GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Fixed Interest

Stobart Group Plc 5.5% 04/12/18 - Buy

15th November 2012

Price	100
Credit Rating	N/A
Risk Rating	Medium
Coupon	5.5%

The Issuer:

Stobart Group Ltd ("Stobart" or the "Group") is a leading National Transport Distribution Group (with 6,600 employees operating from more than 50 sites across the UK & Europe) listed on the LSE (FTSE 250) with a market capitalisation of ~£367m. Stobart reported pre-tax profit for the six months to 31st August of £13.2m, on revenues of £278.5m.

Founded in 1970, the company's fleet of 2,500 green-liveried trucks are widely recognised on UK motorways and recently featured in a reality TV show. Though the 'Transportation & Distribution' division forms over 90% of the Group's revenues, Stobart is entering other businesses including 'Infrastructure & Civil Engineering' (maintenance of the UK's rail network), 'Stobart Air' (Stobart operates London Southend Airport, which handled over 350,000 passengers since it opened in April), 'Stobart Biomass' (supplies in excess of 360,000 tonnes of biomass to the UK) and 'Stobart Estates' (forms the holding company for Stobart's large property portfolio).

This £25m bond issue will allow Stobart to diversify its funding and retire some of its existing bank loans from M&G and keep its average interest rate at 5%. The money raised will also go towards developing assets such as its Carlisle Airport project, which has finally received the go-ahead after a re-tendered planning application.

The Group's 'Transport & Distribution' division provides strong and recurring cash flows for bond investors, meaning Stobart will have no problem meeting coupon payments as the cash it generates is more than 12 times its current interest charge. In addition, the company's position will be further strengthened next year by the first revenue contribution from the acquisition of Autologic, which will add about £145m to total sales.

The Group benefits from strong institutional shareholder support with Invesco holding 36.1% and M&G holding 13.5%. On top of this, the company's management holds 19% of the company's shares.

The Group has a well diversified funding base with moderate gearing of 34% and the majority of debt outstanding being due in greater than five years time.

Fixed Interest (cont)

Credit Analysts View:

The issue does not carry a credit rating. However, considering the covenants that are designed to protect bondholders, this would not put us off buying the bond.

Terms of the bond:

Denomination

The bond has a face value of just £100, although it is not possible to subscribe for less than £2,000. Thereafter, the bonds can be bought and sold in multiples of just £100.

Coupon

The bond pays a 5.5% coupon in two semi-annual instalments in arrears on 4th June and 4th December in each year until the bonds mature.

Redemption

Subject to credit risk, the bonds will be repaid on the maturity date, 4th December 2018.

Dealing

The bonds will be traded on the London Stock Exchange's electronic Order Book for Retail Bonds (ORB), which was launched in response to private investor demand for easier access to trading bonds with the aim of providing a transparent and efficient mechanism for UK retail investors to access the bond markets. The bonds are tradeable instruments and prices will be quoted in the market during trading hours. The bonds can be sold before maturity on the ORB and the prices are supported by Canaccord Genuity Limited in a market-making capacity.

Stamp Duty

No UK stamp duty is payable on the issue or transfer of the bond or on its redemption.

Security

The bond is senior, unsecured debt of Stobart Group Limited. This means that if Stobart becomes insolvent, you may recover your investment in priority to subordinated debt holders and shareholders of Stobart. However, you could still lose some or all of the money you have invested. Note that the bond has covenants in place that relate to:

(i) Change of control

(ii) Negative pledge on capital market debt across group

(iii) Material asset disposals proceeds control

(iv) Limitation on additional indebtedness

Summary:

As a company that '*actually does something*', the bond offers a good opportunity to diversify from recently issued bonds that have mostly come from the financial and property sectors.

The bond looks good value against the 3% and 4.5% GRYs offered by Go Ahead and FirstGroup around the same maturity.

With the general consensus forecasting a long period of low interest rates, the issue looks attractive.

The senior ranking of the bond combined with covenants suggest that the bond offers a good risk/return ratio. Similar issues have traded above par after admission to trading and with a target raising of just £25m, we expect this bond to do the same. The offer is to close on 27th November, but we expect the books to close early due to high demand.

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