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sorting the bulls from the bears



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All hands on Dechra

Shares in Dechra Pharmaceuticals (3836p) were 5325p at the end of 2021 but unfortunately for shareholders, the turn of the year brought about a slide in the company's valuation. However, we believe that the fall is overdone and the shares now represent good value. Recent interim results provided reassurance and we believe that there is a strong chance that the shares will outperform the market in the coming months.

The company specialises in global veterinary pharmaceuticals and related products. It has expertise in the development, manufacture, marketing and sales of high quality products. Most products offered are focused on key therapeutic categories where Dechra Pharmaceuticals has leading market positions. Many of its products are used to treat medical conditions for which there is no other effective solution, or there is a clinical or dosing advantage over other similar products.

Results for the six months to 31 December 2021 were released on 21 February. Revenue was £332.4m versus £299.8m in the same period in the prior year. This represented an increase of 15.9% at Constant Exchange Rate and 10.9% at Actual Exchange Rate. Underlying operating profit was £93.9m, up from £80.8m. Underlying diluted earnings per share were 64.01p (2021: 54.28p) and there was underlying cash conversion of 110.0%. The interim dividend was increased by 8.0% to 12.0p per share. Net debt was reduced slightly to £193.1m, down from £200.2m as at 30 June 2021.

Trading at the start of the second half has been strong, particularly in the company's major markets. These are returning to historic levels of growth following the impact of Covid-19. This leaves it well positioned to deliver solid results for the full financial year. The company is upbeat with regards to its future prospects and there is justification for this. Although the valuation is still not at bargain basement levels, the quality of the business means that a relatively high rating is sustainable. The shares sit at a level which is well below recent highs and rank as a BUY FOR RECOVERY.



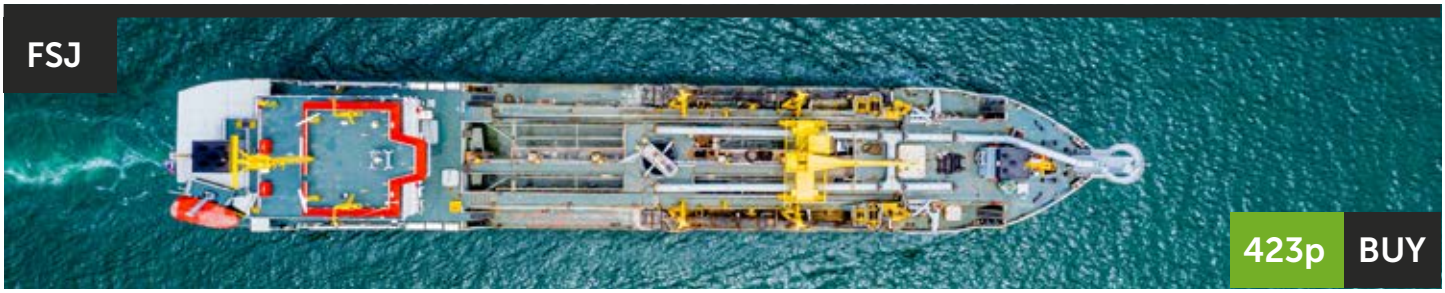
Material recovery ahead for Leeds?

Although Leeds Group (18.5p) may look like a company which is best avoided, there could be good returns for contrarian investors who are prepared to tuck a few shares away. Losses in recent years have eaten away at net assets but the shares stand at a significant discount to their net asset value. When the company returns to profitability the price could rally. There is also a significant chance of corporate activity and the shares are tightly held so approval for a deal could be readily obtained.

AIM-listed Leeds Group is a well-established business which now operates mainly from Germany. It has been engaged in textile processing, specialising in fabric printing and yarn dyeing. By 1996 it had manufacturing operations in UK, Holland and Italy. More recently, with textiles in Europe increasingly sourced from low wage economies, the company has ceased all manufacturing activities and is focused on the import and sale of fabric imported from the Far East. Trading operations are undertaken by trading subsidiary Hemmers/Itex Textil Import Export GmbH and Stoff-Ideen-KMR GmbH, often referred to as KMR, a subsidiary of Hemmers also based in Germany.

In the six months ended 30 November 2021 turnover was £15.6m (2020: £20.0m). A loss before tax of £487k was incurred versus a profit before tax of £735m in the same period a year earlier. Hemmers reported a loss of £192k and KMR a loss of £242k. This saw a loss per share of 1.8p versus earnings per share of 2.6p. Action is being taken in the second half of the year to reduce costs further. Group net bank debt was £5.88m as at 30 November 2021 and the net asset value at the same date was £13.97m, the equivalent of just over 51p per share.

Although the short-term outlook is uncertain, the company believes that it will revert to more normal trading levels and profitability in the medium term. The shares are certainly not for those who shun risk but buying in at the current level should ultimately bring strong returns given the discount to the net asset value. SPECULATIVE BUY.



Fisher (James) & Sons

SECTOR – INDUSTRIAL TRANSPORTATION

Shares in James Fisher rallied strongly at the end of 2021, having briefly been below 300p, and have broadly traded sideways in recent weeks, outperforming many smaller companies in volatile conditions for this part of the UK market. However, they remain at a low level by historical standards and trade on a modest multiple of prospective earnings. As and when sentiment towards the stock improves then scope for strong capital growth remains. The bear case already seems to be priced in at this stage and we feel that the shares offer good value.

The company is a leading provider of specialised services to the marine, oil and gas and other high assurance industries worldwide. It aims to be the supplier of choice in all the industrial sectors which it serves. James Fisher was originally a ship owner and operator, founded in 1847 in Barrow-in-Furness. Over the years it has developed operational expertise in the marine environment, providing comprehensive products, services and support to the oil and gas, marine renewables, shipping and defence industries. In addition to this it has increased its presence as a supplier into the nuclear, construction and transportation sectors, providing specialist knowledge, skills and capabilities in safety-critical engineering environments.

Interim results covering the six months ended 30 June 2021 were released in September. Revenue in the first half was £233.7m, which was 9.5% below the same period in 2020 and 7.2% lower at constant currency. Underlying operating profit was £13.3m, which was £6.2m below the same period a year earlier. Statutory profit before tax increased by 14% to £8.1m but underlying profit before tax was £9.2m (2020: £15.1m) and underlying diluted earnings per share fell to 12.8p (2020: 23.6p). No interim dividend was declared (2020: 8.0p per share).

Underlying net borrowings as at 30 June 2021 were £178.7m, showing a slight increase of £3.7m versus the figure as at 31 December 2020. On an IFRS16 basis, including operating lease liabilities, net debt increased from £198.1m as at 31 December 2020 to £211.0m as at 30 June 2021. As at 30 June 2021 the ratio of net debt (including bonds and guarantees) to EBITDA was 2.9x (31 December 2020: 2.8x; 30 June 2020: 2.5x). The covenant requirement as at 30 June 2021 was 3.75x, which reduced to 3.5x as at 31 December 2021.

A new strategy to deliver sustainable profitable growth was announced at a Capital Markets Event held on 29 June 2021. The new strategy aims to refocus the business and reinforce its competitive advantages in attractive niches within the Energy, Defence and Marine markets and to deliver stronger sustainable returns. Mid-term financial targets are for underlying operating profit margin in excess of 10% and return on capital employed in excess of 15%.

A trading update was subsequently released on 25 October. Revenue in the quarter ended 30 September was 7.6% higher than Q3 2020 and 8.7% higher than Q2 2021. Revenue for the first nine months of 2021 was 3.9% behind the same period a year earlier. Following a difficult start to the year, improvement in the Fendercare ship-to-ship transfer business had remained below the rate previously expected, with growing evidence of market shifts in some key territories. JFD had reached stalemate in negotiations with regards to approximately £2m due on a long-term project and was no longer forecasting a resolution in 2021. Customers of the Marine Contracting, Decommissioning and Nuclear businesses had further delayed projects in recent weeks. Deterioration in the condition of a financially distressed customer had increased bad debt risk by around £2m. Tankships experienced a poor month in September, leading to a more cautious outlook for the full year.

On 29 December the company announced that it had received all outstanding funds relating to the suspended LNG project in Mozambique. The funds received reduced net debt and provided further headroom against year-end banking covenant tests. All outstanding claims had been settled in relation to the suspended LNG project in Mozambique and arbitration proceedings had been withdrawn. The agreement settles claims in relation to work performed before the suspension of the project and covers the company's outgoings in relation to costs incurred during the suspension of the project in 2021. The terms of the settlement also cover James Fisher's costs in the event that the project does not resume in the short term. Guidance that Underlying Operating Profit for the full year, before separately disclosed items, is expected to be in the range of £27m to £32m was reiterated. The company also noted that it expects to remain in compliance with its banking covenants.

It has to be said that the timing of the announcement on the suspended LNG project in Mozambique very close to the year end and some of the wording does look slightly concerning. However, finances are clearly being managed carefully and cash looks to be under control. The sale of James Fisher Testing Services from its Marine Support division for £5.7m to Phenna Group was also announced in early November. James Fisher Testing Services operates a number of materials testing laboratories based in Warrington, Harlow and Portlaise, Ireland. It also maintains a team of field-based technicians and engineers delivering site-specific services to the construction industry. The sale was said to be consistent with James Fisher's strategy of delivering sustainable, profitable growth through market leading niche businesses in the marine, energy and defence markets.

Following a tough couple of years, earnings should grow moving forwards and although there is plenty of work to do, numbers which are pencilled in for the current year look realistic. Dividend payments are likely to recommence in 2023 and this could also attract a new pool of investors. Given the company's past record of generating sustained levels of profit considerably higher than those achieved recently, the shares should recover strongly over the long term. It is still dealing with a difficult period in its history but buying in now could prove to be a timely move. BUY.



Share Price: 423p
Market Capitalisation: £213m
2021/22 Share Price Range: 1270p/289.5p
Website: www.james-fisher.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	518	31.5	47.9	8.8	8.0	1.9
2021 (est)	491	19.1	28.8	14.7	-	-
2022 (est)	507	21.2	34.5	12.3	-	-

Aggressive Growth Portfolio VIII

The last five weeks have proved disappointing for the portfolio which has fallen in value by 4.5%. However, given the fall in the FTSE AIM All Share index of 10.6%, the decline in the portfolio value is hardly surprising given the fact that many portfolio constituents are AIM stocks.

In what has been a relatively volatile market over recent weeks, we have seen two of our holdings fall through their stop-loss limits. We have therefore sold 2,700 Kier Group at 100p to raise net proceeds of £2,673 for a loss of of £648 and then sold 625 Royal Mail at 425p to raise net proceeds of £2,630 for a loss of £473.

A number of companies in the portfolio have made announcements during the month and these are Hargreaves Services, Tandem Group, Barratt Developments, Kier Group, International Personal Finance, Royal Mail, Saga and Synectics. These have been covered in News Highlights or on the website in the normal way.

It has been a good month for dividends, with the portfolio receiving payments from Premier Miton (£117), Qinetiq (£23) and Royal Mail (£167). Following the purchase of shares in both of the companies featured in this issue, there is £215 left on deposit pending investment.

Performance summary

	22 February 2022	18 January 2022	Gain/(Loss) %
Portfolio Value	£59,396	£62,196	(4.5)
FTSE 100 Share Index	7,494.21	7,563.55	(0.9)
FTSE All Share Index	4,172.35	4,263.04	(2.1)
FTSE AIM All Share Index	1,031.62	1,154.20	(10.6)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	512	2,560	280
725	Tandem Group	480	3,515	530	3,843	450
2,600	Serco Group	125.4	3,309	126.4	3,286	105
1,850	Premier Miton	163.5	3,054	172.5	3,191	130
2,350	Senior	149.3	3,562	142.4	3,346	115
500	Barratt Developments	679.2	3,447	595.2	2,976	595
12,000	Renold	25.1	3,042	26.1	3,132	20
4,500	GetBusy	66	3,000	67.5	3,038	50
1,000	QinetiQ	282.4	2,866	252.5	2,522	220
2,250	International Personal Finance	141	3,219	122.4	2,754	115
725	Redde Northgate	397	2,921	384.5	2,788	325
14,000	Appreciate Group	23	3,252	26.7	3,738	18
2,800	Alliance Pharma	110.4	3,122	102	2,856	85
4,250	Topps Tiles	62.4	2,692	62.2	2,644	48
850	Saga	307	2,649	291	2,474	240
3,125	Brighton Pier	83.5	2,635	81.5	2,547	65
2,825	Synectics	92.5	2,639	112.5	3,178	75
7,500	Carclo	34.35	2,615	30.2	2,265	27
725	Fisher (James) & Sons	423	3,113	423	3,067	340
1,675	Marks & Spencer	177.65	3,021	177.65	2,976	150
£215	Cash	-	-		215	
				TOTAL	**£59,396**	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £1,424 *after part disposal.

MKS
177.65p

MARKS & SPENCER

SECTOR - RETAILERS

Ongoing challenges for retailers are no secret but Marks & Spencer remains well positioned to utilise its strong brand name and its current valuation arguably fails to reflect true prospects. The share price has slipped around 30% from its recent peak in just six weeks and the drop appears to be overdone. There are risks on both a macro and micro level but taking a balanced view, the recent falls appear to reflect sentiment rather than any fundamental change.

A trading update covering the 13 weeks ended 1 January 2022 was released on 13 January. The comparative period which has been presented relates to the 13 weeks to 28 December 2019, due to the impact of Covid-19 in 2020/21. Trading over the Christmas period was solid. Food sales were up 12.4%, with sales excluding hospitality and franchise up 16.4%. Retail parks and Simply Food stores continued to outperform and customers used M&S for more of their everyday shopping, resulting in relatively high basket values. Not included in Food sales figures, M&S products also performed strongly on Ocado.com, representing around 30% of baskets in December. Clothing & Home sales were 3.2% higher and full price sales grew by 45%. Online Clothing & Home sales saw growth of 50.8%, supported by expansion of in-store fulfilment, but store sales were down 10.8%. International sales were 5.1% higher, with online sales more than doubling.

In the trading update which was released last month the company noted that it now expects full year profit before tax and adjusting items of at least £500m. Although this assumes no further material restrictions or lockdowns, it is unlikely that the final outcome will be far away from this broad estimate. Full year results for the 52 weeks ended 2 April 2022 are due to be reported on 25 May.

Dividends are unlikely to be reinstated when final results are released and this could well be a factor which deters some investors in the near term. Looking further ahead this is a situation which should change in the medium term and those buying in now could benefit by moving early. The value of the business is also at a level which could make the financing of a takeover bid a realistic proposition for some and interest from overseas would be no real surprise. The current entry price looks very tempting and the shares are a BUY.

Share Price: 177.65p
Market Capitalisation: £3,480m
2021/22 Share Price Range: 256.9p/129.5p
Website: www.marksandspencer.com

Year Ending 31 March	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2021	9,167	(209)	1.4	127	-	-
2022 (est)	10,828	524	21.2	8.4	-	-
2023 (est)	11,094	480	18.7	9.5	7.4	4.2

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.

International Personal Finance – 122.4p

The international specialist provider of unsecured credit has announced a strong recovery in profitability for the year to 31 December with pre-tax profits of £67.7m being recorded, compared to a pre-exceptional loss of £28.8m in the previous year. Earnings per share emerged at 18.8p with a total dividend of 8.0p being declared. All business divisions were profitable as trading conditions improved during the year and strong demand for credit led to a 33% increase in credit issued as this rose to £982m. Closing customer receivables were £717m, 13% ahead of the prior year. The company has a strong balance sheet with bank and bond facilities in place to support future growth and the quality of the loan book remains strong with the annual impairment rate being 10.2% of revenue. The current financial year could see profits increase once again to £77m for earnings per share of 19p. This would put the shares on a p/e ratio of just 6.4x and if the dividend is increased to 8.8p per share a yield of 7.2%. The shares remain a BUY.

Hargreaves Services – 512p

In the six months to 30 November, the industrial and property group has reported that revenues declined to £76.1m (2020: £92.0m) due to the exit from the coal business last year. However, pre-tax profits increased to £10.4m (2020: £1.1m) and earnings per share for the period were 31.0p (2020: 3.4p). The interim dividend was nudged up to 2.8p (2020: 2.7p). Although all three business segments increased profits, it is the German joint venture that has been the real driver with this generating £9.0m of profit after tax. Regular readers will know that the German company trades in specialist commodity markets and has been a beneficiary of higher commodity prices. Excluding leases, net cash at the end of the period was £8.5m (2020: net debt of £8.0m). The company now has a strong platform on which to grow with its Services Division heavily involved in HS2 and expectations going forward have been raised accordingly. The share price hit 565p last year and we would expect this to be exceeded in the coming months. BUY.

Synectics – 112.5p

In the year to 30 November 2021, the security and surveillance company reduced its underlying loss before tax to £0.6m from a loss of £4.1m the year before. It is encouraging to note that whilst the first half saw a loss of £0.8m, the second half saw a profit of £0.2m as trading at the group improved. At the end of the year net cash balances were £4.6m and given the improving outlook the company has declared a dividend of 1.5p per share. As the gaming industry is a large part of the group's business, the closure of casinos and gaming resorts, due to lockdown and travel restrictions, has obviously had a major impact on the group. However, as these begin to open once again, there is clearly significant recovery potential at the group. The return to profitability in the second half of the year is clearly encouraging and this trend looks set to continue with the order book at the year end being £28.4m (2020: £25.4m). We tipped the shares last month at 92.5p as one of our Shares for 2022, when the price was close to a ten-year low, and we re-iterate our recommendation of BUY.

Barratt Developments – 595.2p

In the six months to 31 December, revenues fell to £2.25bn (2020: £2.49bn) although the prior year benefited from a large number of sales post the end of the first lockdown. However, an improvement in margins saw pre-tax profits increase slightly to £432.6m (2020: £430.2m) with earnings per share up to 34.5p from 34.3p. The interim dividend was increased by over 49% to 11.2p (2020: 7.5p) and net cash at the end of the period was 2% higher at £1.13bn (2020: £1.11bn). Recent trading at the group has been strong and pre-tax profits for the financial year to 30 June 2022 could increase to £1.02bn (2020: £920m) for earnings per share of around 80p (2020: 73p). The strong balance sheet also means that a large increase in the dividend to at least 45p per share (2020: 29.4p) is on the cards. Clearly there are concerns about more provisions for unsafe cladding whilst increased building costs are also likely although the latter should be covered by increased selling prices. The recent weakness in the share price has left the shares on a prospective p/e ratio of just 7.4x and a dividend yield of over 7.5%. The shares are a BUY.

eve Sleep – 2.8p

The sleep wellness brand eve Sleep has announced that it has got into bed (sorry!) with the leading retail group DFS Furniture, with a new partnership agreement which is expected to start on 3 March. DFS is a market leading furniture retailer and initially the partnership will cover the dfs.co.uk website which receives on average some 2.7m unique visitors per month. There are also plans to expand the partnership to the DFS showroom estate later in the year. DFS will stock a range of eve bedframes as well as eve mattresses including the Original and Premium Hybrid models which were rated the best two mattresses in the UK by Which? magazine. This is clearly a very significant move for eve Sleep, raising the profile of the brand whilst also likely to provide significant sales through the new outlets. Full year results for 2021 are due to be announced on 24 March when there could be news of how the new partnership has started. We believe that this deal could generate significant sales for the group and believe the shares have further upside potential with a move back to 5p providing a reasonable share price target. BUY.

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