

SPECIALITY CHEMICALS RESEARCH

Zirax

3.125p
Trading statement comment
16 December 2009

HOLD

ANALYST
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SALES & TRADING CONTACTS

See reverse

COMPANY DESCRIPTION

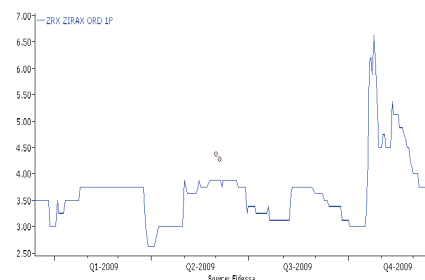
Manufacturer of calcium chloride - based speciality chemicals

INVESTMENT DATA

Ticker	ZRX
Listing	AIM
No. of shares	172.3m
Market cap.	£5.4m
Enterprise value	£6.1m

SHAREHOLDERS Holding (%)

Erith Group	59.5%
Valery Andosov	10.5%
Yugo-Vostok Promkapital	7.7%
Pennygold Trading Supplies	5.5%
Metropol (UK) Limited	4.0%
Robur Fonder	3.0%

12M SHARE PRICE PERFORMANCE


Zirax's principal customer in the oil and gas sector has recently placed lower orders than previously anticipated. Rosneft has indicated that it will not be placing further orders in 2009 prior to resuming orders early in 2010. Given that Rosneft accounts for approximately half of group volumes, we expect that sales will be considerably lower than previously forecast in the current year. This news also implies that the group will report a substantial loss for the twelve month period. Although we anticipate that Zirax will be able to replace a proportion of lost business in 2010, this recovery is likely to be slow and we have reduced our 2010 estimates markedly.

Year end Dec	Revenue \$m	EBITDA \$m	PTP \$m	Net profit \$m	EPS p	PER x
FY 2007A	30.7	5.5	5.3	3.7	1.09	2.9
FY 2008A	33.9	0.4	0.7	-3.4	-1.07	N/A
FY 2009E	30.0	0.7	-2.1	-2.5	-0.91	N/A
FY 2010E	38.0	3.0	1.1	0.8	0.28	11.2

At the time of the interim results on 25 September, Zirax was confident that demand for the company's products was robust despite difficult global economic conditions. Demand for de-icing products has softened but still continues to grow. However, sales into the oilfield process chemicals sector have been disappointing.

Zirax's principal customer in the oil and gas sector, Rosneft, has historically accounted for approximately 50% of group volumes. However, Rosneft placed lower orders than anticipated in the fourth quarter of 2009 and has now indicated that it will not be placing further orders this year.

As a consequence, Zirax now anticipates that sales in the second half of the year will be only marginally ahead of the first half. This will also result in additional losses being incurred in H2 although not to the same extent as the \$1.2m deficit reported in H1. The management is confident that it has sufficient financial resources for its current needs despite the current downgrade.

For 2009, we have reduced our revenue assumption from \$38.1m to \$30.0m to reflect the decline in volumes delivered to Rosneft. This represents H2 sales of approximately \$15.4m; a marginal increase in sales in H2 compared to H1. Nevertheless, our original pre-tax profit forecast of \$0.3m is reduced to a loss of \$2.1m given that the group is operationally geared with a significant proportion of its operating costs fixed.

Our forecasts for 2010 are highly indicative at this stage. We are assuming a return to growth next year, albeit at a considerably more modest pace, as Zirax begins to replace gradually some of the volumes lost relating the reduction of deliveries to Rosneft.

New forecast summary

Year end Dec	Revised 2009E	Old 2009E	Change (%)	Revised 2010E	Old 2010E	Change (%)
Turnover (\$m)	30.0	38.1	-21.3%	38.0	45.0	-15.6%
EBITDA (\$m)	0.7	2.5	-72.0%	3.0	4.5	-33.3%
Pre-tax profit (\$m)	-2.1	0.3	-	1.0	3.5	-71.4%
Net profit (\$m)	-2.5	-0.3	-	0.8	2.4	-66.7%
EPS (p)	-0.91	-0.11	-	0.28	0.95	-70.5%

Westhouse acts as nominated adviser to Zirax and is paid fees for these services.

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