

## Morning Notes – 26 September 2008

Company	Event	Estimates	Old	New	Price	Mkt Cap.
Dragon Oil	Board changes	No Change	BUY	HOLD	240p	£1.2bn
KCOM	IMS	Under Review	SELL	SELL	27.75p	£143m
Robert Wiseman Dairies	Pre-close	N/A	NEUTRAL	NEUTRAL	328p	£236m
Zetar	AGM Statement	Down	HOLD	HOLD	167p	£19m

**REMINDER TO REGISTER - KBC'S THIRD ANNUAL CEE AND SEE REAL ESTATE CONFERENCE - BUDAPEST, 15-17 OCTOBER (SEE WEBLINK <http://www.kbccerealestate.com/>)**

### Dragon Oil (DGO) – Board changes – EST: No Change, REC: HOLD

Dragon has announced the unexpected (by us at least) resignation of Hussein Sultan as Executive Chairman of Dragon Oil. Hussein, who has led Dragon since ENOC became the controlling shareholder of the company has steered it through an astonishingly strong growth period that leaves it with over 40,000 b/d of production and \$650m of net cash. The CEO, Abdul Jaleel At-Khalifa has been appointed to the board and one of the non-executive directors steps up to become non-executive chairman. No background or reason for the change has been given.

Hussein Sultan was effectively the sole public face of Dragon Oil. Although he clearly did not like doing investor relations, he was the only one in the organisation who even pretended to do it. While our fundamental views on the company and its assets are unchanged, we are downgrading our recommendation to Hold until we get some clarity on the implications of the board changes.

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### KCOM (KCOM) – IMS – EST: Under review, REC: SELL

KCOM's IMS this morning reveals that the period to September has shown improved profitability on lower revenue than the comparable period last year, subject to a £3m provision for exposure to Lehman's as a customer. The Lehman's exposure is a pity as otherwise these results would have shown a steady ship with reducing costs. Instead we see Integration & Managed Services retreating to only just over EBITDA breakeven, which would affect the potential disposal value of that division, when we perceive KCOM's share price redemption as only achievable by a break up the group. With momentum clearly on the downside, despite having achieved our 30p target price, we reiterate our SELL and place numbers under review.

We noted in July that we believed the dividend was under threat, when we questioned whether it would be prudent of the board to pay a dividend when *group* earnings might be insufficient, and net debt is expected to be £167m at year end, compared with a market cap of £143m (and net debt/EBITDA of c2.4x). Nevertheless management maintain their guidance that it is based upon the continuing strong performance of the Telecoms and Internet Services (ie Hull) business, which indeed remains strong.

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### Robert Wiseman Dairies (RWD) – Pre-close –EST: NA, REC: Neutral

An in-line trading statement. The company expects to pass on an across-the-board price rises caused by cost increases first notified in May, particularly in bulk cream and oil related costs. Because of a delay in implementing price increases these are depressing the current year ending March. Consensus forecast is PBT £29m and EPS 15p, pricing the shares on PER 22x. This should underpin the higher forecasts for FY10E of PBT £37m and EPS 35p, a PE ratio of 9x.

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**Zetar (ZTR) – AGM Statement – EST: Down, REC: HOLD**

Zetar's trading statement yesterday was worded in a concerning manner, stating that the company expected profits for the year ending April 2009 would be "ahead of last year". There has been margin pressure and we understand this particularly surrounds Zetar's heavy concentration on fruit and nut products, some of which has a commodity dimension. As consensus forecast PBT was £8.2m against £5m historic this potentially looked like an extremely large warning. In reality we believe this reflects genuine uncertainty ahead of the seasonal importance of Christmas and Easter. Zetar is still a seasonal business, and has become more so since its last acquisition of Lir, the Irish premium chocolate manufacturer.

Forecasts are being reduced by c20% to c£6.7m and EPS of 40p, although we were already around 8% below consensus. We expect to firm up our forecasts today.

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## Regulatory disclosures and Disclaimer

### Recommendation structure and distribution at 31 March 2008 of companies under coverage

		No	%
Buy	> +20% expected absolute price performance over 12 months	69	31
Add	+10% to +20% expected absolute price performance over 12 months	7	3
Hold	+/-10% range expected absolute price performance over 12 months	44	20
Reduce	-10% to -20% expected absolute price performance over 12 months	6	3
Sell	> -20% expected absolute price performance over 12 months	16	7
Corporate#		80	36
<b>Companies not under coverage*</b>			
Positive	Anticipate positive movement of share price		
Neutral	Anticipate no movement of share price		
Negative	Anticipate negative movement of share price		

\* Estimates provided for such companies are consensus figures.

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Please note that the share price used in the headline is the mid-market price taken at the close of trading the previous trading day.

#### **Additional Disclosure for Dragon Oil:**

<b>Recommendation History</b>	
Buy	13-Jun-08
Hold	16-Jan-08
Hold	31-Oct-07
Buy	28-Jun-07
Add	20-Apr-07

#### **Additional Disclosure for KCOM:**

KBC Peel Hunt makes a market in this company

<b>Recommendation History</b>	
Sell	23-Oct-07
Buy	02-Oct-06
Add	03-Aug-05

#### **Additional Disclosure for Zeta:**

KBC Peel Hunt makes a market in this company

<b>Recommendation History</b>	
Hold	23Apr-08
Buy	26-Jul-07
Hold	25-Jul-07

