cityconfidential

sorting the bulls from the bears

In This Issue

Premier Miton Group

Mears Group

Pensana

Biffa

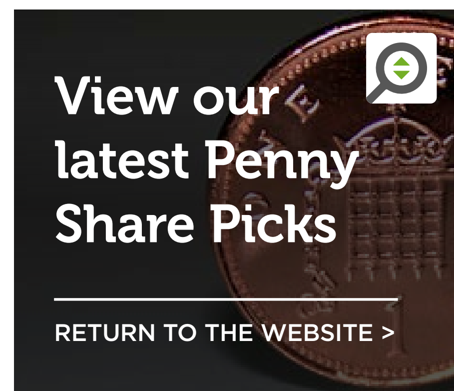
Plus

Aggressive Growth Portfolio

Monthly News Highlights

cityconfidential
sorting the bulls from the bears

ISSUE
MAY
2021



A rare find?

Last month Pensana (132p) outlined a business plan which will see the company seek to establish an independent and sustainable supply chain of the rare earth metals which are vital for electric vehicle, wind turbine and other strategic industries. This type of operation requires a significant level of financing at the outset but assuming the plan comes together the company will establish the world's first sustainable rare earth separation facility at Saltend Chemicals Park near Hull.

Target production is around 12,500 annualised tonnes of rare earth oxides, including 4,500 tonnes of magnet metal rare earth oxides. The Saltend rare earth separation facility would be the first major separation facility established in over a decade. Assuming it goes ahead, the planned US$125m facility would be one of three major producers located outside China and would create over 100 direct jobs processing purified rare earth sulphates, imported from the company's Longonjo mine in Angola.

The company is clearly excited about prospects and the potential for upside is considerable. The global rare earth market is expected to increase five-fold by 2030, boosted by demand from industries including electric vehicles and offshore wind. Europe depends on China for 98% of its rare earth magnets and China could need all of this production for its Carbon Neutral 2060 plan.

Pensana joined the Main Market last July and with the development of both Saltend and Longonjo poised to start later this year, more good news for shareholders could be on the horizon. This is a credible proposal. Lynas Corporation of Australia, currently the world's largest non-Chinese producer, produced around 4,700 tonnes of magnet metal oxides from its facility in Malaysia last year and MP Materials, which is listed in the US, is planning to produce approximately 6,000 tonnes of magnet metal oxides from 2023. We rate the shares as a SPECULATIVE BUY at this stage in the company's development.

Clean up with Biffa

We have followed Biffa (275p) closely over the years. It is a high quality business which has often traded on an undemanding rating given the market position which it enjoys providing essential services. Although it could not escape the impact of disruption relating to Covid-19, the longer term picture remains very much intact. With the valuation of some companies starting to look stretched, this is a solid option which is well worth considering.

Biffa is a leading player in the UK waste industry and has a track record dating back over a hundred years. Its operations cover various aspects of the waste management process including collection, recycling, treatment, disposal and energy generation. The company has highlighted the fact that it has an important role in helping the UK to address the climate emergency and it aims to deliver sustainable growth. There is ongoing investment in green economy infrastructure and low carbon collections, which is no doubt helpful in terms of attracting institutional investors.

A trading update was released in March ahead of full year results for the 52 weeks ending 26 March 2021, which are scheduled to be announced on 26 May. Group performance in the second half had continued to be ahead of base case expectations, with the impact of the third lockdown on earnings less severe than originally anticipated. Group Net Revenues in the third quarter were only down 3% on the levels achieved in the same period a year earlier. Underlying EBIT for the full year is expected to be well ahead of previous expectations, in the range of between £42m and £44m. At the time of the announcement the underlying EBIT consensus was £33.8m, with a high of £41.0m and low of £28.5m.

Biffa remains well positioned in a market which is relatively difficult for others to compete in. At the current share price the market capitalisation is £832m and given the nature of the business this valuation should move higher over time. Upcoming results could act as a catalyst so now may prove an opportune time to buy in. The shares are a LONG TERM BUY.

Premier Miton Group

SECTOR – AIM – FINANCIAL SERVICES

Although shares in AIM-listed Premier Miton Group have picked up in recent months, in our opinion they remain at a level which puts a modest value on the business. Given the strength of the balance sheet, with a meaningful net cash position, the potential rewards appear to outweigh the risks, particularly for those willing to take a long-term view. In the more immediate future it is likely that there will be further consolidation in the sector and whether the company is involved in it or not, any significant news on this front would probably highlight the value on offer.

The merger of Premier Asset Management Group and Miton Group created a diversified active UK asset manager with a strong investment capability. The combined business has a wide product range and greater scale. There were complementary investment skills with limited overlap, well balanced between outcome-based multi-asset strategies and active single strategies. Benefits of the deal included better distribution relationships with UK financial advisers, wealth managers and platforms. There is now greater financial strength with a more diversified revenue mix, access to economies of scale and a bolstered balance sheet. Significant recurring run-rate cost synergies were another feature, due to the alignment of operating platforms. Annualised synergies were expected to be achieved three years after completion of the merger when the deal was announced.

Final results for the year ended 30 September 2020 were released in late November. The financial year commenced following the announcement of the merger between Premier Asset Management Group and Miton Group and the integration process went smoothly. A number of key investment team hires were made during the year in fixed income, global sustainable equities, global smaller companies and UK equities. There were net outflows during the year but on a more upbeat note, there was continued positive fund flow momentum into equity and fixed income funds. Strong performance across the broad range of multi-asset funds was also reason for optimism.

The first half of the financial year saw highly unusual market conditions with markets falling heavily during March before rallying following the support provided by central banks across the world. Average assets under management for the year were £10.1bn versus £6.7bn for the previous year, an increase of 51%. Total assets under management were £10.6bn at the year end of 30 September 2020, up 16% from six months earlier. The Covid-19 pandemic caused many investors to be cautious and there were net outflows of £619m, mainly from multi-manager funds due to their weaker short-term performance figures. There was strong demand for non-UK focused funds with the LF Miton European Opportunities Fund seeing net inflows of £712m and the LF Miton US Opportunities Fund net inflows of £78m following the completion of the merger. By the year end the new fixed income team had achieved net inflows of £136m, having only arrived in August 2020.

Adjusted profit before tax (adjusted for merger related costs, exceptional costs, share-based payments and amortisation) was £22.4m and adjusted earnings per share were 12.5p (2019: 15.1p). A final dividend of 4.5p per share took total dividends for the year to 7.0p (2019: 10.5p), representing a 58% payout ratio of adjusted profit after tax (2019: 86%). The stated dividend policy is an ordinary dividend payout of approximately 50% to 65% of adjusted profit after tax. Even after the reduction the shares provide an attractive yield. Cash was £36.0m as at 30 September 2020 (2019: £20.7m).

A trading update covering the second quarter of the current financial year was released last month. Closing assets under management were £12.6bn as at 31 March 2021 following net inflows of £193m during the quarter. This means that assets under management grew by 19% in the six months following 30 September 2020 after two successive quarters of net positive fund flows. There was increasing demand for UK equity-focused strategies, a sector which had been out of favour with investors but one where Premier Miton Group has a broad range of funds with good performance.

The Premier Miton Global Smaller Companies Fund was successfully launched on 22 March and has already attracted a good level of investor interest. The company continues to believe that smaller companies represent an area where investors will be able to find value in the coming years. This was followed by the launch of the Premier Miton European Sustainable Leaders Fund on 10 May. This fund will focus on companies with strong environmental, social and governance profiles and those the fund managers believe offer longer term sustainable growth themes. The fund will be managed by Carlos Moreno and Thomas Brown, who have successfully managed the Premier Miton European Opportunities Fund since launch in December 2015.

A number of changes were made to multi-asset funds with the objective of reducing overall costs for investors. Of the £3.9bn which is now managed in multi-asset funds, £2.2bn is managed on a multi-manager basis and £1.7bn is managed through direct investment in underlying securities. Both strategies are seen to have a role to play in client portfolios. Short-term investment performance for both groups of multi-asset funds has been very strong. For those multi-asset funds where an industry sector is an appropriate comparator, 94% were in the first quartile over the last year.

We followed both Premier Asset Management and Miton Group prior to their merger and are comfortable with how the combined business is managed. Despite very unusual trading conditions over the past year or so the business continues to develop and looks well positioned. The shares trade on a modest multiple of prospective earnings and the forecast dividend of 10.0p per share for next year equates to a yield of over 6% at the current price. We believe that the share price is too low and should test the 200p level within the next 12 months. The shares are a BUY.

Share Price: 163.5p Market Capitalisation: £258m 2020/21 Share Price Range: 188.5p/89p Website: www.premiermiton.com	Year Ending 30 September	Net Revenue (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
	2020	66.8	22.4	12.5	13.1	7.0	4.3
	2021 (est)	80.0	27.1	13.9	11.8	8.0	4.9
	2022 (est)	90.6	34.0	17.4	9.4	10.0	6.1

Aggressive Growth Portfolio VIII

With all the indices in the table below rising over the last month, it comes as no surprise that the Aggressive Growth Portfolio has also moved up in value yet again. Although the increase in the value of the portfolio is less than that of the benchmark indices over the last month, we feel that the 21.5% increase in the value of the portfolio since its launch on 19 January is extremely impressive!

Unlike last month, when the value of the portfolio rose by 9.8%, helped by an outstanding performance from Ebiquity (which rose by over 70%), this month has been much more pedestrian with the portfolio rising in value by just 1.2%. There have not been any major share price moves in the portfolio either.

In order to raise some liquidity for the portfolio, we have decided to sell our largest holding, disposing of 161,250 Surgical Innovations at 3.45p. This has raised net proceeds of £5,507 for a gain of £2,005 or 57%. Not bad for a share only bought in January! Whilst we believe that the long-term prospects for the company remain very promising, it does seem that the share price may have run ahead of itself a little.

A number of companies have made announcements during the period, and these include ITV, Hargreaves Services, Xeros Technology, Lloyds Banking Group, TT Electronics, Vitec Group and Funding Circle. These have been covered in News Highlights or on the website in the normal way.

The portfolio has received dividends of £12 from Dechra Pharmaceuticals (although these shares have been sold) and £14 from Vitec Group. Following the purchases of both Premier Miton and Mears Group, there is £1,091 left on deposit pending investment.

Performance summary

	18 May 2021	20 April 2021	Gain/(Loss) %
Portfolio Value	£60,725	£59,980	1.2
FTSE 100 Share Index	7,034.24	6,859.87	2.5
FTSE All Share Index	4,007.57	3,920.05	2.2
FTSE AIM All Share Index	1,239.75	1,237.83	0.2

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
3,160	ITV	109.15	3,500	129.05	4,078	80
1,315	Hargreaves Services	264	3,507	384	5,050	280
25,200	Logistics Development Group	13.75	3,500	11.9	2,999	10
725	Tandem Group	480	3,515	585	4,241	450
1,235	Xeros Technology	281	3,505	237	2,927	200
9,575	Lloyds Banking Group	36	3,498	48.6	4,653	33
9,375	Capita	36.75	3,496	41.89	3,927	27.5
39,600	Manx Financial Group	8.75	3,500	8.25	3,267	6.5
1,875	TT Electronics	210	3,997	246	4,613	155
2,600	Serco Group	125.4	3,309	134.5	3,497	105
315	Vitec Group	1120	3,581	1375	4,331	850
450	Clinigen	750.5	3,411	855.5	3,850	575
1,075	Essentra	298	3,251	308	3,311	240
2,000	Funding Circle	157	3,187	148.4	2,968	115
1,850	Premier Miton	163.5	3,054	163.5	3,024	130
1,550	Mears Group	187	2,942	187	2,898	145
£1,091	Cash	-	-		1,091	
				TOTAL	**£60,725**	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £61.

MER

187p

MEARS GROUP

SECTOR - SUPPORT SERVICES

Mears Group has recently announced results for 2020 and after a difficult year the company now looks well placed to create value for shareholders moving forwards. The transition to being a focussed, low capital intensity, housing services provider, specialising in the affordable sector is now essentially complete. There is a fundamental shortage of affordable housing in the UK and also issues with poor quality and this provides a key driver for growth in future years.

The company currently employs around 6,000 people and operates in every region of the UK. In partnership with Housing clients it maintains, repairs and upgrades homes. Mears Group has extended its activities to provide broader housing solutions to solve the challenge posed by the lack of affordable housing, as well as providing accommodation and support for the most vulnerable. It has a focus on long-term outcomes for people rather than short-term solutions.

In the year ended 31 December 2020 revenue was down 9% on a continuing basis to £805.8m (2019: £881.5m). The full year adjusted loss before tax on continuing items was £3.4m versus a profit of £32.4m in 2019. Strategic disposals resulted in net cash of £56.9m as at 31 December 2020 and average daily net debt of £97.3m (2019: £114.4m). The order book increased to £2.6bn (2019: £2.5bn), reflecting a number of new contract extensions. Although there was no final dividend, all monies received in 2021 to date under the UK Government's Job Retention Scheme have been repaid at a cost of £1.5m. This paves the way for dividend payments to start again.

For the current year the company's guidance is that revenues will be between £770m and £820m with profit before tax of between £21.3m and £25.5m. Dividend payments will recommence as soon as this action is prudent. The company has stated that it is pleased with resilient trading during the first quarter and it remains confident of a full recovery as lockdown restrictions are lifted. Cash and working capital management was strong in the quarter and average daily net debt was £17.0m. Profitability for the full year is expected to be second half weighted. We believe that fair value is 250p per share, representing less than 12x forecast earnings for next year. The shares are a BUY.

Share Price: 187p
Market Capitalisation: £207m
2020/21 Share Price Range: 315p/105.5p
Website: www.mearsgroup.co.uk

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	806	(3.4)	(2.3)	-	-	-
2021 (est)	800	25.0	18.1	10.3	8.0	4.3
2022 (est)	825	29.5	21.2	8.8	9.0	4.8

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.

Funding Circle – 148.4p

The company has released an upbeat trading update. Trading has been stronger than expected due to higher origination volumes in the UK and the extension of the PPP scheme in the US. The loan book is stable and performing better than expected so far in 2021. However, Funding Circle continues to expect some credit stress as the UK and US economies reopen. Total income and AEBITDA are anticipated to be well ahead of previous expectations. Total income in the first half is set to be no lower than £120m and AEBITDA no lower than £40m, with both operating and investment AEBITDA well ahead of levels delivered in the second half of 2020. Guidance for the balance of the year remains unchanged. As the company transitions to operating its core loan product alongside government guarantee programmes in the UK and US some initial reduction in lending is expected. The company expects to be AEBITDA profitable for the full year, with profitability weighted to the first half. Interim results for the six months ending 30 June 2021 will be announced on 9 September. This is a reassuring statement and we rate the shares as a BUY.

Hargreaves Services – 384p

The AIM-listed, diversified industrial group recently released a positive trading update detailing improved trading results from its German joint venture as well as a material improvement in cash levels, which will lead to a year end net cash position. The group's Distribution & Services business continues to trade in line with expectations with delays to the HS2 programme offset by an improved performance elsewhere in that business. Hargreaves Land, the property development business also continues to trade in line with expectations. In the last couple of days, however, the company has revealed that there has been yet further improvement in trading in Germany, helped by the strong rise in commodity prices as global demand from steelmakers has increased. The German business has continued to take advantage of these conditions with the result that the profit contribution from the joint venture for the year that ends on 31 May is likely to be much greater than market expectations. Given that it is unclear how long these market conditions will continue, the company has stated that it remains cautious regarding any impact on the financial year ending 31 May 2022. The shares have had a strong run since being tipped at 264p in January and, with further share price gains likely to prove more difficult, we reduce our recommendation to LONG TERM BUY.

Vitec Group – 1375p

The supplier of hardware and software to the content creation market which includes broadcasters and film studios issued a positive trading statement at its AGM at the beginning of May. Trading has recovered more quickly than expected with the result that adjusted pre-tax profit for 2021 is likely to be well above market forecasts of around £30.7m. This is despite the fact that some markets are still not fully open and there may also be a shortage of some electronic components which may have a negative impact on the company. New forecasts are for around £35m at the adjusted pre-tax profit level for earnings per share of some 57p. The share price has risen from 1120p when we tipped the shares in March, an increase of over 22%, as it has become apparent that trading has been stronger than forecast. Despite this increase in the share price, trading at the group is clearly gaining momentum and this is likely to continue as more of the group's markets open up for business. Although the shares are highly rated, further strong growth at the company is on the cards and we therefore believe that the shares are a LONG TERM BUY.

Lloyds Banking Group – 48.6p

The bank has reported solid first quarter results, covering the three months to 31 March, with underlying profit before tax of £2.07bn being substantially higher than the £558m reported in 2020, largely due to lower impairment charges. Earnings per share for the quarter were 1.8p and net assets per share at 31 March were 52.4p. Given its focus on the UK market, the bank is clearly a beneficiary of economic recovery here and it has therefore enhanced its guidance for 2021 as a result. The rest of the year will benefit from a reduction in operating costs whilst its capital ratio is well above regulatory requirements – this will allow the bank to gradually increase its dividend going forward. Although the shares have risen nicely since our tip at 36p in January (an increase of 35%), they should have further to go as business returns to normal. Despite the share price rise, last year's high was 63p and we therefore maintain our recommendation of BUY.

Want more tips, ideas & insight?

RETURN TO THE WEBSITE >

cityconfidential is published by Independent Financial Publications, which is authorised and regulated by the Financial Conduct Authority. Independent Financial Publications has taken every step to ensure the accuracy of the information contained in this publication but cannot accept any liability for any errors or any loss arising from the use of this publication or its contents. Independent Financial Publications or individuals associated with it may have a position or engage in transactions in any of the securities mentioned. The price of investments and the income derived from them can fall as well as rise and investments in smaller companies have a higher risk factor. Past performance is not necessarily a guide to future performance. The investments in this publication are not suitable for everyone. Before taking any action you should obtain expert advice from your adviser.

VAT No: GB 607 1818 48

Independent Financial Publications, 1 Skipton Road, Ilkley, West Yorkshire, LS29 9EH

Designed and published by Westbrook Agency © 2021
www.westbrookagency.co.uk

Thanks for reading

Next issue out 24th June

RETURN TO THE WEBSITE >