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sorting the bulls from the bears

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Vianet should serve investors well

Although Vianet Group (73.5p) has seen some recovery in its share price, this has lagged many other companies where very similar challenges are being faced. The shares currently stand at just under half the level they started 2020 at and we believe that this is more to do with sentiment than fundamentals. Harsh trading conditions cannot be ignored but we believe that prospects over the longer term mean that the shares are cheap.

Vianet was previously known as Brulines, when its principal offering was a system which records the total volume of liquid passing through beer lines. As well as monitoring the amount of stock dispensed this also developed into a system which recognises the brand performance of draught beers, ciders, lagers and spirits. The company has evolved to become a provider of actionable data and business insight through devices linked to its Internet of Things platform. It is true to say that there is still a heavy reliance on the hospitality sector, which remains under pressure, but this is the same for other companies which have seen a more enthusiastic rebound in their respective share prices.

Results for the six months ended 30 September 2020 were released last week. Revenue was £4.07m versus £8.41m in the same period a year earlier. An adjusted operating loss of £0.38m was incurred, which compares to an adjusted operating profit of £2.00m. This translated into a basic loss per share of 4.86p. In the first half of the previous year basic earnings per share were 6.00p. Operational cash generation was £1.19m, down from £2.44m, with net debt of £1.15m at the period end virtually unchanged from 30 September 2019. No interim dividend was declared.

A return to better times is dependent on restrictions placed on hospitality and in particular pubs. However, the current situation will almost certainly change at some point in the coming months and we feel that there is scope for strong capital growth for those buying in now. There are risks involved but the shares could easily move back above 100p and beyond within 12 months. SPECULATIVE BUY.

Waste not want not

Biffa (240p) is a long-standing favourite of ours and given the turmoil faced by many companies recently, it is a steady alternative which is worth catching up. The leading waste management company released interim results, covering the 26 weeks to 25 September 2020, last month. Although these were severely impacted by Covid-19, as anticipated, the numbers achieved demonstrate the resilience of the business in extreme circumstances.

Biffa is a leading player in the UK's waste industry with operations that cover the breadth of the waste management process. This includes collection, recycling, treatment, disposal and energy generation. It is the leading Industrial & Commercial waste collection service provider in the UK, covering a wide range of business sectors including manufacturing, retail and hospitality.

Despite the economic environment faced in the first half of the current year, trading remained ahead of Biffa's base case scenario. Revenue fell by 18.1% to £482.5m and net revenue was 17.3% lower at £458.8m. Underlying EBITDA slumped by 32.8% to £58.3m. Underlying operating profit was £9.7m compared with £45.7m last year and a loss before tax of £43.2m was incurred, although £42.9m of this was due to an increase in non-underlying costs. No interim dividend was declared but the company stated that it understands the importance of dividends to shareholders and is aiming to reintroduce the dividend as soon as it is prudent to do so.

Returns are likely to be steady rather than spectacular but the essential nature of the work undertaken by Biffa means that it is well positioned in an environment where most companies are reliant on the health of the broad economy following what has been a very unusual period of trading. There is a chance that someone could make a bid for the company given the nature of the business and the levels of cash generated. It would not be the first time that Biffa has changed hands. We rate the shares as a LONG TERM BUY.

RNK

136p BUY

Rank

SECTOR – TRAVEL & LEISURE

Rank brought in gross proceeds of £70m last month through a fundraising with shares priced at 90p each. The company has seen a slump in revenue in 2020 following closures and restrictions on trading due to the Covid-19 pandemic and the funds raised should ensure that the business is now sufficiently funded to see it through to the time when more normal trading conditions return. When this does happen there should be less competition and operating margins should be rebuilt.

Rank is a well-established gaming business. It is broadly divided into Venues and Digital. Venues includes Grosvenor Casinos and Mecca Bingo in the UK and the former is the largest multi-channel casino operator in the UK. It also covers Enracha, a community-based gaming business for the Spanish market, which offers a range of popular community games such as bingo, electronic roulette and slot machine games, sports betting and food, drink and live entertainment. Digital was boosted by the acquisition of Stride Gaming for £115.3m last year.

The fundraising announced on 5 November, comprising a Placing and Retail Offer, saw the company raise total gross proceeds of approximately £70m. The cash was used to strengthen the balance sheet, to maintain appropriate liquidity covenant headroom on debt facilities under various trading scenarios, to provide sufficient working capital to negotiate the current tough period and to enable Rank to continue to deliver on its transformation 2.0 programme. The company's lending banks have agreed to extend the £50m minimum liquidity test until March 2022 as a result of the successful fundraising.

New equity was ultimately required due to the Covid-19 pandemic and the subsequent impact this had on trading. Immediately prior to the first lockdown period in 2020 Rank had positive momentum, driven by its transformation strategy, a tightly controlled cost base and a strong balance sheet. For the eight months to 29 February 2020 like-for-like underlying operating profit was up 61% versus the same period in the prior year. However, the lockdown had a material impact given that venues comprise a significant proportion of profits.

Following the phased reopening of venues starting in July and August, performance was encouraging. However, there was then further disruption and the company anticipated potentially breaching its 31 December 2020 bank covenant test. On 10 September it announced that it had taken action to address this by securing a temporary waiver of its existing bank covenants in favour of a minimum liquidity test of £50m cash and available facilities, to be tested in September and December 2020 and March 2021.

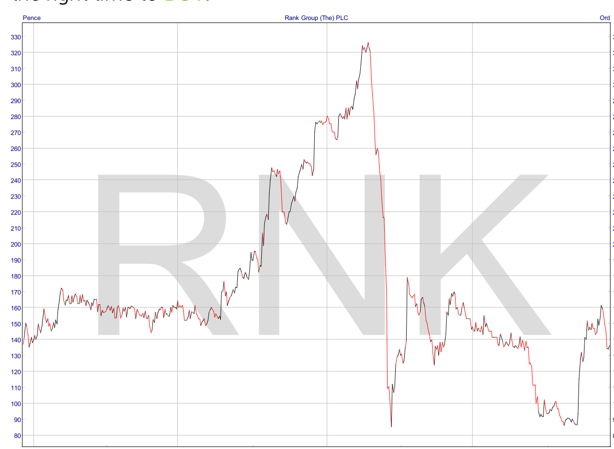
On 22 September the Government announced that leisure businesses including casinos and bingo halls must be closed between 10 pm and 5 am from 24 September. Given the importance of late-night trade, particularly to Grosvenor, this restriction hit Rank's trading. On 31 October, the Government announced a national lockdown in England from 5 November to 2 December which resulted in all venues in England closing for that period. The Curfew, the Lockdown and other further measures from the Government, as well as a broader reduction in consumer confidence caused by the pandemic, mean that the liquidity position is set to be impacted further in the coming months.

At the time the fundraising was announced, a trading update for the quarter to 30 September 2020 was also released. Group like-for-like net gaming revenue was down 52% for the quarter, with total net gaming revenue down 47%. Grosvenor venues saw net gaming revenue down 74% in the period with trading days down by 55% as a result of lockdown and regional closures. Grosvenor's venues started reopening from 15 August and performed ahead of expectations for the period they were allowed to open. On 24 September the Curfew in England was introduced, resulting in Grosvenor's casinos needing to close between the hours of 10 pm and 5 am. This had a material impact on Grosvenor's business, which has historically generated half of its net gaming revenue after 10 pm. The Curfew had only a small impact on Mecca's revenues.

International venues net gaming revenue was down 26% in the quarter, with Enracha net gaming revenue down 34% following its reopening in June but subject to capacity and opening hour constraints. Covid-19 restrictions have clearly impacted venues' performance but customers are demonstrating that they want to spend their leisure time in Rank's venues when they are able to do so.

Digital net gaming revenue, excluding the contribution from Stride, was down 3% in the quarter. The decline in Digital's performance was mainly due to Grosvenor's underperformance with declines in both active customers and average revenue per user. With Grosvenor's casino estate closed in England until 15 August and later in Scotland and Wales, the net gaming revenue contribution from Grosvenor's more valuable omni-channel customers fell by 24% in the quarter. The tightening of affordability deposit limits through the pandemic has also contributed to the decline in average revenue per user. Mecca digital's net gaming revenue was down 2% in the quarter, with a 33% growth in active customer numbers offset by a 26% decline in average revenue per user. Stride's net gaming revenue in the quarter was down 34% compared to its performance in the same period last year. This reflects the impact of harmonisation of safer gambling standards with those of Rank brands but on a more positive note Yo Bingo net gaming revenue grew by 47% with strong performance in bingo and casino. The sale of the company's sole venue in Belgium has also been announced recently. The Blankenberge Casino will be bought by Kindred Group for £25m.

Contrarian investing can sometimes bring exceptionally good returns and those who backed the placing at 90p last month already look well on their way to a significant profit. Those still to invest do not appear to have missed the boat yet though and assuming that Rank survives the next few months there should be a long period of earnings growth ahead. We believe that the potential rewards outweigh the risks at this stage and therefore suggest it is the right time to BUY.



Share Price: 136p
Market Capitalisation: £637m
2019/20 Share Price Range: 326p/85p
Website: www.rank.com

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	638.1	37.7	7.0	19.4	2.8	2.1
2021 (est)	412.4	(69.3)	(12.7)	-	-	-
2022 (est)	673.6	86.3	6.2	21.9	1.0	0.7

Aggressive Growth Portfolio VII

As regular readers will be aware, the Aggressive Growth Portfolios have a three year life and we are now closing the current portfolio as it has been going for three years.

Another excellent performance from the portfolio over the last month of its life has seen it rise in value by 4.1%, thus outperforming both of the benchmark indices. There have not been any stand-out performances although most companies in the portfolio saw their share prices increase.

It has been a busy month for the portfolio and companies that have made announcements are eve Sleep, Character Group, UP Global Sourcing, Premier Miton, Drax Group, Vertu Motors, DS Smith and Finsbury Food. These have all been covered on the website. Clearly, there are no changes to the portfolio this month as it will cease to exist.

The portfolio started in January 2018 with £50,000 and so it is very pleasing to see that at the end of its three year life it has risen in value to £77,314. This represents a gain of 54.6% over its life. To put this into some sort of context, over the same period the FTSE 100 Index has fallen from 7,648.10 to 6,513.32 for a decline of 14.8%! In similar fashion, the FTSE All Share Index has dropped from 4,202.53 to 3,673.28. This represents a decline of 12.6%. From these figures it is obvious that the Portfolio has significantly outperformed, a fact we are clearly proud of.

Next month will see the launch of the next portfolio, the Aggressive Growth Portfolio VIII. This will be attempting to maintain the amazing record of the first seven portfolios which have all produced gains during their life. These will be detailed on the website and in the next issue of the newsletter.

Performance summary

	16 December 2020	17 November 2020	Gain/(Loss) %
Portfolio Value	£77,314	£74,275	4.1
FTSE 100 Share Index	6,513.32	6,365.33	2.3
FTSE All Share Index	3,673.28	3,591.59	2.3

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
1,200	Character Group	255	3,091	407.5	4,890	185
5,000	UP Global Sourcing*	54.1	3,844	113	5,650	80
5,000	Alliance Pharma	73.9	3,732	76.8	3,840	57
1,650	Bloomsbury Publishing	223	3,734	266	4,389	185
1,000	Caretech	395	3,989	494	4,940	300
3,750	Premier Miton	107.5	4,071	128	4,800	75
1,650	Drax Group	232.8	3,898	339	5,594	175
15,000	Vertu Motors*	22.5	3,408	29.05	4,358	17.5
1,400	DS Smith	282.8	4,019	379	5,306	240
2,350	Investec	146.6	3,496	187.9	4,416	120
4,000	Johnson Service Group	95.9	3,893	129.6	5,184	70
6,750	Finsbury Food	56.9	3,879	72	4,860	45
100,000	eve Sleep	4.2	4,242	4.2	4,200	3.4
1,325	HSBC	308.55	4,149	402.65	5,335	265
4,400	Alumasc	108.5	4,822	112.5	4,950	80
335	GlaxoSmithKline	1402.8	4,769	1358	4,549	1250
£53	Cash	-	-		53	
				TOTAL	**£77,314**	

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

DWF

80p

DWF GROUP

SECTOR – SUPPORT SERVICES

Recent interim results from DWF Group were relatively solid and it is surprising that the share price has not rallied following the news. The announcement of an interim dividend of 1.5p per share was particularly reassuring and puts the company on track to pay a total dividend of 4.7p per share for the full year, equating to a yield of 5.9% at the current share price. This is appealing given scope for increased dividend payments in future years. The level of dividends is by no means the only reason to invest though and solid capital growth is also likely.

DWF Group joined the market in March 2019, becoming the first Main Market Premium Listed legal business on the London Stock Exchange, through an offer priced at 122p per share. Based on the offer price, the market capitalisation of the company was £366m at the commencement of trading in the shares. Parts of the business have grown both organically and through acquisitions over the last couple of years but the shares have lost over a third of their initial value.

Results for the six months to 31 October 2020 were released on 10 December. Group revenue was up 15% to £167.6m versus £145.2m in the same period a year earlier. Despite the impact of Covid-19, there was organic growth of 3% across Insurance Services and 19% in Connected Services. International showed some recovery with 3% organic revenue growth despite ongoing headwinds in some key locations such as Australia and Germany. Commercial Services delivered a flat organic performance. Acquisitions provided a boost and adjusted profit before tax was £13.4m, up from £10.9m. Adjusted earnings per share increased from 2.9p to 3.6p. An interim dividend of 1.5p per share is payable on 5 March 2021 and the ex-dividend date is 28 January. Net debt was £58.5m at the period end.

DWF Group should have a relatively solid flow of revenue. Acquisitions can continue to drive growth moving forwards and even as the business currently stands the shares trade on a modest multiple of forecast earnings. The healthy dividend yield should provide both support and incentive for new investors to buy in. Forecasts may also prove to be too conservative, with cost savings such as reduced expenditure on office space also improving overall efficiency. The shares are a BUY and we put fair value at 100p.

Share Price: 80p
Market Capitalisation: £246m
2019/20 Share Price Range: 142p/46p
Website: www.dwfgroup.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	297.2	13.8	3.0	26.7	3.25	4.1
2021 (est)	334.5	27.4	6.8	11.8	4.70	5.9
2022 (est)	350.8	34.4	8.6	9.3	6.00	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.

eve Sleep – 4.2p

It is pleasing to see that the bedding group eve Sleep has issued a positive trading update during the month. This has shown that the company has continued to perform well with a strong performance in November, with Black Friday being particularly successful with sales over the four-day trading period seeing sales of £1.1m - an increase of 45% over last year. The review of UK mattresses in the November issue of Which? magazine showed that the company has the two best mattresses in the UK and three of the top five which will clearly help future sales. Recent product launches and a TV advertising campaign are also likely to boost sales, so the company can build further on the 15% increase in revenues seen in the five months to 30 November. With net cash of £8m at the end of November and the important December trading period now under way there is scope for the shares to move higher. A return to the high of the year of 6.4p reached in September would represent growth of over 52% - the shares remain a BUY.

DS Smith – 379p

The paper and packaging group has announced its interim results for the six months to 31 October and these have revealed a resilient performance in the circumstances. Revenues for the period declined by just 9% to £2.9bn compared with the previous year, although adjusted pre-tax profits fell to £192m from £308m last year. Adjusted earnings per share fell 38% to 10.8p. The company also declared an interim dividend of 4p with no dividend being paid for the last financial year. Clearly the group has been a beneficiary of the surge in on-line shopping during the pandemic with significant demand for corrugated packaging and this trend looks set to continue. The shares have enjoyed a good run since our original tip at 282.8p and although there may be further to go in the medium term the stock could consolidate at around this price. We therefore reduce our recommendation to HOLD.

Synectics – 105p

The security and surveillance systems specialist has issued a trading statement covering the six months to 30 November, confirming that trading has continued as expected with the underlying results for the second half likely to be broadly similar to the first half. Net cash at the end of November was £6.9m, representing over a third of the company's market value. Obviously the group has suffered from the effects of the pandemic, especially as its largest market, the global casinos and gaming sector, has been hit with closures during the period. It is now apparent that projects originally planned for 2020 will be delayed into 2021, with an adverse impact on the 2020 results. However, other areas of the business have not been as badly affected and the group is increasing its investment in areas such as government-related urban transport and critical infrastructure products. As and when the world returns to a more normal level of activity, there should be considerable pent up demand for the group's services and, with a strong balance sheet, the shares remain a BUY.

Character Group – 407.5p

The AIM-listed toys and games group has seen its share price rally strongly over the last few months so that it is now at its highest level since January. It is now more than double the 190p level it reached in March although there may still be further to go. The annual results to 31 August revealed that revenues fell to £105m from £120m last year, with pre-tax profit more than halving to £5.0m (2019: £11.1m). Earnings per share fell to 18p (2019: 43p) and the dividend has been slashed to 5p (2019: 26p). However, the group is strongly cash generative and this has resulted in net cash at the year-end of £19.1m (2019: £6.5m). The group's diverse product range which includes names such as Peppa Pig, Fireman Sam and Batman has seen strong demand in the run-up to Christmas and trading is significantly ahead of last year with sales up over 30% in the three months to the end of November, despite the impact of the second lockdown. The group is expecting the current financial year to produce strong growth and pre-tax profits could double to £10m for earnings per share of 36p. With a strong balance sheet, boasting significant cash balances, we believe the shares have further to run being on a modest p/e ratio. BUY.

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