OBJECTIVE SMALL CAP SHARE COMMENT
UPDATE

19th March 2009

WEIR GROUP (WEIR)
Share price 396.25p

Positive results and cash flowing - remains inherently resilient and financially sound

Following on from our commentary on 10th Feb, full year results for the 52 weeks ended 26th December 2008 were very positive – could we doubt them!

Revenue from continuing operations was up 34% to £1,354m with like for like growth of 22%. Each of the group's divisions achieved improved margin performance and double digit top line and profit growth. Excluding intangibles amortisation and exceptional items, the Group posted **operating profit of £185.0m up 58% on the prior year** with adjusted earnings per share increasing by 49% to 59.3p. Basic earnings per share for total operations fell to 81.4p from 83.8p last year reflecting the impact of discontinued operations.

- Lots of lovely cash

Cash generated from continuing operations increased to £214.4m (2007: £143.5m) against operating profit of 185m and the Group generated **£61m of free cash flow** (2007: £38m) before acquisitions and disposals and returned nearly 22.2% on capital invested.

2008 order input at £1,439m was 30% above the prior year period a full year contribution from SPM and first time contributions from Warman, Mesa and Standard Oilfield Services (SOS), all acquired during the year.

- Each of the core businesses delivered good growth.

Mineral Division includes all Group operations with primary sales to the mining, flue gas desulphurisation and oil sands markets. Minerals order input grew 23% to £805m including a £45m contribution from Warman and operating profit grew 39% to £114.5m.

Oil & Gas Division includes the Group's upstream and downstream businesses along with the substantial Oil & Gas service operations across the globe. Oil & Gas order input grew 62% to £289m including a £142m contribution from SPM and others with operating profit up 62% to £61.0m.

Power & Industrial Division includes the Group's valve operations, a specialist pump business and substantial service and aftermarket operations. The Division supplies critical safety valves to the power generation markets. Power & Industrial input grew 29% to £271m and operating profit by 34% to £18.0m.

- Finance costs up

Net finance costs were £10.6m (2007: £5.1m) after recognising a £5.4m interest rate benefit from the Group's US dollar balance sheet hedging programme. Other pension income was £1.8m (2007: £3.2m).

- Profit boosted by sale of Strachan & Henshaw

Profit after tax including discontinued operations was £170.8m (2007: £175.0m) and included a **gain on the sale of Strachan & Henshaw of £55.1m** which is classified as a discontinued operation in the results.

The **dividend increased 12% to 18.5p**

Net capital expenditure was £52.1m (2007: £39.0m) with net proceeds from disposals of £80.6m offset by the combined net costs of £140.9m for the acquisitions of Warman, Mesa and SOS.

- Debt levels comfortable

Net assets at 26th December 2008 were £707.8m (2007: £545.2m) with fixed assets £1,024m including intangibles of c£792m. Current ratio was 1.18x (2007 1.40x).

After taking account of an adverse foreign currency translation effect of £63.5m, net debt at year end was £239.9m compared to £171.3m at 28 December 2007 representing a net debt / EBITDA ratio of 1.1 times (2007: 1.3 times). They have **£625m of revolving credit facilities**, expiring 2011, signed in the year.

The net Group deficit for retirement benefit obligations at the year end was £14.7m (2007: £36.9m surplus).

- Outlook

The outlook for Minerals will be impacted by the general market slowdown. The year started well but they are starting to see a general reduction in activity levels. Divisional profitability will be principally driven by the volume of spares and service.

In Oil & Gas, assuming economic conditions remain consistent with the early part of the year, they would expect 2009 revenue to be as much as 30% below the second half 2008 run rate.

Outlook for Power & Industrial remains broadly positive with a global need for infrastructure spend supporting a strong medium term outlook.

They are 'taking action to prepare the business for the short term but with an eye on the longer term' while remaining focused on operational efficiencies, cash generation and lowering our costs.

They have made a strong strong start to 2009, however, they are unable to predict with any certainty the market conditions which will prevail in the latter part of the year – but who can, even when times are good!

- Any guidance is good in this market

They have considered a range of downturn scenarios which, subject to more definitive market data, would tend to support the current range of estimates for 2009 market expectations for profit before tax, intangibles amortisation and exceptional items of **£140m - £169m.**

Top line was ahead of many estimates largely due to the excellent performance from minerals.

The shares currently trade (share price 396.25p) at c7.8x consensus estimates which is at the top end of the Industrial Engineering sector which looks deserved.

The **c5% yield looks safe** (covered over 1.8x by free cash) and the balance sheet robust.

The numbers ignore the fact that this is quality business with a strong position in core markets.

Gearing is modest at c34%, the pension liability under control and bank facilities in place to support growth.

INVESTOR'S CHAMPION

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