cityconfidential
sorting the bulls from the bears

Issue 254
10th June 2020

Market Indices at 9 June 2020

FTSE 100	6,335.72
FTSE 250	17,755.25
FTSE All Share	3,507.71
FTSE AIM All Share	883.49
Dow Jones Ind Av	27,272.30
S & P 500	3,207.18
Nikkei 225	22,860.00

Interest Rates

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

Currency Rates

£/$:	1.28
£/€:	1.12
€/$:	1.14
£/A$:	1.82

Commodity Prices

Oil (Brent Crude):	$39.64bbl
Gold:	$1,718oz
Copper:	$5,680/tonne

10-year government bond yields

US	0.80%
UK	0.31%
Germany	(0.33)%
Japan	0.01%

Wheels of fortune

A trading update on 6 May confirmed that Halfords Group (184.6p) has been performing well in challenging times. The company's share price is higher now than it was at the turn of the year, a situation that seemed highly unlikely at the bottom of the market less than three months ago. Further good news may be delivered when final results are released on 7 July.

Halfords Group is the leading provider of motoring and cycling services and product in the UK with 446 Halfords stores, 4 Performance Cycling stores, 371 garages and 77 mobile service vans, trading as Halfords Mobile Expert. Customers can also shop online at halfords.com, cyclerepublic.com and tredz.co.uk for pick up at stores or direct home delivery. Garage services can also be booked online at halfords.com.

As a provider of essential products and services the company's stores have remained open during the lockdown period. As of 6 May 325 retail stores were open on a dark-store basis, serving customers from the front of the store. There were also 346 garages open and 77 mobile vans operating. Results for the last financial year were boosted by better than expected sales in the final weeks, covering the lockdown period. Adjusted profit before tax is now set to be closer to £55m than £50m. Sales for the four weeks to 1 May 2020 were 23% below last year on a like-for-like basis. This reflected a strong performance in Cycling. In Motoring essential categories such as batteries and battery care performed well but there was overall weakness due to a significant reduction in car journeys.

On 1 May 2020 there was approximately £159m of total liquidity available, including overdraft facilities. On 16 March 2020 a proposal to close the operations of Cycle Republic and the Boardman Performance Centre was announced following a strategic review. A transaction was subsequently completed with Pure Scooters Limited to transfer 11 stores but an exceptional cost of £25m to £35m will still be incurred. Prospects moving forwards look relatively good, with a push towards cycling in the UK likely to provide a significant boost this year. We rate the shares as a BUY ahead of final results.

One to watch

Although shares in Cineworld Group (94p) have rebounded strongly from the low they reached in March, they still stand at a significant discount to the level which they stood at prior to the Covid-19 pandemic. With normality gradually returning, we feel that the share price could be boosted further on news of resumed activities in the coming weeks.

Cineworld Group was founded in 1995 and listed on the London Stock Exchange in May 2007. The company's acquisition of Regal Entertainment Group created the second largest cinema business in the world by number of screens. It now operates in the UK, Ireland, Poland, the Czech Republic, Slovakia, Hungary, Bulgaria, Romania, Israel and the US.

The company's latest update to the market was on 28 May. Cineworld Group announced that its lenders have agreed to waive the leverage covenant relating to its credit facility for the June 2020 testing date and has increased its leverage covenant to 9.0x net debt to EBITDA for the December 2020 testing date. It has also agreed terms for US$110m of additional liquidity through an increase in its revolving credit facility. In addition, the company has secured credit committee approval to apply for an additional US$45m through the CLBILS loan scheme in the UK and was due to commence a process to access US$25m through the US government CARES Act. This additional liquidity should provide sufficient headroom even if cinemas are closed until the end of the year.

At the time of its announcement in late May it was expected that government restrictions on cinemas would be lifted in each of Cineworld Group's territories by July. Although there is much discussion with regards to the 'New Normal', cinemas are likely to return to popularity in the not too distant future. There are obvious risks if government restrictions restrict capacities or cinemas being open at all for a prolonged period but on balance we rate the shares as a TRADING BUY.

Leaders & Laggards

27 May 2020 - 9 June 2020

The best and worst performing of our recent tips:

1. Saga	24.1p + 37.4%
2. 600 Group	10.0p + 29.0%
3. Norcros	168p + 19.6%
1. Avacta	139p - 31.2%
2. DWF Group	64.5p - 16.9%
3. Carr's Group	108.25p - 6.3%

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CareTech Holdings (CTH) - 395p

SECTOR – AIM – HEALTH CARE
RECOMMENDATION – BUY

CareTech Holdings is a solid, mature business and the type of company that investors may increasingly turn to with considerable uncertainty still likely in the coming months at least. Many higher risk propositions have seen their respective share prices rebound spectacularly and now appear fully valued. Interim results are due to be released on 18 June and could generate greater interest.

The company is a leading provider of specialist social care services. It supports adults and children with a wide range of complex needs in more than 250 specialist services around the UK. It provides care pathways through five divisions covering adult learning and disabilities, mental health, young people's residential services, foster care and learning services. The business was founded in 1993 and began trading on AIM in October 2005. It has a portfolio of more than 160 freehold properties.

Final results for the year ended 30 September 2019 were released in December. Revenue increased by 112.7% to £395.0m (2018: £185.7m). Like-for-like, CareTech's revenue in the period increased 5.8% from £185.7m with the shift change relating to the acquisition of Cambian. Group EBITDA was £73.5m (2018: £43.9m) of which approximately 60% came from the historic CareTech business and 40% from Cambian. Like-for-like, CareTech's EBITDA increased by 1%. Underlying profit before tax increased by 52.5% to £50.2m (2018: £32.9m) and underlying basic earnings per share were 37.60p (2018: 35.07p). A final dividend of 7.95p per share (2018: 7.5p) took the total dividend for the year to 11.7p (2018: 11.0p). The final dividend was paid on 6 May 2020.

New banking facilities were agreed at the time of the acquisition of Cambian which include term loans of £322m and an undrawn revolving credit facility of £25m. In January 2019, a second ground rent transaction with Alpha Capital raised £31m of net proceeds.

On 22 April a detailed trading update was released. Group performance for the half year ended 31 March 2020 was in-line with market expectations. There was stronger revenue and better EBITDA margins than in the same period a year earlier. As at 31 March, unaudited net debt was £287.4m, down from £291.1m as at 30 September 2019. The reduction was due to strong operating cash flow partially offset by the cash consideration paid for the United Arab Emirates acquisition, development opportunities and integration costs associated with the Cambian acquisition. As at 31 March 2020 cash was £35m, there was an undrawn revolver of £25m and significant headroom under existing bank facilities and bank covenants.

The company continues to have a strong active pipeline of investments in new properties and bolt-on acquisition opportunities. It will look to deploy free cash flow whilst remaining committed to reducing the ratio of net debt to EBITDA in the medium term to under 3.0x. It is on track to deliver a total of £5m of profit before tax synergies in the year ended 30 September 2020. The integration plan with Cambian continues with improved quality ratings, good staff retention and higher occupancy leading to enhanced margins. Further investment continues in IT systems.

On 4 February 2020 CareTech Holdings completed the acquisition of a 51% interest in AS Investments Holding Ltd and AS1 Investments Holding Ltd, which hold a majority equity interest in the Macani Medical Center and American Center for Psychiatry and Neurology respectively. Trading is in line with expectations and the partnership is already discussing a number of opportunities to enhance specialist social care and education in the region. The National Minimum and Living Wage increased from 1 April 2020 but fee increases should cover the additional costs from increases in front line staff pay.

The majority of service users cared for are children and adults with learning disabilities, mental health diagnoses and/or with challenging behaviours. Less than 3% of service users fall into the formal NHS high-risk category groups for Covid-19, such as those with underlying health conditions. The company has stressed that this is very different to that of elderly care services, which have been significantly impacted by the virus. Local Authorities, the NHS and Public Health England are said to recognise the vital role of the social care sector and this should ensure that these services remain operational and funded. The Government announced further funding of £1.6bn for social care to help respond to Covid-19 and the company is in discussions with Local Authorities to establish dedicated funding arrangements. Overall, the impact to date of Covid-19 has been minimal.

Net capacity as at 31 March 2020 was 5,044 places (September 2019: 5,079 places) with the fall being due to Fostering, reflecting Covid-19 restrictions in places available. Adult's Services capacity was 1,967 (September 2019: 1,968), Children's Services 1,948 (September 2019: 1,933) and Fostering 1,129 (September 2019: 1,178). As at 31 March 2020, occupancy levels in the mature estate increased to 85% (September 2019: 84%) and the blended occupancy also increased to 81% (September 2019: 80%).

Across the group CQC quality ratings are 91% Good or Outstanding in adults services (September 2019: 95%) which is better than the Adult social care average of 84%. This data is better than the sector standards for providers and reflects the addition of new sites that have opened. OFSTED ratings remained at 82% Good or Outstanding across the group. Both CQC and OFSTED have suspended all routine inspections due to Covid-19. In terms of staff retention, the annualised retention rate sits at 74%, which compares favourably to the industry average of 70%.

To further support the CareTech Charitable Foundation, an independent grant-making corporate foundation in the UK social care sector, the company has announced that it intends to donate one million new ordinary CareTech Holdings shares to the Foundation.

Although the shares are unlikely to deliver spectacular capital growth, they should outperform the market over the next twelve months. Given the uncertainties surrounding the economy the broad market has arguably risen too far in the near term and we therefore believe that the shares offer good value relative to the level of risk involved with investing. The shares are a BUY.

Share Price: 395p
Market Capitalisation: £443m
2019/20 Share Price Range: 502p/308p
Website: www.caretech-uk.com

Year Ending 30 September	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2019	395	50.2	37.6	10.5	11.70	3.0
2020 (est)	423	52.5	39.7	9.9	7.86	2.0
2021 (est)	445	60.6	46.3	8.5	8.58	2.2

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

COMPANY

Aston Martin Lagonda - 79p	The company has announced that to help reduce costs it is to reduce employee numbers by up to 500. There are also other aspects to a general restructuring including cuts to capital expenditure and non-essential expenditure. These cost savings are likely to save £18m per annum with the costs of the restructuring likely to be around £12m in the current year. The shares could have further to run. SPECULATIVE BUY.
Avacta - 139p	The group has announced that it has raised £48m through the issue of 40m shares at 120p each to both institutional and retail investors. The issue was originally due to raise £45m but was increased due to strong demand from investors. The funds raised will be used to fund the group's development programme. We believe it is time to TAKE SOME PROFITS.
Character Group - 280p	Interim results have been announced. For the period ended 29 February 2020, turnover was £51.7m (2019: £58.8m) and profit before tax was £2.5m (2019: £5.6m). Adjusted basic earnings per share were 9.60p (2019: 20.98p). Diluted earnings per share, on the same basis, were 9.58p (2019: 20.67p). The business remained highly cash-generative throughout the period, with net cash held at the end of the period of £16.8m versus £18.6m a year earlier. Since March 2020 Covid-19 has deeply impacted sales. Many retailers in the UK and overseas closed their shops and stores and the distributors for international markets substantially scaled back their operations. Although online channels have remained open the overall impact of the pandemic has been severe. The shares are a LONG TERM BUY.
DWF Group - 64.5p	The legal group has revealed that its business suffered more than expected in April from the effects of coronavirus and so profits for the year to 30 April will be lower than previously expected. Previously the group had expected revenue growth of between 15% and 20% for the year but this actually emerged at 11%. The group has seen activity levels increase in May and helped by strong cash collections in April net debt at the year end was £64.9m, a little better than expected. The group has implemented the previously announced cost reduction programme and is looking at extending this. Sir Nigel Knowles, the current chairman, is to take over as CEO. We believe the shares are a BUY FOR RECOVERY.
Flowtech Fluidpower - 74.5p	The company issued an update on trading ahead of its AGM and this revealed that before the impact of Covid-19 trading at the company was marginally ahead of expectations. However, once the lockdown was imposed, trading declined with revenues down by around 40% in the second half of March and the whole of April whilst May saw a slight improvement with revenues down by just 30%. The company is confident that this improving trend will continue. The cost reduction measures taken by the company led to an approximate adjusted EBITDA break even position in April and May but as trading conditions improve a return to profit is expected. The group's cash position remains sound and the shares remain a BUY.
Hargreaves Services - 214p	The company has announced that it has decided to cease all its coal mining operations by July 2020 which will result in an exceptional charge of £3.7m in the year to 31 May 2020. The group has seen little impact from Covid-19 on its operations apart from some relatively minor disruption in its property business and therefore excluding the effect of this its results for the year to 31 May 2020 will be in line with expectations. A £50m borrowing facility is due to expire on 31 August 2020 but the company is confident the facility will be renewed. BUY.
Marshall Motor Holdings - 122.5p	The group has confirmed that all its 117 car showrooms have re-opened and also provided an update on trading. Although this confirmed that trading had been strong before the lockdown, the group still expects to make a loss in the first half which is hardly surprising in the circumstances. Although net debt has fallen during the lockdown, it is expected to increase again once trading at the group picks up. With no guidance on full year results being given, the shares remain a HOLD.
PCF Group - 21.5p	The AIM-listed specialist banking group has issued interim results covering the six months to 31 March with this period producing a strong performance despite the last few weeks being affected by coronavirus. New business originations rose 26% to £153m (2019: £121m) and the overall loan portfolio rose 18% to £401m (2019: £339m). The bank had retail deposits of £340m at the end of the period (Sept 2019: £267m) with over 7,800 customers (Sept 2019: 6,250). Operating income for the period increased by 26% to £12.7m (2019: £10.1m) and underlying pre-tax profit rose by 27% to £4.2m (2019: £3.3m). Due to the impact of coronavirus, the group has provided an extra £1.6m as an exceptional charge to cover bad debts and this reduced earnings per share to 0.8p (2019: 1.2p) for the period. The fall in the share price from a high of 37p in February has provided an excellent buying opportunity. BUY.
PPHE Hotel Group - 1245p	The company is now taking steps to re-open some of its operations. It has also announced that work has started on its art'otel London project in Hoxton, London. This is a re-assuring statement and we maintain our recommendation of BUY.
Surgical Innovations - 1.6p	The company has announced a trading update. Group revenues in the first quarter of 2020 were down 25% compared with last year, although in April the decline in revenues had increased to 70%. This level of decline is likely to continue for the second quarter as a whole as elective surgery using the group's equipment is either cancelled or postponed. The group has taken action to reduce costs with 85% of the staff furloughed by 1 May at which time the group had cash balances of £1.65m (1 January 2020: £1.28m). All unnecessary expenditure has been suspended and senior staff have taken pay cuts of up to 50%. SPECULATIVE BUY.
Tandem Group - 250p	A trading update has been provided although it remains difficult to predict how the year as a whole will turn out. Overall, revenue is slightly ahead of the prior year but the overall order book is approximately 3% behind last year. The company expects revenue to fall behind the prior year during the summer period. A further update is anticipated at the AGM on 25 June. We feel that the shares remain cheap and 2020 should be a very profitable year. BUY.
UP Global Sourcing - 69.2p	The company has issued a trading update revealing that underlying EBITDA for the year ending 31 July will be above current market expectations. The company also stated that net debt at 5 June was £2.6m. This was an unscheduled trading update but is clearly good news and the shares have moved up as a result. Nevertheless, the share price remains some way below the high of 98p hit at the start of the year and they remain a BUY.
Vertu Motors - 28.35p	Results for the year to 29 February 2020 have been released and detailed a 2.8% increase in revenue to £3.1bn, with like-for-like revenue growth of 1.2%. Profit before tax was £7.3m (2019: £25.3m) but underlying earnings per share increased to 5.12p (2019: 5.10p). No final dividend is recommended. Net tangible assets per share as at the period end were 46.0p (2019: 44.9p) and adjusted net debt was £2.8m as at 29 February 2020 versus net cash of £22.9m a year earlier. On balance the shares remain as a BUY.

Aggressive Growth Portfolio VII

Despite a sharp fall in the share price of Avacta, one of our Shares of the Year, the portfolio has continued to increase in value over the last fortnight, rising by 1.9%. As can be seen from the table, however, this means that the portfolio has underperformed both of the benchmark indices.

After the stellar rise seen over the last few months, it is perhaps no surprise that Avacta has given up some of its gains with the result that the share price has fallen through its stop-loss limit of 175p. We have therefore sold the remaining holding of 2,250 shares at that price to raise net proceeds of £3,899 which has realised a gain of £3,501. This has taken the total profit on the holding to £12,703 – not bad for an initial investment of £3,094!!

We have also lost the holding of DWF Group as the share price has fallen through the stop-loss limit of 68p. A disappointing trading statement has been the cause of the recent weakness in the share price. The sale of the holding of 4,500 shares at that price has raised net proceeds of £3,029 for a loss of £835.

It has been quite a busy time for company announcements with Avacta, Character Group, PPE Hotel Group, DWF Group and UP Global Sourcing all reporting news and details are 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 £14,802 left on deposit pending investment.

PERFORMANCE SUMMARY			
	10 June 2020	26 May 2020	Gain/(Loss) %
Portfolio Value	£63,216	£62,049	1.9
FTSE 100 Share Index	6,335.72	6,067.76	4.4
FTSE All Share Index	3,507.71	3,354.42	4.6

	SECURITY	BUYING PRICE (p)	TOTAL COST (£)	CURRENT PRICE (p)	VALUE (£)	STOP-LOSS LIMIT (p)
1,200	Character Group	255	3,091	280	3,360	185
1,750	Sainsbury (J)	192	3,417	196.8	3,444	145
5,000	ITV	65.38	3,318	86	4,300	65
350	PPE Hotel Group	1240	4,405	1245	4,358	875
4,000	Vodafone	111.98	4,546	138.94	5,558	110
8,500	Premier Foods	46.6	4,021	47.6	4,046	38
7,000	UP Global Sourcing	54.1	3,844	69.2	4,844	44
215	GlaxoSmithKline	1707	3,725	1642.6	3,532	1500
5,000	Alliance Pharma	73.9	3,732	75.2	3,760	57
1,650	Bloomsbury Publishing	223	3,734	216	3,564	185
1,000	CareTech	395	3,989	395	3,950	300
4,250	Alumasc	87	3,735	87	3,698	68
£14,802	Cash	-	-		14,802	
				TOTAL	**£63,216**	

Start date: 2 January 2018 with £50,000. Cash includes dividends received of £3,801.

Alumasc Group (ALU) - 87p

SECTOR - AIM - CONSTRUCTION & MATERIALS
RECOMMENDATION - BUY

Alumasc Group is a supplier of premium building products, systems and solutions. The bulk of group sales are driven by building regulations and specifications because of the performance characteristics offered. There are three business segments operating under different brands in their individual markets.

Apart from some contract wins announced last month, the last trading update was on 27 April. In terms of Housebuilding Products, Timloc re-opened on 14 April. Water Management announced that it would be re-opening its Burton Latimer (Skyline, Alumasc Rainwater & Harmer) and Halstead (Wade & Gatic Slotdrain) sites on a phased basis from 27 April. The other two Water Management businesses, Rainclear and Gatic (Engineered Access Covers) have been trading as usual throughout. Rainclear is an online business which has been performing well. The AWMS Dover site has been continually open for business and exporting Gatic engineered access covers for new ports and other developments overseas. In Building Envelope, Roofing and Levolux have remained open for business. Roofing has received strong order intakes.

Action taken to preserve cash in recent months includes the suspension of capital expenditure, a stop on new hiring and cancelling the dividend. There has been a deferral of three months' pension contributions, amounting to £575k in aggregate, which should have been payable between April and June. The deferred amount will be recovered between July 2020 and the next revaluation in March 2022. The balance sheet remains strong and at the time of the last trading update in April there was £16.6m of headroom available from banking facilities.

On 19 May it was announced that Gatic, part of Alumasc Group, had been awarded a number of contracts in the Middle and Far East over the past three months. In total these contracts are worth over £4m. Supply has already commenced and these contracts are expected to be delivered over the next 24 months.

The business has been hit by disruptions due to Covid-19 but appears to have dealt with the situation well. Although the current year is likely to see a dip in profitability the shares trade on a low multiple of earnings and even taking into account a significant pension deficit look good value. We put forward a BUY rating.

Share Price: 87p
Market Capitalisation: £31.4m
2019/20 Share Price Range: 131.5p/60p
Website: www.alumasc.co.uk

Year Ending 30 June	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2019	90.1	5.6	12.4	7.0	7.35	8.4
2020 (est)	76.1	3.9	8.6	10.1	2.50	2.9
2021 (est)	86.4	6.7	15.0	5.8	6.00	6.9

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