


Quick Reaction

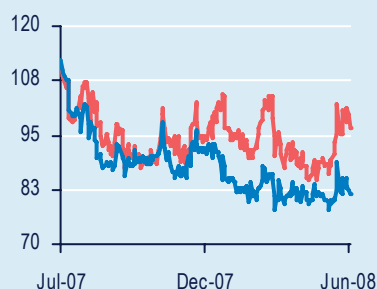
Buy **81p**

Potential upside **13%**

Target price **92p**

Market cap £132m
 12m high / low 112p/78p
 Average daily volume (000s) 131
 Sector Food Producers
 Index FTSE Small Cap
 RIC / Bloomberg DVO.L / DVO LN
 Implications for forecasts 

Share price performance



	1m	3m	12m
Price	1.6	1.2	(27.5)
Rel. All Share	9.6	3.8	(13.5)
Rel. Sector (not shown)	16.1	16.0	(9.2)

Source: JCF Group

Devro

Half year on track

Devro has confirmed that at the end of its H1 it is trading in line with expectations. In January the group announced a new strategy, with pricing at its centre, and during 1H this has been (and will continue to be) the prime area of focus. Volume growth has continued, supported by a strong performance from the D&E markets.

Key Forecasts

Year end: 31 December	2007	2008E	2009E
Turnover (£m)	156.3	160.9	164.5
PBT (normalised) (£m)	15.6	15.8	16.6
EPS (norm, continuing) - FD (p)	7.1	6.9	7.3
DPS (p)	4.45	4.45	4.45
PE (normalised) (x)	11.5	11.7	11.1
EV/EBITDA (x)	5.8	5.7	5.4
FCF yield (%)	4.5	2.6	5.6
Dividend yield (%)	5.5	5.5	5.5

Source: Company accounts/Investec Securities estimates

- It is encouraging to see Devro confirm that after the first half it is trading in line with expectations, and that we should see progress in volumes, revenues and profits. Our full year forecasts remain unchanged at £15.8m and EPS of 6.9p.
- During the half, volumes have progressed in two of the group's three divisions – Europe and Asia/Pacific – but have slipped back in the Americas, although this was expected. In Europe, the UK market has enjoyed a stronger start to the year and volumes in emerging markets have remained strong despite the slower economic background. The D&E markets are also helping the Asia/Pacific growth too – with further growth from China. In the Americas, the switch from collagen casings to gel by a major customer (which happened in a phased manner last year) is having a final impact on US volumes. The group should pass the anniversary of this switch during Q3. Overall, we would expect the group to record volume growth in the region of 2-3%.
- In translating volumes into revenues, we have to take into account price and exchange rates, and there are a number of complicating features in here. Within price, we have true price changes (which the group has prioritised in 1H), mix, which will reflect to some degree strong growth in lower-priced regions (a negative on price) and also transactional currency impacts resulting largely from the Czech Koruna (a further negative after a strong appreciation of the Czech currency versus the Euro and \$). However, on exchange translation there has been some compensatory movement as European profits are translated back into sterling. The net result of all of these movements is a small positive for 1H (a full analysis of the components will be given in September) and hence

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Investec acts as Broker to Devro

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revenue growth is expected to be slightly above our volume growth expectations in 1H.

- Regarding margin, the group comments that price increases have helped it to deal with rising energy and commodity prices, although currency issues will also complicate the margin picture. We have assumed a small reduction in gross margin %, although gross and operating profits should still be ahead, which ties in with the company's guidance this morning.
- The group typically sees a small cash outflow in 1H as it pays the final dividend, and we are assuming net debt rises from £27m at the year end to around £33-34m. This is lower than the equivalent number from end 1H 2007. However, with higher LIBOR rates we have assumed a similar interest charge and this leaves our pre-tax forecast for 1H profits at £7.2m versus the prior year's £7.1m. As we stated earlier, full year assumptions are unchanged, leaving our recommendation at Buy and EV/EBITDA-based target price at 92p. Risks to our price target include failure to achieve price increases.

Quick Reaction

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	108	55%	28	26%
Hold	67	34%	8	12%
Sell	22	11%	1	5%

Source: Investec Securities

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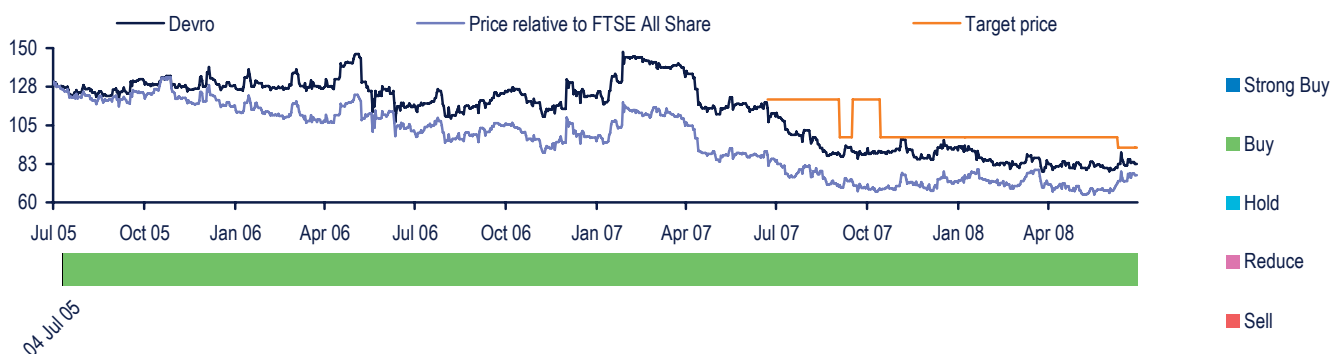
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Devro Ratings Plotter as at 01 Jul 08



Source: Investec Securities estimates, FactSet

Devro

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