

CHEMICALS  
SCAPA (SCPA)

# Scapa beats forecasts again

Scapa has a habit of beating City forecasts and, with the ink only just dry on latest estimates, has done it again. Another wave of cost-cutting at the adhesives and tapes company improved margins and delivered a 34 per cent increase in underlying operating profit. Recent share price weakness on slow progress at the electronics division and jitters over Europe should only prove temporary.

Cost-cutting improved the underlying trading margin by 130 basis points to 5.5 per cent, and £5.4m of sales from US healthcare firm WEBTEC made up for low-margin business elsewhere. It also chipped in £0.5m of profit and hauled divisional margin up to



13.9 per cent. The industrial unit, responsible for three-quarters of revenue, also did well. Profit was up two-thirds to £7.2m, driven by more savings and sales of tape to the French construction industry and insulating fibre optic cables. Losses at the electronics business were disappointing, but the benefit of recent investment should be visible this year. Worries about Europe should be put into perspective, too. Yes, the region contributes over half of sales, but two-thirds of that is from more reliable customers in the UK, Germany and France.

Broker Arden Partners is looking for current year adjusted pre-tax profit of £11.5m and adjusted EPS of 4.8p (£9.5m and 4.2p in 2012).

**Cost-cutting and a drive for higher-margin business is paying off, yet a forward PE ratio of 12.5 fails to reflect the potential for more.**

**Buy**

Ord Price: 60.5p Market Value: £88.3m  
 Touch: 59-62p 12-Month High: 71p Low: 40.5p  
 Dividend Yield: nil PE Ratio: 13  
 Net Asset Value: 45p\* Net Cash: £7m  
\*includes intangible assets of £31.7m, or 22p a share

Year to 31 Mar	Turnover (£m)	Pre-tax profit (£m)	Earnings per share (p)	Dividend per share (P)
2008	170	7.4	3.1	0.75
2009	174	-9.3	7.5	nil
2010	177	-5.2	-1.9	nil
2011	192	6.1	2.4	nil
2012	196	10.5	4.5	nil
% change	+2	+72	+88	-

Last IC view: Buy, 69p, 12 Apr 2012.