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sorting the bulls from the bears

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Go to Town

Town Centre Securities (134p) is part way through a £5m share buyback programme. Given that the company has been buying back shares at a steep discount to their net asset value and the shares are relatively tightly held, it is surely a matter of time before sellers become scarce and the price starts to be squeezed significantly higher.

The company is a Leeds-based property investor and car park operator. It has mixed use developments close to transport hubs in Leeds, Manchester, Glasgow and London, also managing a portfolio of CitiPark car park branches across the UK. Town Centre Securities was founded in 1959 and floated on the London Stock Exchange the following year.

Results for the six months ended 31 December 2020 were released in February. Statutory net assets were £152.0m at the period end, the equivalent of 286p per share. This was down slightly from 292p six months earlier. EPRA net tangible assets were 278p per share, down from 285p at the financial year end. EPRA earnings before tax were £0.2m, down from £4.1m in the equivalent period a year earlier, with the fall driven by the impact of Covid-19. EPRA earnings per share were 0.4p (2020: 7.7p). Targeted retail asset sales during the first half reduced absolute borrowing levels by 20% to £147.6m as at 31 December 2020. An interim dividend of 1.75p per share was declared (2020: 3.25p). The company was comfortable with an uncovered dividend due to the anticipated quick recovery of its car parks and hotel, as well as the strengthening of the balance sheet following asset sales.

Buying back shares seems to be a sensible course of action given the discount at which the share price sits relative to net assets. The share price in the market should, in theory, move higher and net assets per share should also improve as shares are bought back. The company is clearly out of favour with investors and taking a contrarian view is likely to be a profitable move, as often proves to be the case with the benefit of hindsight. We rate the shares as a BUY.

Synthomer to build on bumper period

Earlier this week Synthomer (510.5p) released a trading update ahead of its interim results announcement on 5 August. Since its last update on 21 April the company has continued to see strong trading momentum across the business, with volumes and unit margins ahead of the prior year in all divisions. The Nitrile latex business has continued to perform very well, driven by exceptional demand due to the Covid-19 pandemic. As a result, EBITDA in the first half is now expected to be approximately £320m and full year EBITDA in excess of £500m. Previous guidance for the latter was in excess of £450m. It is anticipated that the Nitrile latex business will return to more normalised levels during 2022.

Synthomer, formerly known as Yule Catto & Co, is one of the world's leading suppliers of aqueous polymers, with leading positions in a number of markets. Its offering helps customers create new products and enhance the performance of existing products in key industries such as coatings, construction, textiles, paper and synthetic latex gloves. The acquisition of Omnova Solutions in 2020 saw the company increase its global manufacturing network, expand its product portfolio and increase its geographical presence.

In the year ended 31 December 2020 revenue of £1,644m was generated versus £1,459m in 2019. Profit before tax jumped to £160.0m (2019: £116.2m). This translated into earnings per share of 28.9p, up from 25.3p in 2019. As at 31 December 2020, net debt was £462.2m compared to net cash of £20.7m as at 31 December 2019. The increase in the level of debt is attributable to the acquisition of OMNOVA, offset by strong free cash flow generation during 2020.

Trading conditions have been favourable and 2021 is turning into a bumper year. Earnings per share of around 70p are now pencilled in for the current year and this will create very tough figures to beat in the coming years. Given the fact that net debt looks set to be slashed in the medium term, there should be further upside ahead. We rate the shares as a BUY.

Barratt Developments

SECTOR – HOUSEHOLD GOODS AND HOME CONSTRUCTION

A recent trading update from Barratt Developments highlighted another strong year for the housebuilder and the upbeat comments with regards to the current year and beyond provide confidence. Following the update it would appear that the potential for upside outweighs the risks involved by some margin. Some of the factors which are currently helping housebuilders are no secret but the share price looks as though it could move considerably higher in the coming months.

Barratt Developments is the largest housebuilder in the UK. It has expertise in acquiring land, obtaining planning consents and building high quality homes. The company operates in 6 regions via 27 operating divisions. It has three consumer brands, Barratt Homes, David Wilson and Barratt London, which offer a variety of properties across the UK. These range from apartments in the City of London to luxury detached houses in the countryside. Commercial business Wilson Bowden creates spaces from industrial and office buildings to retail and leisure.

The trading update on 14 July, covering the year ended 30 June 2021, was released ahead of the publication of annual results on 2 September. Continued strong demand for new homes meant that the company was able to deliver 17,243 home completions in the year versus 12,604 in the previous year and 17,856 in the year ended 30 June 2019. It remains focussed on medium term targets, including delivering 20,000 homes a year.

Adjusted profit before tax is anticipated to be marginally above the top end of the range of market expectations at £866m, for adjusted earnings per share of 69.7p. The company has a strong well-capitalised balance sheet with net cash of around £1,315m at the year end versus £308m as at 30 June 2020 and £766m as at 30 June 2019. The company is well positioned for the current year with total forward sales (including JVs) as at 30 June 2021 of 14,334 homes. This compares to 14,326 homes as at 30 June 2020 and 11,419 homes as at 30 June 2019 on the same basis. The value of forward sales was £3,473.5m, up from £3,249.7m a year earlier and £2,604.1m as at 30 June 2019.

Positive house price inflation meant that there was a total average selling price for the year recently ended of around £289k, up from £280k a year earlier and £274k two years earlier. The forward sales position is strong, with total forward sales (including JVs) as at 30 June 2021 of £3,473.5m (30 June 2020: £3,249.7m), equating to 14,334 homes (30 June 2020: 14,326). As at 30 June 2021, 75% of these homes were contractually exchanged. Reflecting a strong reservation rate, forward sales for the current year are better than they were at the same point in 2019. This means there is good visibility for build programmes and a strong platform for the year ahead.

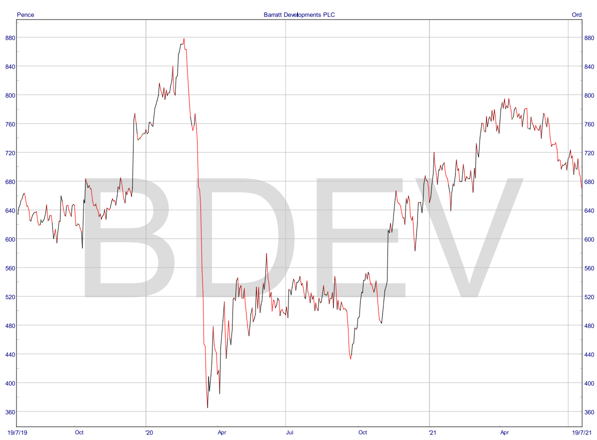
Significant focus is being given to fire safety and in particular cladding. The company notes that it was a founding signatory to the Building Safety Charter and an active member of the Government's Early Adopters Group, which is committed to protecting life by putting safety first ahead of all other building priorities. All of Barratt Developments' buildings, including the cladding and external wall systems used, were signed off by approved inspectors as compliant with the relevant Building Regulations at the time of construction. The company is working with building owners, management companies and expert engineers on assessments of buildings it constructed and the solutions needed to support leaseholders and residents at those buildings. An additional charge of around £30m was incurred in the second half and legacy property costs (including JVs), comprising both the cladding and Citiscape and associated reviews, are now expected to total approximately £81m for the year recently ended. As assessments and work progresses or if Government legislation and regulation changes, estimates may have to be updated.

Following the company's return to the land market in August 2020, it has secured land approvals ahead of expectations whilst maintaining discipline and selectivity in land purchasing. In the last year it approved £876.8m of operational land for purchase, equating to 18,067 plots on 97 new sites. Changes in the timing of land approvals moving through to purchase has resulted in land spend of around £750m versus previous guidance of £850m. In line with its operating framework, it targets an owned and controlled land bank of around 4.5 years in the medium term and land approvals in the current year are due to be between 18,000 and 20,000 plots.

As at 30 June 2021 net cash was around £1,315m (30 June 2020: £308.2m), ahead of previous expectations, and there was an undrawn committed revolving credit facility of £700m. The increase in year end cash holdings reflected changes in the timings of land expenditure and the delivery of additional completions. Land creditors of around £660m have reduced to approximately 22% of the owned land bank, in line with the operating framework range of 15% to 25%.

In June 2021, the company completed a buy out of its defined benefit pension scheme with a leading insurer, securing the pensions of members for the future. This means that the assets and liabilities of the pension scheme have been derecognised. The buyout and derecognition of the assets and liabilities of the pension scheme will result in a one-off income statement charge of around £1m.

The business is now in a very strong position with substantial net cash, a solid balance sheet and a healthy forward sales position. It remains focused on medium term targets and delivering sustainable growth towards capacity of 20,000 homes over the next three to five years. A minimum 25% ROCE is targeted. The stated dividend policy is based on a full year dividend cover of 2.5 times and this means that the shares are suitable for income seekers as well as those looking for capital growth. There are fundamental risks, such as a downturn in the UK economy, as well as company specific issues such as the cost of rectifying dangerous cladding. These risks appear to be factored in fully and we rate the shares as a BUY.



Share Price: 679.2p
Market Capitalisation: £6,907m
2020/21 Share Price Range: 870.6p/432.6p
Website: www.barrattdevelopments.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	3,419	492	38.9	17.5	-	-
2021 (est)	4,759	866	69.7	9.7	28.6	4.2
2022 (est)	5,090	968	76.2	8.9	39.1	5.8

Aggressive Growth Portfolio VIII

The recent sell-off on the market has been reflected in the performance of the Aggressive Growth Portfolio over the last month with this falling back sharply, posting a loss of 6.2% during the period. This means that it has significantly underperformed all the benchmark indices which have all declined by under 3%. Despite this, the portfolio is still up by over 12.3% so far this year compared to an increase of just 6.5% in the FTSE 100 Share Index.

Considering the disappointing performance of the portfolio, we have decided to take our profit on Vitec Group and have sold the holding of 315 shares at 1300p. Although this is a lower price than the shares reached in May, we need to raise some liquidity and feel this is the best option in the circumstances. The sale has raised net proceeds of £4,054 for a profit of £473. In order to raise additional funds, we have then top-sliced the holding of Hargreaves Services, selling 315 shares at 430p. This has raised net proceeds of £1,341 for a gain of £501. We will retain the remaining 1,000 shares for the time being.

A number of companies have made announcements during the period, and these include Tandem Group, Xeros Technology, Serco Group, Clinigen, Essentra, Mears and Senior. These have been covered in News Highlights or on the website in the normal way.

The portfolio has received a dividend of £40 from Tandem Group and, following the purchases of shares in both companies featured in this issue, there is £671 left on deposit pending investment.

Performance summary

	20 July 2021	22 June 2021	Gain/(Loss) %
Portfolio Value	£56,157	£59,849	(6.2)
FTSE 100 Share Index	6,881.13	7,090.01	(2.9)
FTSE All Share Index	3,932.84	4,046.87	(2.8)
FTSE AIM All Share Index	1,195.68	1,222.15	(2.2)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
3,160	ITV	109.15	3,500	115.9	3,662	80
1,000	Hargreaves Services*	264	2,667	430	4,300	280
725	Tandem Group	480	3,515	525	3,806	450
1,235	Xeros Technology	281	3,505	202.5	2,501	200
9,575	Lloyds Banking Group	36	3,498	44.085	4,221	33
9,375	Capita	36.75	3,496	32.7	3,066	27.5
39,600	Manx Financial Group	8.75	3,500	7.25	2,871	6.5
2,600	Serco Group	125.4	3,309	140	3,640	105
450	Clinigen	750.5	3,411	586	2,637	575
1,075	Essentra	298	3,251	284	3,053	240
2,000	Funding Circle	157	3,187	130	2,600	115
1,850	Premier Miton	163.5	3,054	177.5	3,284	130
1,550	Mears	187	2,942	185	2,868	145
2,350	Senior	149.3	3,562	148.8	3,497	115
1,100	Investec	295.8	3,303	273.5	3,009	250
500	Barratt Developments	679.2	3,447	679.2	3,396	595
1,500	Virgin Wines	205	3,106	205	3,075	180
£671	Cash	-	-		671	
				TOTAL	**£56,157**	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £315 *after part disposal.

VINO

205p

VIRGIN WINES UK

SECTOR - AIM - RETAILERS

Virgin Wines UK is a relative newcomer to AIM, having only been listed on the market since March. Its first set of figures are not due out until October but a trading update on 20 July provided sufficient information to suggest that recent weakness in the share price was unjustified. The company looks well positioned to grow further in the coming years and we feel that the shares offer good value at the current level.

The company is the exclusive licensee of the Virgin Wines brand in the UK and Ireland, licensing the brand from Virgin Enterprises Limited, owner of the Virgin brand. Virgin Wines is one of the largest direct-to-consumer online wine retailers in the UK. It has built a reputation for supplying high quality wine, excellent levels of customer service and innovative ways of retailing. On 2 March 2021 the shares commenced trading on AIM. An associated placing priced at 197p per share raised gross proceeds of £13.0m and net proceeds of £8.6m for the company. At the placing price the company had a market capitalisation of £110m.

The most recent trading update, released on 20 July, confirmed that the financial year finished positively, with strong levels of customer demand in May and June. Revenue and EBITDA for the year ended 30 June 2021 are now anticipated to be marginally higher than previous expectations, with revenue of £73.8m (2020: £56.6m), representing a year-on-year increase of 30% and a 74% increase over the year to 30 June 2019. EBITDA was £6.4m (2020: £4.4m), a year-on-year increase of 45% and a 183% increase over the year ended 30 June 2019. The customer base grew year-on-year by 24% and is up 44% since the start of 2020. Net cash was £8.4m as at 30 June 2021. Positive sales momentum has continued into July despite the lifting of lockdown restrictions and the opening up of hospitality across England.

The shift to online retailing continues and Virgin Wines UK should also benefit from increased spend per unit on wine. It has started to move into the market for beers and spirits, so growth may come from products other than wine in the coming years as well as the core offering. Final results for the year ended 30 June 2021 are not due to be released until October but these will probably alert more potential investors to the opportunity. We rate the shares as a BUY.

Share Price: 205p
Market Capitalisation: £114m
2020/21 Share Price Range: 246p/197.5p
Website: www.virginwinesplc.co.uk

Year Ending 31 March	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2020	56.5	2.8	4.7	43.6	-	-
2021 (est)	73.8	5.2	9.3	22.0	-	-
2022 (est)	75.7	6.5	11.7	17.5	-	-

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.

Senior – 148.8p

Engineering group Senior has issued a trading update for the six months to the end of June which has confirmed that trading has been ahead of expectations. Sales in Aerospace are modestly ahead of expectations with sales in Flexonics in-line. On a constant currency basis, overall sales for the period are expected to be down by around 13% compared with last year which is a solid result given the impact of the pandemic and the fact that last year included a contribution from Senior Aerospace Connecticut which was subsequently divested. It is also pleasing to note that the group's end markets are now seeing some form of recovery and this should translate into an increase in sales at the group. Whilst it is encouraging to report a successful period of trading, in some ways the main attraction of the shares is the fact that the company has recently rejected an offer for the company worth 200p per share. The Board will be very keen for the shares to move above that level to justify the decision to reject the offer and we believe that they will be successful in this. We therefore maintain our recommendation of BUY.

DX Group – 33.25p

The AIM-listed logistics and freight group has announced a trading update for the 53 weeks to 3 July 2021 and this has confirmed that the company continues to trade well. DX Freight continues to perform ahead of expectations whilst DX Express is also making good progress. As a result, adjusted pre-tax profits are expected to be well ahead of market expectations whilst net cash is also higher than expected at £16.8m (2020: £12.3m). This is despite the company continuing to invest in its depot network. which not only increases capacity but also improves customer service levels. Since March, three new DX Express depots have been opened, in Glasgow, Rotherham and Middlesbrough. whilst the company has also announced a significant expansion of the DX Freight depot in Maidstone. Another fifteen new depots are now planned over the next two years. Following this update, we are raising our estimate of adjusted pre-tax profits to £11.5m for earnings per share of 1.9p. With strong growth on the cards following the opening of new capacity, it seems likely that in the new financial year adjusted pre-tax profits could increase to £16.0m for earnings per share of 2.7p. Given the large cash balances as well we rate the shares a BUY with a 45p price target.

eve Sleep – 3.45p

AIM-listed eve Sleep has issued a trading update covering the first half of 2021, ahead of the announcement of interim results on 23 September. Group revenue increased by 13% to £13.9m (2020: £12.2m) for the period with revenues in the UK & Ireland increasing by 18% and those in France falling by 8% due to minimal marketing in the country. However, a new TV advertising campaign was launched in France in May and this cost approximately £1m during the period and the financial payback from this is expected in the second half of the year. There has already been an increase in online traffic which is clearly encouraging. In the UK and Ireland demand was strong for the company's hybrid mattress range and premium bed frames with accessories helping to increase the average sale value. The group's EBITDA loss for the period was in line with management expectations and net cash at the end of the period was £5.2m down from £8.4m at the start of the year. The company continues to expand its product range and has also increased its investment in stock to meet peaks in demand. The improving UK economy should help the second half performance as should the marketing campaign in France. There have been some inflationary pressures on raw materials and some shortages of components, but these now seem to be easing. As regular readers will know the shares have been very volatile, but even a return to the level of 5.05p seen earlier this month would represent growth of almost 50%! The shares are a SPECULATIVE BUY.

Serco – 140p

The international Government outsourcing company has issued a positive trading update for the six months to 30 June with revenues growing by 19% to £2.2bn. There were particularly good performances from both the UK and Australia. This growth has led to an increase in underlying trading profit of over 50% compared with last year as this has risen to between £120m - £125m. During the period the group order intake was some £3.8bn with large new contracts with the UK MoD, the Department of Work and Pensions and the Royal Canadian Airforce. Despite being very busy in its chosen markets the group also made two acquisitions in the US and Australia during the period. The group has also updated its guidance for the full year and revenues are likely to increase to £4.35bn (2020: £3.89bn) with adjusted EBITDA rising to £325m (2020: £287m). Adjusted earnings per share are forecast to be 10.6p (2020: 8.6p). Given the prospects for further growth at the company the shares look too cheap and we therefore believe they are a BUY with a 175p price target.

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