cityconfidential

sorting the bulls from the bears

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Showtime for Everyman

Everyman Media Group (96p), the premium cinema group, is currently in the process of reopening. On 24 June the company noted that it would start to reopen venues from 4 July following a Government announcement allowing it to do so. The intention at the time was for all 33 venues to be open by 24 July. The company's new flagship cinema on King's Road, Chelsea, is also due to open on 24 July.

Covid-19 had forced the closure of all venues and this meant that in April the company decided to raise gross proceeds of £17.5m through an oversubscribed placing priced at 100p per share. The new shares represented 19.2% of the enlarged share capital following the fundraising, which in our view was an acceptable level of dilution for existing shareholders given the highly unusual circumstances in which fresh capital was required.

Results for the 52 weeks ended 2 January 2020 were released on 19 March, around the time the stock market hit a bottom. Revenue for the year was up just over a quarter at £65.0m (2018: £51.9m). Admissions were up 17% on the previous financial period to 3.3 million (2018: 2.8 million). The average ticket price increased to £11.37 (2018: £11.26) and Spend Per Head increased 13% to £7.13 (2018: £6.30). Pre IFRS 16 EBITDA was up 31.3% to £12.0m (2018: £9.2m) and operating profit increased by 67.1% to £4.8m (2018: £2.9m). A further seven new Everyman venues were opened in the period, growing the estate to 33 sites and 110 screens as at 18 March 2020. Everyman is the fifth largest cinema business in the UK by gross box office revenue.

Assuming that people are willing and able to return to cinemas, there is an impressive list of films due for release in the near future including Mulan, Tenet, The French Dispatch, Black Widow, No Time To Die, West Side Story and Top Gun Maverick. There is a considerable degree of uncertainty both with regards to cinemas being allowed to remain open and also whether people will feel comfortable visiting them. The degree to which this is priced in is another question. Nevertheless, the opportunity to buy in now at a slight discount to the recent placing price, with the benefit of three months of hindsight, looks tempting. SPECULATIVE BUY.

Could Filtronic return to favour with investors?

Filtronic (10.25p), the designer and manufacturer of products for the critical communications, wireless telecoms and defence & aerospace markets, joined the market in 1994 and was a star of the dot-com boom. In more recent years shareholders have had less of an exciting ride though.

On 30 June the company released a trading update for the financial year ended 31 May 2020. The Telecoms Antenna Operation was sold during December 2019 and the sale completed in January 2020 so the numbers presented represent only continuing operations. Trading during the second half of the year was broadly in line with market guidance. Revenue of approximately £17.2m (2019: £15.9m) is expected for the full year. Adjusted operating profit is set to be approximately £0.4m (2019: £0.2m) and adjusted EBITDA £1.2m (2019: £0.7m). Cash at bank as at 30 May 2020 was £2.0m (30 Nov 2019: £0.1m). Net cash (net of all lease obligations except right of use property leases) as at 31 May 2020 was £0.7m (30 Nov 2019: net debt of £2.2m).

A strong order book entering the second half of the financial year enabled the company to cope with the Covid-19 crisis. In February a Covid Business Continuity Team was formed with the purpose of maintaining full operational capacity to fulfil customer commitments. The company maintained a 24/7 manufacturing capability throughout the period but towards the end of the financial year there was a short-term delay to two key client delivery schedules. A furlough programme was put in place for a number of manufacturing staff from early June but there were no order cancellations and no deterioration in commercial terms.

On 6 July the company announced a significant contract win from its lead defence and aerospace customer for the supply of high performance Transmit-Receive Modules for airborne applications. The order is valued at £4.9m and delivery is expected to commence in August 2020. This order is a follow-on contract to the supply contract signed in 2017, which concluded in June 2020 but is for a new end-client of the customer. Final results are due to be released on 4 August. These are unlikely to provide any real surprises but looking further ahead the company may eventually become more popular with investors again, making the shares a LONG TERM BUY.

Vertu Motors

SECTOR – AIM – GENERAL RETAILERS

Lockdown in the UK has had an obvious impact on motor retailers. Vertu Motors suffered an adjusted loss before tax of £14.2m in the March to May period. However, the company performed remarkably well in June. All dealerships located in England saw showrooms open for vehicle sales on 1 June, with 12 sales showrooms located in Scotland re-opening on 29 June. An adjusted profit before tax of £9.0m was achieved in June, ahead of the prior year and better than the £8.6m anticipated in the company's original business plan.

Activities

AIM-listed Vertu Motors has been built through a series of acquisitions and is currently the fifth largest automotive retailer in the UK. It has a network of 133 sales outlets across the UK and dealerships mainly operate under the Bristol Street Motors, Vertu, Farnell and Macklin Motors brand names.

The company was established in November 2006 and at the outset the clear strategy was to consolidate the UK motor retail sector. It is intended that there will be further acquisitions of motor retail operations to further develop a scaled dealership group. This acquisition strategy is supplemented by a focused organic growth plan to drive operational efficiencies through its national dealership network. There are currently 130 franchised sales outlets and 3 non-franchised sales operations from 110 locations across the UK.

Financials

Results for the year ended 29 February 2020 were released on 3 June. Revenue was £3,065m (2019: £2,982m). There was 8.8% growth in underlying operating profit from continuing operations in the period. The dealerships acquired in January and February 2020, together with their associated acquisition costs, contributed an operating loss of £0.7m in the year, which reduced underlying operating profit growth to 6.1%. Higher interest costs on new vehicle consignment inventory were incurred, which meant that underlying profit before tax fell slightly compared to the prior year. Despite the impact of acquisitions, adjusted profit before tax was £23.5m, in line with expectations. Profit before tax including non-underlying charges of £16.2m, mainly due to impairment of assets, was £7.3m (2019: £25.3m). Basic diluted earnings per share were 0.80p versus 5.37p in the previous year and underlying earnings per share edged up to 5.12p (2019: 5.10p).

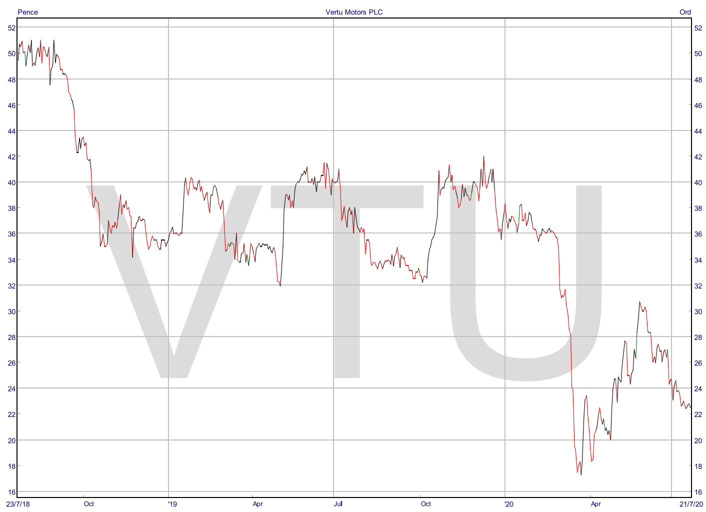
The balance sheet is solid with shareholders' funds of £263.4m (2019: £276.6m), representing net assets per share of 71.7p (2019: 73.8p) as at 29 February 2020. Tangible net assets were £168.8m (2019: £168.4m) and the balance sheet is underpinned by a freehold and long leasehold property portfolio, including assets held for resale, of £212.2m (2019: £209.1m). Tangible net assets per share are 46.0p (2019: 44.9p).

Cash returns to shareholders are seen as important and in the nine year period since dividend payments commenced in 2011, over £34.8m has been returned to shareholders through dividends. The dividend has been funded from cash generated from operations. In the light of the impact of Covid-19 no final dividend was proposed for 2020. However, the importance of dividend returns to shareholders was noted. The company will continue to review the ongoing situation with a view to the re-commencement of dividend payments as soon as practicable.

Outlook

The latest trading update was released on 14 July and this revealed that net cash (including used vehicle stocking loans) at 30 June was £9.7m. This represents an improvement of £49.2m versus the reported position as at 22 May. A partial unwind of the reduced working capital position which gave rise to this improvement in cash is expected as trading becomes more normal. The company is up to date with payments of external rent and amounts due to HMRC for employment taxes.

A strong balance sheet has been a persistent feature of the company, which had low levels of debt, significant assets and liquidity at the start of the lockdown. Given the ongoing uncertainty around the pace and sustainability of economic recovery, full year guidance remains withdrawn. The next update scheduled to be provided is the AGM statement on 20 August. September will also be a key month and there may well be volatility in both trading and the share price during the remainder of 2020. From the current level we believe that there is considerable upside potential and therefore rate the shares as a BUY.



Year Ending 28 February	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2018	2,796	28.6	5.79	3.9	1.50	6.7
2019	2,982	23.7	5.10	4.4	1.60	7.1
2020	3,065	23.5	5.12	4.4	0.60	2.7

Share Price: 22.5p
Market Capitalisation: £83.1m
2019/20 Share Price Range: 42.00p/17.26p
Website: www.vertumotors.com

Aggressive Growth Portfolio VII

Another strong performance has been produced by the portfolio over the last month with it increasing in value by 2.0%. This compares with a fall of 0.8% in each of the benchmark indices.

The star performer during the month has been Premier Foods which has seen its share price soar by over 42%. The company is due to issue a Q1 trading update on 29 July and given the strong run in the share price we feel it is prudent to take some profit from the holding. We have therefore sold 3,500 shares at 84.9p to raise £2,942 after expenses to realise a profit of £1,286. Two other holdings also rose by over 10% during the month and these were UP Global Sourcing (up 11.5%) and Drax Group (up 16.3%).

It has not all been good news though as we have lost two holdings which fell through the stop-loss limit. We have therefore sold 5,000 ITV at 65p for net proceeds of £3,218 to realise a loss of exactly £100 and also sold 4,250 Alumasc at 68p for net proceeds of £2,861 and a loss of £874.

Companies in the portfolio that have made announcements during the month are Sainsbury (J), UP Global Sourcing, Alliance Pharma, Bloomsbury Publishing and Premier Miton. These have all been covered on the website.

A dividend of £41 has been received from GlaxoSmithKline and after purchasing shares in the two companies featured in this issue there is £7,786 left on deposit pending investment.

PERFORMANCE SUMMARY

	21 July 2020	23 June 2020	Gain/(Loss) %
Portfolio Value	£65,075	£63,771	2.0
FTSE 100 Share Index	6,269.73	6,320.12	(0.8)
FTSE All Share Index	3,468.85	3,498.11	(0.8)

	SECURITY	BUYING PRICE (p)	TOTAL COST (£)	CURRENT PRICE (p)	VALUE (£)	STOP-LOSS LIMIT (p)
1,200	Character Group	255	3,091	336	4,032	185
1,750	Sainsbury (J)	192	3,417	189.4	3,314	145
350	PPE Hotel Group	1240	4,405	1080	3,780	875
4,000	Vodafone	111.98	4,546	130.34	5,214	110
5,000	Premier Foods*	46.6	2,365	84.9	4,245	38
7,000	UP Global Sourcing	54.1	3,844	74.7	5,019	44
215	GlaxoSmithKline	1707	3,725	1623.8	3,491	1500
5,000	Alliance Pharma	73.9	3,732	76.8	3,840	57
1,650	Bloomsbury Publishing	223	3,734	227	3,746	185
1,000	Caretech	395	3,989	425	4,250	300
3,750	Premier Miton	107.5	4,071	103.5	3,881	75
1,650	Drax Group	232.8	3,898	270.8	4,468	175
18,000	Vertu Motors	22.5	4,090	22.5	4,050	17.5
1,400	Smith (DS)	282.8	4,019	282.8	3,959	240
£7,786	Cash	-	-		7,786	
				TOTAL	**£65,075**	

Start date: 2 January 2018 with £50,000. Cash includes dividends received of £3,842 *after profit taking.

SMDS

282.8p

Smith (DS)

SECTOR – GENERAL INDUSTRIALS

We covered Smith (DS) in January and it is no exaggeration to say that the world has changed since then. In terms of this particular company there has been a negative impact from Covid-19 overall but we feel that there is potential for strong recovery in the medium term. The current share price appears to be good value looking at fundamentals and although there are perhaps more exciting propositions at the moment, these come with greater risks.

DS Smith is a leading provider of corrugated packaging solutions worldwide. It operates across 34 countries and employs around 30,000 people. In order to support corrugated packaging operations, it also has a recycling business that collects used paper and corrugated cardboard, from which paper manufacturing facilities make the recycled paper used in corrugated packaging. The business was founded in 1940 by the Smith brothers and listed on the London Stock Exchange in the late 1950s.

Results for the year to 30 April 2020 were released on 2 July. Revenue was down 2% on a constant currency and reported basis to £6,043m (2019: £6,171m). Adjusted operating profit before adjusting items and amortisation was £660m, an increase of 5% on a reported basis and 4% on a constant currency basis (2019: £631m). There was also 5% growth in profit before tax to £368m on a constant currency and reported basis (2019: £350m). Organic corrugated box volume growth was 0.6%, down from 2.4% in the prior year. Adjusted return on average capital employed was 10.6% (2019: 13.6%) and the net debt to EBITDA ratio fell to 2.1x (2019: 2.3x). The interim dividend payment due to be made on 1 May was scrapped and dividend payments have been suspended for now.

In terms of Covid-19, operations across all regions were affected throughout the fourth quarter by the pandemic. As an essential supplier for critical supply chains in areas such as FMCG, food and pharmaceuticals, all sites remained fully operational throughout the period and overall box volumes declined by a low, single-digit percentage. As a whole, the business has undoubtedly taken a hit but the medium to long term story remains relatively intact and the share price is now arguably too low. BUY FOR RECOVERY.

Share Price: 282.8p
Market Capitalisation: £3,882m
2019/20 Share Price Range: 394.8p/254.7p
Website: www.dssmith.com

Year Ending 30 April	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2020	6,043	368	33.2	8.5	-	-
2021 (est)	5,712	318	23.4	12.1	10.16	3.6
2022 (est)	5,864	413	28.5	9.9	12.67	4.5

News Highlights

As subscribers will know, we update the website with news that involves the companies that we follow, but we have highlighted what we regard as the most important news here.

Premier Foods - 84.9p

As we have mentioned in the Aggressive Growth Portfolio, the company is due to issue a trading statement on 29 July which will cover the three-month period to 30 June. Although we have no reason to believe that this statement will contain any negative news, we have decided to top-slice the holding in the portfolio as a precautionary measure. The shares were tipped at 46.6p in our issue of 29 April and so the share price has risen by over 82% since then. More recently, the price has risen from 59.6p on 23 June, with that alone being a rise of some 42%. Although it is always difficult to judge the right time to sell a share, we feel that in this case it makes sense to lock in some profit by disposing of part of the holding. We have retained over half of the original amount purchased so the portfolio will benefit from any further upside, whilst if the statement is disappointing and the share price falls, we will have done the right thing. TOP SLICE.

UP Global Sourcing - 74.7p

Normally when a company makes an unscheduled trading statement it is to report bad news, and so it is refreshing to see that this supplier of household goods has done just the opposite. The company supplies products under brand names including Russell Hobbs, Constellation and Salter and with many of the products being manufactured in China, it was one of the first companies to highlight the potential problems caused by Covid-19. The share price plunged from 98p at the start of the year to just 31p in March but has since recovered strongly. The company issued an unscheduled trading statement on 8 June but has then followed up with another one on 6 July. This has revealed that trading is above current market expectations helped by a particularly good performance from the group's online business. The underlying pre-tax profit for the year to 31 July is now expected to be in excess of £7.4m for adjusted earnings per share of 7.1p. Assuming that a fair p/e ratio for the company is 13, that gives a target share price of 92.3p. That is a premium of almost 24% to the current share price and justifies a recommendation of BUY.

Bloomsbury Publishing - 227p

At the company's recent AGM, it has confirmed that it has experienced strong trading in the first four months of its financial year, which cover the period to 30 June. Despite the disruption caused by the coronavirus pandemic, year-on-year sales growth of 18% was recorded helped by strong growth in both adult and children's books. These include both print and e-book sales, with bestsellers continuing to include the Harry Potter series as well as other authors whose books have reached the top of the Sunday Times bestseller list. The company has probably benefited from the lockdown with consumers having the time to catch up on their reading! With bookshops now starting to re-open, it is expected that demand will continue to be strong with solid support from the online business. The company had net cash of £35.5m at 30 June, thus putting it in a strong financial position and with revenues and earnings weighted towards the second half of the year the outlook is promising. BUY.

DWF Group - 66p

After seeing its share price fall steadily since the start of the pandemic, the global legal business has stopped the rot by issuing a more positive trading update covering the first two months of its financial year being the period to 30 June. Thus, May and June saw strong trading with revenues and EBITDA ahead of both budget and last year. The group has acted to cut costs and also replaced its senior management team, whilst it has also focused on cash collection over the period. As a result, cash balances at 30 June were £17.9m. Although there remains some uncertainty in the short-term, the business should benefit from recent acquisitions and the management are cautiously optimistic about prospects. Three directors have recently bought shares and we believe the shares are a BUY FOR RECOVERY.

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