Growth Equities & Company Research

# ReThink Group* Interim Results:

# Reiterate Buy stance at 9.5p with 20.5p Target

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# ReThink Group* Interim Results: Reiterate Buy stance at 9.5p with 20.5p Target

| Key Data | |
|---|---|
| EPIC | RTG |
| Share Price | 9.5p |
| Spread | 8p-11p |
| Total no of shares | 90.9 million + 18 million options |
| Market Cap | £8.64 million (undiluted) |
| 12 Month Range | 4.5p -13.5p |
| Net Cash | £149,000 |
| Market | AIM |
| Website | www.therethink-group.com |
| Sector | IT Recruitment & IT Consulting |
| Contact | Jon Butterfield CEO Tel: 07831 593646 |

Rapidly expanding IT recruitment and IT consulting business ReThink has today published its results for the half year to June 30th 2009. Given the macroeconomic backdrop, trading was difficult but there is no need to amend full year forecasts; the company continues to build its number of contractors positioning itself strongly for an upturn and indicates that the second half of the year will show profits growth; there are no balance sheet concerns and an indication that a dividend may be payable in 2010 reinforces our confidence in its long term prospects. We reiterate our stance of buy at 9.5p with an unchanged 12 month price target of 20.5p.

Revenues during the first half of the year increased by 18% to £24.6 million but, with a sharp fall in high margin permanent placements offset by an increase in lower margin temp business, gross profits fell from £6.7 million to £5.5 million. Underlying levels of profitability were maintained, ReThink's numbers merely reflect the macroeconomic driven shift in product mix. The consulting operation, Aiimi, continued to make progress winning a number of new contracts in the Middle East. At a pre-tax level, ReThink's underlying profits fell from £80,000 to £12,000 however a number of loss making teams were removed during the first half and the benefits of this will be seen during the latter months of 2009. Basic earnings per share were 0.003p, down from 0.53p.

At a balance sheet level ReThink ended the half year with net cash of £149,000. ReThink funds its business through the use of debtor finance and the business is fundamentally cash generative and the company states that it "*continues to have sufficient funding for both existing trading levels and any expected growth in the immediate future.*"

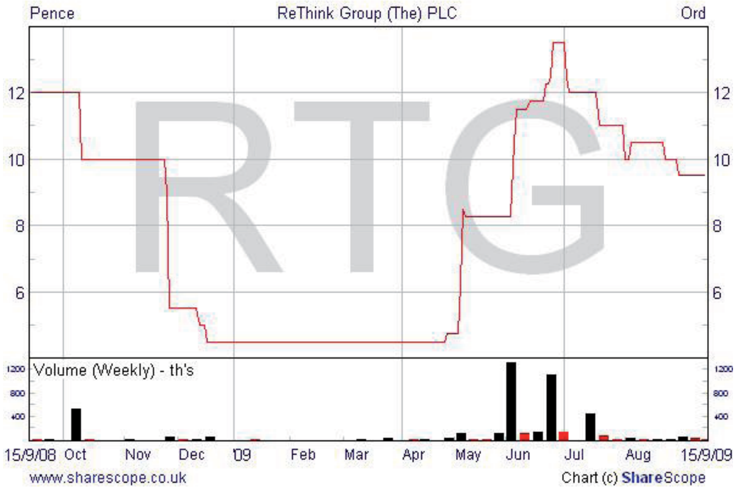
In terms of the outlook, ReThink notes that conditions remain "*challenging*" but adds that "*there are signals that market conditions are slowly improving…there has been an encouraging start to second half trading and…if current trading patterns continue, the second half results will show an improvement over the first half of 2009.*"

We are not amending our forecasts on the back of these results. We forecast that in 2009 sales will be little changed on 2008 at £45 million but since an increasing proportion of revenues will be from lower margin temporary placement contracts we expect pre-tax profits to fall from an underlying £602,304 to £325,000. In 2010 we expect not only an increase in revenues but also an improved sales mix which should feed through to profits rising to £1.2 million on sales of £54 million and if that trend continues profits should reach £1.7 million in 2011 on the basis of sales of £65 million. If current trends continue we believe that the risk to 2010 and 2011 forecasts is on the upside.

The stated goal of ReThink is to build revenues to £100 million and while it could do this organically we expect its paper to make revenue and earnings enhancing bolt on acquisitions during the coming 24 months.

At this stage we are not forecasting the payment of a dividend for 2010 but we are encouraged by today's statement that: "*The Group is not declaring an interim dividend but the Board remains committed to a progressive dividend policy and will keep the issue under review.*"

Valuing ReThink on 12 times forecast 2011 earnings of 1.7p our target price remains 20.5p and with the shares at 9.5p our stance remains **buy**.




## Forecast Table:

| Year to 31st December | Sales (£ Million) | Pre-Tax profit (£m) | Undiluted Earnings Per Share (p) | Price Earnings Ratio | Dividends Per Share (p) | Dividend Yield (%) |
|---|---|---|---|---|---|---|
| 2008A | 43 | 0.6 | 0.46 | 20.7 | 0.0 | 0.0 |
| 2009A | 45 | 0.3 | 0.31 | 30.6 | 0.0 | 0.0 |
| 2010E | 54 | 1.2 | 0.93 | 10.2 | 0.0 | 0.0 |
| 2011E | 65 | 1.7 | 1.70 | 5.6 | 0.0 | 0.0 |

**ReThink Group is a corporate client of RSCF which is owned by RSH the ultimate owner of GE&CR.*

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