cityconfidential
sorting the bulls from the bears

Issue 251
29th April 2020

Market Indices at 28 April 2020

FTSE 100	5,958.50
FTSE 250	16,291.58
FTSE All Share	3,281.88
FTSE AIM All Share	804.96
Dow Jones Ind Av	24,101.55
S & P 500	2,863.39
Nikkei 225	19,771.19

Interest Rates		Currency Rates	
UK:	0.10%	£/$:	1.24
ECB:	0.00 %	£/€:	1.14
US:	0.00%	€/$:	1.09
		£/A$:	1.91

Commodity Prices

Oil (Brent Crude):	$14.99bbl
Gold:	$1,707oz
Copper:	$5,169/tonne

10-year government bond yields

US	0.60%
UK	0.27%
Germany	(0.49)%
Japan	(0.06)%

Finals from Quarto Group made good reading

Recent results from illustrated book publisher Quarto Group (49p) were interesting and suggested that the company is currently undervalued. An Open Offer which raised £13.9m in gross proceeds and approximately £12.8m net of expenses through the issue of 20,444,550 new shares at 68p each earlier this year has bolstered the balance sheet, reducing net debt. With the benefit of hindsight this was a timely move and the opportunity to buy in now at a significantly lower level looks tempting.

The company creates a range of books and intellectual property products in various formats for adults, children and the family. Quarto Group comprises a diverse portfolio of imprints and businesses that are creatively independent and have specific expertise in developing long-lasting content across niche areas of interest. Products are sold and distributed in over 50 countries and 40 languages, through a variety of sales channels, partnerships and routes to market. Approximately 330 employees are located in the US and the UK. The group was founded in London in 1976 and is domiciled in the US but listed on the London Stock Exchange.

In the year ended 31 December 2019 revenue fell by 9% to US$135.8m (2018: US$149.3m) but operating profit more than doubled to US$8.8m (2018: US$4.3m) as a result of reduced exceptional costs and a profit after tax of US$2.9m was achieved versus a loss of US$0.6m in the prior year on the same basis. In the past two years there has been a focus on cash generation and dividends have not been paid. Net debt at the year end was US$50.5m, down 16.4% from US$60.4m as at 31 December 2018. Following the Open Offer net bank debt was reduced to US$33m.

In late January, an article was published in the Financial Times regarding an unsolicited preliminary enquiry from Octavian Media LLC to acquire Quarto Group. The approach, which was in October 2019, was rejected and there were no further developments. However, this does demonstrate the fact that there could be a deal at some point, particularly given the relatively modest value of the company versus some of its peers. Regardless of this we feel that the shares are good value and although the coming months will bring significant challenges, we feel that a BUY rating is well deserved.

An Arden to love

Last month Arden Partners (7.5p) was driven to issue a statement following a slump in the company's share price on what it described as very small volumes. It pointed out that as at 29 February 2020, it had an unaudited net asset value of £5.6m. This translated into net asset value per share of 19.2p. The company currently has a market capitalisation of just £2.3m, although this has recovered strongly having dipped below £1m briefly last month. Nevertheless, there is scope for significant upside if fortunes improve.

AIM-listed Arden Partners is a dedicated corporate adviser and multi-service stockbroker to small and mid-cap companies in the UK, as well as their investors. The Arden Wealth Management team is a recent addition, offering a bespoke discretionary service to clients, with the ability to trade or invest in equities, bonds and a range of global investment funds.

In the year ended 31 October 2019 revenue was £6.6m (2018: £7.4m) and a loss before tax of £2.6m was incurred versus a £2.8m loss before tax the previous year. This translated into a basic loss per share of 8.9p (2018: 9.6p loss per share). On the face of it this is uninspiring but beyond the cost of staff, overheads are fairly limited so a modest improvement in revenues should move the company towards profitability.

There is justification for the share price to have reached the level at which it currently sits following significant losses in recent years. However, we believe that taking a contrarian view may well bring rewards in this case. Given the size of the company there is also a good chance that there could be some corporate activity at some point in the not too distant future. We rate the shares as a SPECULATIVE BUY.

Leaders & Laggards

15 April 2020 - 28 April 2020

The best and worst performing of our recent tips:

1. Avacta	110p + 83.3%
2. Character Group	297.5p + 30.8%
3. Clinigen	691p + 22.0%
1. LPA Group	64.5p - 12.8%
2. Xpediator	22.5p - 11.8%
3. Zytronic	115p - 11.5%

Premier Foods (PFD) - 46.6p

SECTOR – FOOD PRODUCERS
RECOMMENDATION – BUY

A recent announcement from Premier Foods has seen renewed enthusiasm for the company from investors. The company is actually feeling some benefits from the situation surrounding Covid-19 and having been out of favour for years the shares have suddenly found themselves in demand once again. Given the low base from which the shares have rallied, they still offer good value based on fundamentals and it is not too late to consider buying in.

Premier Foods is one of the largest listed food companies in the UK with over 4,000 employees at 15 manufacturing sites. It operates primarily in the ambient food sector. The company's key customers are the major UK supermarkets but it also serves a wide range of other channels including discounters, convenience stores, online, wholesale and food service. The Grocery business is responsible for developing a portfolio of brands in four key categories. Flavourings & Seasonings includes brands such as Bisto, OXO and Paxo. Cooking Sauces & Accompaniments includes Sharwood's, Loyd Grossman and Homepride. Quick Meals, Snacks & Soups includes Batchelors and Smash. Examples of brands within Ambient Desserts include Ambrosia, Bird's, Angel Delight, Mr Kipling and Cadbury. There is also a portfolio of other branded food products and a non-branded food business which manufactures products such as cakes and desserts for UK food retailers. Knighton Foods manufactures and sells own-branded beverages and dessert products.

A cooperation agreement with Nissin Foods Holdings Co., Ltd was entered into in 2016 and Batchelors Super Noodles have been launched in a new pot format using Nissin's noodle technology and manufacturing expertise. Premier Foods distributes Nissin's Soba noodles and Cup Noodle brands in the UK and is working with Nissin to expand international opportunities via Nissin's global network. In 2017 a new strategic global partnership was signed with Mondelez International to renew the long-standing licence to produce and market Cadbury branded cake and ambient dessert products. The new partnership will run until at least 2022 and has been expanded to cover 46 countries including South Africa, Canada, Japan, China and India. It covers the full range of Cadbury brands in ambient cake and the Oreo brand.

The most recent financial results available are interims for the 26 weeks ended 28 September 2019, with revenue of £366.7m, up 2.4% on the same period in the prior year. Branded revenue grew by 4.3% to £309.7m while non-branded revenue was 6.8% lower at £57.0m. Adjusted profit before tax was £31.7m in the period, up 5.0% on the prior year. Adjusted earnings per share in the first half of the year grew 4.3% to 3.03p. On a statutory basis, cash generated from operations was £25.9m compared to £20.4m a year earlier.

On 20 April the company made a significant announcement with news on the conclusion of its strategic review announced on 27 February 2019 and details of a transformational agreement with its pensions schemes. An update on current trading was also provided as well as a summary of the impact of the Covid-19 outbreak. Following an extensive strategic review which has explored all options, a landmark agreement has been reached with the company's pension schemes which is transformational for both Premier Foods and its pension scheme members.

There will be a segregated merger of the RHM, Premier Foods and Premier Grocery Products pension schemes and the RHM pension scheme is moving progressively closer to a scheme buyout by a specialist insurance provider. On buyout, a prospective RHM surplus would be expected to transfer to remaining deficit pension schemes. There is, therefore, potential for a significant reduction in future pension deficit contributions. The net present value of pension deficit contributions could reduce from the current £300m to £320m by up to approximately 45% to £175m to £185m. Scheme expenses of around £4m per annum could be saved from the current financial year in addition to the substantial improvement to the position of the Premier Foods schemes.

The merger is subject to agreeing definitive legal documentation with the scheme Trustees, with implementation expected by the end of June 2020. The triennial actuarial valuation review continues and will also be concluded by the end of June 2020. With the strategic review now concluded, the successful branded growth model strategy will be pursued, building market leading brands through consumer focused innovation and effective advertising. Following the progress made with this strategy, trading profit for the 52 weeks ended 28 March 2020 is set to be at the top end of market expectations. Group sales in the fourth quarter are expected to have grown by approximately 3.6% compared to the prior year and approximately 10.5% in March. In the UK, sales are expected to have increased around 7.3% in the fourth quarter and 15.1% in March. There was a sharp short-term peak in volumes across many categories during March. Volumes have started to reduce from the exceptional levels seen in March, although are still expected to continue to be higher than average patterns of demand. This reflects more food being eaten at home due to the lockdown.

Cash built during the second half of the financial year to 28 March 2020. The company expects to report in excess of £90m of cash generated from operating activities and a net debt/EBITDA ratio comfortably lower than the previous 3.0x target. In addition to this, £85m of the £176.6m committed revolving credit facility has been drawn down. Cash on deposit at the year end is set to be in excess of £175m, with a further £91.6m of committed facilities available. No other long dated maturities are due before June 2022.

Results for the 52 weeks ended 28 March 2020 are expected to be released on 14 May but recent comments published by the FCA and FRC regarding full year reporting mean that there could be a delay. Further details on this will follow in due course. The shares have surged on the back of the announcement made last week but we have felt for some time that the shares are undervalued and this news has been a catalyst for a re-rating. We believe that the rally has further to run and now is a good time to BUY.

Share Price: 46.6p
Market Capitalisation: £395m
2019/20 Share Price Range: 46.6p/18.5p
Website: www.premierfoods.co.uk

Year Ending 31 March	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2019	824	88.0	8.5	5.5	-	-
2020 (est)	847	90.7	8.7	5.4	-	-
2021 (est)	867	96.0	9.2	5.1	-	-

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

COMPANY

Avacta - 110p	The company has announced that its testing programme to generate Affimer reagents to help in the battle against coronavirus is ahead of schedule. In only four weeks it has successfully generated these reagents as part of its collaboration with Cytiva (formerly GE Healthcare Life sciences) and the next step is to develop a laboratory test for a virus antigen in the next few weeks. This is clearly very exciting news for the company and there is considerable potential for further progress in its development. Although the shares have moved up strongly there may be further to go and we rate them as a SPECULATIVE BUY.
Carr's Group - 121p	In the 26 weeks ended 29 February 2020 revenues were £200.0m, slightly down on the prior year (2019: £206.2m). Adjusted operating profit was £10.3m (2019: £11.9m) and adjusted profit before tax decreased by 16.0% to £9.6m (2019: £11.4m). Reported profit before tax after amortisation and non-recurring items was £10.5m (2019: £10.3m). On an adjusted basis, earnings per share were 8.0p (2019: 9.4p) but basic earnings per share increased by 12.0% from 8.3p to 9.3p. The company is relatively well placed to ride out disruption from Covid-19. Net debt, excluding leases, was £25.4m at the period end, representing 1.2 times adjusted EBITDA. BUY.
Clinigen - 691p	The global pharmaceutical and services company has signed an exclusive licensing and distribution agreement with Porton Biopharma Limited to commercialise Erwinase. Erwinase is approved for patients with Acute Lymphoblastic Leukaemia who have developed hypersensitivity to E. coli-derived asparaginase in 19 countries, including the US, Europe and Japan. Clinigen will look to expand the market opportunity for Erwinase by driving awareness of the product's availability, ensuring uninterrupted patient access, launching in select new countries and increasing the global supply of the product into unlicensed markets utilising its global infrastructure through a global access program. In the year to 31 December 2019, net sales of Erwinase were US$177m. It is anticipated that net sales for Clinigen will begin in the second half of 2021. Trading for the year to 30 June 2020 continues to be in line with expectations and the business had a strong first nine months of the year with organic gross profit growth of over 10% to the end of March 2020. To date disruption from Covid-19 has been marginal. BUY.
Flowtech Fluidpower - 83p	Prior to the Covid-19 lockdown performance in the first quarter was in line with expectations. However, the situation became worse in the last few weeks of the period and this continued into the second quarter. Many of the company's suppliers and customers suspended operations, although some have either already reopened or are planning to reopen in May, generally with reduced capacity. Net debt at 31 March 2020 was £15.6m, a £1m reduction from the position at 31 December 2019 and within aggregate banking facilities of £25m. Net cash flow is still due to be broadly as was anticipated. Four warehousing facilities are currently being closed in the UK, the annualised savings from which are estimated to be £1.6m. The cash cost of this restructuring is estimated at £1.8m, of which £0.5m was incurred in 2019. We keep our BUY rating.
Keller Group - 609p	The leading geotechnical specialist contractor has provided an update on trading in the first quarter as well as announcing the sale of its Brazil operations and a delay to the forthcoming Annual General Meeting. As announced on 25 March 2020, trading for January and February was marginally above expectations but activity fell away during the second half of March due to national and regional restrictions on travel and work. The March result was less impacted than expected though and the performance for the quarter as a whole was better than expectations, also materially better than the previous year. Trading in April remains mixed, with APAC and EMEA currently impacted more than North America. The order book in the near term remains largely unaffected. As at 31 December 2019 net debt was £213m and as at 31 March 2020, the group had undrawn committed and uncommitted borrowing facilities totalling £238m. The sale of Brazilian entity, Tecnogeo, will bring in £2.3m and result in a small non-underlying loss on disposal for the group. The dividend timetable has been revised with a new ex-dividend date of 30 July and payment date of 21 August. HOLD.
Severfield - 70p	The market leading structural steel group issued a trading update for the financial year ended 31 March 2020, ahead of the release of results which is currently scheduled for 17 June. The overall impact of Covid-19 remains uncertain and there has been some disruption to operations, both on sites and within factories, as a result of the outbreak. The UK and Europe order book at 1 April 2020 stood at £293m (1 November 2019: £323m) and the level of tendering and pipeline activity remains good. Covid-19 will not have had a material impact on results for the year ended 31 March 2020. Year-end net funds (excluding IFRS 16 lease liabilities) were approximately £16m (31 March 2019: net funds of £25m). Net funds as at 31 March 2020 comprised cash of £44m offset by borrowings under a revolving credit facility of £15m and an outstanding term loan of £13m for the Harry Peers acquisition. We believe that a LONG TERM BUY rating is appropriate.
STM Group - 28.3p	The multi-jurisdictional financial services group has announced final results for the 12 months ended 31 December 2019. Underlying revenue increased from £20.5m to £22.9m, with reported revenue of £23.3m (2018: £21.4m). Recurring annual revenue, which is seen as an important key performance indicator, remained steady at 77% of total revenues (2018: 76%). Underlying profit before tax for the year amounted to £2.6m (2018: £3.7m). Earnings per share were 5.73p compared to 6.20p for 2018. Cash and cash equivalents amounted to £18.4m as at 31 December 2019 (2018: £17.3m) with a net cash inflow from operating activities of £3.1m for the year (2018: £2.6m). Net cash and cash equivalents as at 31 December 2019 were £17.2m (2018: £15.6m). A second interim cash dividend of 0.75p per share has been declared. This brings the total dividend proposed in respect of the year to 1.50p per share (2018: 2.00p). The results were very reassuring and we believe a BUY rating is deserved.
Vodafone - 113.04p	The company has completed the placement of 41.7 million shares of Infrastrutture Wireless Italiane S.p.A., equal to approximately 4.3% of INWIT's share capital, at a price of €9.60 per share. This brought in gross proceeds to Vodafone of approximately €400m. It has also announced that it has accelerated a payment of US$200m to Vodafone Idea, which was due in September 2020 under the terms of a contingent liability mechanism with Vodafone Idea. This will provide Vodafone Idea with liquidity to manage its operations, and to support the approximately 300 million Indian citizens who are Vodafone Idea customers as well as the thousands of Vodafone Idea employees during emergency health measures, taken as a result of the Covid-19 pandemic. The shares still look good value. BUY.

Aggressive Growth Portfolio VII

The last fortnight has seen another excellent performance from the portfolio, helped by a very impressive rise of 83.3% in the share price of Avacta, although Character Group also did well, increasing by 30.8%! These share price moves were enough to lift the value of the portfolio by 8.9% over the last two weeks, thus outperforming both of the benchmark indices.

The coronavirus pandemic is clearly the major driver of equity markets at the moment although the collapse in the oil price has also had a significant impact. Any company that can reveal that it is working towards some sort of vaccine or test relating to the disease has seen its share price rise sharply as a result and this is what is driving the share price of Avacta. The latest news from the company is revealed in News Update on page 3.

Given the strong rise in its share price, the value of the shareholding of Avacta has moved to a level where it is too large for the portfolio. We have therefore decided to take more profit from the holding, disposing of 3,500 shares at 110p for net proceeds of £3,812 and a profit of £3,193. This still leaves a holding of 5,000 shares, but we have raised the stop-loss limit once again to 75p.

No dividends have been received during the period and after purchasing shares in the two companies featured in this issue there is £26,396 left on deposit pending investment. This is clearly a significant sum but given the current trading uncertainty in the market we feel relatively relaxed about this.

PERFORMANCE SUMMARY			
	28 April 2020	14 April 2020	Gain/(Loss) %
Portfolio Value	£59,058	£54,241	8.9
FTSE 100 Share Index	5,958.50	5,791.31	2.9
FTSE All Share Index	3,281.88	3,200.14	2.6

	SECURITY	BUYING PRICE (p)	TOTAL COST (£)	CURRENT PRICE (p)	VALUE (£)	STOP-LOSS LIMIT (p)
5,000	Avacta*	17.5	884	110	5,500	75
1,200	Character Group	255	3,091	297.5	3,570	185
1,750	Sainsbury (J)	192	3,417	200.7	3,512	145
5,000	ITV	65.38	3,318	75.84	3,792	45
350	PPE Hotel Group	1240	4,405	1140	3.990	875
4,000	Vodafone	111.98	4,546	113.04	4,522	90
8,500	Premier Foods	46.6	4,021	46.6	3,969	38
4,500	DWF Group	84.6	3,864	84.6	3,807	68
£26,396	Cash	-	-		26,396	
				TOTAL	**£59,058**	

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

DWF Group (DWF) - 84.6p

SECTOR - SUPPORT SERVICES
RECOMMENDATION - BUY

Shares in DWF Group look to have fallen too far and we feel that the shares now offer good value. Although the company is a relative newcomer to the market there is plenty to suggest that it will come through the current difficult situation in reasonably good shape and longer term prospects still appear to be sound.

DWF Group is a global legal business providing complex, managed and connected services. It became the first Main Market Premium Listed legal business on the London Stock Exchange in March 2019 via an offer priced at 122p per share. In the year ended 30 April 2019 revenue was up from £236.5m to £272.4m, helped by 78.7% growth in the International division. Adjusted profit before tax was £26.1m (2018 £23.1m) and adjusted diluted earnings per share were 6.8p (2018: 6.2p). Closing net debt as at 30 April 2019 was £35.3m, down from £54.1m a year earlier.

On 24 April the company announced that it has secured an in principle agreement to increase its committed Revolving Credit Facilities and a relaxation of some covenants with its lenders. This agreement will result in a secondary Revolving Credit Facility of £15m, in addition to the existing Revolving Credit Facility of £80m. The secondary facility, will remain in place for up to 18 months. Although there is no immediate need to use this additional facility, it will provide greater liquidity at a time when cash collections could be impacted by Covid-19.

The company believes that it is well placed to deal with the current economic pressures due to a resilient, counter-cyclical business model. Activity levels in some areas of the business have reduced due to Covid-19 but there has been an increase in activity and revenue opportunities in other areas, such as insurance. There has also been greater interest in the company's Managed Services offering as clients take cost out of their businesses.

There is a high level of uncertainty over performance in the coming months at least and the forecast dividend, which is a key attraction to investing, is by no means guaranteed. However, the enhanced liquidity position announced on 24 April is reassuring. A trading update is due to be released in the second half of May and this could act as a catalyst for some recovery in the share price. We put forward a BUY rating.

Share Price: 84.6p
Market Capitalisation: £275m
2019/20 Share Price Range: 142.4p/81p
Website: www.dwf.law

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	272	26.1	6.8	12.4	1.0	1.2
2020 (est)	317	30.0	7.7	11.0	5.0	5.9
2021 (est)	363	43.7	10.9	7.8	7.6	9.0

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