


Quick Reaction

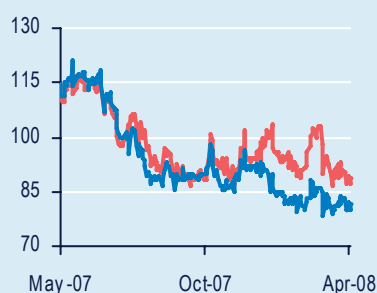
Buy **82p**

Potential upside **20%**

Target price **98p**

Market cap £133m
 12m high / low 121p/78p
 Average daily volume (000s) 104
 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	(3.6)	(30.0)
Rel. All Share	(4.1)	(6.7)	(24.3)
Rel. Sector (not shown)	(0.2)	(6.3)	(25.3)

Source: JCF Group

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Devro

Devro on track

Devro's AGM statement issued today shows that the group remains on track after its first quarter, which is encouraging news. Volumes have continued to show solid growth and some progress is being made in pricing, although there is more work to be done. A further update will come with the interim results. Overall, the group states its profit expectations remain unchanged.

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	11.2
EV/EBITDA (x)	5.8	5.7	5.5
FCF yield (%)	4.4	2.6	5.6
Dividend yield (%)	5.5	5.5	5.5

Source: Company accounts/Investec Securities estimates

- Devro has issued an encouraging AGM statement which states that the better trading seen in 2H 2007 has continued into Q1 2008. Volume growth has been good – the two regions standing out are the UK, where the group has gained some market share, and China, which remains a strong growth region. The US is showing a volume decline, but this was expected given the final impact from a customer switch to co-extrusion. There has been some compensatory increase in collagen gel sales to offset the casing shortfall.
- Foreign exchange movements in the first quarter have been challenging. Weaker sterling versus most of the relevant currencies has resulted in some translational benefit, but the strength of the Czech Koruna has continued to generate a negative transactional impact, partially offset by some benefit of weaker sterling for Scottish exports. Overall the two impacts broadly balance out.
- On pricing, the news is encouraging. The group reports a small positive on price/mix overall. Within this, there will be a negative price impact from transactional exchange (manifested in a lower price) and some small negative from mix (strong volumes in China, which is a lower priced market), but this looks to have been offset by some improvements in pure price, indicating some early success with the strategy. There is more to be done, however, with price increases phased across several quarters. A further progress guide should accompany the interim results.
- On the manufacturing front, the Scottish plant remains stable, which is encouraging as past problems seem not to be recurring.

Investec acts as Broker to Devro

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- The group started the year with a better than expected cash position and this has been maintained through Q1. Our estimate of year-end net debt remains £31m.
- At the AGM, John Neilson, FD, will retire and he is to be replaced by Peter Williams, who is joining from Cermaq.
- All in all, this is an encouraging start to the year, in our view. There is no upward movement to our forecasts but, given the previous disappointments, this stability is welcome and should help to rebuild confidence in the group's prospects. We leave our Buy recommendation and target price unchanged (based on EV/EBITDA comparisons).

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	117	56%	32	27%
Hold	71	34%	10	14%
Sell	21	10%	1	5%

Source: Investec Securities

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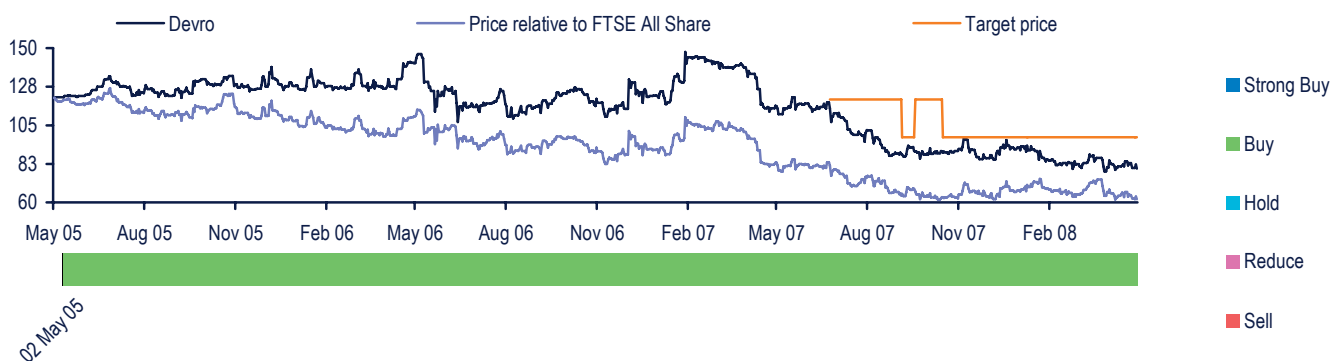
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Devro Ratings Plotter as at 01 May 08



Source: Investec Securities estimates, FactSet

Devro

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