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sorting the bulls from the bears

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Payday approaching for Staffline shareholders?

Although Staffline Group (30.78p) suffered a significant loss in the first half of 2020, an improvement in fortunes seems to be feeding through to the share price now. When interim results were released in September the company flagged up likely liquidity issues in March 2021 and although this is an obvious concern, progress is being made to ensure that this obstacle is overcome.

Staffline has three divisions. Recruitment GB is the leading provider of flexible blue-collar workers in the UK. This covers a wide range of industries including agriculture, supermarkets, drinks, driving, food processing, logistics and manufacturing. Recruitment Ireland is a leading end to end solutions provider across Ireland. PeoplePlus is the leading adult skills and training provider in the UK, delivering apprenticeships, adult education, prison education and skills-based employability programmes.

Results for the six months ended 30 June 2020 showed revenue down 16.9% to £434.9m (2019 restated: £523.3m). A reported loss before taxation of £47.7m was incurred versus a loss of £12.3m on the same basis in the equivalent period a year earlier. Perhaps more importantly in the near term, pre-IFRS16 net debt was £36.2m at the period end compared to £89.9m a year earlier. Post-IFRS16 net debt was £43.1m at the period end compared to £98.8m as at 30 June 2019.

On 5 October the company released an update covering new business and VAT deferral. PeoplePlus, the adult skills and training division, has been selected as a provider for the Department for Work and Pensions' Commercial Agreement for the Provision of Employment and Health Related Services framework. This replaces the DWP's existing Umbrella Agreement and will run for five years until 2025. A three-year contract extension of an existing agreement to provide contingent labour to Tesco was also detailed. VAT which was deferred from 20 March 2020 to 30 June 2020 can now be paid in instalments up to the end of March 2022, interest free. This provides additional time in which to take action with regards to possible cash flow problems.

Looking ahead, it increasingly seems as though liquidity issues can be overcome and action is being taken to ensure that there is sufficient cash in the business. Given the uncertainties faced there is obvious downside risk but we believe that the current entry point is very tempting. SPECULATIVE BUY.

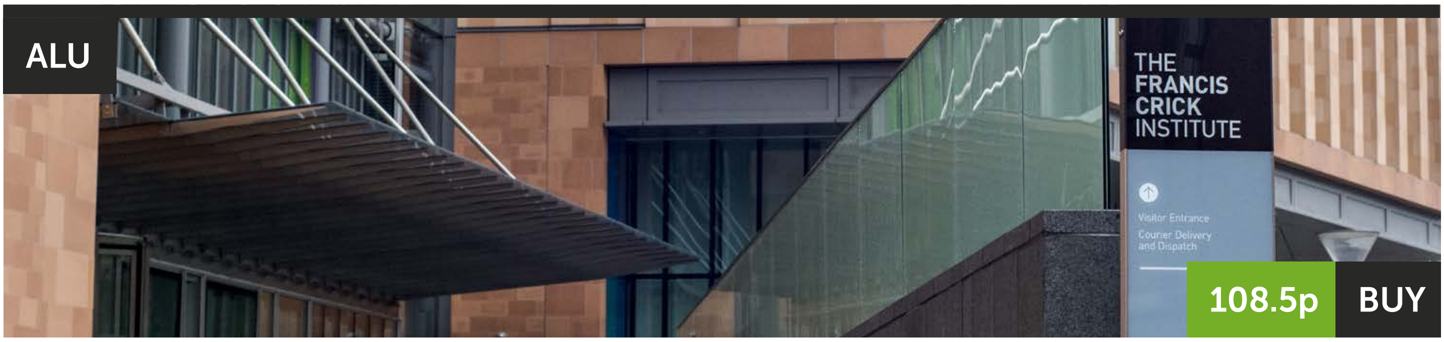
Unloved MS International worthy of attention

Although MS International (120p) suffered a disappointing loss in its last financial year, the company retains a very strong balance sheet. Indeed, the level of cash held means that an extremely modest valuation is currently placed on the business. The company is facing difficult circumstances at the moment but is very well positioned to ride out the storm.

The AIM-listed company is based in Doncaster. It is made up of four diverse operating divisions; Defence, Forgings, Petrol Station Superstructures and Corporate Brandings. Each of these holds a leading position in a niche market. A long track record has been built under the current senior management team and this is reassuring given current macroeconomic conditions.

Final results for the year ended 30 April 2020 were released in July. Revenue was £61.15m (2019: £77.71m). A loss before taxation of £3.25m was incurred versus a profit of £4.79m in the prior year. This translated into a loss per share of 15.1p versus a profit per share of 23.1p. At the period end the balance sheet remained strong with cash at £16.30m (2019: £22.89m) and no borrowings, excluding lease liabilities. A final dividend of 1.75p per share (2019: 6.5p) took the total for the year to 3.5p (2019: 8.25p).

We believe that shares in MS International offer exceptionally good value. It is difficult to see what would trigger a recovery in the share price in the near term. However, patient investors should ultimately be well rewarded by buying in at the current level. The shares are tightly held and any buying interest could see the price move sharply higher. We rate the shares as a LONG TERM BUY.



Alumasc Group

SECTOR – AIM – CONSTRUCTION AND MATERIALS

Alumasc held its Annual General Meeting last month and this was accompanied by an upbeat trading update. It is clear that the company has been doing well in recent months and although this has been reflected in the share price to some extent, with the shares up around 35% following the release of the recent update, there is potential for further recovery in the near future. The shares have been far higher than the current level in the past and there is no reason why the share price should not continue to push higher now. Record first quarter trading was very encouraging and this should prove to be a springboard rather than a one-off boost. Restructuring across the business last year reduced costs and this also appears to have left the company well positioned to generate profitable growth moving forwards.

The company is a supplier of premium sustainable building products, systems and solutions. The three business segments are Water Management, Building Envelope and Housebuilding Products. Almost 80% of group sales are driven by building regulations and specifications (architects and structural engineers) because of the performance characteristics offered. Over 90% of group sales relate to one or more of energy management, water management, bespoke architectural solutions or ease of construction (this includes off-site construction). This should mean that there is a good chance of future growth. All individual businesses have strong positions and brands in their own specialist markets.

Final results for the year ended 30 June 2020 were released in September. Group revenue was £76.0m (2019: £90.1m) reflecting the impact of Covid-19 on the final quarter. Underlying operating profit was £4.2m compared with £5.9m in the prior year. The reduction was due to the impact of Covid-19 and the temporary shutdown of the Housebuilding division and two thirds of the Water Management division. Around 5 weeks of trading were lost. Alumasc initially had to furlough 293 employees, representing 68% of total employees, and a further 83 moved to work from home. Site activity did not really return in any meaningful way until June when there was still a slowdown in activity, with contractors having to comply with Covid-19 safety requirements. June was a strong month though and by the end of the last financial year only 38 staff, representing 9% of the total, remained furloughed.

Underlying profit before tax was £3.7m (2019: £5.6m) reflecting the impact of Covid-19 and the subsequent lockdown, which reduced revenue. Underlying earnings per share for the year were 8.2p (2019: 12.4p). Basic earnings per share were 6.3p (2019: 10.1p), which reflected the reduction in underlying profit before tax for the year, partially offset by the lower level of net one-off costs relative to the prior year.

A final dividend of 2p per share (2019: 4.4p) was paid on 30 October. The interim dividend which was due to be paid on 7 April 2020 was cancelled as part of a cash conservation programme, making the total dividend for the year 2p per share (2019: 7.35p). Moving forwards the dividend is forecast to be increased considerably in the current year, with further increases pencilled in for the next two years. The balance sheet is in good shape but net assets and shareholders' funds reduced from £25.4m at the beginning of the financial year to £19.8m as at 30 June 2020. The combined impact of pension scheme actuarial losses and the payment of the final dividend in October 2019 was greater than retained profit after tax for the year.

At the company's AGM, held on 22 October, it was noted that the new financial year to 30 June 2021 had started very well with record profits in the first quarter. All three divisions contributed to the record performance and the restructuring over the previous year, which provided £2.4m in annual cost saving, meant that there was an improvement in margins. This particularly helped Levolux and Gatic. The profit performance was matched by equally strong cash generation and this reduced net bank borrowing to below £1m from £4.3m as at 30 June 2020. Total facilities are £24m and VAT deferrals of £1.8m, payable later in the current financial year, have also been helpful. Furlough income received in respect of a low number of employees who have since become redundant has been repaid to the Government.

The company noted that it is too early to determine the level to which the strength in the UK construction industry reflects pent up demand from the period of lockdown as opposed to real, ongoing demand. There was nothing abnormal in the strong patterns of demand experienced, with new commercial ventures continuing to lag other subsectors of the market. Despite uncertainty in the commercial sector, Levolux continues to respond to the prior restructuring. It is on track to return to sustainable profit, as achieved in the current financial year so far.

It is pleasing to note that the strong bounce experienced by Alumasc in the UK has also been supported by a bouyant export performance. Current order books are strong and include a growing list of export projects won in recent months, due to be delivered in the current financial year. In addition to the growing emphasis on sustainability, there are also signs of the promised acceleration in infrastructure expenditure by the UK Government. This should boost demand in the near term.

The shares have now reached a level where there is some downside risk if the broad economy performs worse than anticipated in the coming months, having jumped over 80% from the year low of 60p. However, the potential for upside if Alumasc remains on track to meet forecasts for the current year outweighs this. There is already evidence that the current year should show a marked improvement in terms of revenue and profitability with four and a half months of trading already gone. On balance we believe that the shares look cheap, particularly given the costs which have been taken out of the business. Now looks an opportune time to BUY.

Share Price: 108.5p
Market Capitalisation: £39.2m
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 (%)
2020	76.0	3.7	8.2	13.2	2.0	1.8
2021 (est)	82.3	6.4	14.2	7.6	5.5	5.1
2022 (est)	88.9	7.3	16.3	6.7	6.6	6.1

Aggressive Growth Portfolio VII

Another excellent performance from the portfolio over the last month with this rising by a remarkable 10.5% helped by the strong market rally. This meant that both of the benchmark indices also rose by over 8%, but the portfolio still managed to outperform them both. A number of companies contributed to this performance including Bloomsbury Publishing, Investec and HSBC which all increased in value by at least 28.0%.

It has been a busy month for the portfolio and companies that have made announcements are Sainsbury (J), UP Global Sourcing, Bloomsbury Publishing, Caretech, DS Smith, Johnson Service Group and HSBC. These have all been covered on the website.

We have decided to dispose of the holding of Sainsbury (J) following the latest results as we do not believe that the company's prospects are that enticing and there is better value elsewhere. The sale of 1,750 shares at 212.9p has raised net proceeds of £3,689 and a gain of £272.

Dividends have been received from Sainsbury (J) (£56), Bloomsbury Publishing (£21) and Caretech (£40) and after purchasing shares in the two companies featured in this issue there is just £53 left on deposit.

Performance summary

	17 November 2020	20 October 2020	Gain/(Loss) %
Portfolio Value	£74,275	£67,222	10.5
FTSE 100 Share Index	6,365.33	5,889.22	8.1
FTSE All Share Index	3,591.59	3,315.73	8.3

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
1,200	Character Group	255	3,091	372	4,464	185
5,000	UP Global Sourcing*	54.1	3,844	100	5,000	80
5,000	Alliance Pharma	73.9	3,732	74	3,700	57
1,650	Bloomsbury Publishing	223	3,734	276	4,554	185
1,000	Caretech	395	3,989	466	4,660	300
3,750	Premier Miton	107.5	4,071	132.5	4,968	75
1,650	Drax Group	232.8	3,898	334.6	5,521	175
15,000	Vertu Motors*	22.5	3,408	30.75	4,613	17.5
1,400	DS Smith	282.8	4,019	332.8	4,659	240
2,350	Investec	146.6	3,496	200.8	4,719	120
4,000	Johnson Service Group	95.9	3,893	121.2	4,848	70
6,750	Finsbury Food	56.9	3,879	63	4,253	45
100,000	eve Sleep	4.2	4,242	3.8	3,800	3.4
1,325	HSBC	308.55	4,149	376.6	4,990	265
4,400	Alumasc	108.5	4,822	108.5	4,774	80
335	GlaxoSmithKline	1402.8	4,769	1402.8	4,699	1250
£53	Cash	-	-		53	
				TOTAL	**£74,275**	

Start date: 2 January 2018 with £50,000. Cash includes dividends received of £4,258 * after profit taking.

GSK

1402.8p

GLAXOSMITHKLINE

SECTOR – PHARMACEUTICALS

Given what has happened around the world in 2020, one might expect GlaxoSmithKline to have seen its share price outperform. However, the opposite is true and the shares currently stand at 24% below their year high. This means that they look cheap on a number of metrics and the dividend yield of 5.7% is particularly eye-catching.

GlaxoSmithKline is a name which will no doubt be familiar to readers. The business is now made up of three parts. The Pharmaceuticals business has a broad portfolio of medicines in respiratory, HIV, immuno-inflammation and oncology. The Vaccines part of the business is the largest of its type in the world, with R&D focused on developing vaccines against infectious diseases that have both high medical need and strong commercial potential. The Consumer Healthcare business covers oral health, pain relief, cold, flu and allergy, digestive health and vitamins, minerals and supplements. Last year a deal with Pfizer was completed and this combines two consumer healthcare businesses into a new world-leading Consumer Healthcare Joint Venture which will be demerged within three years of the closing of the transaction.

Third quarter results, covering the three months to 30 September, were released last month. In the first nine months of 2020 turnover was £25,360m, up 2% but down 2% at constant exchange rates on a pro-forma basis. Total earnings per share in the nine months were 102.0p versus 67.7p in the same period a year earlier. Adjusted earnings per share were 92.6p compared with 99.2p in the first nine months of 2019. The net cash inflow from operating activities for the nine months was £4,586m (2019: £4,567m) and free cash flow was £2,300m (2019: £2,474m). The ex-dividend date for the third quarter dividend payment of 19p per share was 12 November.

The company is on track to deliver earnings per share for the full year which are slightly worse than those achieved in 2019. Although this may be disappointing to some and there are question marks over the level of growth which is achievable moving forwards, it would still be a resilient performance. The share price now represents a modest multiple of earnings and the yield provided must also make the shares attractive for those seeking income. We put forward a BUY recommendation.

Share Price: 1402.8p
Market Capitalisation: £70,384m
2019/20 Share Price Range: 1846p/1291.8p
Website: www.gsk.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	33,754	8,236	123.9	11.3	80.0	5.7
2020 (est)	34,251	8,238	116.0	12.1	80.0	5.7
2021 (est)	35,509	8,504	115.4	12.2	80.0	5.7

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.

Johnson Service Group – 121.2p

A trading update covering the last three months has revealed a mixed performance from the group. The Workwear business has seen volumes return to pre-Covid levels, with a steady increase in revenues over the period and the latest lockdown in England is only expected to have a limited impact on this division. On the other hand, in the Hotel, Restaurant and Catering business (referred to as HORECA) there has been a focus on managing the cost base through the downturn to ensure the business is prepared for a rebound in volumes in due course. HORECA volumes held up well during September with volumes at 55% of normal, up from 45% in August although October volumes reduced, particularly in the high-volume hotel linen plants, back to 45% of normal levels. The outlook for the remainder of 2020 depends on the level and impact of regional restrictions on the hospitality industry following the planned ending of the lockdown in England on 2 December 2020. However, the group has a strong balance sheet and leading market positions which will stand it in good stead going forward, and we therefore believe that a LONG-TERM BUY rating is appropriate.

Bloomsbury Publishing – 276p

Independent publishing group Bloomsbury, best known as the publisher of the Harry Potter books, has announced sparkling interim results for the six-month period to 31 August. Revenues for the period rose 10% to £78.3m with adjusted pre-tax profits up 60% to £4.0m. Earnings per share on the same basis rose 55% to 4.13p and the company maintained its interim dividend at 1.28p given the strong balance sheet which showed net cash of £44.1m at the end of the period. These are the best first half results since 2008! The group has benefited from lockdown with on-line book sales and e-book revenues being significantly higher. The consumer division benefited from a number of best-selling titles whilst the non-consumer business has benefited from the shift to remote and on-line learning due to the pandemic. Trading at the beginning of the second half has started well and the strong balance sheet will facilitate acquisitions and expansion overseas. Pre-tax profit forecasts for the year have been increased to around £12m for earnings per share of 11.2p - with 20% of the company's market capitalisation held in cash we believe the shares remain a LONG-TERM BUY.

DS Smith – 332.8p

Are you buying more online? Getting more and more deliveries from Amazon and the like? If so, then you will be contributing to the increase in demand that packaging group DS Smith is seeing for its cardboard boxes and cartons. The group has issued a trading statement covering the half year to 31 October confirming that trading has continued to improve since the last statement issued at the beginning of September. The second quarter has seen an improvement over Q1 with growth in demand seen in both the US and Europe. Going into the festive season, the lockdowns imposed in many countries will surely result in a further increase in on-line shopping with benefits to the company. Although the group has suffered from increases in paper prices, and the costs involved in making its operations Covid safe, which will mean that first half profits will be lower than last year, the longer-term prospects look good. The company is planning to pay an interim dividend which will also increase the attraction to investors. Earnings per share in the year to next April are forecast to be 23.7p, rising to over 31p the year after. That would put the shares on a p/e ratio of 14.0x for 2021, falling to 10.7x in 2022 making the shares look appealing, especially on a prospective dividend yield of 3.6% in the current year. The shares are a BUY.

Scapa Group – 162.8p

We tipped AIM-listed Scapa Group two weeks ago at 121p in our free AIM share tip column, and so it is pleasing to see that the shares have jumped by 35% since then!! As we stated in our original tip, the share price had declined a long way having fallen from a year's high of 290p. The interim results for the six-month period to 30 September came in ahead of expectations, thus prompting another move higher in the share price. Although revenues for the period were down by 24.1% to £122m, those in Q2 were 23% above Q1 as demand began to improve. Stripping out exceptional costs, the adjusted pre-tax profit for the period was £4.0m for earnings per share on the same basis of 2p per share. Helped by the fund raising during the period. net debt excluding lease liabilities fell to £21.8m. Although the return to lockdown and increase in COVID-19 infections around the world is clearly not helpful, the company believes the second half will see further recovery in both revenues and profits. Despite the rise in the share price, this could have further to go and we advise those subscribers who bought on our tip two weeks ago to hold on for the ride. FIRM HOLD.

NEW

Trader Portfolio

Launching 1st December 2020

We are delighted to announce the launch of the new Trader Portfolio on the website. Effectively, this will be a real time portfolio which will follow the tips in The Trader column and thus demonstrate the success (or failure) of the recommendations that we make. The portfolio will be launched with a notional capital sum of £10,000 and the objective will be to increase this by active trading on the market. It is unlikely that we will ever have more than five positions running at any one time and we will be looking to take short-term trading profits on a regular basis.

We are very excited about this new development and feel that it could prove a very effective trading tool for our subscribers. To ensure you are included in our journey from the very start, make a note to log in on Tuesday 1st December.

See you then!

VIEW THE PORTFOLIO
(AVAILABLE FROM 1/12/20) >

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