cityconfidential

sorting the bulls from the bears

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Going Live!

Recent interim results from LiveData company WANdisco (448p) were disappointing and the share price briefly slipped below 400p the following day. However, some director share purchases at 405p per share provided a timely boost and a recovery now seems to be underway.

WANdisco's proprietary replication technology enables enterprises to create an environment where data is available, accurate and protected 100% of the time. This creates a basis for their IT infrastructure to run consistent, accurate machine learning applications. WANdisco's LiveData Platform keeps geographically dispersed data at any scale consistent between on-premises and cloud environments. This allows businesses to operate seamlessly in a hybrid or multi-cloud environment. The company has over a hundred customers and important partnerships with the likes of Microsoft Azure, Amazon Web Services, Google Cloud and Oracle. It also has OEM relationships with IBM and Alibaba.

In the six months ended 30 June 2020 revenue was US$3.6m (2019: US$6.0m). An adjusted EBITDA loss of US$11.9m was suffered (2019: US$7.6m) and cash held as at 30 June 2020 was US$33.6m (31 December 2019: US$23.4m), with debt of US$1.4m as at the same date (31 December 2019: US$2.2m).

The medium-term outlook looks bright. In 2021, the company expects to migrate in excess of 100PB of data to the Azure cloud and more than 30PB into the AWS cloud. Combined with the flow of metered billing from the fourth quarter of the current year a minimum revenue of US$35m is anticipated for next year. Given that the company is making losses there is obviously a significant level of risk involved. The long term potential is clear though and there is scope for significant capital growth from the current level. Shareholders have had a rollercoaster ride since WANdisco joined AIM in June 2012. There will probably be more of the same ahead but for those with some patience the current buying price leaves room for significant upside, even based on some recovery back towards the 2020 high of over 800p. SPECULATIVE BUY.

Glass half empty?

Although trading conditions for J D Wetherspoon (785p) are far from ideal as things stand, this situation will change at some point and it is important to look at the bigger picture rather than just the coming months. It is increasingly looking as though the immediate future will be a difficult period but this has been priced in to some extent and the share price has now slipped to a tempting level.

On 14 September the company released an update, which appeared to be an opportunity for Chairman Tim Martin to express his view that the situation with regards to the contribution of pubs to the spread of Covid-19 has been widely misunderstood. It was reported that there had been approximately 32 million customer visits to the company's 861 open pubs in the 10 weeks since 4 July and there were 66 positive tests for Covid-19 among its 41,564 employees during this time. Of the 861 locations, 811 pubs reported zero positive tests and none reported more than four. Most of the reported cases were mild or asymptomatic.

On 24 August an update was released with more of a focus on recent trading trends. Apart from a small number of development sites and pubs in airports and stations, the company reopened all its pubs in England, Scotland and Wales as soon as permitted. Some airport and station pubs were reopened, but some remained closed at the time of the announcement. At that time 844 pubs were open out of a total of 873. Like-for-like bar and food sales were 16.9% lower for the 44 days to 16 August 2020. Sales gradually improved, with a rapid acceleration during August due to the Eat Out to Help Out scheme.

Final results are due to be released on 9 October. It is unlikely that these figures will make for favourable reading for shareholders and any other positive news in the coming weeks would also come as a major surprise. However, the value of the brand which has been established should not be underestimated. The company is better equipped to deal with the problems it faces than many others in the sector and is also geared up to deal with any new regulations which may be introduced. We believe that the shares are a BUY.

Johnson Service Group

SECTOR – INDUSTRIAL SUPPORT SERVICES

Johnson Service Group is a company which has been severely damaged by Covid-19. The sectors from which it derives business are amongst those which have been hit hardest by the pandemic and the company has been making losses in recent months as a result of this. However, it remains a very strong player in the niche markets which it addresses and in the longer term this position may well improve further as weaker competitors are likely to suffer even more, meaning that some could be unable to continue. Against this backdrop and with the shares back below 100p, we feel that now is a sensible time to take a closer look.

The group is made up of Textile Rental businesses which trade through a number of brands servicing the Workwear and Hotel Restaurant and Catering market sectors in the UK, referred to as 'HORECA'. The 'Johnsons Workwear' brand mainly provides workwear rental, protective wear and laundry services to a variety of companies across all industry sectors. 'Stalbridge', 'London Linen' and 'South West Laundry' provide premium linen services to the restaurant, hospitality and corporate events market. Finally, 'Johnsons Hotel Linen' is a high volume linen business, made up of Johnsons Hotel Linen by 'Afonwen', by 'PLS' and by 'Fresh'.

Workwear Division - This part of the business provides workwear rental, protective wear and laundry services to around 36,000 customers in the UK. These range from small local businesses to the largest corporates covering food related and other industrial sectors. All Workwear sites have remained open this year although 550 mainly non-production employees were furloughed. Volumes have continued to improve steadily, improving from a 12% reduction in April to a 6% reduction in August. By early September, around 91% of customers who advised they were closed during lockdown had reopened.

HORECA Division - During January to mid-March, new sales activity was strong and customer retention good. Some major capital projects to support growth and capacity were completed or underway. The impact of Covid-19 was rapid and severe as volumes dropped to a low of 3% of normal demand in the space of a fortnight at the end of March. Operations were closed completely in most plants, although some support continued for the Ministry of Defence, the Ministry of Justice and similar government agency locations. Approximately 1,350 employees were placed on the Government's furlough scheme at the peak and all incidental spend was ceased without delay. Customer communication during the shutdown was maintained in order to maintain strong long-term relationships. With restrictions in the hospitality market being lifted in early July in most areas covered by the company, volumes started to recover, especially in locations popular with tourists. Metropolitan areas saw a slower return to business, particularly in London.

Interim results for the six months ended 30 June 2020 revealed that revenue was £114.8m, down significantly from £167.1m in the same period a year earlier. Adjusted EBITDA was £24.9m (2019: £55.2m) giving a margin of 21.7% (2019: 33.0%). An adjusted loss before tax of £12.6m was incurred versus a profit before tax of £20.1m in the same period a year earlier. The statutory loss before tax, after amortisation of intangibles (excluding software amortisation) was £18.6m (2019: £15.2m profit before tax). The adjusted loss per share was 2.8p (2019: adjusted earnings per share 4.4p).

The 2019 final dividend was withdrawn, resulting in a saving of approximately £8.7m. Due to current circumstances no interim dividend was declared for 2020 and it appears unlikely that there will be a dividend at all this year. The company has stated that it will reinstate dividend payments as soon as practicable.

On 29 May 2020 the company announced that it had raised gross proceeds of £85.0m through the issue of 73.9 million new shares at a placing price of 115p per share. As announced at this time the revolving credit facility from incumbent banks was increased to £175m and bank covenants were amended up to and including the test date on 31 December 2021. The group also has access to Government funding under the Covid Corporate Financing Facility (CCFF) of up to £150m, although none was drawn as at 2 September.

Bank covenants are tested quarterly and include a maximum level of net debt of £155m from September 2020 to September 2021, decreasing to £145m as at December 2021. A minimum EBITDA test also applies from the quarter ended December 2020 to December 2021, which is significantly below current scenario planning and where EBITDA is defined as Adjusted EBITDA less right of use asset depreciation.

Net debt (excluding IFRS 16) as at 30 June 2020 was £0.2m (31 December 2019: £87.7m) reflecting the net placing proceeds of £82.7m. After including the impact of IFRS 16, net debt at June 2020 was £39.5m (31 December 2019: £127.7m). Free cash flow in the first half was £38.6m after capital lease payments versus £50.8m in the first six months of 2019.

Trading in July and August was said to be 'slightly more encouraging than initially anticipated'. At the time of the interim results announcement on 2 September it was also thought that hotels in the core tourist areas are anecdotally reporting continued healthy bookings into September and October. The company is more cautious on the outlook for city centres and appears to expect the general lack of international travel. The widespread cancellation of events, conferences and weddings means that business activity within high volume hotel linen is not expected to fully return until potentially the first half of 2022.

Buying in now is not without risk but the significant fundraising undertaken in May leaves the balance sheet in relatively good shape. Essentially the company needs to continue to 'batten down the hatches' during the current period of disruption. Prospects for the long term remain intact but the damage which will be done in the near term remains difficult to predict. The company also noted at the time of the interim results announcement in early September that further opportunities for consolidation are anticipated. It would be no surprise if some acquisitions are made to complement the existing businesses owned. On balance we believe that now is a good time to BUY.

Share Price: 95.9p
Market Capitalisation: £424m
2019/20 Share Price Range: 223p/80p
Website: www.jsg.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 (%)
2017	291	39.7	8.7	11.0	2.8	2.9
2018	321	42.5	9.3	10.3	3.1	3.2
2019	351	48.2	10.5	9.1	3.5	3.6

Aggressive Growth Portfolio VII

In what has been quite an eventful month for the portfolio, it is a little disappointing to see that it has fallen in value by 3.6% and has therefore marginally underperformed both benchmark indices.

The decline in the overall market over the period has led to a number of share prices falling through their stop-loss limits. We have therefore had to sell these holdings and the details of the disposals are as follows:- the sale of 4,000 Vodafone at 110p has raised net proceeds of £4,356 for a loss of £190; the sale of 215 GlaxoSmithKline at 1500p has raised net proceeds of £3,193 for a loss of £532 and the sale of 800 Aggreko at 400p has raised net proceeds of £3,168 for a loss of £632. The latter is particularly disappointing as the shares were only recommended last month and in hindsight maybe the stop-loss was set at too high a level.

We have also decided to bank the rest of the profit on Premier Foods as the share price seems to have settled at around the 85p level and so we have disposed of the remaining 5,000 shares at 85.9p. This raised net proceeds of £4,252 and realised a gain of £1,887.

Companies in the portfolio that have made announcements during the month are PPE Hotel Group, UP Global Sourcing, Alliance Pharma and Investec. These have all been covered on the website.

No dividends have been received during the period and after purchasing shares in the two companies featured in this issue there is £9,727 left on deposit pending investment.

Performance summary

	22 September 2020	25 August 2020	Gain/(Loss) %
Portfolio Value	£63,420	£65,794	(3.6)
FTSE 100 Share Index	5,829.46	6,037.01	(3.4)
FTSE All Share Index	3,249.29	3,367.92	(3.5)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
1,200	Character Group	255	3,091	315	3,780	185
1,750	Sainsbury (J)	192	3,417	200.2	3,504	145
350	PPE Hotel Group	1240	4,405	970	3,290	875
5,000	UP Global Sourcing*	54.1	3,844	93	4,650	80
5,000	Alliance Pharma	73.9	3,732	73.7	3,685	57
1,650	Bloomsbury Publishing	223	3,734	201	3,317	185
1,000	Caretech	395	3,989	430	4,300	300
3,750	Premier Miton	107.5	4,071	94.5	3,544	75
1,650	Drax Group	232.8	3,898	266.2	4,392	175
18,000	Vertu Motors	22.5	4,090	26	4,680	17.5
1,400	DS Smith	282.8	4,019	271.1	3,795	240
2,350	Investec	146.6	3,496	131	3,079	120
4,000	Johnson Service Group	95.9	3,893	95.9	3,836	70
6,750	Finsbury Food	56.9	3,879	56.9	3,841	45
£9,727	Cash	-	-		9,727	
				TOTAL	**£63,420**	

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

FIF

56.9p

Finsbury Food Group

SECTOR – AIM – FOOD PRODUCERS

AIM-listed Finsbury Food Group, a speciality bakery manufacturer of cake, bread and morning goods for both the retail and foodservice channels, has recently announced final results for the year ended 27 June 2020. This announcement was quickly followed by news of some substantial director share purchases, which suggests that there is a genuine belief that the company is undervalued. The company has grown through a series of acquisitions over the past couple of decades and changed to the current name having taken over Memory Lane Cakes in 2002.

In the year ended 27 June 2020 revenue was £306.3m (2019: £315.3m), which was only a modest fall given the impact of the Covid-19 on the latter part of the financial year. Adjusted EBITDA was £24.4m, down from £25.5m a year earlier. Excluding IFRS 16 adjusted profit before tax fell 12.9% to £13.9m and adjusted earnings per share fell by 15.1% to 7.9p. The proposed interim dividend of 1.23p was scrapped in late March and no final dividend has been declared. Total dividends for 2019 were 3.5p and the company appears keen to reinstate dividends in the current year if circumstances allow this.

On 21 September Dr Alice Duffy, the wife of Chief Executive Officer John Duffy, purchased 173,913 shares at a price of 57.5p each. Following this purchase, Dr Alice Duffy holds 2,606,811 shares, representing a stake of 2.00%, and John Duffy holds 10,781 shares, the equivalent of 0.008%. On the same day Nicola Boyd, the wife of Group Finance Director Steve Boyd, purchased 100,000 shares at an average price of approximately 56.5p each. Following this purchase, Nicola Boyd holds 1,195,543 shares, representing 0.92% of the shares in issue.

Although this is a value proposition rather than a growth story, we believe that the shares offer good fundamental value and shareholder value should grow steadily in future years. The share price collapsed along with the rest of the market when the potential impact of Covid-19 became apparent in March. It has never recovered since then and we believe that now looks a sensible time to invest. We put forward a BUY rating and a price target of 79p, representing 10x adjusted earnings for the last financial year.

Share Price: 56.9p
Market Capitalisation: £74.2m
2019/20 Share Price Range: 104p/53p
Website: www.finsburyfoods.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 (%)
2018	304	17.2	10.2	5.6	3.3	5.8
2019	315	15.9	9.3	6.1	3.5	6.2
2020	306	13.9	7.9	7.2	-	-

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.

Alliance Pharma (APH) – 73.3p

The AIM-listed international healthcare group Alliance Pharma has announced its interim results to 30 June, and these have shown a resilient performance given the effect of the pandemic. Revenues for the period declined by 7% to £65.3m with adjusted pre-tax profits rising by 7% to £16.3m. Earnings per share on the same basis were 5% higher at 2.45p and the interim dividend was maintained at 0.536p. There was a relatively strong performance in the Consumer Brands division, which includes names such as Kelo-cote for scar prevention and treatment and Nizoral, a medicated anti-dandruff shampoo, with sales declining by just 3% to £43.8m. In Prescription Medicines, sales fell by 15% to £21.5m due to delays in routine treatments because of the pandemic. The second half of the year has started well with further signs of recovery and this trend is expected to continue in the coming months. Full year adjusted pre-tax profits are forecast to be around £31.5m for earnings per share of 4.8p with further progress expected next year. These are solid results and the shares remain a BUY.

Surgical Innovations (SUN) – 1.55p

The company has announced interim results for the six months to 30 June which have shown a 49% decline in revenues to £2.6m and an EBITDA loss of £0.46m. Despite this, net cash as at 30 June 2020 was £0.69m (31 Dec 2019: £0.47m). Since the period end, revenues have improved and in the current quarter to date, sales have recovered to a level of over 70% of those achieved in the same period last year. The company has now announced a successful fund raising which has raised gross proceeds of £2.2m through the issue of 137.5m shares at 1.6p. It is pleasing to see that the group's six major shareholders supported the fund raise, whilst a new large shareholder has also joined the share register. This equity raise was not unexpected following the recovery in revenues seen in the third quarter and the proceeds of the issue will provide additional working capital to fund this continued growth, whilst also investing in growth opportunities including new product development. We continue to believe that the shares will provide a satisfactory return for investors in time and re-iterate our recommendation of LONG-TERM BUY.

Anpario (ANP) – 400p

In the six months to 30 June, the international producer and distributor of natural animal feed additives saw revenues rise by 13% to £16.2m (2019: £14.3m) whilst an increase in margins saw pre-tax profits rise to £2.4m (2019: £2.3m). Adjusted earnings per share rose by 34% to 11.74p (2019: 8.73p) and the interim dividend was increased by 10% to 2.75p (2019: 2.5p). During the period the company bought back £1m worth of shares at a weighted average price of 336p and yet still ended the period with £13.2m of net cash. The company reported strong sales growth in most of the regions in which it operates with revenues in Asia showing the strongest growth, being up by 28%. Looking ahead, the group is well-placed to benefit from growth in the animal feed additive market as the products it supplies help to improve the performance of the livestock through higher milk yields, improved fertility and extended egg-lay period. The strong balance sheet will help fund new product development and expand the sales and marketing activities, whilst also protecting on the downside. The shares are a LONG-TERM BUY.

IQE (IQE) – 53.5p

The company is a leading supplier of advanced wafer products and material solutions to the semi-conductor industry and it has reported strong growth in the six months to 30 June with revenue rising 35% to £89.9m (2019: £66.7m), a record for first half revenue. Adjusted pre-tax profit emerged at £3.2m (2019: adjusted pre-tax loss £2.6m) and adjusted earnings per share were 0.28p. Net debt at the period end was £7.4m, which has reduced by almost £9m since the year end due to strong operating cash generation and lower levels of capital investment. These are clearly impressive results given the current environment and the group expects this level of performance to continue in the second half. The company is well-placed to benefit from opportunities in 5G mobile network infrastructure and handsets as well as other markets and has provided guidance that revenues for the full year will be up at least 18% at £165m. We rate the shares as a BUY.

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