cityconfidential
sorting the bulls from the bears

Issue 255
24th June 2020

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Resilient Speedy Hire equipped for survival

Having been founded in 1977, Speedy Hire (59.8p) has faced tough times before but the current disruption caused by Covid-19 will certainly rank as one of the company's greatest challenges. Although it has been hit hard since March revenues are now recovering and quick, decisive action means that costs are under control. It would appear that the longer term future remains quite bright and recovery in the company's share price may not have finished yet.

Speedy Hire is the leading tools and equipment hire company in the UK. It has an industry-leading range of products and also provides training, testing inspection and certification services, as well as consumable and equipment sales. It operates in the UK construction, infrastructure, industrial, utilities, events and facilities management markets as well as the Middle East and Kazakhstan.

Final results for the year ended 31 March 2020 were released on 23 June. Group revenue increased by 3.0% to £406.7m (2019: £394.7m). Adjusted profit before tax increased to £34.9m (2019: £31.4m) and adjusted earnings per share increased to 5.54p (2019: 4.96p). No final dividend was declared. Net debt was reduced to £79.3m from £89.1m a year earlier and as at 31 May 2020 this had been brought down to £67.3m.

The group is in a relatively strong financial position with significant unutilised bank facilities. It has credible plans to negotiate through the current period of disruption and has modelled a range of downturn scenarios. Under all of these the group continues to generate cash and would not breach any covenant tests. Debt levels have been conservative in the past and at current revenue levels it would be able to operate throughout the current financial year within existing banking facilities. We rate the shares as a BUY.

Maintel on the right lines

Results for 2019 were released by Maintel Holdings (194p) earlier this month. The company has been struggling for some time and this meant its share price was sliding downwards long before Covid-19 could take the blame for poor performance. However, we feel that there should now be recovery ahead.

The company provides managed cloud communications services for both the public and private sectors. It works with customers to create value by helping them improve their business through digital transformation. Digital workplace technology helps customers become more efficient in the way they work and there is also assistance with customer experience technology for end users as well as secure connectivity.

In the year ended 31 December 2019 revenue fell by 10% to £122.9m (2018: £136.5m) and adjusted EBITDA decreased by 7% to £11.8m (2018: £12.7m). Adjusted profit before tax was £8.5m (2018: £10.8m) and adjusted earnings per share fell by 20% to 52.6p (2018: 65.5p). On an unadjusted basis, profit before tax was £1.8m (2018: £2.2m) and earnings per share were 22.4p (2018: 14.4p). Given the current situation no final dividend was declared. A final dividend of 19.5p per share was paid in May 2019 relating to performance in 2018. An interim dividend for 2019 of 15.1p was paid in October 2019. Net debt as at the end of 2019 was £25.7m. An extension and amendment agreement to existing bank facilities was signed on 26 May. This provides a revised facility of £34.5m with a maturity date of 27 October 2021. The amended facility has a more flexible covenant package than the previous arrangement and also provides additional funding headroom.

One of the main reasons why adjusted and reported earnings are so different is the amortisation of intangible assets. A number of significant acquisitions in recent years mean that the performance of the underlying business has been hidden somewhat. In 2020 there should be a greater focus on organic performance and although further acquisitions may follow in future years some of the strengths of the business as it currently stands should be highlighted in the coming months. Given the disappointment that long term shareholders have suffered there is some risk involved but we feel that a SPECULATIVE BUY rating is now appropriate.

Market Indices at 23 June 2020

Index	Value
FTSE 100	6,320.12
FTSE 250	17,652.80
FTSE All Share	3,498.11
FTSE AIM All Share	896.46
Dow Jones Ind Av	26,156.10
S & P 500	3,131.29
Nikkei 225	22,534.32

Interest Rates

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

Currency Rates

£/$:	1.25
£/€:	1.10
€/$:	1.13
£/A$:	1.80

Commodity Prices

Oil (Brent Crude):	$42.55bbl
Gold:	$1,767oz
Copper:	$5,895/tonne

10-year government bond yields

US	0.70%
UK	0.20%
Germany	(0.42)%
Japan	0.00%

Leaders & Laggards

10 June 2020 - 23 June 2020

The best and worst performing of our recent tips:

1. Premier Foods	59.6p + 25.2%
2. Character Group	344p + 22.9%
3. Manx Financial	8.5p + 9.7%
1. Saga	18.04p - 25.1%
2. Alumasc	75p - 13.8%
3. Journeo	47p - 10.5%

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

Premier Miton Group (PMI) - 107.5p

SECTOR – AIM – FINANCIAL SERVICES
RECOMMENDATION – LONG TERM BUY

It would appear that shares in AIM-listed Premier Miton Group are fundamentally good value unless equity markets move significantly lower again. Ultimately nobody knows for sure where markets are heading but the shares appear to be cheap even if broad markets turn negative again in the near term and in considering this opportunity we have taken unpredictable financial markets into account. The shares have, along with most others, been volatile in recent months. However, they remain well below the level at which they stood before Covid-19 emerged and there should be scope for further recovery in the coming months as normality returns.

Premier Miton Group was formed in November 2019 through the merger of Premier Asset Management Group and Miton Group. This merger brought together the capabilities, expertise and knowledge of two solid companies to create a new organisation that is well placed to deliver good investment outcomes for clients. The offering includes a range of investment strategies including multi-asset, equity, absolute return and fixed income. The company had assets under management of £9.1bn as at 31 March 2020.

The combination of the two businesses has created a more diversified client-focused UK asset manager with stronger active management investment capabilities, enhanced intermediary distribution relationships and greater financial strength. The enlarged group has a greater footprint in the UK adviser and wealth management markets.

Further to the merger there were a number of executive management and directorate changes. Mike Vogel is Chairman and Mike O'Shea continues as the Chief Executive Officer. Piers Harrison, previously Chief Operating Officer of Miton Group, was appointed as Chief Financial Officer. Two Miton Group Directors, David Barron and Katrina Hart, became Non-Executive Directors of the new group. Neil Macpherson, Finance Director of Premier Asset Management, resigned as a Director and Luke Wiseman, Non-Executive Director of Premier Asset Management, also resigned from the Board. Robert Colthorpe and William Smith continue as Non-Executive Directors. On 14 May 2020 the company announced the appointment of a new Non-Executive Director, Alison Fleming, as well as the departure of Katrina Hart from her role as Non-Executive Director on the same date.

Interim results covering the six months ended 31 March 2020 were released last month. Net management fees for the period were £33.5m, an increase of 40% over the comparative period reflecting the enlarged assets under management as a result of the merger. Net management fee margin reduced to 67.4bps from 72.4bps in the same period a year earlier, reflecting the post merger contribution of the Miton product range which is reported after the deduction of associated Authorised Corporate Director and fund accounting fees. The audited 2019 net management fee margin for the stand alone Miton Group was 60.6bps. On 11 December 2019 the Premier Managed Index Balanced Fund was launched and at the period end the group managed 46 products.

Adjusted profit before tax was £12.2m versus £9.3m in the same period a year earlier. This translated into adjusted earnings per share of 7.29p (2019: 7.22p). At 31 March 2020 cash balances were £29.3m (2019: £15.3m). The group has no debt.

Assets under management were £9,145m (2019: £6,556m) at the period end. This represented an increase of 39% during the period. The increase was driven by the merger which completed on 14 November 2019, adding £4,701m in assets under management at that date. The group saw net outflows for the period of £389m (2019: £67m net inflows). Within this total, the equity funds had net inflows of £116m with the main contributor being the LF Miton European Opportunities Fund. The fixed income funds saw outflows of £180m. There were also £325m of outflows across a range of multi-asset funds in the period.

The volatile markets caused by the Covid-19 pandemic have created volatility in the revenue base due to falls in underlying market valuations and the resulting changes in assets under management. By 31 March 2020, the world's main global equity indices had fallen within an approximate range of 15% to 30% from their respective values as at 31 December 2019. Comparatively, assets under management saw an aggregate reduction of 20.9% to £9,145m including net outflows of £167m for the three months to 31 March 2020. As at the period end there were eight funds each with assets under management of more than £300m.

Due to the risks and global impact from Covid-19, as well as the uncertainties as to the duration and impact of the pandemic, the Board took the prudent decision to reduce the second interim dividend to 0.75p per share, payable on 29 May 2020. For future dividends, the group will distribute on a twice-yearly basis, moving away from the payment of quarterly interim dividends. Dividends will be aligned with the reporting calendar in future.

In terms of Covid-19, from 16 March 2020 all employees transitioned to remote working using the group's business continuity arrangements. No material expenditure was required for the transition to remote working and all systems are continuing to operate as planned. While the full implications of Covid-19 on financial performance for the year remain difficult to determine, there has been some recovery of assets under management, which stood at £9.9bn as at 30 April 2020 with net positive inflows of £19m for the month of April. Reduction in some discretionary expenditure has already been implemented and, in addition, the senior management team has elected to take a reduction in salary for a period of six months.

Overall, it is clear that the company is currently in a period where Covid-19 is causing problems. However, it is better placed than most to ride out the storm and we feel that there is plenty of bad news in the share price even after it has recovered since March. There are further challenges ahead in the near term and considerable uncertainty. Looking further ahead the current share price should prove to be a sensible entry point with the benefit of hindsight. We therefore rate the shares as a LONG TERM BUY.

Share Price: 107.5p
Market Capitalisation: £170m
2019/20 Share Price Range: 188.5p/69.5p
Website: www.premiermiton.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	52.8	19.0	16.0	6.7	10.5	9.8
2020 (est)	64.8	20.2	10.9	9.9	5.7	5.3
2021 (est)	68.0	21.6	11.2	9.6	6.8	6.3

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

COMPANY

Company	Update
Caretech - 429p	The provider of specialist social care and education services for adults and children in the UK has announced interim results, covering the period to 31 March 2020. Revenue in the half year was up 8.3% to £208.5m (2019: £192.5m). This was due to the continued turnaround in Cambian, re-positioned services coming online and fee increases. EBITDA increased by 14.1% to £38.0m (2019: £33.3m) reflecting the synergy saving from the Cambian acquisition. Underlying EBITDA margin increased from 17.3% to 18.2%. Underlying profit before tax was up 25.1% to £25.9m (2019: £20.7m) and underlying basic earnings per share were 18.44p (2019: 15.82p). Net debt was £287.4m as at 31 March 2020 versus £291.1m as at 30 September 2019. Net assets have increased to £353.0m as at 31 March 2020, up from £328.4m a year earlier. The interim dividend was increased from 3.75p per share to 4.0p. These are reassuring results although they are unlikely to have a significant impact on the share price in the near term as the performance of the business should be relatively predictable. We rate the shares as a BUY.
LPA - 70p	The LED lighting group has announced its interim results for the six months to 31 March and these showed that revenue rose by 7% during the period to £10.8m (2019: £10.1m) with pre-tax profits before exceptional items increasing to £0.19m (2019: £0.17m). Earnings per share on the same basis were 2.07p (2019: 1.76p) and no dividend was declared (2019: 1.1p). The group's order book has increased to £24.7m (2019: £ 19.2m). Gearing at the end of the period was 25.6% (2019: 22.0%). The group's sites are fully compliant with safe working guidelines and have remained open during the period to support its customers. There has been significant disruption during the period and so that fact that the group has produced these results is an impressive performance. There are also significant opportunities to explore and with confidence slowly returning to the market, further progress is expected in the second half. Non-executive director Gordon Wakeford has also purchased 10,000 shares in the company at a price of 72.7p. This purchase reinforces our recommendation of BUY.
Premier Foods - 59.6p	Solid final results have been released by the company covering the 52 week period to 28 March 2020. Revenue increased by almost 3% to £847.1m (2019: £824.3m) and trading profit was £132.6m versus £128.5m a year earlier. Adjusted earnings per share were 8.9p, up from 8.5p a year earlier. Net debt was reduced by £61.8m on a pre-IFRS 16 basis to £408.1m. There is now a combined pensions surplus of £1,230.4m (30 March 2019: £373.1m). The shares continue to look good value and we keep our BUY rating despite the recent rally.
Pressure Technologies - 87.5p	The company has announced interim results for the six months to 31 March 2020 which have shown revenue on continuing operations declining to £13.9m (2019: £14.5m) whilst the adjusted pre-tax loss was £0.17m compared with an adjusted pre-tax profit of £1.12m in 2019. Earnings per share on the same basis emerged at 0.0p for the period compared with 6.2p last year. Group revenue declined during the period due to the phasing of large defence contracts and the impact of Covid-19 in March 2020. Over the last year the group has made a number of operational changes and these have put the group in a better position to face the challenges and uncertainty in the current trading environment, The impact of Covid-19 continues to be felt in varying degrees across the business although the strong order books in both divisions at the end of the period are encouraging. Nevertheless, the overall picture remains unclear with the company unable to provide guidance for the remainder of the financial year. As a result we believe that shares are a HOLD.
Saga - 18.04p	The specialist in products and services for people aged 50 and over announced a detailed trading update for the period from 1 February to 21 June 2020, ahead of its Annual General Meeting. This was broadly positive. The Insurance business has been resilient and continues to make progress. Total policies for the period of 620,000 are 5% lower than in the prior period due to a significant decline in the number of new travel policies sold from mid-March. In Travel more than 70% of Cruise guests have moved their booking to later sailings, which is promising. The group has good liquidity and we feel that a SPECULATIVE BUY rating is appropriate at the current share price.
Severfield - 67p	The market leading structural steel group has announced its results for the year to 31 March and these have proved to be in line with expectations. Group revenue rose to £327.4m (2019: £274.9m) whilst underlying pre-tax profit increased to £28.6m (2019: £24.7m). Earnings per share on the same basis emerged at 7.7p (2019: 6.7p) although no dividend was declared due to the uncertainties caused by Covid-19. During the year the group acquired Harry Peers for net cash consideration of £18.9m with contingent consideration of up to £7m payable in the current financial year. Net cash balances at the year end were £16.4m (2019: £25.1m) as a result of strong cash generation. All of the group's factories are operational and the group undertook over 100 projects during the year. Although some investment decisions are being delayed by clients, the group's order pipeline is encouraging and with a strong balance sheet and cash position the group is well-placed to ride out the current crisis. The shares are a LONG TERM BUY.
STM - 28.5p	The financial services group has issued a trading update ahead of its AGM confirming that trading in the first four months of the year has been in line with expectations. Although the group acted quickly to implement working from home and other workplace practices to meet government guidelines customer service levels have been maintained with limited impact on business. New business pipelines continue to build although conversion to actual business is slower than anticipated due to the current pandemic. The group continues to look at acquisition opportunities as they are core to the the group's medium term ambitions. The group seems well positioned to make further progress and we rate the shares a BUY.
Synectics - 109p	The security systems and surveillance company has won a new contract worth in excess of £1m to provide surveillance systems for a major offshore oilfield development in the Middle East. The project., which is for Saudi Aramco's US$6bn development of the Berri offshore oilfield on the east coast of Saudi Arabia, will be implemented with Synectics' long-term partner General Dynamics and will be substantially delivered in the current financial year that ends on 30 November 2020. This is clearly good news for the company and a vindication of the company's expertise. The shares are a BUY.
Wynnstay Group - 247.5p	Interim results for the six months ended 30 April 2020 have been released. Revenue was £229.3m (2019: £260.6m) and reported profit before tax £4.30m (2019: £4.12m). The latter translated into basic earnings per share of 17.50p versus 17.01p a year earlier. Net debt on a comparable basis to last year reduced to £2.54m at the period end (2019: £14.70m), helped by commodity price deflation. The interim dividend was maintained at 4.60p per share. These are impressive figures in the circumstances and we keep our BUY rating.

Aggressive Growth Portfolio VII

The last fortnight has seen the portfolio produce a mixed performance with increases in the share prices of both Character Group and Premier Foods offset to a degree by a share price fall at Alumasc. The strong performance of the former has led to the shares being the largest risers in our universe of stocks as featured on page 1 in Leaders and Laggards. Readers will also note that Alumasc features amongst the laggards!

The overall impact over the fortnight has been that the portfolio has risen in value by 0.9% and this compares with declines in both of the benchmark indices. Another recent purchase, Caretech, has also performed well during the period with the shares responding positively to the interim results' announcement, details of which are on page 3. The other company to make an announcement was Premier Foods which also announced results as we were going to press.

Although the market seems a little high, we have decided to retain all our holdings for the time being as we do not believe that any of these look particularly overpriced. No dividends have been received during the period and after purchasing shares in the two companies featured in this issue there is £6,833 left on deposit pending investment.

PERFORMANCE SUMMARY

	23 June 2020	10 June 2020	Gain/(Loss) %
Portfolio Value	£63,771	£63,216	0.9
FTSE 100 Share Index	6,320.12	6,335.72	(0.2)
FTSE All Share Index	3,498.11	3,507.71	(0.3)

	SECURITY	BUYING PRICE (p)	TOTAL COST (£)	CURRENT PRICE (p)	VALUE (£)	STOP-LOSS LIMIT (p)
1,200	Character Group	255	3,091	344	4,128	185
1,750	Sainsbury (J)	192	3,417	204.6	3,581	145
5,000	ITV	65.38	3,318	77.7	3,885	65
350	PPE Hotel Group	1240	4,405	1155	4,042	875
4,000	Vodafone	111.98	4,546	129.14	5,166	110
8,500	Premier Foods	46.6	4,021	59.6	5,066	38
7,000	UP Global Sourcing	54.1	3,844	67	4,690	44
215	GlaxoSmithKline	1707	3,725	1674.4	3,600	1500
5,000	Alliance Pharma	73.9	3,732	76	3.800	57
1,650	Bloomsbury Publishing	223	3,734	220	3,630	185
1,000	Caretech	395	3,989	429	4,290	300
4,250	Alumasc	87	3,735	75	3,188	68
3,750	Premier Miton	107.5	4,071	107.5	4,031	75
1,650	Drax Group	232.8	3,898	232.8	3,841	175
£6,833	Cash	-	-		6,833	
				TOTAL	**£63,771**	

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

Drax Group (DRX) - 232.8p

SECTOR - UTILITIES
RECOMMENDATION - BUY

Drax Group describes its purpose as enabling a zero carbon, lower cost energy future. Since 2012 it has reduced its reported carbon emissions by over 85% and aims to become carbon negative by 2030. It believes it can play a major role in delivering the UK's objective of becoming carbon neutral by 2050. These ambitious goals mean that the company should have a solid future ahead.

The group aims to build a long-term future for sustainable biomass. It aims to increase biomass self-supply to five million tonnes by 2027, which would result in significant cost reduction. Drax Power Station is the UK's largest single source of renewable electricity, providing 11% of the total. It hopes to end coal operations in September 2022. Under proposals it is putting to stakeholders, commercial generation from coal would end in March 2021 but two coal units would remain available to meet Capacity Market obligations until September 2022.

A very detailed trading update was released on 22 April. Trading and operational performance was 'robust' in the first three months of 2020. Expectations for 2020 adjusted EBITDA at the time were in line with consensus taking into account an estimated potential impact from Covid-19 of £60m, mainly in relation to its Customers business. As at 31 December 2019 Drax Group had £404m of cash, which increased to £454m as at 31 March. The company continues to see its biomass strategy as both a primary long and short-term source of value but it is reviewing the timing of its investment programme in 2020 and in the short-term investment is expected to be lower. As at 31 March 2020 net debt had reduced to £818m.

The shares provide a very attractive yield and the company has noted that it will update on its expectations for the 2020 full year dividend when interim results are released on 29 July 2020. At a time when many other companies are scrapping plans to pay any dividends, the nature of this business should mean that it continues to provide an attractive level of income to shareholders. This should also ensure that there is strong demand from potential investors in the coming months. We rate the shares as a BUY and believe that there should be capital growth ahead as demand from income seekers pushes the share price higher.

Share Price: 232.8p
Market Capitalisation: £924m
2019/20 Share Price Range: 334.2p/126.4p
Website: www.drax.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	4,703	142.2	29.9	7.8	15.9	6.8
2020 (est)	4,195	142.8	28.6	8.1	17.0	7.3
2021 (est)	4,239	129.2	29.6	7.9	18.3	7.9

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Independent Financial Publications, 1 Skipton Road, Ilkley, West Yorkshire, LS29 9EH

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