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sorting the bulls from the bears

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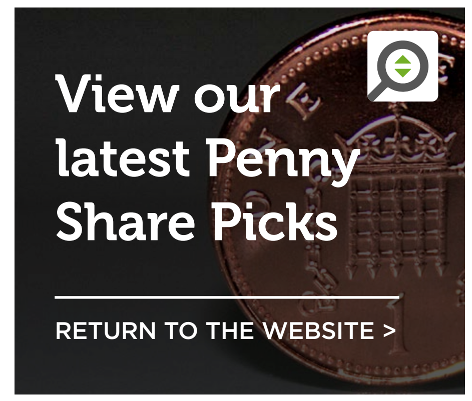


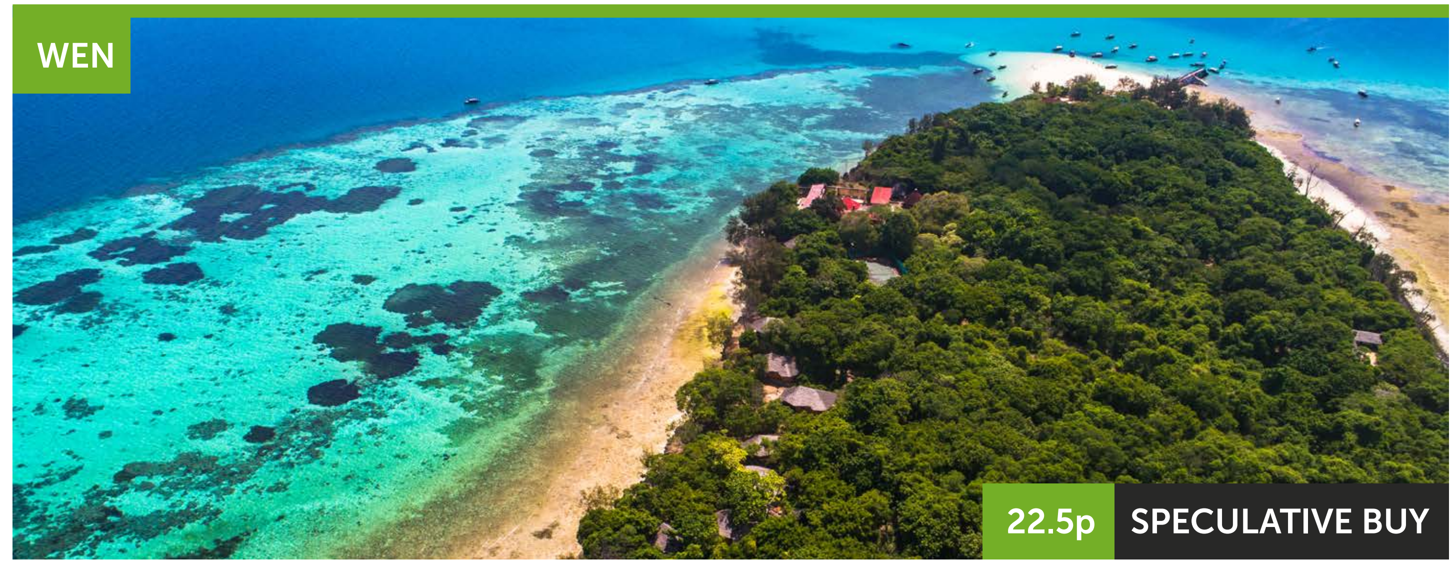
Better news ahead for WH Smith?

Many retailers have had a tough time of it over the past year or so and WH Smith (1699p) has been no exception. However, a trading update last month revealed some positive developments and this provides comfort that the business is still making progress. Performance over the Christmas period was better than anticipated and the online businesses funkypigeon.com, cultpens.com and whsmith.co.uk achieved record performances with sales significantly ahead of the prior year.

In the 20 week period to 16 January 2021 the impact of Covid-19 and related restrictions continued to be a significant hinderance. Sales in December 2020 were only down 8% year-on-year though, which in the circumstances is better than many must have feared. In the Travel business sales in December were down 64%, as one would have expected given the slump in passenger numbers. The company generated cash in the last two months of 2020 and ended December with liquidity of £90m, which was higher than forecast. For the 20 weeks to 16 January 2021 total revenue was 41% lower than in the same period a year earlier.

Interim results are due out on 29 April. Underlying cash burn for the period January to March 2021 is expected to be between £15m and £20m per month assuming current conditions continue. The company is working on the basis that there will be no material change to the situation in the UK prior to the end of March and this seems sensible.

On a positive note, the company has not seen any disruption due to Brexit and does not believe that there will be any material impact on its ability to import stock. As life returns towards normality the Travel business should see strong recovery. The shares rallied strongly in the final quarter of 2020 but are still well below levels seen before the pandemic. BUY.



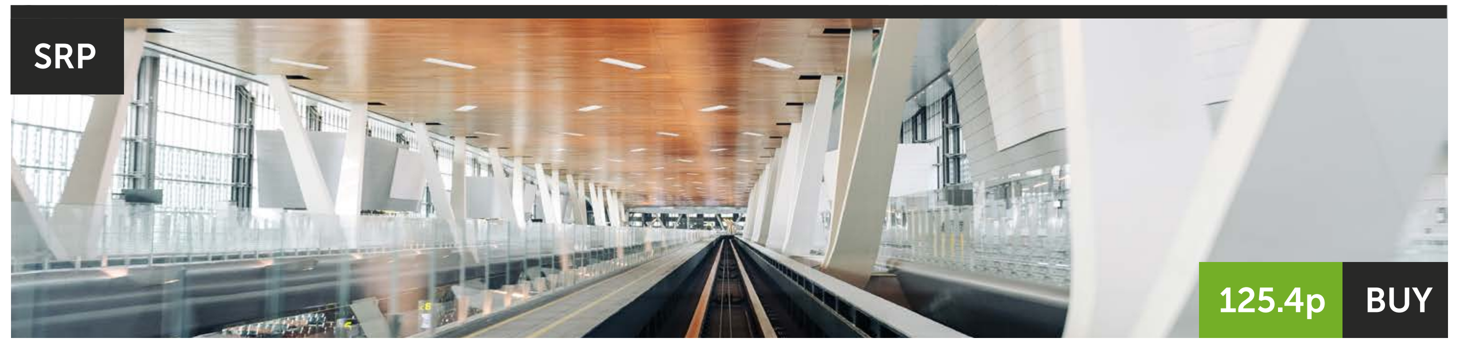
Wentworth could have plenty in reserve

Wentworth Resources (22.5p) is an independent natural gas production company with a focus on Tanzania. This very brief summary no doubt indicates that this is a potential investment which involves more than an average level of risk, raising red flags for some. Nevertheless, there is considerable room for upside and although the shares have started to move higher since the start of 2021 it looks as though positive momentum could now be building.

The company's core Mnazi Bay asset is a low cost, onshore producing gas field. It is a leading gas to power supplier in the area where it operates and demand is increasing. The company has an interesting shareholder base, with some institutions involved as well as retail investors from Norway and the UK. Wentworth Resources is a re-domiciled UK company which was previously headquartered in Calgary, Canada. It was readmitted to AIM on 2 November 2018 and completed a de-listing from the Oslo Bors on 13 February 2019.

Earlier this month an operational update and reserves update was released. The company is debt free and had US$17.8m cash on hand as at 31 December 2020. The company's share of gross 2P Reserves as at the same date were estimated to be 142.2 billion standard cubic feet, 23.7 million barrels of oil equivalent. This is proved and probable reserves, with a post-tax net present value of US$116.6m. Production guidance for the full year to 31 December is set at between 65 million and 75 million standard cubic feet per day (gross).

This is an interesting proposition and one which could deliver strong returns to those prepared to take a calculated risk. The value of reserves is by no means guaranteed but could easily be higher than the stated value. With the shares sitting at a level which is considerably lower than the intrinsic value as things stand, there is a high probability of capital growth over the long run for those investing now. There is also the added benefit of dividend payments, which commenced in 2019. An interim dividend of 0.48p per share was paid in October and a final dividend of approximately twice this level is likely to be declared when final results for 2020 are released. This would translate into a yield of 6.4%. On balance we believe that the shares are a SPECULATIVE BUY.



Serco Group

SECTOR – INDUSTRIALS

The acquisition of Whitney, Bradley & Brown Inc has recently been announced by Serco Group and this has prompted us to look at the company with final results looming. This is an interesting deal and one which drives further value into the business. The company has a long track record and given its size and profile, it could hardly be described as a hidden gem. However, we do believe that it is underrated and we feel that a higher share price would be easily justified given the quality of the operation.

Serco Group is a leading provider of public services. Its customers are either governments or others operating in the public sector. The company operates internationally across Defence, Justice & Immigration, Transport, Health and Citizen Services. Services are delivered in UK & Europe, North America, Asia Pacific and the Middle East. The company can trace its roots back to 1929 and has a long, varied history. It listed on the London Stock Exchange in 1988 and now has over 50,000 employees around the world.

On 16 February Serco Group announced the acquisition of Whitney, Bradley & Brown Inc, a leading provider of advisory, engineering and technical services to the US Military, for US$295m. The acquisition will increase the scale, breadth and capability of Serco's North American defence business and will give it a strong platform from which to address all major segments of the US defence services market. The acquisition will be immediately accretive to earnings and will be funded through existing debt facilities. It is expected to complete in the second quarter of 2021, subject to regulatory approvals as one would expect.

In the year to 31 December 2021 Whitney, Bradley & Brown Inc is expected to generate revenue of around US$230m and EBITDA of US$29m before exceptional transaction and integration costs. Whitney, Bradley & Brown Inc is expected to be immediately accretive to earnings following completion and should enhance underlying earnings per share by around 10% in 2022, the first full year of ownership. The return on invested capital is expected to exceed the weighted average cost of capital in the third full year of ownership. Cost synergies of US$4m per year, a large part of which are property-related, are expected by 2023. There are also significant opportunities for cross-selling services across both existing Serco Group and Whitney, Bradley & Brown Inc customers.

The consideration will be paid in cash funded through existing debt facilities. This acquisition will increase Serco Group's Adjusted Net Debt to EBITDA multiple by around 0.9x. Including the effect of this transaction, as well as the acquisition of Facilities First Australia and share purchases announced in December, leverage is set to be around 1.6x as at 30 June 2021. Leverage should decrease from that point onwards and leverage of 1.6x is comfortably within the company's target of between 1x and 2x.

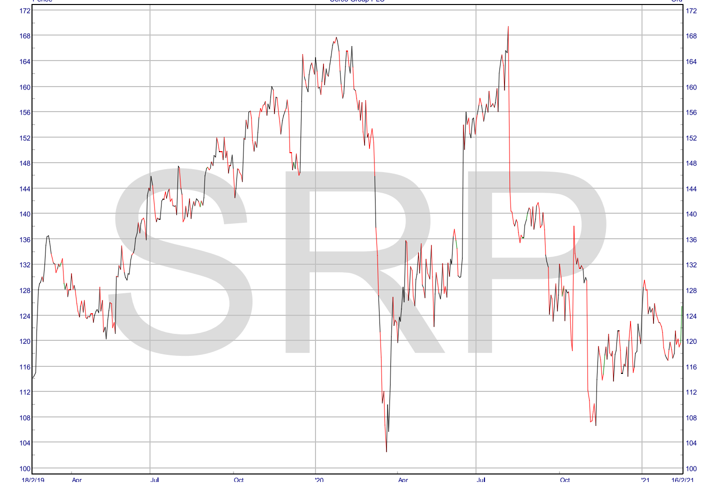
Whitney, Bradley & Brown Inc is a leading provider to the US Department of Defense of Systems Engineering and Technical Assistance services focusing in the fields of Acquisition and Programme Management, Systems Design and Engineering, Through-Lifecycle Asset Management and Mission Performance. The deal adds 20% to Serco Group's existing US$0.9bn of North American defence revenues and around 1,000 skilled people. It will broadly double Serco Group's revenues across both the US Army and Air Force/Space Force.

Results for the six months ended 30 June 2020 were released in August. Revenue was 24% higher at £1.8bn, with organic growth of 15% and a 9% increase from the acquisition of the Naval Systems Business Unit of Alion in North America (NSBU). Underlying Trading Profit was up 53% to £78m, with NSBU adding 20%. Group margin increased from 3.4% to 4.3%. Reported Operating Profit increased by £72m to £89m due to the strong increase in underlying profit and exceptional items. Underlying earnings per share increased by 47% to 3.86p (2019: 2.62p), reflecting the growth in Underlying Trading Profit, although this was partially offset by higher interest and tax.

Free Cash Flow improved to £81m, or £32m excluding the deferral of £49m of tax payments. Adjusted Net Debt was reduced by £58m to £143m. Underlying leverage stood at 0.7x EBITDA at the period end, or 0.9x excluding tax deferrals. Order Intake was strong at £1.9bn. Approximately 60% of the order intake related to existing contracts being rebid or extended and 40% was new work. The order book increased from £14.1bn at the end of 2019 to £14.5bn. The pipeline value of larger new bid opportunities reduced from £4.9bn to £4.1bn, reflecting recent contract wins. There will be news on planned dividend payments when full year results for 2020 are released next week.

An unscheduled trading update, covering the third quarter, was released on 16 October. The company noted that it achieved strong revenue growth in the third quarter and this, combined with good cost control, meant that full year revenue guidance was upgraded to around £3.9bn and Underlying Trading Profit to between £160m and £165m. This would represent organic growth in revenues of around 15%, growth in Underlying Trading Profit of over 30%, and an Underlying Trading Profit margin of just over 4%. The range of outcomes around these numbers, up or down, was said to be wider than would normally be the case at that time of year. On some contracts customers were adjusting their requirements week-by-week in response to the disruption caused by restrictions relating to Covid-19.

This is a solid business and one which provides essential services to those it works with. The most recent acquisition should add value for shareholders and it would be no surprise to see further deals which would boost future earnings. Full year results are due out on 25 February so there is not long to wait for further news from Serco Group. Given the most recent trading update there appears to be positive momentum building. We believe that the shares are good value and put forward a BUY recommendation.



	Year Ending 31 December	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 125.4p	2019	3,248	98.4	6.2	20.2	-	-
Market Capitalisation: £1,530m	2020 (est)	3,885	135.5	8.1	15.5	1.4	1.1
2020/21 Share Price Range: 169.4p/102.5p	2021 (est)	4,233	138.0	8.2	15.3	2.1	1.7
Website: www.serco.com							

Aggressive Growth Portfolio VIII

It is naturally very pleasing to be able to report a stunning start to the latest version of the Aggressive Growth Portfolio which was only launched last month. This has increased in value by 10% in just four weeks and has thus significantly outperformed all three of the benchmark indices against which this is monitored. This is despite an excellent performance from the FTSE AIM All Share Index which rose by 4.0% over the period.

It is also pleasing to report that of the ten shares tipped as our shares for 2021, eight have increased in value with just two stocks falling back slightly. The best performer in the portfolio has been Brave Bison Group, which saw its share price rise by 52.9%, although there were also noteworthy performances from both Logistics Development Group (share price up 36.7%) and Hargreaves Services (share price up 21.2%). Readers should be aware that the former changed its name during the period from Eddie Stobart Logistics.

A number of companies have reported announcements during the period, and these include Hargreaves Services, Logistics Development Group, Tandem Group, Brave Bison Group and Surgical Innovations. These have been covered on the website in the normal way.

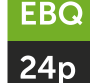
As the portfolio has only just been launched, no dividends have been received as yet and, at this stage we have not made any disposals. However, we have increased the stop-loss limit on Brave Bison Group to 1.65p. Following the purchases of both Serco Group and Ebiquity, there is just £553 left on deposit

Performance summary

	16 February 2021	19 January 2021	Gain/(Loss) %
Portfolio Value	£54,416	£49,483	10.0
FTSE 100 Share Index	6,748.86	6,712.95	0.5
FTSE All Share Index	3,840.16	3,793.91	1.2
FTSE AIM All Share Index	1,228.26	1,181.13	4.0

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
3,160	ITV	109.15	3,500	112.45	3,553	80
1,315	Hargreaves Services	264	3,507	320	4,208	200
25,200	Logistics Development Group	13.75	3,500	18.8	4,738	10
725	Tandem Group	480	3,515	525	3,806	360
271,750	Brave Bison Group	1.275	3,500	1.95	5,299	1.65
1,235	Xeros Technology	281	3,505	270	3,334	200
9,575	Lloyds Banking Group	36	3,498	39.48	3,780	27
161,250	Surgical Innovations	2.15	3,502	2.2	3,548	1.6
9,375	Capita Group	36.75	3,496	40.34	3,782	27.5
39,600	Manx Financial Group	8.75	3,500	8.25	3,267	6.5
1,875	TT Group	210	3,997	219	4,106	155
110	Dechra Pharmaceuticals	3662	4,088	3802	4,182	2750
2,600	Serco Group	125.4	3,309	125.4	3,260	105
12,500	Ebiquity	24	3,030	24	3,000	18
£553	Cash	-	-	-	553	
				TOTAL	**£54,416**	

Start date: 19 January 2021 with £50,000.



EBIQUITY

SECTOR – AIM – MEDIA

AIM-listed Ebiquity has recently released a trading update covering the year ended 31 December 2020, ahead of a final results announcement which is due out on 25 March. Although trading was only in line with expectations, which under normal circumstances may fail to grab the attention of potential new investors, this confirmed that recovery from a difficult first half was achieved. There was also welcome news that there has been a good start to the new financial year. There is now potential for the share price to rally strongly and recover some lost ground.

The company bills itself as the world leader in media investment analysis. It utilises data to provide independent, fact-based advice to brand owners so they are able to optimise their media investment decisions. Its five service lines are Media Management, Media Performance, Marketing Effectiveness, Technology Advisory and Contract Compliance. A digital innovation centre has been launched, which will be a central hub for its new digital solutions portfolio.

The trading update on 15 February revealed that performance was in line with expectations, with higher revenue in the second half than in the first. There was recovery in demand from existing clients and some new business was also won. The company returned to profitability in the second half of the year and is anticipating a small adjusted operating loss for the full year. Net debt as at 31 December 2020 was £7.7m, in line with expectations. The start to 2021 was described as 'encouraging'.

There is no doubt that 2020 was a difficult year but after a very tough first half there was improvement in the second half and the company ended up in relatively good shape. It appears to have been a good start to 2021 for Ebiquity and although it is looking a little further ahead, the type of performance delivered in 2019 could be attainable again in the medium term. The market capitalisation of just under £20m means that institutional investors will take little interest for now but based on fundamentals the shares appear cheap. On a 12 month view the shares could easily reach 36p on this basis, representing upside of 50% from the current level. Looking further ahead, Ebiquity is addressing an interesting niche maket and there is scope for significant growth. BUY.

Share Price: 24p
Market Capitalisation: £19.8m
2020/21 Share Price Range: 39p/18p
Website: www.ebiquity.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	68.7	5.3	3.6	6.7	-	-
2020 (est)	56.1	(1.5)	(1.8)	-	-	-
2021 (est)	60.2	2.0	1.6	15.0	0.7	2.9

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.

Surgical Innovations – 2.2p

Regular readers will know that the company is a manufacturer and distributor of innovative medical technology for minimally invasive surgery – or keyhole surgery as it is more commonly known. The company has now announced a new USA distribution agreement with Microline Surgical Inc. for the latter to distribute the YelloPort line of trocars in the USA. Trocars are devices manufactured by Surgical Innovations (SI) which are inserted in the abdomen during keyhole surgery and these act as a portal for the subsequent placement of other devices such as scissors or staplers. The distribution agreement is for 5 years and will bring a significant sales opportunity for SI in the US market. The two companies have worked together before as SI distributes some Microline products in the UK where these do not compete with its own. This is more positive news for the company, and we continue to rate the shares of Surgical Innovations as a BUY.

Tandem Group – 525p

A trading update has been provided by the AIM-listed sports, leisure and mobility equipment specialist, ahead of the release of final results on 25 March. Revenue for the full year to 31 December slipped to £37.1m from £38.8m in the prior year, but this does not tell the full story and profit before tax is set to be 'materially higher' than the prior year. In 2019 profit before tax was £2.85m and £2.51m after non-underlying items. In 2020 operating expenses were reduced by just under £1m and gross profit margins were also stronger. This is almost certain to see the shares priced at less than 10x earnings once the figures are revealed next month. The cash position also improved during the year and although there are restrictions on the level of dividends which can be paid, the interim dividend was doubled to 3.12p and a jump in the final dividend is on the cards. Revenue in January 2021 was 75% higher than the same month in 2020 and the forward order book looks very healthy. In line with other importing businesses, freight has been flagged as a potential issue but at this stage demand for the group's products remains strong. The shares remain cheap and are a BUY.

Hargreaves Services – 320p

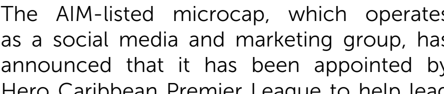
The AIM listed supplier of services to the industrial and property sectors announced interim results to 30 November, showing revenue down to £92.0m (2019: £124.7m), with underlying profit before tax of £1.1m (2019: £2.4m) being reported. Underlying earnings per share were 3.4p versus 6.4p. However, net assets per share were 400p at the period end, down marginally from 403p per share a year earlier and over the same time frame net debt was broadly halved from £40.3m to £20.8m. An interim dividend of 2.7p per share has been declared (2019: nil). Debt was eliminated totally after the period end as a result of the sale of its speciality coal stocks. The company has also announced another sale of land at its Bindwells development site near Edinburgh to Persimmon, the housebuilder. The proceeds of the sale will amount to at least £9.3m and with further plots to sell going forward this bodes well for the group and the share price. With net asset value per share being in excess of 400p and a chunky dividend forecast for the current year the shares remain a BUY.

Brave Bison Group – 1.95p

The AIM-listed microcap, which operates as a social media and marketing group, has announced that it has been appointed by Hero Caribbean Premier League to help lead the management of content, channels, rights, monetisation and audience development for the organisation across YouTube. Hero Caribbean Premier League joins other leading sports organisations that Brave Bison manages across YouTube, including Australian Open, US Open & PGA TOUR. Hero Caribbean Premier League is a franchise-based T20 format cricket tournament. The 2020 season saw a combined broadcast and digital viewership of over 500 million. The organisation's YouTube channel has an existing audience of 823k subscribers. The deal is far from transformational but demonstrates further progress. The shares have been creeping higher but there is plenty of room for the valuation to grow in a more meaningful way. SPECULATIVE BUY.

Logistics Development Group – 18.8p

The company has confirmed its change of name from Eddie Stobart Logistics and this took effect from 10 February 2021. The new company ticker is LDG. Clearly, this has no impact on the trading performance of the company, but the name change will hopefully be the catalyst for a change in the performance of the shares and, although these are not without risk, we believe that they are a SPECULATIVE BUY.



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