

Spirent Communications

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Spirent Communications shares drop as core Ethernet testing business slows

Shares in Spirent Communications PLC (LON:SPT) dropped off this morning after the communications technology group saw a sharp slowdown in its Ethernet testing business in the first half.

Given that that is the company's core business at present, the news weighed on the stock, with shares down 3.5% to 117.5p early on Thursday morning.

Spirent said changes in customer priorities led to project delays in Ethernet testing, particularly in the second quarter.

Weaker demand in Europe and Americas

The Networks & Security division which houses the Ethernet testing business actually recorded a "strong" performance in the first half though, with increased demand from positioning products picking up the slack.

In the Lifecycle Service Assurance arm, sales will be second half-weighted with current customer trials "progressing positively".

Spirent said the decline of its Connected Devices division had been "managed well" as it reported an adjusted operating profit of US\$0.5mIn in the period, compared to a US\$2.7mIn loss a year earlier.

In terms of geographies, demand in the Americas and Europe softened although the performance in Asia Pacific "remained strong".

Revenues flat but profitability improves

Overall, revenues for the six months to 30 June were broadly flat at US\$213.6mIn (H1 2016: US\$213.5mIn), although profitability improved considerably, with pre-tax profits coming in at £14.4mIn (H1 2016: US\$2mIn).

The better than expected profits reflected the benefit of recent "cost control actions", which are continuing to have a positive impact on profitability.

Orders slow

The Ethernet testing delays as well as second half-weighted revenues from the Lifecycle Service Assurance business impacted the order book, with orders 11% down on the same period as last year.

The book-to-bill ratio fell to 93% from 104% a year earlier. Analysts generally like to see a number in excess of 100%, with anything below that generally seen as a bearish sign.

Profit expectations remain unchanged

"We are pleased with the progress in the first half, delivering improved earnings and operating margin on level revenue, driven from good performance from our Networks & Security segment and cost management actions across the business," said chief executive Eric Hutchinson.

Price: 219

Market Cap: £1.34 billion

1 Year Share Price Graph



Share Information

Code: SPT

Listing: LSE

52 week High Low
220 110.8

Sector: Telecoms

Website: www.spirent.com

Company Synopsis:

Spirent Communications Plc is a communications technology company focused on delivering systems and services to meet the needs of customers worldwide.

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"Taking into account the exit of some of our non-core product lines and the impact of Ethernet testing delays in the United States, we expect revenues for the year to be broadly flat.

"The board's expectations for profit for the full year remains unchanged."

Buy on weakness, says broker

"While we agree that the slowdown in Ethernet testing is a concern, we are encouraged by the progress in Lifecycle Assurance which underpins our positive view on the stock," said Liberum analyst Janardan Menon.

"We believe the revenue upside from these products and Spirent's Security products could be major drivers of revenue in coming years, more than compensating for weakness in Ethernet testing.

"We also expect the company to increase margins further, both at the gross margin and operating margin level."

Janardan has the stock as a 'buy' with a target price of 134p.

--Updates for share price and broker comment--

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