



Search

Lombard Risk Management - Profits warning

04 June 2007 (17:43:44)

Lombard Risk Management - Profits warning

User Details

My Profile
Portfolio
Remember Me
Log Out

Bulletin Board

T1ps.community board

Articles

TOM'S EDITORIAL

bronte country and what is a hold

HOT T1P

buy myhome* at 88p

buy metals exploration

T1P UPDATES

lombard risk management - profits warning

nexus* - non-exec appointment

avanti communications* - contract win

THE EVIL KNIEVIL DIARIES

june 4th 2007

TOM AND ZAK'S TRADERS CALL

back with tv, almost there on another front, the next tips and

Lombard Risk Management (LRM) has this morning issued a disappointing trading update in respect of the year ended 31st March 2007. As I commented in an earlier update, there had been an expectation that the software business would revert to profitability in the second half of the financial year just ended. Whilst revenues rose by an impressive 50% over last year, profitability in the software business was not achieved, and this side of the operation lost a little over £400,000 in the second half of the year. Significantly though, all of this loss can be attributed to the delay in revenue recognition on two signed contracts which caused a deferral of around £370,000 of revenue. The delay on one of these was almost entirely due to regulatory delays and the other to client issues outside the company's control. The revenue from these projects should be recognized in the current financial year, so the issue is one of revenue recognition between accounting periods. My stance and my forecasts for this year remain unchanged - this is a one-off issue.

I have spoken to the company this morning and as far as I am concerned, the overall trading prospects for the group in the current financial year continue to be favourable, in particular the impact from Basel 2 and the requirement for regulatory reporting upgrades. As previously announced, the group's STB Systems subsidiary will be an appreciable beneficiary of the Basel 2 changes in banking and securities firms' regulatory reporting requirements to the FSA and other regulators due to come in during 2008. I am very encouraged by the tangible progress that is being made with Lombard's order book for upgrading its customers for Basel 2, as well as winning new business from firms upgrading systems as a result of Basel 2.

Elsewhere, with regards to the potential spin-out/sale of the independent valuation business, the company continues to make progress and I imagine we should hear more on this in due course. Meanwhile, the bottom line is that the software business should return to profitability in the current financial year. Indeed, I reckon profits of £1.6 million from the software business will be recorded for the year to March 2008. If the valuation business is sold (*which I think it will be*), then we will likely get an exceptional profit in the current year too. Obviously we will need to factor in a trading loss from the valuation part of the operation, but overall, assuming the exceptional profit is included, an overall position of at least £1.6 million at the pre-tax level, should be reported. That would equate to earnings of 0.82p per share and at 7.25p, the shares thus trade on a prospective 8.9 times multiple for this year. This morning's profits warning related to one-off issues and as such, on a lowly rating the shares remain a "**speculative buy**".