cityconfidential
sorting the bulls from the bears

Issue 249
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Market Indices at 17 March 2020

FTSE 100	5,294.90
FTSE 250	13,924.88
FTSE All Share	2,894.32
FTSE AIM All Share	625.74
Dow Jones Ind Av	21,237.38
S & P 500	2,529.19
Nikkei 225	16,726.55

Interest Rates		Currency Rates	
UK:	0.25%	£/$:	1.21
ECB:	0.00%	£/€:	1.10
US:	0.00%	€/$:	1.10
		£/A$:	2.00

Commodity Prices

Oil (Brent Crude):	$27.42bbl
Gold:	$1,524oz
Copper:	$5,203/tonne

10-year government bond yields

US	1.09%
UK	0.67%
Germany	(0.28%
Japan	(0.05)%

Supermarket Income REIT is no basket case

At the current price, Supermarket Income REIT (92.75p) shares are at their lowest ever level. Given the recent scramble to empty the shelves of supermarkets around the UK this makes little sense and is indicative of highly unusual market conditions. This is a sound business and the shares now provide a yield of just over 6% even on a historic basis. This surely makes the shares attractive to those seeking a relatively safe income stream.

Supermarket Income REIT is a real estate investment trust with a strategy of investing in supermarket properties that form part of the future omnichannel model of grocery. The properties are let to leading UK supermarket operators. The company aims to provide shareholders with attractive, long-dated, secure, inflation-linked, growing income with the potential for capital appreciation over the longer term. It has a target total shareholder return of between 7% and 10% per annum over the medium term. The dividend target for the current year is 5.80p per share, payable in quarterly instalments.

Results for the six months ended 31 December 2019 showed net assets of 97p per share at the period end. The net loan to value ratio was 32.4% as at 31 December 2019, with a weighted cost of debt of 2.2%. Two quarterly dividends totalling 2.9p per share were declared for the period, up from 2.8p per share in the equivalent period a year earlier.

Following speculation, the company announced on 10 February that in partnership with a large institutional investor it was in discussions to acquire a minority stake in a portfolio of 26 supermarkets let to Sainsbury's. Further announcements on this possibility are expected in due course. On 19 February the company announced the acquisition of a Sainsbury's store in Hessle from Reassure Limited for £34.0m excluding acquisition costs, reflecting a net initial yield of 5.5%.

A yield of 6% has become easier to find over the last month or so but there can be few opportunities where there is also considerable protection against downside. Capital growth is likely to be modest at best but what is already a very attractive dividend should steadily increase over time. The shares are a BUY FOR INCOME.

Testing times

Novacyt (126p), an international specialist in clinical diagnostics, has this week announced an important order for the COVID-19 test developed by Primerdesign, its molecular diagnostics division. Following the completion of Public Health England's formal evaluation of this test the government agency has commenced orders. Initial orders are for eight hospitals, to provide stocks for four weeks of planned testing. The total value of the initial purchase is approximately £1.0m.

As of 13 March 2020, Primerdesign had sold and received orders for over £3.7m of its CE-Mark and research use only COVID-19 tests, which includes the order received from Public Health England. This represents approximately eight months of sales for the division under normal circumstances and is additional revenue to the core Novacyt business.

Novacyt is an international diagnostics business which is building a portfolio of in vitro and molecular diagnostic tests. It specialises in diagnostics product development, commercialisation, contract design and manufacturing. The main business units are Primerdesign and Lab21 Products, which supply an extensive range of assays and reagents worldwide. The company and its global partners serve microbiology, haematology and serology markets.

Novacyt is now supplying over 60 countries with its COVID-19 test and this number is likely to continue to increase. The shares have, unsurprisingly, spiked recently but given the peculiar times in which we are living the shares could move even higher. This is a company which could attract serious attention depending on how the situation with regards to the coronavirus develops. It is extremely difficult to value the company but there is scope for a significant capital gain in a short period of time. The shares are a SPECULATIVE BUY.

Leaders & Laggards

4 March 2020 - 17 March 2020

The best and worst performing of our recent tips:

1. IndigoVision	385p	+ 98.5%
2. Sirius Minerals	5.5p	+ 18.3%
3. Smart Metering Stms	583.5p	+ 17.4%
1. Everyman Media	79p	- 63.3%
2. Lamprell Group	12p	- 59.3%
3. PCF Group	16p	- 48.0%

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www.cityconfidential.co.uk

Sainsbury (J) (SBRY) - 192p

SECTOR – FOOD RETAILERS AND WHOLESALERS
RECOMMENDATION – BUY

These are highly unusual times, not just for Sainsbury but the stock market, global economy and world as a whole. The situation is developing on an ongoing basis and nobody can be sure how long the peculiar conditions in which we are living will last, but there has been a surge in demand for the products stocked by supermarkets. This has already reached a level where the purchase of certain items is being restricted and some groups of shoppers are being assisted with buying necessary items.

It is impossible to predict just how bad economic conditions will get but a very difficult period is unlikely to come to an end any time soon. Supermarkets may be one of the few types of business which could benefit from the situation. People still need to eat and buy other basics. At the same time eating out has fallen dramatically due to the need for greater isolation. As well as stockpiling from some individuals, regularly spending more cash in supermarkets could become the norm for the majority of people over the next few months at least.

Sainsbury was established in 1869 and states that it aims to offer customers easy, affordable access to the things they need, like healthy food, quality clothes, stylish homewares, the latest technology and more ways to manage their money. The company has now developed into a leading multi brand, multi-channel retailer. It has a growing online and digital business as well as fast, convenient delivery capability. There is a store estate of over 1,400 Sainsbury's supermarkets and convenience stores with almost 900 Argos stores in stand-alone and supermarket locations. The Habitat brand is also available in 16 locations and online. As at 28 January 2020 the company employed around 178,000 people.

Interim results were released in November, covering the 28 weeks to 21 September 2019. Group sales were £16,856m, down 0.2%, with Retail sales (excluding fuel) down 0.6% and like-for-like sales (excluding fuel) down 1.0%. Underlying profit fell by £41m to £238m due to the phasing of cost savings, higher marketing costs and tough weather comparatives. Underlying earnings per share were down 16% to 7.9p. An interim dividend of 3.3p per share was declared, up 6%, in line with a policy of paying 30% of the prior full year dividend. The full year dividend policy will change to 1.9x cover by underlying earnings versus 2.0x previously, which will offset the dilutive non cash impact of IFRS 16 on underlying earnings.

Retail free cash flow was £698m (2018: £617m), reflecting continued strong cash generation plus distributions from a joint venture with British Land. Net debt fell by £568m to £6,778m, reflecting this cash generation. A new longer-term asset-backed pension plan has been agreed, providing greater security to the scheme. The 2018 triennial valuation deficit was reduced to £538m from £1,055m in 2015. This resulted in cash contributions reducing immediately by approximately £50m per annum on average. However, it should be noted that recent events mean that this will need reassessing and what was looking like a receding issue could become a greater problem once again.

In the first half there was positive momentum in Grocery market share and sales performance, driven by a strong customer response to lower prices and new value brands, with 123 new value brand products launched and 200 due by the end of the financial year. Sainsbury's service and availability continues to improve and investment in technology is making shopping easier. SmartShop handheld self-scanning technology is now available in over 350 supermarkets. Improvement of 172 supermarkets and 158 convenience stores was undertaken in the six month period with work on 450 supermarkets and 200 convenience stores anticipated in the full financial year.

Clothing and General Merchandise performance improved quarter on quarter as comparatives normalised. Sainsbury's and Argos are being brought closer together to give customers easier access to all products and services. Argos sales grew ahead of the market in the period and Fast Track delivery and collection continue to grow. Argos stores are being converted to the digital format and Pay@Browse is now available in 362 Argos stores. Following a strategic review of Financial Services, the company is no longer selling mortgages.

A third quarter trading update was released in January, covering the 15 weeks to 4 January 2020. There was strong grocery performance and online growth as a multi brand, multi-channel business continues to be developed. Grocery sales grew 0.4%, with Groceries Online up 7.3%. Clothing sales were up 4.4% but General Merchandise sales fell by 3.9%. Total online sales grew by 5% but total retail sales declined by 0.7% excluding fuel, with like-for-like sales also down 0.7%.

Over 20% of business was online in the quarter. Groceries Online had record order numbers throughout the Christmas period and customers are increasingly choosing to shop with SmartShop in Sainsbury supermarkets. Argos had its biggest digital Black Friday to date with record sales through mobile and via Argos Click and Collect. To demonstrate the scale of the business, 32 million customers shopped with Sainsbury's or Argos in the key Christmas week. Colder weather also helped to deliver strong clothing sales in the quarter.

The Chancellor of the Exchequer stated on 17 March that the government will be "giving all retail, hospitality and leisure businesses in England a 100% business rates holiday for the next 12 months". Further clarification on the details of this change are still awaited but the company paid UK business rates of £567m in the financial year to 9 March 2019, of which approximately £500m related to stores. Clearly this could provide a major boost in the near term.

Final results are due to be released on 30 April. Much is likely to develop between now and then but even in these uncertain times people will have to buy food and other essentials one way or another. The shares are inexpensive looking at fundamentals and although the share price has been resilient compared to many companies there is good reason for this. We believe that shares in Sainsbury are likely to outperform the FTSE 100 in the coming months and rate them as a BUY.

Share Price: 192p
Market Capitalisation: £4,249m
2019/20 Share Price Range: 338p/174.95p
Website: www.about.sainsburys.co.uk

Year Ending March	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2019	29,007	635	22.0	8.7	11.0	5.7
2020 (est)	28.970	585	19.0	10.1	10.4	5.4
2021 (est)	29,497	607	19.7	9.7	10.8	5.6

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

COMPANY

Duke Royalty - 28.4p	The alternative capital solutions provider has approved an interim dividend of 0.75p per share with the ex-dividend date being 26 March and payment date 14 April. It has also confirmed that cashflow generated from its royalty and loan portfolio for the financial year ending 31 March 2020 should be in line with market expectations. A more detailed trading update is due to be released in April following the end of the financial year but for now this news is reassuring. We rate the shares as a BUY.
Equiniti - 162p	Results for the year ended 31 December 2019 have been released. Revenue was 4.7% higher at £556m (2018: £531m) and underlying EBITDA was up 5.0% to £136.0m (2018: £129.5m). Profit before tax jumped from £24.3m to £39.8m and underlying earnings per share increased from 17.8p to 18.1p. Total dividends for the year were 5.49p per share (2018: 5.32p). Net debt was reduced slightly to £343.6m from £352.0m a year earlier. There was also news of the acquisition of Monidee, an employee share plans technology business based in Amsterdam. Monidee is said to be a highly complementary share plans business. It services more than 200,000 employees across 210 corporate clients in 50 countries. The acquisition will provide a fully-functional and scalable share plans solution for Equiniti's clients in the global employee share plans market. The financial terms of the transaction were not disclosed but this looks to be a good fit. The shares remain a LONG TERM BUY.
Everyman Media Group - 79p	The company has announced that trading has been impacted by COVID-19 and the delay of major movie releases. Following guidance provided by the UK government, Everyman has taken the decision to close its venues to guests until further notice. All appropriate measures have been put in place to reduce the financial impact, including cost reduction and the postponement of new sites, refurbishments and other capital expenditure projects. The company has significant headroom in its loan facility and is in dialogue with its lenders on covenants to maintain liquidity through this period of uncertainty. As announced on 15 January 2020, Everyman had a good 2019 and full year results for the year ended 2 January 2020 will be released on 19 March 2020. The company has also announced that Streisan Bevan will be stepping down from the Board, with effect from 18 April 2020. Given considerable uncertainty the shares are only a HOLD.
G4S - 92.28p	Results for the year ended 31 December 2019 have been released. Revenue was £7.76bn versus £7.51bn restated a year earlier. Group revenue growth was 4.7% with Secure Solutions revenue growth of 4.7%, Retail Technology Solutions up 18.0% and Conventional cash up 1.0%. A statutory loss of £91m was incurred versus earnings of £81m a year earlier, reflecting a £291m charge for goodwill impairment. Cash business disposal proceeds of around £670m and profit on sale of approximately £300m will be accounted for in 2020. Operating cash flow was £633m (2018: £582m) representing cash conversion of 126% (2018: 118%). Net debt to EBITDA was 2.88x (2018: 2.75x). The final dividend was held at 6.11p per share. The announcement was closely followed by some sizeable director purchases, which provides confidence in the future. We rate the shares as a BUY.
IndigoVision - 385p	Motorola Solutions has made a recommended cash offer of 405p per share in cash for the company. This values the entire issued and to be issued share capital of IndigoVision at approximately £30.4m. It represents a premium of approximately 129% to the closing price of 177p per share on the day before the offer was announced. This news will come as a very welcome development for shareholders given the current situation with world markets. The offer is very attractive in the circumstances and there is little reason not to ACCEPT THE OFFER.
Marshall Motor Holdings - 122.5p	The automotive retailer has released final results for the year ended 31 December 2019. This was a year of record revenue and a fifth year of like-for-like revenue growth since the company's IPO. Reported revenue was £2.3bn, with modest growth helping to mitigate the impact of significant margin pressure across all main revenue streams as well as the impact of loss-making businesses acquired during the year. Underlying profit before tax was £22.1m (2018 restated: £24.7m). This translated into underlying earnings per share of 22.9p versus 26.3p a year earlier. A final dividend for 2019 of 5.69p per share will be paid on 22 May, the ex-dividend date being 24 April The full year dividend is therefore held at 8.54p per share with dividend cover of 2.7x (2018: 3.2x). The balance sheet remains strong, supported by £124.9m of freehold land and buildings. Outlook for the current year is currently unchanged but clearly these are uncertain times for anyone reliant on consumer confidence. Taking this into account we still believe the shares are cheap and rate them as a BUY.
Pressure Technologies - 86.5p	Chairman Sir Roy Gardner has been buying shares in the company and most recently he acquired 15,000 shares at 108p each on 12 March. This took his holding to 140,000 shares or a holding of 0.75%. The shares are a LONG TERM BUY.

Aggressive Growth Portfolio VII

As readers will no doubt be aware, global equity markets have fallen sharply over the last few weeks due to the coronavirus crisis and the collapse in the oil price. This has led many share prices to fall to the lowest level for over 20 years whilst the FTSE 100 is at its lowest point since 2011. Clearly the market is set for a very tricky time over the coming weeks and months. It is little consolation that the Aggressive Growth Portfolio has only dropped in value by 13.2% compared with falls of over 21% in each benchmark index.

In the last issue we reported that there had been a large number of sales from the portfolio as share prices fell through their stop-loss limits. We have lost even more stocks this issue for the same reason, but rather than detail the proceeds and profits/losses we are simply going to list the sales which are as follows:- 1,075 Equiniti at 180p; 1,250 Morrison (Wm) Supermarkets at 170p; 1,750 Town Centre Securities at 190p; 6,000 Duke Royalty at 37p; 1,000 Anpario at 275p; 5,000 Speedy Hire at 55p; 8,750 Lamprell at 28p; 1,250 Everyman Media at 165p; 3,850 UP Global Sourcing at 60p; 1,875 Carr's Group at 120p and 450 Clinigen at 575p. Except for Morrison (Wm) Supermarkets all the other share prices now stand at a lower level than these selling prices.

There have been announcements during the period from Equiniti, Marshall Motors, Duke Royalty and Everyman Media 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 £32,007 left on deposit pending investment. This is clearly a significant sum but given the current trading conditions in the market we feel relatively relaxed about this.

PERFORMANCE SUMMARY

	17 March 2020	3 March 2020	Gain/(Loss) %
Portfolio Value	£48,658	£56,047	(13.2)
FTSE 100 Share Index	5,294.90	6,718.20	(21.2)
FTSE All Share Index	2,894.32	3,749.09	(22.8)

	SECURITY	BUYING PRICE (p)	TOTAL COST (£)	CURRENT PRICE (p)	VALUE (£)	STOP-LOSS LIMIT (p)
2,000	Marshall Motor Holdings	140	2,828	122.5	2,450	120
1,250	Hargreaves Services	259	3,269	225	2,812	215
12,500	Avacta*	17.5	2,210	16.1	2,012	14
1,200	Character Group	255	3,091	229	2,748	185
1,750	Sainsbury (J)	192	3,417	192	3,360	145
5,000	ITV	65.38	3,318	65.38	3,269	45
£32,007	Cash	-	-		32,007	
				TOTAL	**£48,658**	

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

ITV (ITV) - 65.38p

SECTOR - MEDIA
RECOMMENDATION - LONG TERM BUY

It goes without saying that the outlook for ITV is far worse than it was a month or so ago, with some very serious issues for it to contend with. Perhaps most significantly in terms of specific programming, the 2020 European Football Championship, Euro 2020, is being postponed until 2021. The immediate future is uncertain for everyone but the shares will potentially look very cheap at the current level given time.

ITV is an integrated producer broadcaster which creates, owns and distributes content on multiple platforms on a global basis. In the UK it is universally known for a family of channels consisting of the ITV main channel, which is the largest commercial channel in the UK, ITV2 and ITV3, which are the two largest digital channels in the UK, ITV4, ITVBe, and CITV.

Final results for 2019 were released on 5 March and these were ahead of expectations. Revenue was £3,885m versus £3,766m a year earlier. Adjusted EBITA was down 10% at £729m (2018: £810m) and adjusted earnings per share were down 10% at 13.9p (2018: 15.4p). The full year dividend was 8p (2018: 8.0p), in line with the company's guidance.

The direct impact of the postponement of Euro 2020 is to reduce ITV's schedule costs this year by between £40m to £50m, including the cost of replacement programming. There will be no loss of sponsorship revenue as the tournament is pre-sponsored and there are no other large sports tournaments scheduled for 2021. When ITV made an announcement with regards to the matter on 17 March the company noted that guidance for March and April advertising revenue has not changed. At the time of the announcement the company had good access to liquidity with £830m of undrawn facilities and no bond repayments until September 2022.

As with all investments at the moment, it is difficult to gauge where the bottom may lie but there is an unprecedented level of fear built in and for ITV the level of disruption could potentially be lower than the collapse in the company's valuation would suggest. The impact could also be cushioned by the fact that many people could be confined to their homes in the UK for a period of time and advertising revenue may hold up relatively well. On balance we rate the shares as a LONG TERM BUY.

Share Price: 65.38p
Market Capitalisation: £2,632m
2019/20 Share Price Range: 156.5p/65.38p
Website: www.itvplc.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 (%)
2019	3,885	679	13.9	4.7	8.0	12.2
2020 (est)	3,310	586	12.7	5.1	8.0	12.2
2021 (est)	3,399	599	13.3	4.9	8.0	12.2

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