cityconfidential

sorting the bulls from the bears

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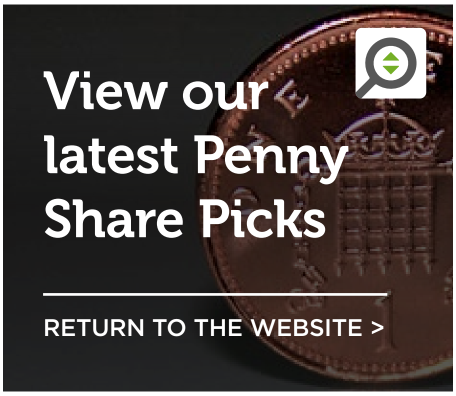


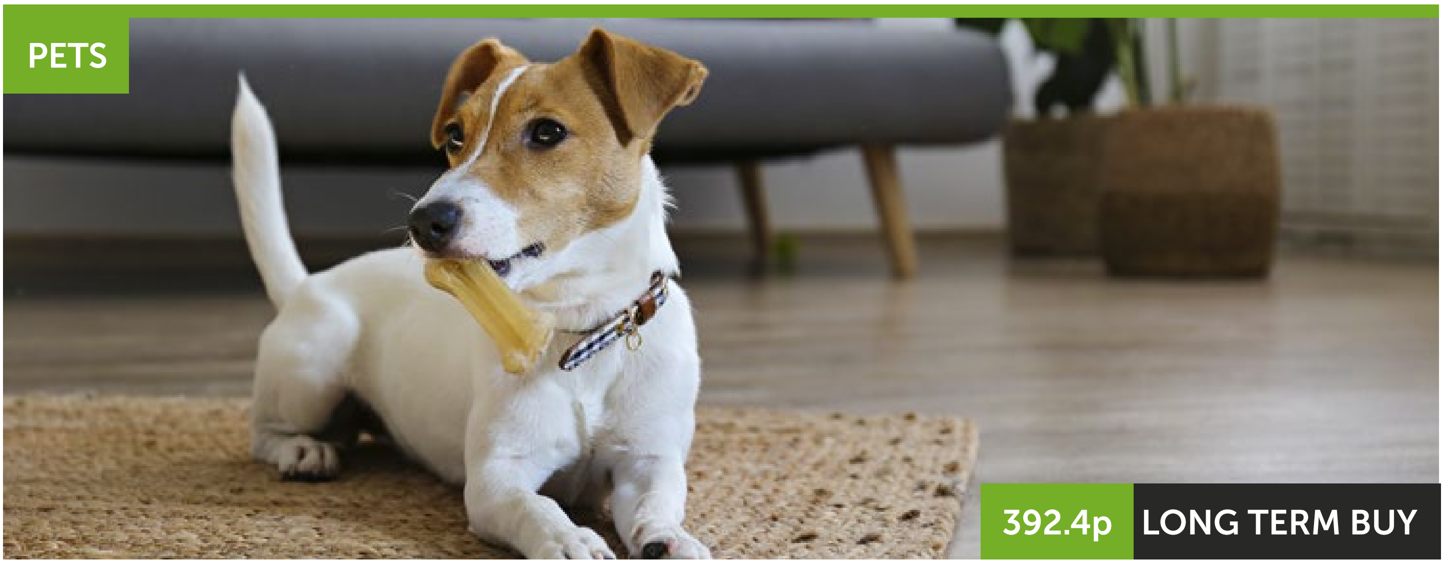
Form an Alliance

Recent final results from Alliance Pharma (87.8p) were well received and we believe that the shares could soon hit the 100p level which has only been achieved very briefly in the past. Long term shareholders have been very well rewarded but anyone who has invested over the last three years has seen the shares move broadly sideways and will have had to be fortunate with timing to have seen significant capital growth.

Alliance Pharma is an international healthcare group based in the UK and with subsidiaries in Europe, The Far East and the US. A network of distributors helps generate sales in more than 100 countries. Marketing rights are held for around 80 Consumer Healthcare brands and Prescription Medicines. Organic growth is driven by investing in the promotion of Consumer Healthcare brands and most Prescription Medicines require little or no promotion. Acquisitions are also used to grow the business and a significant US acquisition was completed in December 2020, bringing the fast-growing brand Amberen on board and creating scale in the US operations.

Results for the year ended 31 December 2020 saw group see-through revenue fall 5% to £137.5m (2019: £144.3m) and statutory revenues were down 4% to £129.8m (2019: £135.6m). Underlying profit before tax was up 2% to £33.5m (2019: £32.9m) but reported profit before tax was down 58% to £13.0m (2019: £31.1m) due to non-cash impairment and amortisation charges and acquisition costs relating to the acquisition of Biogix Inc. Underlying basic earnings per share edged up from 5.09p to 5.21p. Free cash flow was strong at £34.1m, helped by favourable movements in net working capital and cash generated from operations was up 19% to £46.4m (2019: £39.0m). A final dividend payment of 1.074p per share makes the total dividend for the year 1.610p.

We consider fair value to be a minimum of 100p per share. This figure puts the shares on a p/e ratio of under 20 based on historic results in a challenging period and with acquisitions poised to provide a boost. If the key 100p level is breached then momentum could push the shares higher. As a long term play this is a solid business and recent acquisitions enhance the proposition. Further deals may well materialise and add value. The shares are a BUY.



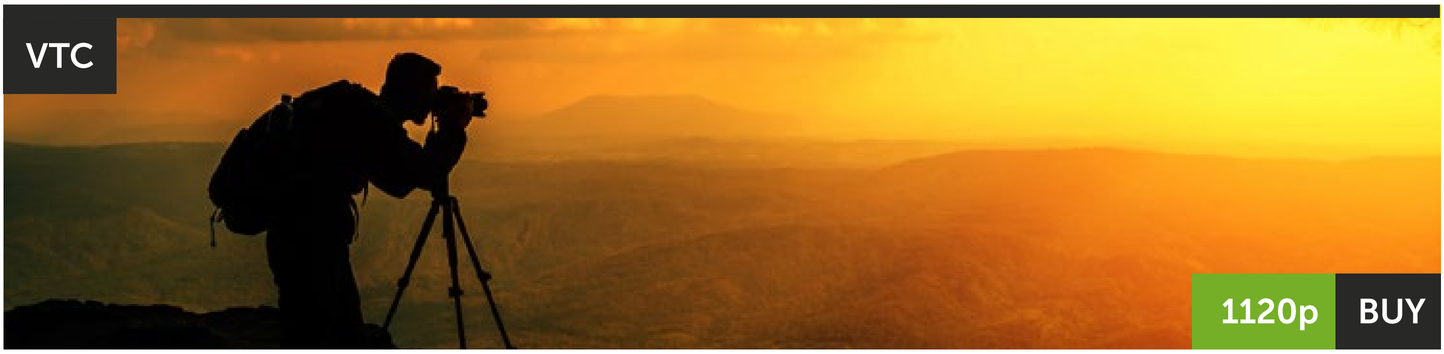
Treat yourself to some Pets at Home

Pets at Home (392.4p) is the leading pet care business in the UK. A trading update on 26 February saw another upgrade to forecasts and the company has clearly been performing well in recent months. With people spending more time at home there has been an increasing focus on pets and current trading is stronger than many would have thought it would be this time last year.

The company has retail stores and grooming salons, First Opinion vet surgeries and a range of subscriptions. It aims to provide everything which pet owners need to ensure that their pets are happy. Pets at Home believes that as a speciality pet business it can offer customers peace of mind that they are buying quality items which have been responsibly sourced and tested.

The update on trading during the fourth quarter released in late February came less than two months after another trading update on 8 January. Performance over the weeks in between was ahead of expectations, with continued strong and broad-based growth across all channels and categories. The company has noted that it expects underlying pre-tax profit, including the previously announced repayment of business rates relief of £28.9m, to be approximately £85m. This is significantly higher than previous guidance of at least £77m.

Full year results are due to be released on 27 May and the recent trading update effectively confirms the broad level of profits which will have been achieved. The shares may not appear to be a bargain looking at the multiple of earnings on which they trade, underlying basic earnings per share were 16.0p in the year to 26 March 2020 so on a historic basis the shares are on a P/E ratio of 24.5. However, sustained growth in profits over the long term looks inevitable given the nature of the business and the shares are a LONG TERM BUY.



Vitec Group

SECTOR – INDUSTRIAL ENGINEERING

It goes without saying that 2020 was a difficult year for Vitec Group and final results, released last month, demonstrated this with a slump in revenue and an even more severe drop in profit. The company's share price has followed that of the broad market over the last year or so, falling sharply into March last year then recovering strongly, with the current level representing a slight premium to where the price was at the start of 2020. It is now time to look forwards rather than back though and the company is in an interesting position with some exciting opportunities open to it. Some of the ways in which life has changed are undoubtedly helpful in this case.

The company is a leading global provider of premium branded hardware products and software solutions to the content creation market. Customers include broadcasters, film studios, production and rental companies, photographers, independent content creators and enterprises. The company's portfolio of products includes camera supports, video transmission systems and monitors, live streaming solutions, smartphone accessories, robotic camera systems, prompters, LED lighting, mobile power, motion control, audio capture and noise reduction equipment. Around 1,600 people are employed around the world in 11 different countries. The three divisions are Imaging Solutions, Production Solutions and Creative Solutions.

As one would expect, Covid-19 hit customer demand from March 2020 onwards. Film and scripted TV productions were shut down, sporting events postponed, professional photographers inactive and many retail outlets closed. Markets began to recover in the second half of the year and performance significantly improved versus the first half. The company estimates that its markets were only around 20% open in March 2020 but by the end of the year this had improved to around 70%. Mitigating actions were put in place to cut costs and manage cash. Costs were reduced by £22.6m versus 2019. The majority of these costs will return but only as trading conditions continue to improve. Government support was utilised around the world to limit making permanent headcount reductions. R&D investment was protected to a large extent and gross R&D spend in 2020 was £20.3m versus £23.1m in 2019.

Revenue in the year ended 31 December 2020 decreased by 23% to £290.5m (2019: £376.1m), resulting in adjusted operating profit of £9.9m (2019: £52.4m). Revenue fell by 10% in H2 at constant currency versus 2019, which was significantly better than the 37% decline on the same basis in H1. Group adjusted gross margin was 39.0%, down from 45.2% in 2019. This reflects the impact of lower volumes, offset in part by cost actions. Adjusting for SmallHD insurance proceeds, which were included in profit but not revenue, the adjusted gross margin in 2019 was 43.5%.

Adjusted profit before tax was £5.5m (2019: £48.0m). Adjusted basic earnings per share were 9.0p (2019: 80.6p) and the statutory basic loss per share was 11.6p (2019: 44.9p earnings). A final dividend of 4.5p per share was declared, which was the total for the year with no interim dividend paid. Net debt as at 31 December 2020 was £90.8m, which was £5.2m lower than as at 31 December 2019 and £16.6m lower than as at 30 June 2020. This is a strong performance given the backdrop against which the company was operating.

At the time of the final results announcement last month the company noted that its markets are recovering well, with end market drivers remaining intact and many areas of growth. More people have become used to communicating via video and watching video content on subscription platforms. It is very likely that demand for original content such as films, scripted TV shows, live news, sport, videos and photos will continue to grow. Vitec Group's technology enables people to capture and share content.

The company is investing to benefit from the substantial opportunities that exist as a result of the structural changes to its market. In the medium term, it believes that its Total Addressable Market has expanded, mainly due to its ability to serve the streaming market. This has grown strongly during the pandemic and the high-end enterprise segment has doubled in the last 12 months so there is a significant growth opportunity. Video communication has grown exponentially, driving demand for streaming solutions. More content has been consumed on subscription channels such as Netflix and Amazon Prime. When production sets reopen the company expects original content creation to grow, driving strong demand for its video transmission and monitoring systems. Further automation of TV studios to ensure safe distancing will also benefit its robotic camera systems and voice-activated prompting solutions. Vlogging, social media usage and home-working have increased with more people using smartphones and compact system cameras to create content. The company continues to make good progress delivering its strategic objectives. Although 2021 will be a year of recovery and investment, Vitec Group believes its markets will grow faster than previously expected. The reasoning behind this appears sound and the current valuation placed on the company may not factor this in fully.

Overall, Covid-19 has undoubtedly brought near term challenges. Results for 2020 demonstrated the fact that the company has managed to negotiate the difficult period and remains in good shape. Although damage was undoubtedly caused in the near term, short term pain may well lead to long term gain. Looking ahead, the world has changed in some ways which will benefit Vitec Group and the medium to long term outlook is very promising. Given historic performance, forecasts for the next couple of years are certainly achievable and from the next set of results onwards the company looks set to deliver ongoing improvements in turnover and profit. Dividend payments should not be ignored either and although the base is very modest, there should be a sharp increase in income for shareholders in the coming years. Although the share price has roughly doubled from its low last year, there is scope for considerable capital growth and we rate the shares as a BUY.

Share Price: 1120p
Market Capitalisation: £513m
2020/21 Share Price Range: 1140p/566p
Website: www.vitecgroup.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 (%)
2020	291	5.5	9.0	124.4	4.5	0.4
2021 (est)	355	30.1	49.6	22.6	20.0	1.8
2022 (est)	383	42.3	69.7	16.1	28.0	2.5

Aggressive Growth Portfolio VIII

After last month's spectacular performance by the portfolio, it should not really come as much of a surprise that its value only increased slightly last month. Nevertheless, the small gain of 0.4% was in contrast to the declines seen in each of the benchmark indices as can be seen from the table below.

Following a fall in the share price to the stop-loss limit of 1.65p, we have had to sell the holding of 271,750 Brave Bison. This raised net proceeds of £4,439 and realised a gain of £939 – not bad in two months! Regular readers will know that we raised the stop-loss limit last month hence the fact we have still made a gain. On the other hand, we have then also decided to sell the holding of 110 Dechra Pharmaceuticals at 3438p. The reason for the sale is that we needed to raise some liquidity for this month's purchases, and, in share price terms, we felt that there was less short-term upside in these shares than others in the portfolio. This has generated a loss of £344.

A number of companies have reported announcements during the period, and these include ITV, Hargreaves Services, Tandem Group, Xeros Technology, Lloyds Banking Group, Surgical Innovations, Capita, Manx Financial, TT Group and Serco. These have been covered on the website in the normal way.

As the portfolio was only launched in January, no dividends have been received as yet, although we expect to receive some dividend income in the next month. We have resisted the temptation to increase any stop-loss limits this month, although following a useful increase in the share price, we did consider doing this on both ITV and Capita. Following the purchases of both Vitec and Clinigen, there is £1,744 left on deposit pending investment.

Performance summary

	23 March 2021	16 February 2021	Gain/(Loss) %
Portfolio Value	£54,610	£54,416	0.4
FTSE 100 Share Index	6,699.19	6,748.86	(0.7)
FTSE All Share Index	3,817.33	3,840.16	(0.6)
FTSE AIM All Share Index	1,200.17	1,228.26	(2.3)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
3,160	ITV	109.15	3,500	124.65	3,939	80
1,315	Hargreaves Services	264	3,507	318	4,182	200
25,200	Logistics Development Group	13.75	3,500	15.875	4,001	10
725	Tandem Group	480	3,515	545	3,951	360
1,235	Xeros Technology	281	3,505	233	2,878	200
9,575	Lloyds Banking Group	36	3,498	41.34	3,958	27
161,250	Surgical Innovations	2.15	3,502	2.8	4,515	1.6
9,375	Capita	36.75	3,496	45.01	4,220	27.5
39,600	Manx Financial Group	8.75	3,500	7.75	3,069	6.5
1,875	TT Group	210	3,997	212	3,975	155
2,600	Serco Group	125.4	3,309	138.4	3,598	105
12,500	Ebiquity	24	3,030	29.4	3,675	18
315	Vitec Group	1120	3,581	1120	3,528	850
450	Clinigen	750.5	3,411	750.5	3,377	575
£1,744	Cash	-	-		1,744	
				TOTAL	**£54,610**	

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

CLIN

750.5p

CLINIGEN GROUP

SECTOR - AIM - PHARMA & BIOTECH.

Clinigen Group is in the select band of AIM companies with a market capitalisation of over £1bn, albeit only just! This valuation has been achieved due to chunky profits rather than a sky-high rating and as such the shares potentially remain cheap at the current price.

The company is a global pharmaceutical group focused on providing ethical access to medicines. It states that its mission is to deliver the right medicine to the right patient at the right time. There are sites in North America, Europe, Africa and the Asia Pacific. Clinigen Group has over 1,250 employees in 16 countries, with supply and distribution hubs and operational centres of excellence in key long-term growth regions. It works with 34 of the top 50 pharmaceutical companies, interacting with over 22,000 registered users across more than 115 countries. The business has recently been reorganised into two divisions rather than the previous three. Products is led by Sam Herbert, who joined as COO in January. Services is managed by Pete Belden, formerly EVP Clinical.

Interim results were released on 23 February. In the six months to 31 December 2020 total net revenue was up 4% on an organic basis to £231.9m (2019: £224.6m). Organic net revenue growth for the current year is now expected to be in the upper half of the 5% to 10% range, driven by the Services division. Adjusted EBITDA fell by 9% on an organic basis to £54.6m (2019: £62.1m) reflecting the impact of Covid-19 and a change in gross profit mix, partially offset by good cost control. Management expect a stronger second half weighting to EBITDA. Adjusted earnings per share were down 15% to 26.2p (2019: 30.8p) and the interim dividend was held at 2.15p per share. Net debt as at 31 December 2020 was £351.5m (£329.7m excluding IFRS 16 adjustment).

This is a quality business and one which arguably deserves a higher rating. Clinigen Group is very profitable and has an excellent track record, which has gained even greater credibility over the last year or so. The shares have plenty of room to rise without making the value placed on the business look too frothy. Now looks to be a good time to consider investing and we believe that a BUY rating is difficult to disagree with.

Share Price: 750.5p
Market Capitalisation: £1,003m
2020/21 Share Price Range: 986p/475p
Website: www.clinigengroup.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	466	108.5	65.6	11.4	7.61	1.0
2021 (est)	515	107.3	62.8	12.0	8.00	1.1
2022 (est)	627	133.1	77.4	9.7	9.30	1.2

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.

ITV – 124.65p

Results for the year ended 31 December 2020 have been released and as was certain to be the case, the figures were hit by Covid-19. Total external revenue fell 16% to £2,781m and adjusted earnings per share were 10.9p (2019: 13.9p). Statutory earnings per share were 7.1p (2019: 11.8p). No final dividend was declared but net debt was cut from £893m to £545m over the course of the year. Clearly the company has suffered from the loss of advertising revenues due to the cancellation of major events such as the football tournament euro 2020, which was due to be covered by the company. In addition, the lockdown across Europe, which resulted in holidays on the continent being cancelled to a large degree, also meant that holiday companies did not advertise. And, finally, production on many of the company's programmes was also suspended. Looking to the future, total advertising revenue is expected to be up around 8% in March and between 60% and 75% in April. The majority of programmes are now back in production and some notable cost savings should help ensure that profitability improves from the current year onwards. On balance the shares still look cheap and we rate ITV as a BUY.

eve Sleep – 5.38p

AIM-listed sleep wellness brand eve Sleep has released final results for 2020, along with the welcome news that revenues in the first two months of 2021 were up 16%. In the year ended 31 December 2020 revenue was £25.2m versus £23.9m in 2019. The underlying EBITDA loss was cut by 81% from £10.9m to £2.0m and net cash at the period end was £8.4m (2019: £8.0m). The company is upbeat with regards to prospects for the next few years and although there is relatively strong competition, it is difficult to disagree with this optimism. With plenty of net cash in the bank. the downside is relatively limited given the current share price and in a best case scenario there could be significant upside. Following the announcement of the results, two directors have added to their holdings. Chief Executive Cheryl Calverley has acquired 87,719 shares at 5.7p each and Chief Financial Officer Tim Parfitt has purchased 100,000 shares at the same price. We continue to rate the shares as a BUY.

Capita – 45.01p

It is pleasing to see that Capita, one of our shares of the year, has produced results that have helped to justify the rise of 22.5% in the share price since our tip in January. Although adjusted revenues for the year to 31 December 2020 were down 9% on the previous year at £3.18bn, and adjusted pre-tax profits fell 67% to £65m, net debt fell by more than expected and an optimistic statement by the company has helped to restore some confidence to investors. Last year was obviously very challenging due to the pandemic but the company's transformation plan continues, and new business continues to be won. The company is looking to restructure from six divisions to three, with two core divisions focused on government and blue-chip clients, and a third which will comprise non-core businesses which are up for sale. It is hoped that the latter will generate significant disposal proceeds which will help to reduce debt as well as provide funds for future expansion. Despite lockdown continuing, the group is still expecting 2021 to produce the first organic revenue growth for six years which is also a clear positive. Disposal proceeds of £500m have been targeted for this year which will reduce debt as well. With adjusted pre-tax profits set to increase this year to over £100m for earnings per on the same basis of over 5.5p we believe that shares have further to run over the medium term although they may consolidate for the time being. Overall, we maintain our recommendation of BUY.

Serco Group – 138.4p

Final results for the year to 31 December 2020 have been released by Serco Group. These demonstrated a strong year, but more importantly, guidance for 2021 has been increased and this is very welcome news for shareholders. In the year ended 31 December 2020, revenue was 20% higher at £3.88bn (2019: £3.25bn) and underlying trading profit was up 36% to £163.1m (2019: £120.2m). Underlying earnings per share jumped from 6.16p to 8.43p on a diluted basis and a dividend of 1.4p per share was declared. This is significant as dividends were last paid in 2014. Adjusted net debt was slashed to £57.8m from £214.5m a year earlier. Due to the strong start to the year, the company now anticipates year-on-year profit growth of 10% at constant currency. This excludes the impact of the acquisition of Whitney, Bradley & Brown Inc, so underlying earnings per share look set to be at least 10p in 2021. This leaves the shares looking good value. BUY.

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