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AdEPT Telecom* Interim Results Inline with Expectations - Reiterate 'Buy' at 22p: Target Price 60p (40p)

Key	Data
EPIC	ADT
Share Price	22p
Spread	21p – 23p
NMS	2,000
Total Number of issued shares	21,067,443
Market Cap	£4.63 million
12 Month Range	16p – 25.5p
Market	AIM
Website	www.adept-telecom.co.uk
Sector	Telecommunications
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AdEPT Telecom, a leading independent provider of fixed line and mobile voice and data telecommunications services to small and medium sized UK-based businesses, announced on 16th November results for the 6-months ended 30th September 2010 which were in line with expectations.

Revenues overall fell by 7.1% to £12.09 million in part due to a challenging economic environment reflected in reduced variable call volumes, although exposure is reduced as call revenues represent a smaller proportion of total revenue. Gross margin contracted by 1.1% points to 35.9% largely due to the more challenging economic and trading conditions. However, in line with Adept's strong commitment to strong cost control and focus on winning and retaining larger customers administrative expenses fell by an impressive 17.7% to £3.598 million. The continued focus on cross-selling has yielded gains, with the proportion of customers taking three or more products increasing from 20.1% to 27.2%. Operating efficiencies have enabled operating profit to jump by 67.6% to £0.741 million and for the operating margin to widen from 3.4% to 6.1%. Net finance expenses fell by 9.9% to £0.598 million due to the further reduction in group debt of £1.05 million to £8.16 million and as a result Adept reported a pre-tax profit of £0.143 million compared with a loss of £0.222 million a year earlier.

Table: Interim Results

6-months ended 30 September, £000	**2010**	**2009**	**%**
Revenue	**12,090**	**13,008**	**(7.1)**
Cost of Sales	(7,751)	(8,195)	(5.4)
Gross Profit	**4,339**	**4,813**	**(9.8)**
Margin	*35.9%*	*37.0%*	
Administrative Expenses	(3,598)	(4,371)	(17.7)
Operating Profit	**741**	**442**	**67.6**
Margin	*6.1%*	*3.4%*	
Net Finance Expenses	(598)	(664)	(9.9)
Pre-tax Profit/(Loss)	**143**	**(222)**	**NA**
Tax	(137)	(130)	
Retained	6	(352)	NA
EPS – Basic	0.03p	(1.67p)	NA
EPS – Basic Adjusted[1]	**5.46p**	**4.85p**	**12.6**

Source: Company
Notes: [1] Adjusted earnings per share, after adding back amortisation and non-recurring costs.

During October 2010, Adept renewed its credit facility with Barclays Bank, albeit at a level £1.125 million lower than before at £11.125 million. Nevertheless, the terms are generally more favourable and provide Adept with greater operational flexibility together with less onerous banking covenants and lower interest rates, which should reduce the overall annual interest charge by £0.115 million. As at 31st October 2010 approximately £2.0 million was undrawn and given the group's commitment to cash maximisation and debt reduction Adept has ample funding capacity to comfortably drive its organic growth strategy.

The momentum already established has continued into the second half and the group's performance will increasingly reflect the growth in the stickier and higher margin Premier Customer division (large, multi-site customers) especially as its service offering is further broadened. During the last six months this division secured five notable 24 - 36 months contracts with a total combined contract value comfortably in excess of £1.9 million. In addition, since its authorisation last March, Adept has begun to win contracts under the JaNET (Joint Academic Network) framework. Consequently, we remain comfortable with our existing forecasts while the key to the investment case remains the company's consistent and proven ability to generate strong cash flows and deleverage the group at about £2 million per annum.

Therefore, assuming that the very conservative and current EV/EBITDA multiple of 3.9 (Daisy is acquiring SpiriTel on a multiple closer to 5.6 times) is unchanged within two years the equity would be valued at £7.22 million, equivalent to share price of 34.3p. However, the UK telecom market is consolidating and this should result in a re-rating, probably closer to the Daisy/SpiriTel EV/EBITDA multiple of 5.9 times, which suggests a share price of 60.1p, therefore, with the shares trading at 22p, our stance remains **buy**.

Forecasts Table

Year to 31 March	Turnover (£million)	Adjusted EBITDA (£million)	Adj. Pre-tax Profit (£million)	Adjusted Earnings per Share (p)	Price Earnings (x)	Dividend Per Share (p)
2008A	23.6	3.3	2.6	11.4	1.9	0.0
2009A	28.6	3.5	2.1	10.4	2.1	0.0
2010A	25.7	3.6	2.2	9.3	2.4	0.0
2011E	24.1	3.2	1.9	7.6	2.9	0.0
2012E	24.0	3.2	2.2	8.5	2.6	0.0

Source: Company and Growth Equities & Company Research

**** Rivington Street Holdings, the ultimate owner of GE&CR, owns shares in AdEPT Telecom.***

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