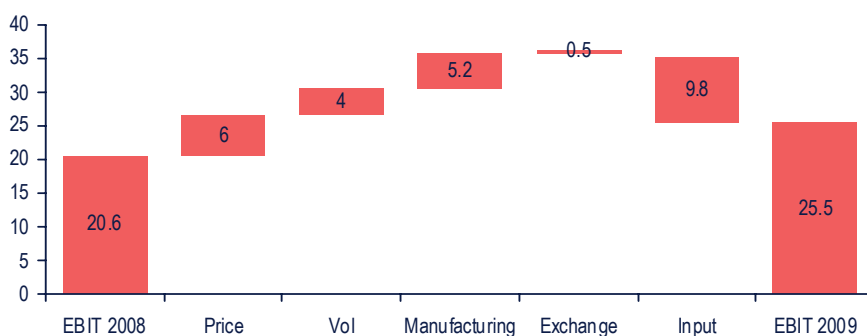
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operations (new capacity added at Jilmenice to replace capacity at the old Korenov site) are also now starting to feed through. This project is expected to eventually reduce annual costs by around £2m. We had previously estimated a £4.5m benefit to operating profit from manufacturing efficiencies, but we increase this to £5.2m.

- Collagen prices continue to run above 2008 levels, reflecting the tight supply conditions, but this is no worse than already anticipated in our forecasts. As expected, the energy costs have improved in 2H.
- Overall, therefore, we are increasing FY09E EBIT by £1.2m from £24.3m to £25.5m. After £1m of bank interest this gives a normalised pre-tax profit of £24.5m (previously £23.3m, excluding pension finance). In arriving at reported pre-tax profit forecast, there is an exceptional credit (reported in 1H) of £1.8m and £1.5m of charges relating to pension finance. We have excluded both of these numbers in calculating EPS.

Profit bridge 2009 v 2008



Source: Investec Estimates

- Our new FY09E EPS is 11.0p, a 9% increase versus previous estimates, adjusted for pension finance. For FY10E, we have increased normalised pre-tax forecasts by a similar magnitude to £26.5m and EPS of 11.7p. In light of these changes, and the general market re-rating seen since we last reviewed our target price (August), we have increased our target price at 140p (from 117p), based on a sector average EV/EBITDA of 6.1x to Dec 201E. Hence we continue to rate the shares a BUY.

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Definition of research ratings

	Expected 12m performance
Buy	Appreciation of 10% or more
Hold	Appreciation or depreciation of less than 10%
Sell	Depreciation of 10% or more

UK stock ratings distribution

	Coverage universe		Investment banking clients	
	Count	% of total	Count	% of total
Buy	140	58%	64	46%
Hold	87	36%	14	16%
Sell	16	7%	0	0%

Source: Investec Securities

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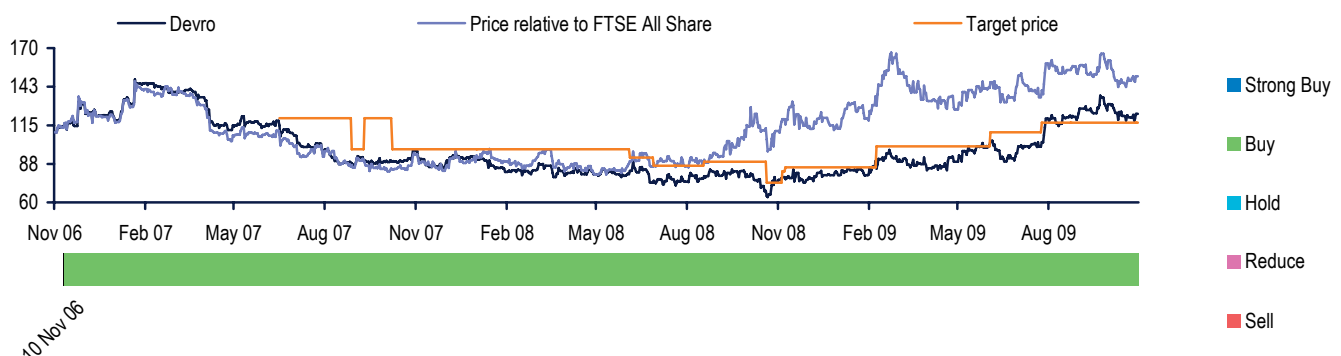
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Devro Ratings Plotter as at 09 Nov 09



Source: Investec Securities estimates, FactSet

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