cityconfidential
sorting the bulls from the bears

Issue 247
19th February 2020

Market Indices at 18 February 2020

FTSE 100	7,382.01
FTSE 250	21,678.46
FTSE All Share	4,118.84
FTSE AIM All Share	964.54
Dow Jones Ind Av	29,232.19
S & P 500	3,370.29
Nikkei 225	23,400.70

Interest Rates

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

Currency Rates

£/$:	1.30
£/€:	1.20
€/$:	1.08
£/A$:	1.94

Commodity Prices

Oil (Brent Crude):	$58.03bbl
Gold:	$1,603oz
Copper:	$5,727tonne

10-year government bond yields

US	1.57%
UK	0.62%
Germany	(0.40)%
Japan	(0.05)%

Finablr hoping for change in fortunes

Few companies can have had a worse start to the year than Finablr (75.1p). Travelex, one of Finablr's subsidiary brands, discovered a software virus on New Year's Eve which compromised some of its online services. Travelex took all its systems offline as a precautionary measure and unsurprisingly news of this hit the share price. There has been further uncertainty surrounding the company's major shareholders and the first few weeks of 2020 have certainly been a bleak period, the share price slumping to around a third of the level it reached in December.

Finablr is a global platform for payments and foreign exchange solutions underpinned by modern proprietary technology. Finablr's group companies provide a range of solutions for consumers and businesses across a wide network of digital channels, payments platforms and retail stores. The company operates across the entire payments and foreign exchange value chain, from origination to processing and last-mile distribution. Finablr partners with banks, financial institutions, retailers, mobile wallet providers and payment & technology companies. Its brands include UAE Exchange, Travelex, Xpress Money, Unimoni, Remit2India, Ditto and Swych. The group covers over 170 countries and has relationships with more than 100 regulators.

In the first half of 2019 the company generated income of US$742.2m, up 9.1% on the same period in the prior year (2018: US$680.5m). There was income growth across all business segments and adjusted EBITDA was up 26.9% to US$103.3m (2018: US$81.4m). Net debt as at 30 June 2019 was US$334.1m, which was down by US$230.9m from 31 December 2018. Adjusted free cash flow was US$99m in the period.

We now feel that there is scope for a rally in Finablr's share price. Despite the problems encountered since the turn of the year this is a very attractive business which over the longer term should ultimately be worth far more than the current share price suggests. The recent cyber incident at Travelex will have no impact on 2019 results and the company has stated that it is not expected to have a material impact on performance in 2020. Recent uncertainties do mean that investors should be willing to accept a higher than average level of risk though. On balance we rate the shares as a BUY and feel that a return to 100p is achievable in the coming months.

Deal ore no deal?

Shares in Sirius Minerals (5.1p) have moved below the 5.5p level at which the company had seemed certain to be taken over by Anglo American. This creates an interesting opportunity. There is still a strong possibility that the deal currently on the table will be approved given that it is being recommended by Sirius' directors. However, some shareholders believe that the Anglo American takeover should be priced at a higher level if it is to succeed and there is also an outside chance that another bidder could emerge.

Although most shareholders will realise a loss if the takeover at 5.5p per share is approved, it is being backed by the company themselves, who see this as the best way to secure some value for those who have invested. It would also ensure that the development goes ahead, which is in the interests of others involved. Given the scale of the project there is plenty at stake. A meeting to vote on the proposal is scheduled for 3 March and approval of 75% is required for it to be completed.

The downside risk at this stage is the possibility of shareholders voting against any deal put to them and the company ultimately being put into administration or liquidation. This is unlikely, but not impossible. In our view there is a greater chance of a higher offer being put forward. However, the most likely outcome at this stage is still that the takeover at 5.5p per share will be approved. On balance we feel that it is worth picking a few shares up to see how the situation develops. A takeover at 5.5p would result in a modest gain but there is a slight chance of a higher bid, which would result in a more meaningful return in a very short timescale. A SPECULATIVE BUY rating seems appropriate.

Leaders & Laggards

5 February 2020 - 18 February 2020

The best and worst performing of our recent tips:

1. Avacta Group	29.75p + 19.5%
2. Journeo	71.5p + 18.2%
3. Anpario	343p + 14.3%
1. UP Global Sourcing	66p - 14.7%
2. Coral Products	6.375p - 8.9%
3. Parity Group	9.125p - 8.8%

Read more on our website
www.cityconfidential.co.uk

Xpediator (XPD) - 33.5p

SECTOR – AIM – INDUSTRIAL TRANSPORTATION
RECOMMENDATION – BUY

A recent trading update from Xpediator was, on balance, better than had been anticipated. Net cash, which represents a meaningful proportion of the current market capitalisation, was ahead of expectations and this is comforting. Nevertheless, 2019 was a challenging year and the outcome was worse than had been hoped for until the middle few months of it. Positive momentum now appears to be building again and it is an interesting time to consider investing.

Xpediator is a fast-growing international freight management company providing logistics and transport support solutions, exploiting the global growth demand for transportation services. The company joined AIM in August 2017 and at the time £5m was raised through a placing of 20,833,333 new shares at a price of 24p per share. The business, which originally traded as 'Delamode', was established in 1988 by Chief Executive Officer Stephen Blyth. At the time the company provided freight forwarding services in the UK but it has evolved into an integrated freight management business operating in the supply chain logistics and fulfilment sector across the UK and Europe. It has a particular focus on CEE countries.

Xpediator currently employs over 1,000 people, with operational headquarters in Braintree, Essex, and country offices in Bulgaria, Lithuania, Latvia, Estonia, Macedonia, Montenegro, Moldova, Romania and Serbia operating across a total of 38 sites. The network of offices provides regular and direct services linking Eastern Europe, the Balkans and the Baltics with Western Europe, together with logistics and warehousing capabilities in the UK and Romania.

There are three main business areas which are managed autonomously on a day-to-day basis but directed centrally to cross-sell services to the customer base. Freight forwarding is undertaken under the Delamode, EshopWedrop, Anglia Forwarding Limited, Regional Express and Benfleet Forwarding brands. Logistics and warehousing includes Delamode, Import Services Limited and EMT and pallet distribution services trade under the Pall-Ex Romania brand. Transport services trade under the Affinity brand.

Interim results for the six months ended 30 June 2019 were released in September. Group turnover increased 29.8% to £102.4m (2018: £78.9m). Of this, £8.1m of the increase was due to organic growth and £15.4m was generated from acquisitions. Increased revenue and operating profit was generated by all operating divisions. Freight Forwarding revenue increased 17.4% to £76.7m (2018: £65.4m) resulting in increased operating profit of £1.4m (2018: £1.0m) and operating margin of 1.8%, up from 1.5% a year earlier. Transport Solutions revenue increased 1.8% to £3.1m (2018: £3.1m) generating increased operating profit of £1.3m (2018: £1.2m) and operating margin of 40.6% versus 39.0% in the same period a year earlier. Turnover from Logistics and Warehousing more than doubled to £22.6m (2018: £10.5m) generating increased operating profit of £1.2m (2018: £0.3m) and operating margin of 5.2% (2018: 3.1%).

Adjusted profit before tax was £2.0m (2018: £2.6m) due to certain challenges in UK logistics, additional investment in personnel and IT and higher than expected losses from EshopWeDrop, although this was offset by improved contribution from all operating divisions. Adjusted profit before tax was £1.96m (2018: £2.63m). Adjusted earnings per share were 1.25p (2018: 1.69p) and a basic loss per share of 0.04p was incurred versus earnings per share of 1.29p in the first half of 2018. An interim dividend of 0.28p per share was declared (2018: 0.42p). Net cash generated from operations was £5.5m and net cash (cash less bank loans and overdrafts but excluding the impact of IFRS 16) was £3.8m at the period end, up from the 31 December 2018 figure of £3.2m.

A trading update for the year ended 31 December 2019 was released on 10 February, confirming that performance is expected to be in line with market expectations. Group turnover increased 19% to £212m (2018: £179.2m) driven by a blend of both organic and acquisition led growth. Of the increase £18m related to organic sales growth and £15m was generated from acquisitions. Logistics & Warehousing Sales were up 32% and Freight Forwarding sales up 16% but Transport Solutions sales were down 3%. Adjusted pre-tax profit is expected to be slightly above £5.0m, in line with management guidance provided with the 2019 interim results. Net cash increased to £6.9m (2018: £3.4m) excluding finance leases. This reflects strong cash generation and highlights an asset light structure.

The Baltic region was again a key growth area within the Freight Forwarding division with Lithuania and Estonia performing particularly well. The Pall-EX franchise which provides national 24-hour pallet services across Romania continues to grow and is now handling 60,700 pallets per month (2018: 50,000). Benfleet Far East activity also continued to grow in-line with management expectations. Previously reported issues at Benfleet and Import Services are now resolved and both are well positioned to deliver growth in 2020. The project in Regional Express is now operational with offices established in both China and Germany and volumes expected to increase substantially during 2020. There is a focus on successfully completing the final stages of integration of previously acquired businesses in the first half of 2020. A healthy pipeline of potential acquisitions remains, although the focus remains on improved integration of recent acquisitions, cross-selling services and delivering organic opportunities. The company is committed to long-term investment in IT to support improved efficiency and scalability.

The company has expanded the services it offers and sees further opportunities to increase the number of services provided. It assesses how new technologies might further improve operations whilst continuing to monitor the cost base on an ongoing basis. Despite the challenges incurred during 2019, the core businesses performed well. Full year results are due to be released in April and there may be a lack of news prior to this announcement. However, the recent trading update has clearly settled some nerves and we believe that the shares offer good value based on fundamentals. The net cash position provides comfort if there are further challenges in the near term and there may also be opportunities for acquisitions. On balance we believe now is a good time to BUY.

Share Price: 33.5p
Market Capitalisation: £45.6m
2019/20 Share Price Range: 55.5p/20p
Website: www.xpediator.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	179	7.2	4.8	7.0	1.26	3.8
2019 (est)	212	5.0	3.0	11.2	0.80	2.4
2020 (est)	223	5.4	3.2	10.5	0.90	2.7

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

COMPANY

Anpario - 343p	The company has announced that it is to spend up to £1m of its cash resources to fund a share buyback programme following the recent weakness in the share price. The programme is to start immediately and will finish no later than 4 May. The purchases will be made by Peel Hunt, the company's broker and there are certain parameters controlling the buyback programme. This should help to provide support to the share price and we continue to rate the shares as a BUY.
Flowtech Fluidpower - 106p	Following the disappointing trading statement of 14 January, the company has updated the market again. The expectations for 2019 results are unchanged from the previous announcement, with revenues likely to be £112.5m (2018: £111.1m) and adjusted pre-tax profits likely to be £9.0m (2018: £10.7m). Despite this disappointing result, strong cash flow has led to a reduction in net debt of £3.3m to £16.6m. The strong cash flow means that the dividend for the year will rise 5% to around 6.4p, putting the shares on a yield of 6.0%. With no deferred consideration payments due in 2020 net debt should fall once again. The first half of the current year is likely to produce a weaker performance continuing the trend from the second half of 2019, although trading is expected to pick up later in the year. The company has taken steps to reduce its cost base with four warehouses closing and further significant cost savings have been identified. The company has also revealed that Chief Financial Officer Russell Cash has purchased 19,605 shares at an average price of 103.9p. This takes his holding to 48,175 shares. We continue to rate the shares as a BUY.
Pressure Technologies - 133p	The company has revealed that chairman Roy Gardner has purchased shares in the company, acquiring 12,500 shares at 133p on 6 February and adding to his holding the following day when he purchased another 10,000 shares at the same price. We believe that with prospects at the company seemingly improving, readers should follow his example and BUY.
Saga - 42.78p	The specialist in products and services for the over-50s has announced that it has reached agreement for the sale of Bennetts, an insurance broker for motorcycles, for an enterprise value of £26m. The buyer is Atlanta Investment Holdings C Limited, part of The Ardonagh Group. This is one of the largest independent insurance brokers in the UK, with completion subject to regulatory approval and other closing conditions. This appears to be a sensible deal which allows greater focus on the group's core activities. Given the level to which Saga's valuation has dropped the proceeds are not insignificant. We continue to rate the shares as a BUY.
D S Smith - 349.2p	The company has announced that the Chief Financial Officer, Adrian Marsh, is to leave the company to join William Hill. The company has begun the recruitment process to appoint a successor but as there is a twelve month notice period there is unlikely to be much impact on the company. The shares remain a BUY.
Tandem Group - 218p	The company has announced a detailed trading update ahead of final results, which will be announced in March this year rather than April as is the norm. Group revenue for the full year ended 31 December 2019 increased by nearly 20% to £38.8m and profit before tax is expected to be well ahead of the prior year. A number of factors have been highlighted which could impact trading in the current year. There have also been some Board changes announced, with Chairman Mervyn Keene due to retire on 31 July 2020, CEO Steve Grant becoming Non-Executive Chairman following this and Finance Director Jim Shears stepping up to become CEO. The update also included some peculiar comments with regards to 'keyboard warriors' who it would seem have upset the company with 'inaccurate statements and offensive remarks'. Final results next month should return focus to the performance of the business and ahead of this announcement the shares look extremely good value. There are no forecasts in the market but even based on results for 2018 the shares are on too low a rating and figures for 2019 are set to show considerable improvement. We keep our BUY rating.
UP Global Sourcing - 66.1p	A trading update for the six months ended 31 January 2020 revealed that revenues increased by 2.8% to £67.7m (2019: £65.8m). The company has renewed its exclusive trademark licence agreement for the "Russell Hobbs" trademark in the UK and EU until March 2023, covering a range of non-electrical kitchen and laundry products but not Russell Hobbs electrical appliances. Banking facilities have been renewed to 2024, with funding headroom at 31 January 2020 of £13.2m. Given that the majority of the manufacturing is based in China, there could be some disruption to supplies due to the coronavirus, but the company has extensive experience of managing supply chain disruptions in the country, including those caused by previous viral outbreaks. This means that full year profitability is still set to be in line with market expectations. Interim results are due out on 30 April but the shares look good value, meaning they are a SPECULATIVE BUY.

Aggressive Growth Portfolio VII

The last fortnight has been relatively good for the portfolio as it has increased in value by 2.1% during the period, whilst both benchmark indices have fallen in value.

Yet again, the star performer has been Avacta, one of our shares of the year, which rose by 19.5% during the period. This takes the rise in the share price since the start of the year to 70%! As this has significantly increased the value of the holding in the portfolio, we have decided to top-slice this, selling 5,000 shares at 29.75p. This has raised net proceeds of £1,473 for a gain of £589. We are retaining 12,500 shares in the company.

We have also decided to sell our holding of 2,500 DWF Group as this is now showing a useful profit. The sale at 140.2p generated net proceeds of £3,470 for a gain of £475.

There have been announcements during the period from Anpario, D S Smith, Saga and UP Global Sourcing and these are covered on page 3 as usual.

No dividends have been received during the period and after purchasing shares in the two companies featured in this issue there is £64 left on deposit pending investment.

PERFORMANCE SUMMARY

	18 February 2020	4 February 2020	Gain/(Loss) %
Portfolio Value	£62,030	£60,782	2.1
FTSE 100 Share Index	7,382.01	7,439.82	(0.8)
FTSE All Share Index	4,118.84	4,136.76	(0.4)

	SECURITY	BUYING PRICE (p)	TOTAL COST (£)	CURRENT PRICE (p)	VALUE (£)	STOP-LOSS LIMIT (p)
7,500	Vertu Motors	37.35	2,829	36.4	2,730	36
1,075	Equiniti	223.4	2,437	212.8	2,288	180
1,250	Morrison (Wm) Supermarkets	199.25	2,528	181.4	2,268	170
2,000	Marshall Motor Holdings	140	2,828	157	3,140	120
1,250	Hargreaves Services	259	3,269	298	3,725	215
1,750	Town Centre Securities	186	3,304	224	3,920	190
6,000	Duke Royalty	44.1	2,672	48.1	2,886	37
1,000	Anpario	330	3,333	343	3,430	275
500	Keller Group	603	3,060	850	4,250	775
5,000	Speedy Hire	64.2	3,258	84.8	4,240	55
1,500	G4S	207.2	3,154	201.3	3,020	170
800	D S Smith	383.1	3,111	349.2	2,794	330
6,000	Saga	50.9	3,100	42.78	2,567	40
12,500	Avacta*	17.5	2,210	29.75	3,719	14
8,750	Lamprell Group	34.6	3,072	33.7	2,949	28
1,250	Everyman Media Group	209	2,638	224	2,800	165
3,850	UP Global Sourcing	77.4	3,025	66.1	2,545	60
1,800	Premier Miton Group	166.5	3,027	166.5	2,997	130
8,500	Xpediator	33.5	2,876	33.5	2,848	26
1,875	Carr's Group	152	2,892	152	2,850	120
£64	Cash	-	-		64	
				TOTAL	**£62,030**	

Start date: 2 January 2018 with £50,000. Cash includes dividends received of £3,801 *after taking some profit.

Carr's Group (CARR) - 152p

SECTOR - FOOD PRODUCERS
RECOMMENDATION - LONG TERM BUY

Agriculture and Engineering business Carr's Group is a steady, dependable operator. It has an excellent track record and is clearly well managed. Market conditions have meant that it has been difficult to make progress in the recent past but the company remains well positioned. The shares should arguably be on a higher rating given the quality of earnings.

Carr's Group is involved in manufacturing value added products and solutions, supplying customers in over 50 countries. The Agriculture division manufactures and supplies feed blocks and supplementation products for livestock and distributes farm machinery. This division also includes a network of rural stores across the UK which provide a one-stop shop for the farming community. The Engineering division designs and manufactures bespoke equipment and provides technical engineering services into the nuclear, petrochemical, oil and gas, pharmaceutical, process and renewable energy industries. This includes robotic and remote handling equipment.

The company released a trading update last month and noted that performance should be in line with existing expectations for the full year. The update related to the 18 week period ended 4 January. Trading in Agriculture during the prior three month period was behind expectations due to mild weather. In Engineering, contract phasing has also led to a slow start but there is a strong pipeline and improved performance is expected for the remainder of the financial year. Full year performance in Agriculture is set to be moderately behind previous expectations but performance in Engineering is now expected to be slightly ahead of previous expectations. Net debt as at 30 November 2019, excluding the impact of the adoption of IFRS 16, was £29.7m versus £23.8m as at 31 August 2019. This was mainly due to seasonal working capital movements.

Agriculture markets have been challenging and this has no doubt hit sentiment with regards to investing in companies relying on the sector. However, this should be a sensible time to buy for those taking a long term view. Interim results for the period ending 29 February are scheduled for release on 15 April and should detail the ongoing progress being made. We rate the shares as a LONG TERM BUY.

Share Price: 152p
Market Capitalisation: £140.5m
2019/20 Share Price Range: 172p/130p
Website: www.carrsgroup.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	404	18.0	14.6	10.4	4.75	3.1
2019 (est)	432	18.9	15.0	10.1	4.93	3.2
2020 (est)	446	19.5	15.6	9.7	5.13	3.4

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