cityconfidential
sorting the bulls from the bears

Issue 253
27th May 2020

Market Indices at 26 May 2020

FTSE 100	6,067.76
FTSE 250	16,933.42
FTSE All Share	3,354.42
FTSE AIM All Share	854.24
Dow Jones Ind Av	24,995.11
S & P 500	2,991.77
Nikkei 225	21,419.23

Interest Rates

UK:	0.10%
ECB:	0.00%
US:	0.00%

Currency Rates

£/$:	1.23
£/€:	1.12
€/$:	1.10
£/A$:	1.85

Commodity Prices

Oil (Brent Crude):	$34.38bbl
Gold:	$1,713oz
Copper:	$5,342/tonne

10-year government bond yields

US	0.70%
UK	0.20%
Germany	(0.43)%
Japan	(0.01)%

Revving up for recovery

Investors in Aston Martin Lagonda (45.36p) have had a nightmare ride since the company's IPO in October 2018. Those who bought in at that time were wishing they could turn the clock back well before the impact of Covid-19. In the recent past £536m of capital has been raised to bolster the balance sheet and there have been some significant changes. The value of the Aston Martin brand is now set to be tested to the limit in the coming months.

The iconic British car manufacturer was founded in 1913 and has a mixed financial history. This week it has been announced that Dr Andy Palmer has stepped down as President and Group Chief Executive Officer and as an Executive Director. Tobias Moers, currently Chairman of the Management Board and Chief Executive Officer of Mercedes-AMG GmbH, will join as Chief Executive Officer on 1 August 2020. Until then Keith Stanton, who is currently Vice President and Chief Manufacturing Operations Officer, will act as interim Chief Operating Officer to support the Executive Chairman, Lawrence Stroll.

In the three months ended 31 March 2020 revenue slumped to £79m as Covid-19 impacted dealer demand. A strategic decision to move towards more of a luxury offering had already been taken and the fall in sales also reflected a lower average selling price. A loss before tax of £118.9m was suffered versus a loss of £17.3m in the same period a year earlier. Net debt at the period end had risen to £956m. However, this was subsequently reduced to a proforma net debt level of £614m at the same date following the placing of 25% of equity to a Lawrence Stroll-led consortium for £171m and a rights issue raising £365m.

There were some doubts expressed over the value of Aston Martin Lagonda when it listed in October 2018 and those who were concerned have certainly been proven right up until now. However, plenty of enthusiasts still want to buy the cars when finances allow this. The postponed James Bond film, now due for release in November, and the increased profile which the Aston Martin F1 team will generate in 2021 are both likely to increase demand. We put forward a SPECULATIVE BUY rating given that there is still plenty of work to do to justify a higher share price.

Hanging on by a thread?

Coats Group (50p) is the world's leading industrial thread manufacturer and although it is not immune from the current global crisis, the company remains bullish about the long term future it has. Given the history of the company, the nature of the business and the strength of the balance sheet this optimism appears to be well placed.

On 20 May the company issued a trading update covering the period from 1 January to 30 April. Sales for the period were down 17% on the prior year. Sales in April were down around 50%, as anticipated, due to demand and supply impacts from Covid-19. This included having around 15 manufacturing sites under enforced government closure but there should be a 40% year-on-year reduction in the like-for-like operating cost base in the second quarter of 2020. The balance sheet remains strong, with comfortable liquidity and headroom.

In agreement with the trustees of the Coats UK Pension Scheme, deficit recovery payments from April to December inclusive are being deferred. This will provide an additional US$17m of headroom cover during the year. Payments to compensate for this should commence in mid-2021 and be evenly spread over a period of around 18 months. Scheme administrative expenses of around US$5m will continue to be paid. As at 30 April 2020 net debt (excluding IFRS16) was US$253m.

It is Coats Group's Annual General Meeting on 11 June. With costs under control and activity levels now moving in the right direction again, buying in ahead of this date looks as though it should be a sensible move. The company has survived some significant threats since the 1700s and in the coming months a gradual move back towards normality should be reflected in a higher share price. We rate Coats Group as a BUY.

Leaders & Laggards

13 May 2020 - 26 May 2020

The best and worst performing of our recent tips:

1. Avacta	202p + 72.6%
2. Duke Royalty	28.3p + 43.7%
3. STM Group	32.5p + 22.2%
1. Town Centre Secs.	110p - 17.6%
2. Surgical Innovations	1.4p - 13.8%
3. Character Group	240p - 13.5%

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

Alliance Pharma (APH) - 73.9p

SECTOR – AIM – PHARMACEUTICALS
RECOMMENDATION – BUY

Alliance Pharma is a strong business and one which supplies essential products. This should ensure that it continues to thrive, even under difficult circumstances. The quality of the business is not a secret and it still has a market capitalisation of almost £400m, putting it amongst the most valuable companies listed on AIM. However, in the fullness of time, the current buying price is likely to prove to be an attractive entry point.

The international healthcare group is headquartered in the UK with subsidiaries in Europe, the Asia Pacific region and the US. It also has an extensive network of distributors, generating sales in more than 100 countries. It owns or in-licenses the rights to more than 90 consumer healthcare and pharmaceutical products and these are managed on a portfolio basis according to their growth potential. Promotional investment is focused on a small number of brands with significant international or multi-territory reach. The rest of the portfolio comprises products which are sold in a limited number of local markets and require little or no promotional investment. The company's strategy means it can benefit from both organic growth opportunities and selected acquisitions.

Final results for the year ended 31 December 2019 were released on 7 April. See-through revenues were up 16% to £144.3m (2018: £124.0m) and statutory revenues rose by 15% to £135.6m (2018: £118.2m). The increase was mainly driven by a strong performance from International Star brands, particularly Kelo-cote, as well as the inclusion of a full year's post-acquisition revenues from Nizoral. Overall, underlying profit before taxation increased by 17% to £32.9m (2018: £28.1m) and reported profit before tax increased 36% to £31.1m (2018: £22.8m). Gross profit increased at a slightly higher rate than revenue, up 18% to £86.1m (2018: £72.6m). This led to a 1.1% increase in gross margin, from 58.6% to 59.7% of see-through revenue due to mix and improving inventory management. As a percentage of sales, operating costs were broadly in line with 2018 and represented 31.1% of see-through sales (2018: 31.0%).

Underlying basic earnings per share for 2019 were 5.09p, an increase of 12% (2018: 4.54p). Reported basic earnings per share came in at 4.80p (2018: 3.69p) due to non-underlying items impacting on earnings less in 2019 than in 2018.

The company is closely monitoring the impact of Covid-19 and has decided it would be prudent to preserve cash at this time. This means that it has not proposed a final dividend for year ended 31 December 2019. It will continue to monitor the position with an intention to reassess the position later in the year and potentially declare a further interim dividend for 2020.

On 27 November 2019, the company announced that it had reached agreement with Duchesnay Inc. of Canada to return the UK and EU licensing rights to Xonvea, a prescription medicine for the treatment of nausea and vomiting of pregnancy where conservative management has failed. As a result of this agreement, non-underlying inventory provisions and associated restructuring costs of £1.9m were incurred in the year ending 31 December 2019, resulting in a non-underlying loss on disposal of £1.7m.

Intangible assets decreased by £6.6m to £328.7m (2018: £335.2m), £3.1m of which related to foreign currency translation adjustments and the remainder of the fall is primarily due to the disposals of Xonvea and Flammacerium. Intangible assets currently account for around 80% of total assets. As part of a strategic review, Alliance Pharma is considering the appropriateness of accounting estimates for intangible assets within its portfolio.

There has been ongoing strong control of working capital with total net working capital of £24.7m, a reduction of £1.4m on the prior year (2018: £26.1m). Inventories, net of provisions, were £15.5m as at 31 December 2019, a decrease of £3.2m in the year (2018: £18.7m). This is mainly due to the partial reversal of an inventory build made during 2018 in preparation for the FMD and Brexit along with a £1.2m provision for Xonvea following the return of the licensing rights to Duchesnay.

Free cash flow for the year was notably strong at £29.1m (2018: £16.1m), due primarily to the increase in underlying operating profit in 2019. Net debt decreased by £26.6m to £59.2m at 31 December 2019 (2018: £85.8m), a reflection of strong underlying cash generation. Adjusted net debt/EBITDA leverage reduced to 1.48x as at 31 December 2019 (2018: 2.33x), comfortably within the covenant limit of 3.0x. Free cash flow generation is expected to remain good in 2020 and leverage should reduce to below 1.0x during the second half of the year excluding the impact of the coronavirus. This is subject to no acquisitions being made.

At the company's Annual General Meeting last week, it was reiterated that the majority of employees have been working from home with minimal operational disruption to the business due to an outsourced business model and 'robust' IT systems. The Shanghai office became fully operational again in early April and other offices around the world are being reopened when local government guidance allows this. As expected, there has been some impact on year to date revenues but a return in consumer confidence is underway, starting in China. This is a key market. Trading will be weighted to the second half of the year.

The supply chain remains relatively solid and there has not been any significant supply disruption due to Covid-19. The company has a strong balance sheet and significant covenant headroom. It is confident that it is well placed to respond to increasing demand as local lockdown measures are eased. An update on first half trading and full year outlook will be provided in mid July 2020 in a scheduled half year trading update. This is an impressive business and one which we have followed closely for a number of years. We believe that the shares are good value at the current time. Some companies have seen their share prices rally with limited justification in recent week and although Alliance Pharma has also seen strong recovery there should be further recovery ahead. We rate the shares as a BUY.

Share Price: 73.9p
Market Capitalisation: £395m
2019/20 Share Price Range: 87.5p/57.2p
Website: www.alliancepharmaceuticals.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	144	32.9	5.1	14.5	0.536	0.7
2020 (est)	140	31.9	4.9	15.1	1.66	2.2
2021 (est)	148	35.6	5.5	13.4	1.84	2.5

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

COMPANY

Avacta - 202p	The company has announced that it has entered into an exclusive distribution agreement with Medusa19 to supply a saliva based rapid test for Covid 19. The test should give a result within minutes and is designed for use by both healthcare professionals and consumers around the world. The company's share price has continued to strengthen and having tipped the shares at 17.5p in January as one of our Shares of the Year these have now reached acclaimed ten-bagger status! They are a FIRM HOLD.
Belvoir Group - 125.5p	The company has released a trading update to coincide with its AGM. During the first quarter to the end of March 2020 which incorporated just one week of the Covid-19 lock-down, trading was strong and in line with management expectations. Early indications for April, during which all offices were operating entirely under 'lock-down', have demonstrated the resilience of the franchise networks. At the end of April, a rent arrears survey of all franchisees was undertaken. This revealed that less than 5% of tenants are in arrears on their rent compared with the usual 2%. Overall, April performance was significantly stronger than had been anticipated. Net debt as at 20 May 2020 was £6.9m (31 December 2019: £6.9m) with the company having deployed £2.0m of cash in January to acquire the Lovelle network and deferred payment of £0.5m VAT until the first quarter of 2021. Whilst it is still too early to predict how the housing market will be affected during the remainder of the year, the company is confident of achieving its revised forecasts for 2020. The shares remain a HOLD for now.
Duke Royalty - 28.3p	The company has decided that although its trading remains pretty resilient, it would be prudent not to pay out the next cash dividend which would have been due for the June quarter, but to pay this as a scrip dividend instead. At this stage the timing and amount of the dividend are not known but these will be revealed next month. The group has suffered like most others from the downturn caused by coronavirus, but it expects to receive its royalty income as expected although this may be delayed. The company has a strong balance sheet with cash on hand of over £3m and up to a further £18m available through a revolving line of credit. Although the share price has recovered from its low it still stands only just above half the level reached in January and we believe this justifies a recommendation of BUY.
EMIS Group - 1078p	Non-executive director Patrick De Smedt has acquired 10,000 shares in the company at a price of 1047p each. This is a useful vindication of our buy recommendation in the last issue. Continue to BUY.
Marshall Motor Holdings - 110p	The motor retailing group has announced that in line with the government's recent announcement it will re-open its showrooms from 1 June. The company closed its operations on 23 March and since then has undertaken comprehensive risk assessments of its sites, producing a detailed plan on how to re-open and ensuring that the company's employees are fully trained in the new procedures. The company's aftersales activities are now fully open for business having previously focused on key workers and emergency services and initial demand is encouraging as these activities are ramped-up. How much demand there will be for new/used cars remains to be seen but the shares have produced a useful rally of late and are probably no more than a HOLD until further evidence of progress has been seen.
Premier Foods - 46p	The company has announced that it is to redeem some of its Senior Secured Floating Rate Notes due July 2022 at par. The company is redeeming £80m of the £210m outstanding and this provides further evidence of the group's strong cashflow which will clearly be well received by investors. Following the completion of the transaction next month, the group will save over £4m a year in interest costs and we maintain our recommendation of BUY.
Ramsdens Holdings - 141.5p	Results for the twelve months to 31 March 2020 have been released. Revenue was £59.5m versus £46.8m in the same period a year earlier. Underlying profit before tax was up 19% to £8.0m (2019: £6.7m). Net assets increased by £4.1m from 31 March 2019 to £35.0m and at the period end net cash was £11.1m. Given the ongoing impact of the Covid-19 pandemic available cash resources are being preserved and no second interim dividend has been declared at this time. We keep our BUY rating.
Synectics - 120p	The advanced security and surveillance systems group has announced that it has been awarded two new contracts with existing customers both of which are for a number of years. The first contract is a five year multi-million dollar support contract with a major casino operator for its flagship resort in Asia, building on an existing long-term relationship. The second contract is a three year deal with Stagecoach, the UK's largest bus and coach operator, and covers the delivery of on-vehicle surveillance systems and maintenance support for their fleet of over 8,000 vehicles. This is an extension of the group's 18 year relationship with Stagecoach and a useful endorsement of the company's products and services. Although the group has experienced some delays on projects due to coronavirus it continues to deliver services and support to its customers whilst it has also maintained a net cash position which provides some re-assurance to investors. This announcement combined with the decline in the share price leads us to upgrade to BUY.
Xpediator - 25.5p	The company has provided an update on current trading at its AGM confirming that it has traded resiliently through the period of the pandemic so far. Although activity levels are understandably lower with good demand from some sectors offset by weakness in other sectors, the impact on margins has been less affected due to actions taken by the company to reduce costs at the start of the pandemic. Although the group is not prepared to provide guidance for the rest of the year, it believes that it is trading well helped by its asset light base and diversified spread of activity. Around 60% of activity takes place in mainland Europe with a significant part of this in Central and Eastern Europe where the effect of Covid-19 has been much less serious. At current levels the shares are ATTRACTIVE.

Aggressive Growth Portfolio VII

Yet another excellent performance from the portfolio over the last fortnight as it has risen in value by another 5.2% helped by another stellar performance from Avacta, which has risen in value by 72.6% over the period. This has led to the portfolio outperforming the benchmark indices yet again.

Following the strong run in the share price of Avacta, we have decided to take more profit from the holding as the company now has a market value of over £400m! We have therefore sold another 1,250 shares in the company at 202p to realise net proceeds of £2,500. This has resulted in a profit of £2,279 from this disposal. Given the sharp rise in the share price, we have also increased our stop-loss on the rest of the holding to 175p to protect the profit on this.

Elsewhere in the portfolio, there has not been too much excitement in terms of share price movement, but we have taken the opportunity to increase the stop loss limit on ITV from 45p to 65p and that on Vodafone from 90p to 110p.

It has been a quiet period for company news with only Avacta and Premier Foods making announcements, 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 £15,598 left on deposit pending investment.

PERFORMANCE SUMMARY			
	26 May 2020	12 May 2020	Gain/(Loss) %
Portfolio Value	£62,049	£58,982	5.2
FTSE 100 Share Index	6,067.76	5,994.77	1.2
FTSE All Share Index	3,354.42	3,294.63	1.8

	SECURITY	BUYING PRICE (p)	TOTAL COST (£)	CURRENT PRICE (p)	VALUE (£)	STOP-LOSS LIMIT (p)
2,250	Avacta*	17.5	398	202	4.545	175
1,200	Character Group	255	3,091	240	2,880	185
1,750	Sainsbury (J)	192	3,417	182.5	3,194	145
5,000	ITV	65.38	3,318	80.72	4.036	65
350	PPE Hotel Group	1240	4,405	1175	4,113	875
4,000	Vodafone	111.98	4,546	128.88	5,155	110
8,500	Premier Foods	46.6	4,021	46	3,910	38
4,500	DWF Group	84.6	3,864	77.6	3,492	68
7,000	UP Global Sourcing	54.1	3,844	60.1	4,207	44
215	GlaxoSmithKline	1707	3,725	1648.4	3,544	1500
5,000	Alliance Pharma	73.9	3,732	73.9	3,695	57
1,650	Bloomsbury Publishing	223	3,734	223	3,680	185
£15,598	Cash	-	-		15,598	
				TOTAL	**£62.049**	

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

Bloomsbury Publishing (BMY) - 223p

SECTOR - MEDIA
RECOMMENDATION - BUY

Bloomsbury Publishing has become best known for the Harry Potter books it publishes. These remain lucrative and last year the standard edition of Harry Potter and the Philosopher's Stone was the tenth bestselling children's book on UK Nielsen Bookscan, twenty two years after it was first published. However, the company has continued to add other strings to its bow and Children's sales represented just 36.5% of total revenues in the last financial year so it is far more than a "one trick pony".

Results for the year ended 29 February 2020 were released last week. Revenues increased fractionally to £162.8m (2019: £162.7m) despite the impact of coronavirus on Chinese sales in January and February. Profit before taxation and highlighted items grew by 9% to £15.7m, up from £14.4m a year earlier. Profit before taxation was 10% higher at £13.2m (2019: £12.0m).

Diluted earnings per share excluding highlighted items were 16.77p (2019: 14.97p). Net cash was £31.3m as at 29 February 2020, up from £27.6m a year earlier. Subject to shareholder approval at the AGM on 21 July, a bonus issue will be made on 28 August in lieu of the final dividend payment. The company had delivered unbroken dividend growth dating back to the 1990s and intends to reintroduce cash dividend payments as soon as market conditions allow.

A placing of new ordinary shares at 223.25p each raised gross proceeds of £8.4m last month, with the company having modelled some very pessimistic downside scenarios. The company has noted that if a prolonged downside scenario does not materialise the equity placing proceeds will be used for future growth opportunities. Bloomsbury has already driven growth through various strategic acquisitions and continues to see opportunities in the Academic markets.

This is a well-managed business which has taken some precautions to ensure that it comes through the current difficult spell in good shape. With any luck this should mean that it is able to focus on growing the business again soon, both organically and through acquisitions. There is an opportunity to buy in now at almost exactly the same level as the placing price in April. This looks tempting and with the shares having lost over a quarter of their value since touching 300p in January they are some way off their recent high. BUY.

Share Price: 223p
Market Capitalisation: £174m
2019/20 Share Price Range: 302p/184.5p
Website: www.bloomsbury-ir.co.uk

Year Ending 28 February	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2020	163	15.7	16.77	13.3	1.28	0.6
2021 (est)	144	9.1	8.77	25.4	7.07	3.2
2022 (est)	167	16.5	15.83	14.1	8.37	3.8

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