# cityconfidential

sorting the bulls from the bears

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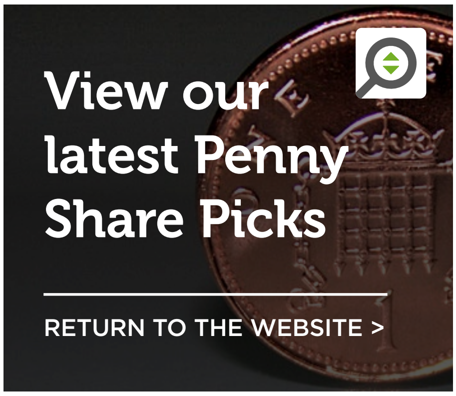



## Clash at Titon?

**When a company's Chief Executive leaves within a few months of being appointed, as has been recently announced by Titon Holdings (100p), shareholders should certainly ask questions. This is an unusual situation and in the case of this particular company, two non-executive directors are also due to step down. To make matters worse one of the non-executives has also been selling shares! Results for the year ended 30 September 2021 are due to be released on 16 December and these may bring more clarity as to why the recent changes have come about. The company has stated that the final results are set to be in line with its expectations and taking this at face value the shares are cheap.**

AIM-listed Titon Holdings is a leading international manufacturer and supplier of ventilation systems and window and door hardware. It was founded in 1972 and employs over 200 people, with the majority in the UK and around 30 in South Korea. The company has a strong presence in the UK residential ventilation market, providing a range of mechanical and natural ventilation products, and is also a leading supplier of window and door hardware. Products are supplied into a range of European markets and the US market is supplied through Titon Inc., a wholly owned subsidiary. There is a joint venture in South Korea with a local partner which has its own manufacturing facilities in Seoul.

Interim results were released in May. Revenue in the six months ended 31 March 2021 came in at £11.7m versus £11.2m in the same period a year earlier. This represented solid performance given trading conditions. Profit before tax was £549k versus a loss before tax of £270k a year earlier and there was a cash balance of £4.63m as at the period end (2020: £3.69m). An interim dividend of 1.5p per share was declared (2020: nil).

The company has some ongoing issues to contend with but competitors will also be facing challenges and may not be as well equipped to deal with them. Given the strength of the balance sheet, with a considerable cash balance, Titon Holdings should hold its own. The changes at Board level are a red flag but this issue appears to be fully priced in. We rate the shares as a SPECULATIVE BUY.


## Buying BT should prove to be a good call

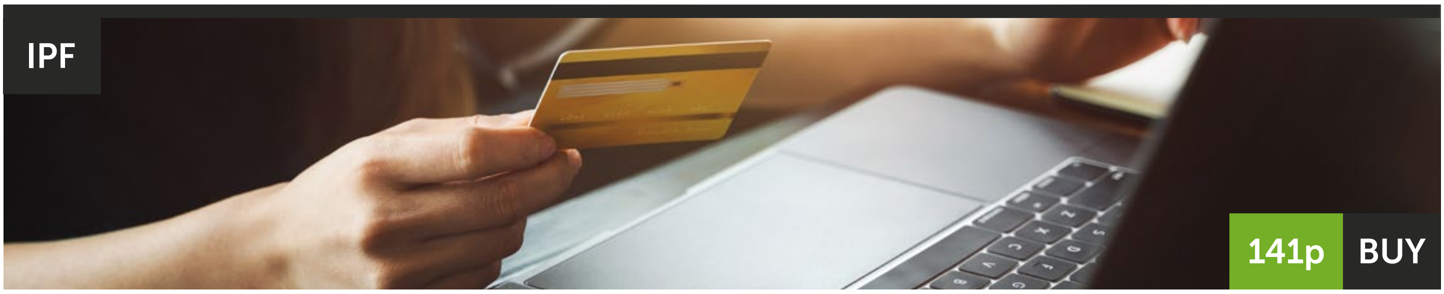
**BT Group (166.6p) continues to win favour with investors following the release of interim results earlier this month. News that the company has achieved its £1bn cost savings target 18 months early has been particularly well received. Results were in-line with expectations and the outlook for FY22 and FY23 was confirmed, which leaves the shares looking good value despite the level of debt held.**

In the six months ended 30 September 2021 revenue slipped from £10.6bn to £10.3bn. Adjusted EBITDA edged up from £3,721m to £3,748m and adjusted basic earnings per share were 10.2p versus 9.6p a year earlier. An interim dividend of 2.31p per share was declared (2020: nil). Net debt at the period end was £18.2bn versus £17.6bn at the same stage in 2020. Net cash inflow from operating activities was £2,394m and normalised free cash flow was £360m, down 15% on the same period a year earlier.

Looking ahead, as the company passes the peak of its fibre build and moves towards an all-fibre, all-IP network, it expects a reduction in capex of at least £1bn and lower operating costs. From these two factors alone, normalised free cash flow should be £1.5bn per year higher compared to FY22 by the end of the current decade. This is before any benefits from increased revenue and further transformation efficiencies. The progressive dividend policy should be underpinned by these increased cash flows as the business grows over the longer term.

All in all, the future for BT Group looks rosy. Speculation over a possible takeover attempt by Patrick Drahi's Altice UK, which in June 2021 acquired a 12.1% equity stake worth approximately £2bn, adds further spice. Altice UK will no longer be bound by a commitment it made not to launch a takeover bid on 10 December and with Deutsche Telekom holding a similar stake there is a chance of corporate activity, which makes the shares even more appealing. The shares are a BUY.

IPF



141p BUY

# International Personal Finance

SECTOR – FINANCE AND CREDIT SERVICES

**A recent trading update from International Personal Finance provided sufficient information to suggest that the shares are now good value. The company has come through a difficult period due to the Covid-19 pandemic and related restrictions. It now looks to the future with considerable optimism.**

International Personal Finance is a leading international home credit and digital provider of consumer finance. It offers both home credit and digital loans, which means that it has a differentiated proposition from that of other credit providers. The company provides small-sum cash loans to individuals on lower incomes and its agents have high levels of contacts with their customers to help them stay in control of their credit. Customer creditworthiness is assessed carefully and a 'low and grow' strategy is followed. New customers are offered smaller loans until they demonstrate their ability to repay a loan. This model is difficult to replicate. The digital business model meets the needs of a growing number of customers seeking affordable credit that can be managed online. Innovative and flexible products are offered.

Interim results covering the six months ended 30 June 2021 were released in July. Although customer numbers were under 1.7 million versus over 1.8 million at the same stage in the prior year and revenue fell from £362m to £263m, credit issued jumped from £378.2m to £459.5m. This in itself means that the immediate future looks promising. Furthermore, a statutory profit before tax of £43.3m was recorded versus a loss of £53.3m on the same basis in the same period a year earlier. This translated into earnings per share of 10.3p versus a loss per share of 27.7p. An interim dividend of 2.2p per share was declared (2020: nil).

The early part of the year was affected by the third wave of the Covid-19 pandemic as infection rates increased rapidly, particularly in European markets. This hit both customers and operations. The resulting restrictions suppressed demand for consumer credit, particularly in Q1 and early Q2. As lockdown restrictions were eased there were improving levels of demand over the course of Q2. The business has also been directly impacted by Covid-19 related regulations since April 2020. The Polish government introduced a reduced cap on non-interest costs of new lending until 8 March 2021, which was subsequently extended until 30 June 2021. Temporary legislation was also in place in Hungary.

The company released a Q3 trading update on 3 November. The rebuild strategy to return the business to full-year profitability and long-term growth worked well. A further 36,000 new customers were added in Q3. There was an 8% increase in closing receivables after the year end at constant exchange rates. This growth trend is expected to continue for both credit issued and receivables in the final quarter of the year. In terms of European home credit the business responded well to growing consumer demand and credit issued increased by 48% year-on-year. Customer numbers contracted year on year by 3% to 810,000 but increased by 2,000 in Q3.

Of the temporary Covid-19 related regulations introduced in 2020, only the temporary debt repayment moratorium in Hungary remained in place at the time of the announcement. This legislation was due to expire on 30 September 2021 but was further extended to 30 June 2022. The terms of the moratorium have changed to an opt-in scheme and new eligibility criteria have been introduced. Customers who wished to remain in the moratorium had until the end of October to apply. Consumer appetite for credit in Mexico is said to be recovering and despite a third wave of the Covid-19 pandemic in Q3 there was a 7% increase in customer numbers year-on-year to 649,000. This supported a 42% increase in credit issued year-on-year. Increasing demand for consumer credit is allowing the digital business to be rebuilt. Customer numbers reduced by 6% year-on-year to 256,000, driven by suppressed demand early in 2021 as a result of the pandemic, cautious credit settings in Spain and the cessation of lending in Finland.

The company points out that its business plays an essential role in society and this is a valid point. It has a strong track record of providing affordable credit in a responsible way to those who are underbanked or underserved by banks. There is significant long-term demand for affordable credit from this group of consumers and the company aims to continue to execute a rebuild strategy by continuing to serve its customers safely, progressively and responsibly. There will be a focus on increasing credit issued and growing the receivables portfolio while maintaining a clear focus on portfolio quality and costs.

The company's strategy centres on delivering a positive customer experience and an expanded product range across all its businesses. It aims to return to growth as consumer demand increases in each of its markets. The European home credit businesses are successfully rebuilding their portfolios and profitability. Mexico home credit and IPF Digital retain opportunities to grow significantly in the coming years. For the remainder of 2021 the company will continue to focus on rebuilding the receivables portfolio by progressively increasing credit issued in each of its businesses. It continues to believe that there will be lower levels of supply of credit in the markets it addresses over the next few years. There should be a strong return to full-year profitability and the company aims to use its digital expertise along with market-leading positions and strong knowledge of its core customer segment to deliver sustainable growth. The business is well positioned to meet the needs of underserved consumers in its area of operation.

It has also been announced that a new Chief Financial Officer, Gary Thompson, will join the company on 4 April 2022. This may not be particularly significant but could add further impetus to the recovery which is well under way. Considerable progress has already been made this year and this should spill over into 2022 and beyond. We believe that the company should build meaningful shareholder value in the coming years and put forward a BUY recommendation.


Share Price: 141p
Market Capitalisation: £316m
2020/21 Share Price Range: 178p/36p
Website: www.ipfin.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 | 661 | (28.8) | (24.0) | - | - | - |
| 2021E | 555 | 67.5 | 16.3 | 8.7 | 5.55 | 3.9 |
| 2022E | 651 | 78.3 | 20.4 | 6.9 | 7.23 | 5.1 |

# Aggressive Growth Portfolio VIII

Another positive performance from the portfolio has been recorded in the last four weeks and it is pleasing that the portfolio has outperformed the various benchmark indices, producing a positive return of 2.9%. This means that it is up by over 20% so far in 2021.

Unfortunately, we have lost the holding of Virgin Wines from the portfolio as the shares fell to the stop loss limit of 180p. The disposal of 1,500 shares at that price raised net proceeds of £2,673 for a loss of £433. We have also decided to take the profit on Lloyds Banking Group as the shares have enjoyed a strong run but seem to be finding it difficult to break through the 50p level. The sale of the holding of 9,575 shares at 49.97p has raised net proceeds of £4,737 for a gain of £1,239. This is clearly an excellent result with the share price up by 39% since they were recommended.

A number of the companies in the portfolio have made announcements during the period and these were from ITV, Serco Group, Essentra, Renold and QinetiQ. These have been covered in News Highlights or on the website in the normal way.

It has been a bumper month for dividends, with the portfolio receiving payments from Hargreaves Services (£83), Tandem Group (£25), Essentra (£22) and Barratt Developments (£110). Following the purchase of shares in both companies featured in this issue, there is £2,383 left on deposit pending investment.

**Performance summary**

| | 16 November 2021 | 19 October 2021 | Gain/(Loss) % |
|---|---|---|---|
| Portfolio Value | £61,803 | £60,044 | 2.9 |
| FTSE 100 Share Index | 7,326.97 | 7,217.53 | 1.5 |
| FTSE All Share Index | 4,184.79 | 4,119.18 | 1.6 |
| FTSE AIM All Share Index | 1,245.21 | 1,239.90 | 0.4 |

| | Security | Buying Price (p) | Total Cost (£) | Current Price (p) | Value (£) | Stop-Loss Limit (p) |
|---|---|---|---|---|---|---|
| 3,160 | ITV | 109.15 | 3,500 | 124.5 | 3,934 | 80 |
| 500 | Hargreaves Services* | 264 | 1,334 | 475 | 2,375 | 280 |
| 725 | Tandem Group | 480 | 3,515 | 650 | 4,713 | 450 |
| 2,600 | Serco Group | 125.4 | 3,309 | 134.8 | 3,505 | 105 |
| 450 | Clinigen | 750.5 | 3,411 | 608 | 2,736 | 575 |
| 1,075 | Essentra | 298 | 3,251 | 309.5 | 3,327 | 240 |
| 2,000 | Funding Circle | 157 | 3,187 | 149.6 | 2,992 | 115 |
| 1,850 | Premier Miton | 163.5 | 3,054 | 188.5 | 3,487 | 130 |
| 2,350 | Senior | 149.3 | 3,562 | 144.8 | 3,403 | 115 |
| 1,100 | Investec | 295.8 | 3,303 | 351.9 | 3,871 | 250 |
| 500 | Barratt Developments | 679.2 | 3,447 | 683 | 3,415 | 595 |
| 12,000 | Renold | 25.1 | 3,042 | 32.4 | 3,888 | 20 |
| 2,700 | Kier Group | 121.2 | 3,321 | 113 | 3,051 | 100 |
| 350 | Polar Capital | 832 | 2,941 | 830 | 2,905 | 700 |
| 4,500 | GetBusy | 66 | 3,000 | 69.5 | 3,128 | 50 |
| 1,000 | QinetiQ | 282.4 | 2,866 | 264 | 2,640 | 220 |
| 2,250 | International Personal Finance | 141 | 3,219 | 141 | 3,172 | 115 |
| 725 | Redde Northgate | 397 | 2,921 | 397 | 2,878 | 325 |
| £2,383 | Cash | - | - | | 2,383 | |
| | | | | **TOTAL** | **£61,803** | |

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £859 *after part disposal.

**REDD**

**397p**

## REDDE NORTHGATE

### SECTOR - INDUSTRIAL TRANSPORTATION

**Redde Northgate is due to release interim results on 1 December. The shares have recovered strongly from their early 2020 lows but still potentially look good value. Now certainly looks like a sensible time to consider investing, ahead of what is likely to be a reassuring results announcement.**

The company offers integrated mobility solutions to businesses, fleet operators, insurers, OEMs and other customers. These solutions cover vehicle rental, vehicle data, accident management, vehicle repairs, fleet management, service and maintenance, vehicle ancillary services and vehicle sales. The company's core purpose is to keep its customers mobile, either in providing regular mobility needs or by servicing and supporting them following unforeseen events.

The Annual General Meeting was on 20 September and a trading update was provided at the time. Following the good momentum in the first two months of FY2022 announced with final results, the business had continued to perform strongly across all segments. Between 7 July and 20 September the business signed a number of new contracts for services from its mobility platform which will go live in the middle part of the calendar year 2022.

In the year ended 30 April 2021 revenue (excluding vehicle sales) increased by 50% to £879.7m (2020: £585.6m), due to the inclusion of Redde for a full year and the vehicle rental businesses performing better than anticipated. Underlying EBIT was £109.8m (2020: £74.8m), underlying profit before tax £93.2m (2020: £59.0m) and underlying earnings per share 31.0p (2020: 30.8p). A final dividend of 12.0p per share was paid in September and this took the total ordinary dividend payable in respect of the year ended 30 April 2021 to 15.4p per share. The purchase of around 2,000 vehicles, most with existing customer contracts, from a Scottish vehicle rental business was completed in June then ChargedEV was acquired in July.

Redde Northgate boasts considerable scale and appears to be well placed to continue driving the business forwards, generating strong returns for shareholders. The current price is an appealing entry point, being below the psychologically important 400p level. The shares have traded above this price for much of the second half of 2021. A BUY rating should prove to be well timed.

Share Price: 397p
Market Capitalisation: £977m
2020/21 Share Price Range: 443p/137p
Website: www.reddenorthgate.co.uk

| Year Ending 30 April | Turnover (£m) | Adjusted Pre-Tax Profit (£m) | Adjusted Earnings Per Share (p) | P/E Ratio | Net Dividend (p) | Net Yield (%) |
|---|---|---|---|---|---|---|
| 2021 | 1,109 | 93.2 | 31.0 | 12.8 | 15.4 | 3.9 |
| 2022E | 1,247 | 115.3 | 37.0 | 10.7 | 17.8 | 4.5 |
| 2023E | 1,348 | 130.6 | 41.8 | 9.5 | 20.2 | 5.1 |

# 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 – 124.5p

ITV has issued a trading update covering the period to 30 September and this has revealed very strong trading during the period. Total external revenue has increased by 28% over the same period in 2020 to £2.38bn with this being 8% higher than the same period in 2019. Revenue at ITV Studios increased by 32% to £1.19bn whilst the Media & Entertainment business reported revenue up 26% at £1.59bn. These figures include internal revenue and so differ in total from the external revenue figure. The ITV Studios business has benefited from the easing of lockdown restrictions which had impacted on its ability to make TV programmes. The business has been responsible for some major dramas for both the BBC and ITV, whilst it has also produced content for Apple TV+, HBO Max and Netflix. These have included Vigil, Manhunt and The Night Stalker as well as very popular programmes such as Emmerdale, Coronation Street, Endeavour and Love Island. A feature of the increase in revenue at the Media & Entertainment business has been the rise in advertising revenue which was up by 30% over the nine-month period - this was helped by the Euros as well as the relaxation of travel restrictions which led to travel companies increasing their advertising spend once again. Further progress is likely in the final quarter with total advertising revenue likely to be a record this year. The shares remain a BUY.

## Serco Group – 134.8p

The public sector outsourcing group Serco has announced a trading update for 2021 following a period of better than expected trading. This has led the group to raise revenue forecasts for 2021 to £4.4bn, whilst underlying trading profit for the year is likely to be at least £225m. The increases have been driven by a number of factors, including high volumes of work related to COVID-19 for the Governments of both the UK and Australia, a better performance than expected on certain contracts, notably those related to immigration, and additional volumes of business relating to the US insurance activities. Although the COVID related activities are not expected to be repeated in 2022 and the company does not expect guidance for 2022 to change much from current estimates in the market, this is clearly a reassuring statement. The shares have been lacklustre performers for us so far though and we reduce our recommendation to HOLD.

## Essentra – 309.5p

The company has announced that it has produced a solid trading performance in Q3, with revenues up by 5.1% on a like-for-like basis. A strong performance was produced by the components business with revenues up by 29%, with the filters business seeing revenues up marginally by 3% although packaging saw revenues fall by 6.1%. The latter was largely due to delays in the recovery of elective surgery and lower levels of doctors' prescriptions following the pandemic. The company has also revealed that it has decided that it should focus on its components business over time as this should help maximise shareholder value and so, to initiate this process, it will review the full range of strategic options for the filters business. The company believes that it is on track to meet forecasts for 2021 and with pre-tax profits expected to be around £75m for earnings per share of 20p and further growth likely in subsequent years, the shares remain good value. BUY.

## Renold – 32.4p

The AIM-listed supplier of industrial chains and related power transmission products has announced its interim results for the six-month period to 30 September. These have revealed a 17% increase in revenues to £95.3m with pre-tax profit surging by 121% to £6.2m. The increase in earnings per share was even greater at 156% as these rose to 2.3p. Net debt fell during the period by £4.5m to £13.9m. The company's markets recovered strongly during the period and activity levels increased once again, whilst the group order intake also rose by 48% in the period to £113.0m. At the end of the period, the group order book stood at £72.1m - a record level. The acquisition of Brooks Ltd, a Manchester based conveyor chain business, was completed in April for consideration of £0.7m and this is performing ahead of expectations. The group expects this strong performance to continue although there are supply chain issues which are putting pressure on margins. Despite this, we believe that the prospects for the group are positive and maintain our recommendation of BUY.

## QinetiQ – 264p

The science and engineering company has announced interim results covering the period to 30 September 2021. Revenue edged down from £603m to £600m. Underlying profit after tax fell from £57.6m to £46.4m and on the same basis underlying earnings per share slipped from 10.1p to 8.1p. The interim dividend was increased modestly from 2.2p per share to 2.3p, although this was anticipated as it represents a third of the pay-out from last year. The shares remain out of favour and given that the company remains on track to meet full year expectations they look inexpensive. BUY.

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