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sorting the bulls from the bears

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Mitie Fine

Mitie Group (34.95p) is the leading facilities management and professional services company in the UK and although it has had to negotiate a tough period, it remains well-positioned for the long term. This is at odds with the current share price, which creates an opportunity.

A trading update for the first quarter of the current year, the period ended 30 June, revealed that the business had been more resilient than anticipated. Although Covid-19 impacted the performance of the business in the first quarter, fixed Technical Services contracts, Cleaning and Security services and public sector contracts all held up well. In the first three months of the financial year new contracts relating to Covid-19 testing centres have been won. The company has renewed the Groupe PSA contract with additional services and won a new integrated contract with Royal London Group. Key strategic accounts have also been renewed this year.

Group revenue from continuing operations for the three months ended 30 June 2020 was £458.3m. This was 11% lower than the same period last year with June's performance slightly better than April and May. This revenue decline includes the known loss of the MOJ contract and the reduced scope of the NHS Properties contract.

Average daily net debt, pre-IFRS 16, for the three months ended 30 June 2020 was significantly reduced, at £71m versus £240m in the same period a year earlier. The receipt of Rights Issue proceeds of £190m recently also bolstered the balance sheet. Integration plans for the acquisition of Interserve Facilities Management have commenced and the transaction is expected to close in the fourth quarter of 2020. Overall, the company is performing well given current circumstances and the shares are a BUY FOR RECOVERY.

Energy boost

Energy Efficiency as a Service company eEnergy Group (6.75p) joined AIM in January following the reverse takeover of Alexander Mining by eLight Group Holdings Limited. A placing at the time brought in £2m through the issue of new shares at 7.5p each.

The company provides commercial customers with immediate energy and cost reductions with zero upfront investment. eEnergy Group is an established "Energy Efficiency-as-a-Service" business which is focused on providing "Light-as-a-Service" to commercial customers through eLight. eLight helps businesses and schools switch to LED lighting for a fixed monthly service fee, avoiding any upfront payments. For customers, the energy savings are greater than the monthly service fee, allowing them to make cash savings from day one as well as improve the quality of their lighting and reduce carbon emissions. eLight procures, funds, installs and maintains the LED lighting, meaning that customers have no risk. The strategy is to develop eEnergy as a broader energy services company and acquire other businesses in the energy management sector. The market in the EU for energy efficiency services was approximately €25bn in 2017 and this is expected to double by 2025.

On 6 August the company announced a major agreement with a new project funding partner, SUSI Partners AG. Under the agreement, SUSI, via its Energy Efficiency Fund II, has provided a dedicated funding facility to eEnergy Group of up to €15m. The terms of the Facility provide for SUSI to purchase the future receivables arising from new Light-as-a-Service projects in the Republic of Ireland across the education sector, other public bodies and a range of commercial sectors. This will cover new projects installed for the next three years or until the facility has been fully utilised, whichever is earlier.

This is a very interesting business and one which is addressing a market which is huge relative to the company's current size. Over time profits should grow strongly and there is plenty of room for the share price to grow. However, there is plenty of work to do and no guarantees of success yet. We rate the shares as a SPECULATIVE BUY.

Aggreko

SECTOR – SUPPORT SERVICES

The effect of the coronavirus pandemic has been more severe on some companies than others and this can provide investors with the opportunity to invest in quality companies at relatively low prices. We believe that one such company could be Aggreko, the supplier of temporary power equipment. The cancellation or postponement of large events such as Glastonbury and the Tokyo Olympics, where the group's products would have been utilised, has clearly had a detrimental impact on the company with profits for this year expected to be much reduced as a result. However, there is more to the group than this as it has other, more regular work, whilst the group will clearly benefit when large events are once again deemed safe to proceed. We believe that Aggreko is a quality company that will come through the Covid-19 crisis in a strong position and that the fall in the share price has presented an excellent buying opportunity.

Activities

Aggreko is the world leader in the provision of mobile modular power, temperature control and energy services. The group provides power, heating and cooling equipment and is focused on seven key industry sectors: - petrochemical & refining, construction and building services, oil & gas, utilities, events, mining and manufacturing. The group also serves other smaller sectors although these are of less importance.

There is a range of equipment supplied by the group. It has the largest fleet of diesel and gas power generators in the world and these are used for emergency power, as a reliable back up or as a cost- effective primary power source. Cooling equipment supplied includes cooling towers, chillers, heat exchangers and industrial air conditioners whilst other equipment includes humidifiers, industrial heaters, loadbanks and energy battery storage. The group supports customers in 79 countries from 190 sales and service centres around the world and has over 6,000 permanent and temporary employees.

The group operates through two divisions as follows:

Rental Solutions

This mainly operates in developed markets and customer requirements in this business tend to revolve around smaller, short-term but often complex projects and key events.

Power Solutions

This tends to operate in emerging markets for customers which generally have longer-term power needs.

Financials

Earlier this month the company announced its interim results for the six months to 30 June. These were not as bad as expected although group revenue declined by 13% to £667m (2019: £768m) and adjusted operating profit fell by 21% to £64m (2019: £81m). Adjusted pre-tax profit also fell by 21% to £47m (2019: £60m) and adjusted diluted earnings per share declined by 33% to 10.3p (2019: 15.3p). Rather surprisingly, the group declared an interim dividend of 5p per share (2019: 9.38p) as most analysts had not expected a payment as no final dividend was paid for 2019. Net debt at the end of the period had fallen to £499m (2019: £784m) helped by strong cash flow during the period.

These results were obviously adversely affected by Covid-19 which has resulted in lower demand for the group's services whilst the lower oil price has also had a negative impact. The latter impacted two of the group's key sectors, oil & gas and petrochemical & refining, whilst the postponement of the Tokyo Olympic & Paralympic Games until 2021 has also seen a significant loss of revenue.

A comprehensive balance sheet review has led to a non-cash exceptional charge of £181m in the first half as the group has written down the value of certain assets due to the Covid-19 pandemic, the lower oil price and the consequent deterioration in the short to medium term economic outlook.

Prospects

The interim results were better than expected and unlike most other companies on the market, the directors have provided some guidance for 2020 results. The gradual improvement in demand seen since May has led to forecast adjusted pre-tax profits of between £80 and £100m for the year, although we believe that a figure of £95m is achievable. This would generate earnings per share of 20.4p and we forecast a total dividend for the year of 15p.

Next year is likely to see further recovery although much of course depends on the situation regarding Covid-19. If the world has returned to some sort of normality by then, there is clear potential for both revenues and profits to increase. The year will also see the benefit of the delayed Olympic Games, assuming these are held, whilst there may also be pent-up demand from the group's more traditional business.

The fall in the share price over the last few months has been reversed with some recovery seen since April. Nevertheless, the shares are still down over 45% from their high earlier this year and on a modest p/e ratio of just 9.6x for 2021 and dividend yield of 5.3% we believe they are a BUY.

Share Price: 468p
Market Capitalisation: £1.18bn
2019/20 Share Price Range: 868p/315p
Website: www.aggreko.com

Year Ending 31 December	Turnover (£bn)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2019	1.61	199	50.7	9.2	9.38	2.0
2020 (est)	1.35	95	20.4	22.9	15.0	3.2
2021 (est)	1.62	192	48.8	9.6	25.0	5.3

Aggressive Growth Portfolio VII

It is pleasing to see that the portfolio has increased in value once again over the last month, rising by 1.1% whilst both of the benchmark indices have fallen in value.

The period has proved relatively quiet which is normal for the time of year and the best performing shares have been UP Global Sourcing and Vertu Motors which have risen by 25.3% and 15.1% respectively. We have therefore taken advantage of the rise in the former to take some profit and have sold 2,000 UP Global Sourcing at 93.6p. This has raised net proceeds of £1,853 for a gain of £755 and has left a holding of 5,000 shares. We have retained the holding of Vertu Motors as we think the shares have further to run.

Following the rise in share prices we have increased the stop-loss limit on three holdings with Premier Foods going to 75p (previously 38p), UP Global Sourcing going to 80p (previously 44p) and Vertu Motors motoring to 20p (previously 17.5p).

Companies in the portfolio that have made announcements during the month are PPE Hotel Group, Vodafone, Premier Foods, GlaxoSmithKline, Drax Group and Vertu Motors. These have all been covered on the website.

Dividends have been received from Character Group (£24) and Vodafone (£163) and after purchasing shares in the two companies featured in this issue there is £2,530 left on deposit pending investment.

Performance summary

	25 August 2020	21 July 2020	Gain/(Loss) %
Portfolio Value	£65,794	£65,075	1.1
FTSE 100 Share Index	6,037.01	6,269.73	(3.7)
FTSE All Share Index	3,367.92	3,468.85	(2.9)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
1,200	Character Group	255	3,091	348	4,176	185
1,750	Sainsbury (J)	192	3,417	185.2	3,241	145
350	PPE Hotel Group	1240	4,405	1110	3,885	875
4,000	Vodafone	111.98	4,546	115.42	4,617	110
5,000	Premier Foods*	46.6	2,365	88.2	4,410	75
5,000	UP Global Sourcing*	54.1	3,844	93.6	4,680	80
215	GlaxoSmithKline	1707	3,725	1517.8	3,263	1500
5,000	Alliance Pharma	73.9	3,732	72.2	3,610	57
1,650	Bloomsbury Publishing	223	3,734	209	3,449	185
1,000	Caretech	395	3,989	433	4,330	300
3,750	Premier Miton	107.5	4,071	91	3,412	75
1,650	Drax Group	232.8	3,898	277.8	4,584	175
18,000	Vertu Motors	22.5	4,090	25.9	4,662	17.5
1,400	DS Smith	282.8	4,019	268.3	3,756	240
800	Aggreko	468	3,800	468	3,744	400
2,350	Investec	146.6	3,496	146.6	3,445	120
£2,530	Cash	-	-		2,530	
				TOTAL	**£65,794**	

Start date: 2 January 2018 with £50,000. Cash includes dividends received of £4,029 *after profit taking.

INVP

146.6p

Investec

SECTOR – BANKS

Investec retained a stake of 25% in Ninety One, formerly Investec Wealth Management, upon its demerger in March 2020. It now focuses on private, institutional and corporate clients, offering international banking, investments and wealth management services in South Africa and the UK, as well as certain other countries. The group was established in 1974 and currently has approximately 8,700 employees. In 2002 Investec implemented a dual listed company structure with listings on the London and Johannesburg Stock Exchanges.

Results for the year ended 31 March 2020 were released in May. Looking at continuing operations, total operating income before expected credit loss impairment charges fell by 7.5% to £1,806.8m. Group adjusted operating profit was £608.9m, 16.8% behind the prior year (2019: £731.9m). Adjusted operating profit from continuing operations of £419.2m was 24.1% behind the prior year (2019: £552.5m). The impact on adjusted operating profit from Covid-19 was £105m.

Core loans and advances were broadly flat at £24.9bn, but up 9.2% in neutral currency. Customer deposits increased 2.9% to £32.2bn (31 March 2019: £31.3bn), up 12.6% in neutral currency. Funds under management recorded net inflows of £599m. Total operating income (before impairments) decreased 7.5% to £1,806.8m (2019: £1,953.8m). The credit loss ratio increased to 0.52% (2019: 0.31%). Return on equity was 11.0% (2019: 14.2%) and 8.3% on a continuing operations basis (2019: 12.0%). A sound capital position was maintained with a common equity tier 1 ratio of 10.7% for Investec plc (standardised approach) and 10.9% for Investec Limited (FIRB approach) as at 31 March 2020.

We believe that the current share price is too pessimistic, especially given the level of net assets. The net asset value per share at 31 March 2020 was 414.3p (31 March 2019: 434.1p), and tangible net asset value per share was 377.6p (31 March 2019: 386.0p). Net asset value was positively impacted by profitability and the demerger but negatively impacted by depreciation of the Rand. Since the financial year end the impact of Covid-19 has been felt over a number of months and no final dividend was declared for the last financial year. However, Investec should be well positioned to outperform moving forwards, We rate the shares as a BUY.

Share Price: 146.6p
Market Capitalisation: £1,031m
2019/20 Share Price Range: 401.47p/128.80p
Website: www.investec.com

Year Ending 31 March	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2018	1,903	581.6	53.2	2.8	24.0	16.4
2019	1,954	483.8	48.7	3.0	24.5	16.7
2020	1,807	277.5	17.5	8.4	11.0	7.5

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.

Drax Group – 277.8p

The fourth largest energy generator in the UK has released its interim results covering the six months to 30 June and these have come in much as expected. Adjusted EBITDA was £179m (2019: £138m) and this reflects high levels of renewable electricity generation, the re-instatement of Capacity Market payments and a strong performance in pellet production. This has helped to offset the impact of Covid-19 on customers' business. Although the company expects that full year EBITDA will suffer a hit of around £60m from the pandemic, the outcome for the year is expected to be in line with expectations. Pre-tax profits are forecast to be around £145m for earnings per share of 30.7p putting the shares on a p/e ratio of just 9.0x. The full year dividend is expected to be 17.1p and, if paid, this would put the shares on a yield of over 6.1%. Since the announcement of the results, CEO Will Gardiner has bought 54,772 shares at 272.5p and CFO Andrew Skelton has purchased 60,902 shares at 272p. These purchases add strength to our recommendation of BUY.

Vertu Motors – 25.9p

The fifth largest automotive retailer in the UK issued a trading update at the AGM last week and this was well-received by the market. The company stated that it had generated an adjusted profit before tax of £7.4m in July and this follows on from the adjusted pre-tax loss of £5.2m incurred in the March to June period. Thus, the company has now made an adjusted pre-tax profit of £2.2m in the financial year to date. The profit in July was significantly ahead of the result in 2019 and also ahead of the original business plan. The large profit appears to be the result of pent-up demand from customers following the relaxation of lockdown restrictions. It is expected that the remaining furloughed employees will be back to work by the end of August. The group is in a much better position than anticipated during lockdown and several acquisition opportunities are currently being evaluated. This is clearly good news for the company, and we continue to rate the shares as a BUY.

Vodafone – 115.42p

The company has issued a trading statement covering the three months to 30 June and this has proved the resilience of the group with total revenue for the quarter only down by 1.4% over the previous year. Germany was a particularly strong performer which is relevant as it is the group's largest market. This is a clearly re-assuring statement and the weakness in the share price following the announcement is disappointing. The company has also announced that it intends to float its Vantage Towers business in early 2021 and has therefore disclosed some financial information relating to this and this has disappointed some analysts as the business was not as profitable as hoped. Vodafone has also revealed that the IPO is likely to take place in Frankfurt as opposed to London although as Germany is the group's largest market there is some logic to this. We believe that the recent share price fall has been overdone and the weakness provides a buying opportunity. BUY.

PPHE Hotel Group – 1110p

A trading update covering the first half of 2020 has been provided by the international hospitality real estate group, ahead of the interim results' announcement on 3 September. Revenue fell by 60.2% from £155.3m to £61.9m, with occupancy falling from 76.8% to 34.7%. Trading in January and February was in line with expectations, but from mid-March there was significant disruption with properties being either temporarily closed or operating at significantly reduced capacity. Decisive action was taken to preserve cash and reduce costs and overheads. More recently, the group has gradually been re-opening its hotels and as at 28 July, 80% of the group's portfolio was open for business. As previously announced, up to £180m of funding has been secured for the completion of the construction of art'otel london hoxton. On balance the company appears to be coping with the ongoing disruption very well and the shares should recover strongly in the medium to long term. BUY.

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