cityconfidential
sorting the bulls from the bears

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SHARE OF THE YEAR 2020

Saga (50.9p) **has disappointed shareholders since joining the market in May 2014. The IPO saw shares issued at 185p each and the company had a market capitalisation of £2.1bn. This appeared to be easily justified given the strength of the company's brand and the loyalty of its customers but there have been one or two bumps in the road since then. However, the slump in value has arguably been overdone.**

Saga continues to operate as a specialist in the provision of products and services for those over 50. The Saga brand remains one of the most recognised and trusted brands in the UK for products and services including cruises and holidays, insurance, personal finance and publishing. Last month the appointment of Euan Sutherland as Group Chief Executive Officer was announced. Sutherland was most recently CEO of Superdry and has also been Group CEO of The Co-op Group and Group COO & CEO UK at Kingfisher. He is also a non-executive director of Britvic and this is an interesting appointment.

Interim results for the six months ended 31 July 2019 were uninspiring. Revenue fell by 8.3% to £396m (2018: £432m) due to lower Retail Broking revenues. Total customer spend with Saga was £617m (2018: £627m) including gross written premiums and insurance premium tax. Underlying profit before tax broadly halved to £52.8m (2018: £107.5m). Underlying earnings per share were 4.1p (2018: 7.8p) and an interim dividend of 1.3p per share was declared, down from 3.0p per share a year earlier. At the time of the results announcement in September the company noted that it was confident in meeting the full year target for underlying profit before tax of between £105m and £120m. In terms of dividend policy in future years, a medium-term pay-out ratio of around 50% of underlying earnings after tax is anticipated. This balances an attractive dividend for investors but will also allow debt to be paid down.

The company's relaunched strategy is to concentrate on Saga's heritage as a direct to consumer brand with membership being key. The business is expected to return to sustainable growth and there is a commitment to pay out around half of earnings as dividends, which could mean that the shares become very attractive to income seekers. The shares are a BUY FOR RECOVERY.

Shares in Avacta (17.5p) **have fallen back from last year's high of 50p but now appear to have set a new floor at the current level where they have been trading for the last few weeks. This appears to be a good entry point for investors who are prepared to take a fair degree of risk, as any positive newsflow is likely to be reflected in a significant increase in the share price.**

The company is a drug development group, which is focused on cures for lung, breast, gastric and bowel cancer. The group is developing novel cancer treatments with the focus being on its proprietary Affimer® technology. This is a novel engineered alternative to antibodies that has widespread application in life sciences markets. Although antibodies help fight vicious viruses or bacteria through treatments including chemotherapy, one of the issues with them is that they kill off all the cells in their path not just cancer cells. Affimers focus just on the cancer cells and leave the body's healthy cells alone.

Clearly, the group is in the relatively early stages of its development but it has successfully established drug development partnerships with various organisations in the biotech and pharmaceutical industries. In the most recent move, it has announced a plan to set up a joint venture in South Korea with Daewoong Pharmaceutical, a leading Korean pharmaceutical group. This collaboration will look to develop next generation cell and gene therapies incorporating Affimer proteins. Cell and gene therapies are attracting intense clinical and commercial interest and in the last few months early stage stem cell companies have been acquired for significant sums.

As stated earlier, the shares are only suitable for those investors who are prepared to take a fair level of risk, but the fact that the group has established partnerships with other organisations is clearly a positive. We therefore rate the shares a SPECULATIVE BUY.

Market Indices at 7 January 2020

FTSE 100	7,573.85
FTSE 250	21,832.68
FTSE All Share	4,209.34
FTSE AIM All Share	957.93
Dow Jones Ind Av	28,583.68
S & P 500	3,237.18
Nikkei 225	23,204.76

Interest Rates

UK:	0.75%
ECB:	0.0%
US:	1.75%

Currency Rates

£/$:	1.31
£/€:	1.18
€/$:	1.11
£/A$:	1.91

Commodity Prices

Oil (Brent Crude):	$69.53bbl
Gold:	$1,572oz
Copper:	$6,134/tonne

10-year government bond yields

US	1.81%
UK	0.72%
Germany	(0.29)%
Japan	(0.01)%

Leaders & Laggards

4 December 2019 - 7 January 2020

The best and worst performing of our recent tips:

1. Coral Products	9.75p + 44.4%
2. Keller	777p + 25.5%
3. Volex	155p + 22.0%

1. 600 Group	14.5p - 20.5%
2. Journeo	56p - 20.0%
3. IndigoVision Group	178.5p - 14.2%

G4S (GFS) - 207.2p

SECTOR – SUPPORT SERVICES
RECOMMENDATION – BUY

G4S has failed to benefit from the recent rally in the broader market and the shares continue to languish at a relatively low level by historical standards. The company has faced challenges in the past and has found itself out of fashion with many investors. Last April it was announced that Garda World Security Corporation was considering making an unsolicited cash offer for the company, or part of it, but this has not resulted in an offer being made. Indeed, commentary at the time suggested that a takeover was unlikely and to date thus has proved correct. G4S remains solid and with results for 2019 due out in March, now could be a good time to consider buying in when there is little enthusiasm factored into the share price.

The world's leading global security company provides security and cash services across six continents. On 13 December 2018 it was announced that options for the separation of the Cash Solutions and Security Solutions businesses had been reviewed. This was a thorough process covering strategy, legal, tax, commercial, pensions, operational and financial reviews and following completion of the review the separation of Cash Solutions from the business was approved. In theory this should create two strong, focused businesses each with potential to capitalise on market leading positions.

The Global Secure Solutions business is focused on Security and Security Technology. G4S is a global market leader in security, providing both established and new technology-enabled security solutions. Security is a growing service industry and revenues are expected to grow at between 4% and 6% per annum. As a result of investment in technology an increasing proportion of revenues comes from technology enabled solutions. At the end of June 2019 around 46% of Secure Solutions revenues included technology in the customer service.

The Cash Solutions business is focused on Cash Management and Cash Technology. G4S Cash Solutions operates in 44 markets across the globe and has leading positions in 41 of these markets. G4S has market leading cash technology solutions with Retail Cash Solutions, Cash360 and Deposita. Cash Technology revenues continue to grow strongly and G4S' cash solutions technology is now installed in over 26,000 locations globally, including for some of the world's largest retailers. The market leading positions and technology being used is helping to improve the efficiency of conventional cash handling and improve the competitiveness of this business. The Cash businesses have established strong credentials in the bank-outsourcing market and there is further potential in this market.

Interim results covering the six months ended 30 June 2019 were released in August. Results are presented in several ways but in terms of underlying results, revenue was £3,747m versus £3,578m in the same period a year earlier restated and on a constant currency basis. Underlying profit before tax improved from £163m to £175m and on the same basis earnings per share increased from 7.6p to 7.7p. The interim dividend was held at 3.59p per share. The balance sheet is in relatively good shape. Net debt as at 30 June 2019 was £2,121m, up from £2,026m a year earlier. The net debt to adjusted EBITDA ratio increased to 2.85x (2018: 2.73x) due to the increase in net debt in the period. Net cash flow from operating activities before tax was £189m (2018: £251m).

A trading update covering the third quarter of 2019 was released on 7 November. The positive organic growth momentum generated in the first half continued, with organic revenue growth of 4.3% in the third quarter versus 2.7% in the same period in 2018. Technology enabled solutions continued to support growth in both main businesses with Secure Solutions delivering organic revenue growth of 4.9% and Cash Solutions delivering organic revenue growth of 4.1%. Organic revenue growth was 4.3% for the third quarter and 4.2% for the first nine months of 2019. Total revenue growth was 4.9% for the third quarter and 4.7% for the nine months. Overall growth was 4.3% in Secure Solutions with organic growth in security revenues of 4.9%, partially offset by 3.2% lower revenues in ancillary care and justice services. There was strong organic growth of 9.9% in the Americas, 5.9% in Africa and 5.3% in Asia, partially offset by a 1.8% decline in Europe reflecting commercial discipline in contract bidding.

In Cash Solutions organic revenue growth was 4.1% with continued strong growth of 21% in Retail Cash Solutions North America and growth of 1.8% in the rest of the cash solutions business. Last year G4S launched a new offering in the small box segment and in October 2019 it signed a 5 year contract with one of the world's largest convenience store chains for several thousand stores, initially in the United States. This took total small box sales to over 6,450 stores in 2019, much of which will be rolled out in 2020. In North America there is an installed or committed base of over 15,800 locations of which 7,700 are large box. The demerger of Cash Solutions is expected to take place in the first half of 2020. Unsolicited third party proposals are also under consideration, which may provide an alternative to the demerger.

The company noted at the time of the latest trading update in November that it expected organic growth momentum to continue into the fourth quarter of 2019. In order to sustain strong revenue growth it was planning to continue to invest in additional sales and business development resources and mobilisation capacity. These investments, together with G4S' productivity programmes, sales pipeline and technology strategy mean that the groundwork has been done to make further progress this year. Stronger sterling in recent weeks could cause a slight drag on performance but we are not unduly concerned by this factor. Results for 2019 are due out on 12 March and ahead of this announcement we rate the shares as a BUY.

Share Price: 207.2p
Market Capitalisation: £3,215m
2019/20 Share Price Range: 229p/168p
Website: www.g4s.com

Year Ending 31 December	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2018	7,289	365	16.7	12.4	9.70	4.7
2019 (est)	7,717	388	18.5	11.2	9.79	4.7
2020 (est)	7,956	420	19.8	10.5	10.03	4.8

For more details on the announcements below please see our website.

COMPANY

600 Group - 14.5p	The diversified industrial engineering announced a disappointing trading update, which came just 16 days after interim results. Order intake for the fourth quarter is now expected to be significantly below originally predicted levels although there has been good progress in the UK business, where orders remain over 100% up on the prior year. There has also been continued good performance at the newly acquired CMS business, driven by its focus on healthcare and pharmaceuticals. Gross margins across the Group are also holding up well but these positive factors will not prevent the outturn for the full year being significantly below previous expectations. We downgrade to HOLD for now.
Belvoir Group - 148p	Belvoir Group, which is the UK's largest property franchise, has announced that wholly owned Belvoir Group subsidiary Newton Fallowell Limited has agreed to acquire the business and assets of the estate agency business operated by Lovelle Estate Agency Limited and Lovelle Bacons LLP. This is a privately owned independent predominantly franchised estate agency network operating in Lincolnshire and the Humber region with 19 branches. The overall consideration is £2.0m, to be satisfied in cash from existing cash reserves. The acquisition will be earnings accretive in 2020. In the year to 31 March 2019 the acquired business made an operating profit of £500k and at that date had net assets of approximately £100k. The shares remain cheap and are a BUY.
Cineworld - 221.4p	The company has announced its intention to acquire Cineplex, the largest cinema operator in Canada, for C$34 per share in cash. This implies an enterprise value for Cineplex of C$2.8bn (US$2.1bn). The deal is expected to be double digit accretive to earnings and free cash flow in the first full year following completion. This further increases the scale of operations and the company could soon be knocking on the door for promotion to the FTSE 100. We see no reason to change our BUY rating.
Coral Products - 9.75p	The group has announced that its Haydock plastic recycling facility has now been granted accredited re-processor status via the UK Environment Agency and this will mean that it can reduce its operational costs by fully off-setting the plastic packaging waste levy it currently incurs. The strong demand for clean recycled plastic will mean that the group increases the operating hours at the plant with obvious benefits. The shares remain a BUY.
Duke Royalty - 50.5p	Duke Royalty, a provider of alternative capital solutions to a diversified range of profitable and long-established businesses in Europe and abroad, has announced interim results for the six months ended 30 September 2019. Revenue more than doubled to £5.9m (2018: £2.7m) and positive net cash inflow from operations broadly trebled to £3.9m (2018: £1.3m). Net profit before tax was £3.7m (2018: £1.1m). The shares remain good value and are a BUY.
DWF Group - 122.5p	The global legal business providing Complex, Managed and Connected Services, has issued its half year results for the period to 31 October 2019. Net revenue was up 10% to £146.8m (2018: £133.4m) and underlying adjusted profit before tax was £9.7m (2018: £9.4m). This translated into adjusted diluted earnings per share of 2.6p versus 3.6p last year. A final dividend in relation to the last full year of 1.0p per share was paid. The acquisition of leading independent Spanish law firm Rousaud Costas Duran for up to €50.5m (£42.5m) in shares and cash, of which €7.4m (£6.2m) is payable in cash at completion with up to €15.5m (£13.1m) in deferred or contingent cash consideration has also been announced. The shares remain a BUY.
Hargreaves Services - 287p	Hargreaves Raw Material Services has acquired 94.9% of DK Recycling und Roheisen GmbH from DK Holdings GmbH for €1. The acquired business is based in Duisburg, Germany on a site adjacent to Hargreaves Raw Material Services' CPP. This deal does not really affect our view on the value of the company and we keep our BUY rating.
Journeo - 60p	The information systems and transport technical services group, formerly known as 21st Century Technology, has announced a trading update and details of a placing of new ordinary shares to raise £1.2m. Trading in the second half has been 'satisfactory' and results for the year ending 31 December 2019 are expected to be in line with market expectations. In the placing, 2,400,000 new shares were issued at a price of 50p each. The shares are a SPECULATIVE BUY.
Keller Group - 777p	The group has issued a positive trading update for 2019 with the results for the year expected to be in line with expectations, whilst cash flow in the fourth quarter of the year has continued to be strong. The APAC business will return to profitability in 2019 following its successful restructuring and the group now has a more focused strategy which will drive the withdrawal from non-core markets. The group will return surplus cash to shareholders to maintain an efficient balance sheet and this is expected to lead to dividends of 40p for 2019 and 44p for 2020. BUY.
Marshall Motor Holdings - 154.5p	Marshall Motor Holdings, one of the leading automotive retail groups in the UK, has announced the acquisition of the business and assets of a portfolio of Volkswagen and ŠKODA passenger and commercial vehicle franchises from Jardine Motor Group UK Limited for up to £22.3m cash including £13.0m of inventory. Trading performance has been solid in a challenging market and an update on the trading environment will be provided on 10 March when results for the year ending 31 December 2019 are due to be announced. We keep our BUY rating.
Morrison (Wm) Supermarkets - 195.5p	The company has issued a trading update covering the 22 weeks to 5 January with like-for-like sales excluding fuel falling by 1.7%. The group experienced challenging trading conditions during the period with customers remaining cautious ahead of the General Election. The group has recently sold its Camden store and eight acre surrounding site to Berkeley Group for £120m and the group closed four underperforming stores during the period as well as opening the same number (including two replacements). The group expects profits for the year to 31 January 2020 to be in line with expectations and the shares remain a BUY.
PCF Group - 33.5p	The specialist bank has announced results for the year to 30 September. Operating income rose 51% to £22.2m (2018: £14.7m) with pre-tax profit up 54% to £8.0m (2018: £5.2m) whilst earnings per share were up 35% to 2.7p (2018: 2.0p). A final dividend of 0.4p has been proposed (2018: 0.3p). These are clearly excellent results with the group close to its portfolio target of £350m a year ahead of schedule. The next target is a loan book of £750m by September 2022. We maintain our recommendation of BUY.
Pressure Technologies - 117.5p	The specialist engineering group has announced results for the year ended 28 September 2019. Revenue was up 34% to £28.3m (2018: £21.2m). The reported loss before tax narrowed from £1.7m to £0.5m and adjusted earnings per share improved from 2.9p to 7.8p. There was an adjusted net operating cash inflow of £2.0m (2018: £1.9m) and net debt at the period end was £11.4m, up from £6.7m a year earlier. The proposed sentencing of the group on 9 December following a court case has also been deferred. BUY.
Zytronic - 248p	Results for the year ended 30 September 2019 have been released. Group revenue was £20.1m (2018: £22.3m), impacted by a reduction in revenues in the gaming market. Profit before tax slipped to £3.1m (2018: £4.2m). Basic earnings per share were 16.8p (2018: 22.7p). Significantly, the final dividend was held at 15.2p per share, bringing total dividends for the year to 22.8p (2018: 22.8p). These are solid figures and we retain our BUY rating.

Aggressive Growth Portfolio VII

Obviously, it has been a busy time for the market since our last issue at the beginning of December, with Boris Johnson winning the General Election and the country now preparing for Brexit. The market has enjoyed a 'Boris Bounce' and, as can be seen from the table, the Portfolio has performed well over the last five weeks.

There have been a number of announcements this month from Morrison (Wm) Supermarkets, Marshall Motor Holdings, Hargreaves Services, Duke Royalty, Cineworld, Keller and DWF Group. These are covered on page 3 as usual.

To raise some funds for the portfolio we have made some disposals. We have sold the remaining 225 Dart Group at 1670p to raise net proceeds of £3,720 for a gain of £1,702. We have then sold 4,250 Severfield at 84.3p to raise £3,547 for a gain of £588 and 2,250 Northbridge Industrial at 146.5p to raise £3,263 for a gain of £365.

Dividends have been received from Town Centre Securities (£133), Personal Group (£50) and Anpario (£25) and after purchasing shares in the two companies featured in this issue, together with the Shares of the Year, there is £548 left on deposit pending investment.

PERFORMANCE SUMMARY

	7 January 2020	3 December 2019	Gain/(Loss) %
Portfolio Value	£60,422	£56,954	6.1
FTSE 100 Share Index	7,573,85	7,158.76	5.8
FTSE All Share Index	4,209.34	3,971.65	6.0

	SECURITY	BUYING PRICE (p)	TOTAL COST (£)	CURRENT PRICE (p)	VALUE (£)	STOP-LOSS LIMIT (p)
7,500	Vertu Motors	37.35	2,829	37.1	2,783	36
1,075	Equiniti	223.4	2,437	210.8	2,266	180
1,250	Morrison (Wm) Supermarkets	199.25	2,528	195.5	2,444	170
2,000	Marshall Motor Holdings	140	2,828	154.5	3,090	120
1,000	Wynnstay	297.5	3,005	312.5	3,125	245
1,250	Hargreaves Services	259	3,269	287	3,588	215
1,750	Town Centre Securities	186	3,304	227	3,973	190
850	Personal Group	350	3,005	335	2,848	285
6,000	Duke Royalty	44.1	2,672	50.5	3,030	37
1,275	Cineworld	221.4	2,865	221.4	2,823	180
2,500	XPS Pensions Group	122.5	3,108	136.25	3,406	100
1,000	Anpario	330	3,333	340	3,400	275
500	Keller	603	3,060	777	3,885	525
5,000	Speedy Hire	64.2	3,258	77.2	3.860	55
2,500	DWF Group	118	2,995	122.5	3,063	95
1,500	G4S	207.2	3,154	207.2	3,108	170
800	D S Smith	383.1	3,111	383.1	3.065	330
6,000	Saga	50.9	3,100	50.9	3,054	40
17,500	Avacta	17.5	3,094	17.5	3,063	14
£548	Cash	-	-		548	
				TOTAL	£60,422	

Start date: 2 January 2018 with £50,000. Cash includes dividends received of £3,639.

Smith (DS) (SMDS) - 383.1p

SECTOR - GENERAL INDUSTRIALS
RECOMMENDATION - BUY

Interim results from DS Smith underlined the quality of the business. It appears to have made some shrewd acquisitions and the disposal of the company's Plastics division is also a sensible deal. Given the type and scale of operations it is somewhat surprising that the shares are not on a higher rating but this presents an interesting opportunity to invest.

The company is a leading provider of corrugated packaging. It operates across 37 countries and employs over 31,000 people. In order to support the corrugated packaging operations it has a recycling business which collects used paper and corrugated cardboard. The company's paper manufacturing facilities make the recycled paper used in corrugated packaging from this. Hence this is a 'green' business and also one which is benefiting from the growth of online retail.

Interim results were released on 5 December. These covered the half year to 31 October 2019. Revenue increased on a reported basis by 4% to £3,188m, up from £3,073m a year earlier. Profit before tax increased to £213m (2018: £162m) due to higher operating profit, offset by higher interest costs and a slightly lower share of results of associates. Adjusted profit before tax was £308m (2018: £273m) due to growth in adjusted operating profit. Earnings per share for continuing operations before amortisation and adjusting items increased 5% on an actual basis to 17.4p (2018: 16.5p). Net debt as at 31 October 2019 was £2,444m (30 April 2019: £2,277m). As first set out in December 2010, the company has a progressive dividend policy and believes that in the medium term, dividend cover should be on average 2.0x to 2.5x through the cycle. An interim dividend of 5.4p per share was declared (2018: 5.2p). The dividend will be paid on 1 May 2020 and the ex-dividend date is 13 April.

One other significant change last year was that in March DS Smith agreed to dispose of its Plastics division to Olympus Partners for US$585m. Net cash proceeds after taxation, transaction adjustments and expenses are expected to be around £400m. Based on current forecasts the shares are cheap and there are no reasons why the numbers should not be achieved. The company must surely rank as one of the best value constituents of the FTSE 100. BUY.

Share Price: 383.1p
Market Capitalisation: £5,258m
2019/20 Share Price Range: 395p/293p
Website: www.dssmith.com

Year Ending 30 April	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2019	6,171	569	33.3	11.5	16.2	4.2
2020 (est)	6,522	529	34.4	11.1	16.7	4.4
2021 (est)	6,560	561	34.8	11.0	17.6	4.6