

Headlines

Scottish and Southern Energy:
trading update, Buy.

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Scottish & Southern Energy

Share Price: 1134p
Market cap: £10.3bn
PE: 10.3x
Yield: 6.2%
(SSE.L)

Scottish & Southern Energy has released a trading update for the three months to 30 June 2009 to coincide with today's AGM. Reassuringly, SSE has maintained full year guidance for a "moderate" increase in adjusted profit before tax (est. c.5%), despite the fall in power prices and depressed spreads.

Volumes are down on lower demand in challenging economic conditions. The number of units of electricity distributed declined 5% to 9.4TWh (9.9TWh) and the amount of gas transported by Scotia Gas Networks (50% stake) decreased 15% to 28.0TWh (32.8TWh). Renewable energy output is up 15% to 1116GWh compared to the same period last year (967GWh).

The number of electricity and gas supply customer accounts in Great Britain increased by more than 50,000 to over 9.1m (incl. other businesses, total customer base is now 9.5m).

Operational performance remains solid. Gas-fired power stations achieved 66% of maximum availability (availability at stations other than Medway, which returned to service in June after a prolonged outage, is 95%) and coal-fired stations achieved 97%. The number of customer minutes lost in the Scottish Hydro electric power distribution area is lower at 14 (16) and the Southern Electric power distribution area also reduced to 14 (15).

The Group continues to progress investment of around £6.7bn in the five years to March 2013 to drive future growth as capacity comes on stream. Capex in the current year is expected to be c.£1.5bn with about half allocated to renewables. About 150MW of wind capacity is due to be completed over the next 12 months. The two main projects, Clyde (350MW onshore) and Greater Gabbard (500 MW offshore) are expected to complete in 2012. Marchwood (840MW CCGT) is expected to be in commercial operation by autumn 2009. Work at Aldbrough (strategically important gas storage) continues to progress (capacity is expected to become available in at least one more cavern in 2010, taking the total to at least three) but is behind schedule and is expected to take three more years to fully complete.

SSE intends to dispose of two gas turbines (230MW) at Peterhead power station as electricity transmission charges in Scotland mean that a proposal to replace the existing conventional boiler with a new state-of-the-art gas turbine to increase modern CCGT capacity at the station is uneconomical.

SSE confirmed that it remains on course to deliver at least 4% annual real growth in the dividend for 2010 (based on the average rate of inflation in the UK between April 2009 and March 2010). SSE is committed to a policy of sustained real dividend growth thereafter.

The Group remains confident in the robustness of its balance sheet. In the last few months, it has arranged access to £1bn of undrawn credit facilities that mature in 2012 and remains on course to secure c.£400m of additional funding from EIB later in the year. Earlier this year, SSE placed 42m shares (4.8% of share capital) with institutions at a price of 1140p to raise £479m gross, providing flexibility to make small opportunistic acquisitions. In July, rating agency Moody's placed SSE on three-month credit watch and is in the process of reviewing the company for a possible downgrade, which could be negative for sentiment.

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Prices are as at close 22 July 2009

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Interim results are due to be published on 11 November 2009. Earnings split across H1 and H2 should be more balanced. Adj PBT in H1-09 is expected to revert to a more normal level and be significantly higher than the same period last year when just under one quarter of adj PBT for the full year was delivered in the first six months (must lower proportion than in previous years). While earnings from generation are likely to be adversely impacted by lower power prices, this is balanced by an easing of pressures experienced last year on the supply business (supply should benefit in lower wholesale environment).

SSE's share price is up 4.4% over the past three months (3m v In: -6.1%; 3m v Sc: +2.7%). At a current price of 1134p (52-wk high: 1491p on 19 August 2008; 52-wk low: 1024p on 14 April 2009), the Group is trading at 10.3x forward earnings (2011e: 9.5x) and yields a well covered 6.2% (2011e: 6.6%). By way of comparison, CNA's share price is broadly flat at -0.4% over the same period (3m v In: -10.4%; 3m v Sc: -5.0%). At a current price of 234p (52-wk high: 306.24p on 16 September 2008; 52-wk low: 203.25p on 4 December 2008), CNA is more expensive at 11.2x forward earnings (2011e: 10.4x) and yields a more modest 5.4% (2011e: 5.7%). SSE's balanced range of regulated and non-regulated businesses remains attractive, providing a platform to deliver sustained real dividend growth and reducing the risk associated with any one particular business activity.

Our recommendation remains **BUY** (consensus recommendation is outperform). Consensus estimates for 2010 are £18,419m revenue (2011e: £19,760m), £1,314m profit (2011e: £1,425m), 110.2p EPS (2011e: 118.9p) and 70.8p (75.3p).

Analyst: Tina Cook

FTSE 350 Highest Forecast Yield with Cover > 2x

Stock	Price	Yield	Cover	Stock	Price	Yield	Cover
1. INTERSERVE	175p	9.9%	2.4x	11. FRIENDS PROVIDENT GROU	73p	5.5%	2.9x
2. AVIVA	328p	7.9%	2.3x	12. CARILLION	263p	5.4%	2.5x
3. BEAZLEY	103p	6.7%	2.0x	13. BBA AVIATION	120p	5.3%	2.2x
4. MELROSE	107p	6.6%	2.1x	14. EUROMONEY INSTL.INVESTC	232p	5.1%	2.6x
5. UNITED BUSINESS MEDIA	391p	6.4%	2.1x	15. GREENE KING	429p	5.1%	2.1x
6. MORGAN SINDALL	639p	6.4%	2.1x	16. STAGECOACH GROUP	132p	5.0%	2.3x
7. MORGAN CRUCIBLE	104p	6.0%	2.1x	17. TUI TRAVEL	232p	4.9%	2.2x
8. LEGAL & GENERAL	64p	6.0%	2.8x	18. MEGGITT	182p	4.8%	2.8x
9. DAIRY CREST	325p	5.9%	2.2x	19. BAE SYSTEMS	338p	4.7%	2.7x
10. AMLIN	319p	5.8%	2.2x	20. SMITHS GROUP	734p	4.6%	2.1x

Yield and cover based on consensus dividend and earnings estimate for first forecast year
Source: IBES/Thomson Datastream

FTSE 350 Lowest Forecast PE

Stock	Price	PE	Stock	Price	PE
1. YELL GROUP	23p	0.7x	11. GAME GROUP	154p	6.6x
2. PUNCH TAVERNS	86p	1.9x	12. MARSTON'S	89p	6.7x
3. ENTERPRISE INNS	124p	3.9x	13. PREMIER FOODS	39p	6.7x
4. INTERSERVE	175p	4.1x	14. ST.JAMES'S PLACE	188p	7.0x
5. AVIVA	328p	5.4x	15. OLD MUTUAL	93p	7.1x
6. PRUDENTIAL	418p	5.5x	16. LADBROKES	174p	7.3x
7. NATIONAL EXPRESS	310p	5.6x	17. CARILLION	263p	7.3x
8. LEGAL & GENERAL	64p	6.0x	18. MELROSE	107p	7.4x
9. FRIENDS PROVIDENT GROUP	73p	6.2x	19. UNITED BUSINESS MEDIA	391p	7.4x
10. MOUCHEL GROUP	172p	6.5x	20. EUROMONEY INSTL.INVESTOR	232p	7.5x

PE based on consensus earnings estimate for first forecast year
Source: IBES/Thomson Datastream

FTSE 350 Lowest Forecast Price to Book Value

Stock	Price	Price to Book Value	Stock	Price	Price to Book Value
1. PUNCH TAVERNS	86p	0.1x	11. SMITH (DS)	70p	0.6x
2. YELL GROUP	23p	0.1x	12. FRIENDS PROVIDENT GROUP	73p	0.6x
3. BARRATT DEVELOPMENTS	178p	0.3x	13. F&C ASSET MANAGEMENT	70p	0.6x
4. ENTERPRISE INNS	124p	0.3x	14. SIG	107p	0.6x
5. MILLENNIUM & CPTH.HTLS.	256p	0.4x	15. LOGICA	83p	0.6x
6. BODYCOTE	122p	0.5x	16. PREMIER FOODS	39p	0.7x
7. INTERMEDIATE CAPITAL GP.	195p	0.5x	17. ASHTEAD GROUP	60p	0.7x
8. MARSTON'S	89p	0.5x	18. COOKSON GROUP	297p	0.7x
9. TAYLOR WIMPEY	37p	0.5x	19. AVIVA	328p	0.7x
10. ROYAL BANK OF SCTL.GP.	40p	0.6x	20. MELROSE	107p	0.7x

Price to book value based on consensus book value estimate for first forecast year
Source: IBES/Thomson Datastream

FTSE 350 Lowest Price to Cash Flow

Stock	Price	Price to Cash Flow	Stock	Price	Price to Cash Flow
1. YELL GROUP	23p	0.5x	11. SHANKS GROUP	75p	3.1x
2. ASHTEAD GROUP	60p	1.4x	12. GO-AHEAD GROUP	1217p	3.2x
3. PUNCH TAVERNS	86p	1.5x	13. MITCHELLS & BUTLERS	256p	3.3x
4. MORGAN CRUCIBLE	104p	1.6x	14. MELROSE RESOURCES	282p	3.3x
5. NATIONAL EXPRESS	310p	2.0x	15. UNITED UTILITIES GROUP	503p	3.8x
6. RANK GROUP	69p	2.2x	16. ENTERPRISE INNS	124p	3.8x
7. BT GROUP	112p	2.3x	17. BBA AVIATION	120p	3.9x
8. FIRST GROUP	345p	2.4x	18. TAYLOR WIMPEY	37p	3.9x
9. BARRATT DEVELOPMENTS	178p	2.5x	19. CARILLION	263p	3.9x
10. ARRIVA	414p	2.8x	20. DAIRY CREST	325p	4.0x

Cash flow defined as net income plus depreciation, amortisation, provisions and net working capital
Price to cash flow based on consensus cash flow estimate for first forecast year
Source: IBES/Thomson Datastream

Prices are as at close on 22 July 2009

FTSE 350 Lowest PEG Ratio

Stock	Price	PE	PEG	Stock	Price	PE	PEG
1. INTERMEDIATE CAPITAL GP.	195p	15.0x	0.14	11. COOKSON GROUP	297p	15.8x	0.33
2. BEAZLEY	103p	7.5x	0.19	12. AMLIN	319p	7.9x	0.34
3. MELROSE RESOURCES	282p	22.1x	0.20	13. HISCOX	296p	8.5x	0.35
4. BRIT INSURANCE HOLDINGS	203p	9.9x	0.21	14. MORGAN CRUCIBLE	104p	7.9x	0.38
5. CHAUCER HOLDINGS	44p	8.4x	0.25	15. SMITH (DS)	70p	12.8x	0.39
6. NOVAE GROUP	340p	14.8x	0.26	16. KESA ELECTRICALS	118p	16.8x	0.40
7. EASYJET	284p	31.1x	0.28	17. ITV	36p	53.4x	0.46
8. BODYCOTE	122p	13.6x	0.31	18. DRAX GROUP	412p	7.9x	0.47
9. GKN	95p	47.3x	0.32	19. FIRST GROUP	345p	8.4x	0.48
10. INVESTEC	389p	10.5x	0.32	20. DANA PETROLEUM	1396p	29.6x	0.48

PEG calculated by dividing PE ratio based on first forecast year earnings estimate by growth rate of earnings from between year 1 and year 3

All earnings taken after goodwill and exceptionals

Source: IBES/Thomson Datastream

FTSE 350 Best Stock Performance Over Last Month

Stock	Price	1m	6m	12m	Stock	Price	1m	6m	12m
1. INCHCAPE	24p	+42%	+244%	-60%	11. TULLETT PREBON	360p	+27%	+190%	-24%
2. TRAVIS PERKINS	639p	+35%	+142%	-24%	12. OLD MUTUAL	93p	+27%	+62%	-3%
3. EMERALD ENERGY	650p	+33%	+55%	+71%	13. KAZAKHMYS	741p	+26%	+256%	-47%
4. EURASIAN NATRES.CORP.	790p	+32%	+155%	-25%	14. ANTOFAGASTA	700p	+26%	+64%	+32%
5. PETROFAC	774p	+31%	+118%	+20%	15. WETHERSPOON (JD)	466p	+26%	+49%	-24%
6. MCBRIDE	158p	+31%	+27%	+74%	16. MOTHERCARE	560p	+26%	+37%	+57%
7. DUNELM GROUP	280p	+30%	+84%	+129%	17. INFORMA	251p	+25%	+22%	-28%
8. MORGAN CRUCIBLE	104p	+28%	+6%	-50%	18. NORTHERN FOODS	64p	+24%	+11%	+8%
9. BRITVIC	327p	+28%	+37%	+29%	19. MONDI	234p	+24%	+21%	-7%
10. COOKSON GROUP	297p	+27%	+93%	-69%	20. COLT TELECOM GROUP	125p	+23%	+66%	-11%

Source: Thomson Datastream

FTSE 350 Worst Stock Performance Over Last Month

Stock	Price	1m	6m	12m	Stock	Price	1m	6m	12m
1. PUNCH TAVERNS	86p	-16%	+123%	-64%	11. FIRST GROUP	345p	-4%	+16%	-36%
2. AUTONOMY CORP.	1245p	-11%	+16%	+19%	12. MORGAN SINDALL	639p	-3%	+12%	+9%
3. PARTYGAMING	235p	-11%	+42%	+11%	13. CHLORIDE GROUP	138p	-3%	+19%	-47%
4. YELL GROUP	23p	-11%	-48%	-65%	14. EAGA	121p	-3%	-14%	+3%
5. DRAX GROUP	412p	-8%	-23%	-43%	15. VODAFONE GROUP	115p	-3%	-11%	-11%
6. KIER GROUP	901p	-6%	+4%	-8%	16. AQUARIUS PLATINUM	220p	-3%	+50%	-62%
7. ECOFIN WTPWR.OPPS.ORD.	140p	-6%	+15%	-20%	17. GO-AHEAD GROUP	1217p	-3%	+28%	-31%
8. PV CRYSTALOX SOLAR	79p	-6%	-15%	-55%	18. INTERMEDIATE CAPITAL GP.	195p	-3%	-19%	-65%
9. LANCASHIRE HOLDINGS	435p	-5%	-3%	+45%	19. ELECTROCOMP.	145p	-3%	+6%	-9%
10. LADBROKES	174p	-4%	+7%	-38%	20. HUNTING	416p	-2%	-6%	-52%

Source: Thomson Datastream

Global Index Performance

Index	Level	1m	6m	12m	Index	Level	1m	6m	12m
FTSE 100	4494	+6%	+11%	-16%	FRANCE CAC 40	3305	+6%	+15%	-24%
FTSE 250	7794	+9%	+26%	-13%	DAX 30 PERFORMANCE	5122	+9%	+21%	-21%
FTSE SMALL CAP	2285	+4%	+27%	-16%	TOPIX	907	-2%	+14%	-30%
FTSE ALL SHARE	2293.7	+6%	+13%	-16%	MSCI PACIFIC EX JP	1046	+6%	+26%	-15%
S&P 500 COMPOSITE	954	+7%	+15%	-25%	MSCI EUROPE	954	+7%	+15%	-22%
DOW JONES INDUSTRIALS	8881.3	+7%	+9%	-23%	MSCI WORLD	723	+6%	+16%	-24%
NASDAQ COMPOSITE	1926.4	+9%	+31%	-16%					

Source: Thomson Datastream

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