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sorting the bulls from the bears



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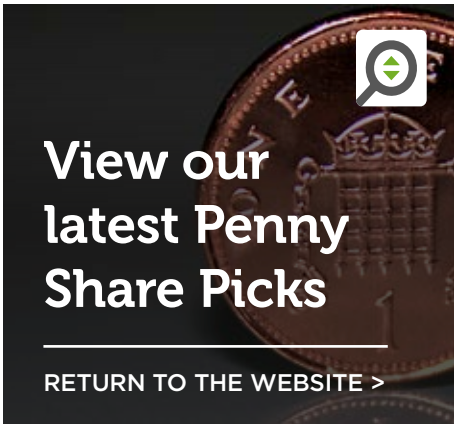
Aggressive Growth Portfolio

Monthly News Highlights

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Turning point for Circassia

AIM-listed Circassia Group (37.95p) has recently released final results for 2021 and these detailed positive adjusted EBITDA for the first time. The fact that this landmark has been reached may well attract more investors. Three significant shareholders, Richard Griffiths, Harwood Capital and AstraZeneca, own over 65% of the shares in issue between them, so any major buying interest is likely to see the share price push higher.

The company aims to improve the quality of life of those suffering from asthma. It is a medical device specialist with a focus on point of care asthma diagnosis and management. Its NIOX products are used by physicians around the world to improve asthma diagnosis and management, as well as by leading research organisations conducting clinical studies on behalf of pharmaceutical companies.

In the year ended 31 December 2021 revenues were 17% higher at £27.9m (2021: £23.9m), of which approximately 84% related to recurring consumable revenues. Group adjusted EBITDA was positive for the first time at £0.6m and it is also pleasing to report that this was ahead of upgraded consensus estimates. Profit for the year was £3.6m after a deferred tax credit of £4.4m (2020: loss of £33.5m). Net cash as at the period end was £12.6m, up from £7.4m as at 31 December 2020.

Final results for 2021 were encouraging and although the pandemic is expected to continue to have an impact, the outlook now looks very promising. There is a reduced cost base, high levels of recurring revenues and high gross margins. The business is said to have made a positive start to 2022 and NIOX clinical revenues were up 24% in the first two months of the year versus the equivalent period in 2021. Positive operating cash flow has also continued. The company believes that the ongoing shift to a distributor led business model will ultimately deliver further shareholder value over the medium term. From the current price there is scope for significant upside and we feel that a BUY rating is justified.



Sparkling Returns Ahead?

Shares in Petra Diamonds (114p) have almost doubled from their early December low but those who have not invested should still consider buying in at this stage. The market for diamonds has strengthened considerably, due most recently to the fact that Russia is a key supplier of the precious stones. However, of more importance, the value of the company looks on the low side when considering long term prospects.

The company is a leading independent diamond mining group, supplying gem quality rough diamonds to the international market. It has interests in three underground producing mines in South Africa and one open pit mine in Tanzania. Its strategy is to focus on value rather than volume production by optimising recoveries from its asset base to maximise efficiency and profitability. The resource base is around 230 million carats, which supports the potential for long-life operations.

Results for the six months ended 31 December 2021 were released on 22 February. During the period revenue was up 49% to US$264.7m (2020: US$178.1m) driven by the sale of Exceptional Stones and a 16% increase in rough diamond prices. Adjusted profit before tax increased to US$91.1m from US$6.5m in the same period a year earlier. Basic earnings per share from continuing operations were 22.29c per share and 29.01c on an adjusted basis. Consolidated net debt reduced by US$75.9m to US$152.3m as at 31 December 2021. Unrestricted cash increased by US$109.0m to US$256.7m as at 31 December 2021.

Since the results announcement the company has announced the results of Tender 4 of FY22, at which 735,222 carats were sold for a total of US$140.6m. Like-for-like rough diamond prices increased by 46.5% in the six months to December 2021 and 37.6% on Tender 3, which closed around 15 December 2021. With the share price already at a high point, positive momentum should continue. The current share price leaves room for strong and sustained capital growth. Given the nature of the business but noting the fact that diamond prices are out of its control, we rate the shares as a SPECULATIVE BUY.



Finsbury Food Group

SECTOR – AIM – FOOD PRODUCERS

We have covered Finsbury Food Group before, suggesting that the shares were good value at 56.9p in September 2020. The shares subsequently ran up to just over 100p towards the end of last year but have lost ground since then and have now reached a level where we feel that they are cheap once again. Clearly much has changed in the world in the last eighteen months but the company has added to its solid track record and although there are fresh challenges to contend with, we feel that there should be recovery in the share price ahead.

The company is a leading UK manufacturer of cake and bread bakery goods, supplying a broad range of blue chip customers within both the grocery retail and 'out of home eating' foodservice sectors including major multiples and leading foodservice providers. It is one of the largest speciality bakery groups in the UK and also has an Overseas division. The UK Bakery division has manufacturing sites in Cardiff, East Kilbride, Hamilton, Salisbury, Sheffield, Manchester, and Pontypool. The Overseas division comprises the company's 85% owned company Lightbody Stretz Ltd, which supplies and distributes UK-manufactured products and third party products, primarily to Europe, and manufacturing facilities in Rybarzowice and Zywiec in Poland.

The bakery product range includes large premium and celebration cakes as well as small snacking cake formats such as cake slices and bites. It supplies artisan, healthy lifestyle and organic breads, rolls, muffins and morning pastries. These are available fresh or frozen dependent on customer channel requirements. Gluten Free bread, morning goods and cake ranges are also offered.

The latest results available are interim results covering the six months ended 25 December 2021. Group revenue was 8.9% higher at £166.5m (2020: £152.9m). UK Bakery represents the supply of cake, bread and morning goods in the Grocery and Foodservice channels. Revenue in the period was up 5.7% to £142.3m, driven by stable performance in UK retail and a continuation of the sharp recovery in foodservice, which was up 25.9%. The Overseas business, in which revenue was £24.2m versus £18.3m in the same period a year earlier, comprises Lightbody Europe in France and Ultraeuropa, based in Poland. Lightbody Europe specialises in the import and sale of premium UK manufactured food products and is an important channel into Europe for UK manufactured licensed celebration cake and bite style products. Ultraeuropa manufactures and supplies gluten free products supplied into Europe.

Profit before interest, tax and significant non-recurring and other items fell by £1.2m to £6.5m. There were unforeseen inflationary pressures as well as operational and supply chain disruption attributable to labour availability shortages and other supply chain disruptions. Gross margin was 1.5% lower at 31.6% reflecting the lag between the impact of inflation and price recovery. Adjusted earnings per share were down 18.2% to 3.6p (2020: 4.4p) and adjusted diluted earnings per share were down 19.0% to 3.4p (2020: 4.2p).

A dividend for the year to 26 June 2021 of 2.4p per share was paid in December. An interim dividend for the year ending 2 July 2022 of 0.8p per share (2020: nil) was declared. The interim dividend will be paid on 21 April and the ex-dividend date is 24 March. Net bank debt as at 25 December 2021 was £12.9m versus £21.5m a year earlier, a decrease of £8.6m.

An important point to note is that there is a defined benefit pension scheme within the Memory Lane Cakes business in Cardiff. All remaining companies within the Group have defined contribution schemes. The Memory Lane Cakes pension scheme has been closed to future accruals and new members since 31 May 2010. The net pension deficit (before related deferred tax) was £14.5m as at 26 June 2021. The next accounting valuation update will be carried out at 2 July 2022. Cash contributions (including the PPF levy) were £293k in the six months to 25 December 2021, down from £332k in the same period a year earlier.

At the time of the interim results announcement the company revealed that it has increased its stake in Lightbody-Stretz Limited, its European distribution subsidiary. Its holding increased from 50% to 85% and the company has also entered into an option agreement to acquire the remaining 15% after two years. Lightbody-Stretz is the holding company of Finsbury Food Group's European distribution business. It operates primarily in the French and Benelux markets and distributes products produced by the wider group. The majority stake in the business should enhance capacity to support the business and deliver growth outside the UK.

In terms of outlook, full year performance remained set to be in line with market expectations. There are said to be positive signs of trading momentum continuing after record first half sales performance. Industry-wide pressures experienced in the first half look likely to continue through the second half and beyond. Management has built a strong track record of successfully negotiating challenging market conditions and believes that it is well set to continue to do so. It continues to prioritise product innovation in speciality product areas including nut free licenced celebration cakes, premium and vegan cakes alongside artisanal, vegan and gluten free bread and morning goods. There has been notable investment in significantly increasing bread and morning goods production capacity. The company also hinted acquisitions could be on the cards and this may well drive further earnings growth.

The shares trade on a modest multiple of earnings and although food producers are not known for racy ratings, we see this as a catalyst for an uplift in valuation. If current forecasts for full year earnings are met then we feel that the shares should be fairly valued at 8x those earnings, translating into a share price of roughly 93p and a capital gain of over 20%. This could easily be achieved by the end of 2022. On balance this makes the shares look attractive and fears over input costs should already be priced in. BUY.



Share Price: 75.5p
Market Capitalisation: £93.9m
2021/22 Share Price Range: 102p/71p
Website: www.finsburyfoods.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 (%)
2021	313	15.1	9.1	8.3	2.4	3.2
2022 (est)	350	16.9	11.6	6.5	2.5	3.3
2023 (est)	360	17.3	11.5	6.6	2.5	3.3

Aggressive Growth Portfolio VIII

The recent volatility in the stockmarket has been a severe negative for the portfolio as many stocks fell sharply on the news that Russia had invaded Ukraine with the result that many share prices fell through their stop-loss limits. What is particularly frustrating is that many share prices have recovered strongly since then, in some cases moving back well above the stop-loss limit! However, the stop-loss limits are there for a reason and so we have been forced to sell those holdings where share prices dipped through the limit. The result has been that the portfolio has fallen in value by 5.1% over the last month, thus seriously underperforming the benchmark indices.

As stated earlier, we have seen several our holdings fall through their stop-loss limits. We have therefore sold the following: 725 Tandem Group at 450p to raise net proceeds of £3,230 for a loss of £285; 500 Barratt Developments at 595p to raise net proceeds of £2,945 for a loss of £502; 2,250 International Personal Finance at 115p to raise net proceeds of £2,562 for a loss of £657; 850 Saga at 240p for net proceeds of £2,020 for a loss of £629 and 7,500 Carclo at 27p for net proceeds of £2,005 and a loss of £610.

Several companies in the portfolio have made announcements during the month and these are Hargreaves Services, Serco Group, Senior, Redde Northgate, Alliance Pharma, Topps Tiles and Fisher (James) & Sons.

No dividends were received during the month and following the purchase of shares in both companies featured in this issue, there is £6,504 left on deposit pending investment. Although this is a much larger amount than usual, given the current market uncertainty we are happy with this.

Performance summary

	22 March 2022	22 February 2022	Gain/(Loss) %
Portfolio Value	£56,378	£59,396	(5.1)
FTSE 100 Share Index	7,476.72	7,494.21	(0.2)
FTSE All Share Index	4,167.60	4,172.35	(0.1)
FTSE AIM All Share Index	1,037.58	1,031.62	0.6

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	546	2,730	280
2,600	Serco Group	125.4	3,309	137.8	3,588	105
1,850	Premier Miton	163.5	3,054	149	2,757	130
2,350	Senior	149.3	3,562	134.2	3,154	115
12,000	Renold	25.1	3,042	22.6	2,712	20
4,500	GetBusy	66	3,000	57.5	2,588	50
1,000	QinetiQ	282.4	2,866	297.6	2,976	220
725	Redde Northgate	397	2,921	437.5	3,172	325
14,000	Appreciate Group	23	3,252	22.85	3,199	18
2,800	Alliance Pharma	110.4	3,122	113.2	3,170	85
4,250	Topps Tiles	62.4	2,692	58.8	2,499	48
3,125	Brighton Pier	83.5	2,635	78.5	2,453	65
2,825	Synectics	92.5	2,639	114	3,221	75
725	Fisher (James) & Sons	423	3,113	358	2,596	340
1,675	Marks & Spencer	177.65	3,021	159.4	2,670	150
4,500	Finsbury Food	75.5	3,432	75.5	3,398	58
1,275	Luceco	235	3,041	235	2,996	170
£6,504	Cash	-	-		6,504	
				TOTAL	**£56,378**	

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

LUCE
235p

LUCECO

SECTOR - ELECTRONIC AND ELECTRICAL EQUIPMENT

Since peaking at just under 500p in late August 2021 shares in Luceco have been weak, underperforming the broad market and losing more than half their value. However, final results for 2021 suggest that the fall has been too harsh and recovery looks to be on the cards. The company also announced an acquisition alongside the final results and this should provide an additional boost moving forwards.

Luceco is a manufacturer and distributor of wiring accessories, LED lighting and portable power products for a global customer base. It can trace its origins back to the British General wiring accessories brand, which was created in 1941. In more recent years the company has grown both organically and through acquisitions. The company's IPO was in 2016 and funds were raised through an offer priced at 130p per share at that time.

Results for the year ended 31 December 2021 were released on 22 March. Revenue was £228.2m, which was 29.5% higher than 2020 and 32.6% higher than 2019. Adjusted Operating Profit increased by 30.0% to £39.0m (2020: £30.0m) and this figure more than doubled versus 2019.

Adjusted earnings per share increased by 30.3% to 20.2p and dividends increased to 8.1p per share (2020: 6.2p) including the proposed final dividend of 5.5p per share.

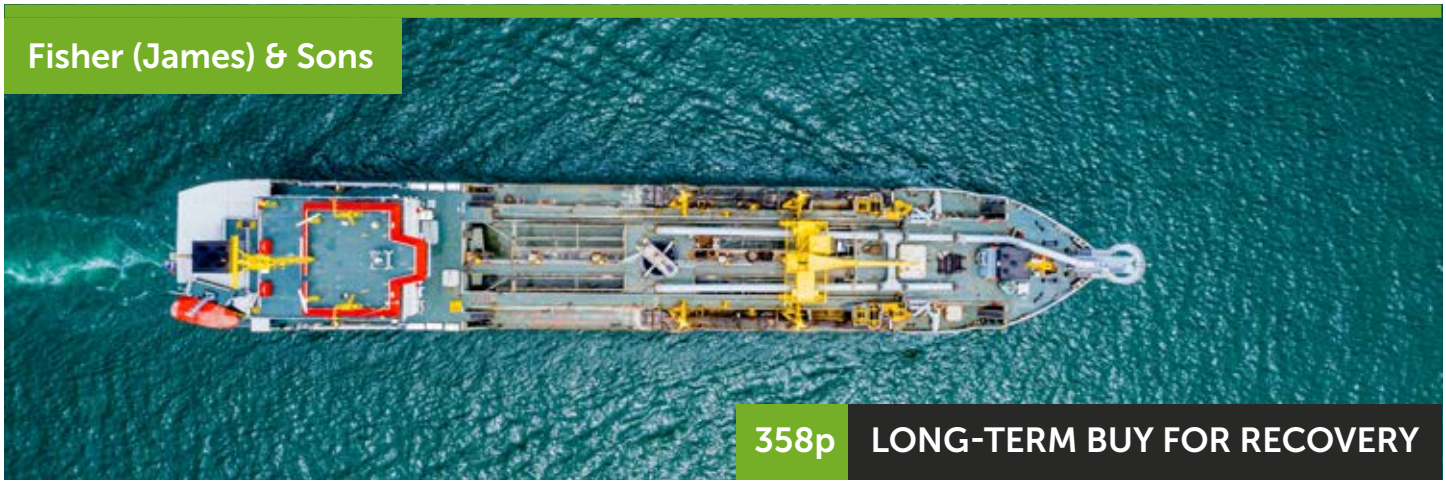
The acquisition of the entire issued share capital of EV Charge Points UK T/A EVCP Limited, known as Sync EV, was also announced on 22 March. This is a UK EV charge point supplier and the consideration was £10m on a cash and debt-free basis. Sync EV is based in Surrey and is an EV charge point brand used by professional installers, supplying smart charge points for residential installations. There has been rapid growth in this market. Luceco acquired a 20% share in Sync EV in August 2021 and has now completed the acquisition of the remaining 80%. For the unaudited period of 12 months ended 28 February 2022 Sync EV generated revenue of £4m. The business will be integrated into Luceco's sales and distribution operations in Telford.

Given the type of business which Luceco is, the rating on which the shares stand appears undemanding. Sentiment from investors certainly seems to have been weak in recent months and now looks like an opportunistic time to pick up some shares at a bargain level. We put forward a BUY recommendation.

Share Price: 235p
Market Capitalisation: £361m
2021/22 Share Price Range: 497p/189.3p
Website: www.lucecoplc.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 (%)
2021	228	37.4	20.2	11.6	8.1	3.4
2022 (est)	256	42.0	21.3	11.0	8.1	3.4
2023 (est)	264	45.4	21.4	11.0	8.2	3.5

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.

Fisher (James) & Sons – 358p

The specialist shipping group has announced its results for the year to 31 December and these have revealed a small drop in revenues to £494m (2020: £518m) with underlying profit before tax falling to £19.7m (2020: £31.5m). Diluted earnings per share on the same basis were significantly lower at 20.0p (2020: 47.9p) and there was no dividend (2020: 8.0p). The year was clearly challenging due to the pandemic but compounded by the fact that markets recovered more slowly than expected and some businesses encountered more challenging conditions than anticipated. Although the current year has started in line with expectations, the company has flagged that the results for the year will depend on several factors, many of which are out of the group's control. The announcement of the results and accompanying statement caused the share price to fall back sharply but it is worth pointing out that the share price closed on 8 March at 510p. Clearly, investors were disappointed with the results and statement but any improvement in trading is likely to flow through rapidly to increased profits. Although recovery in the share price may take longer than previously hoped, the shares clearly have significant potential having been over £20 just over two years ago. We rate them a LONG-TERM BUY FOR RECOVERY.

Topps Tiles – 58.8p

The group has expanded its operations with the acquisition of a 60% stake in Pro Tiler Limited, an online specialist supplier of tiling-related consumables and equipment to trade customers. The initial consideration is £5.3m with an option to acquire the rest of the business in 2024 with the amount to be paid dependent on the profits of the business for the year to 31 March 2024. Pro Tiler reported revenues of £9.3m in the year to 31 March 2021 with pre-tax profits of £1.1m. The business has continued to grow in the current financial year and is expected to benefit from being part of a larger group due to the additional buying power and financial resources. Topps has also reported a trading statement covering the second quarter of the financial year, being the three months to 31 March, with sales for the first nine weeks growing by over 18% compared with 2020 (pre-lockdown) and over 45% compared with last year when restrictions were in place. There has also been an improvement in margins as expected meaning that the group is on track to meet expectations for the full year. Thus, adjusted pre-tax profits for the year to 30 September 2022 could be £14.4m for earnings per share of 5.9p. A prospective p/e ratio of just under 10x makes the shares look cheap especially as a 3p dividend would put the shares on a yield of 5.1%. A strong balance sheet adds to the shares' attractions, and they are a BUY.

Serco Group – 137.8p

The outsourcing group has announced its annual results to 31 December 2021, and these have revealed an impressive performance. Revenue increased by 14% to £4.4bn with underlying pre-tax profit increasing by 49% to £204.9m. Diluted earnings per share on the same basis were also 49% higher at 12.56p and the dividend for the year was raised by 72% to 2.41p. Adjusted net debt at the year-end rose to £178m from £57.8m at the end of the previous year despite spending £250m on acquisitions, demonstrating very strong cash flow. Rupert Soames, the chief executive, confirmed that last year was the toughest operational environment he has ever seen thus confirming the strength of the group's performance. This strong performance looks set to continue in 2022 and the company has started the year well with order intake of £600m - this is in addition to the order book at the end of December of £13.7bn. The group will suffer in the current year from a decline in Covid related work with revenues and profits set to decline slightly. Assuming adjusted pre-tax profits of £170m for the year and earnings per share of 10.5p per share, the shares stand on a p/e ratio of just 13.1x which looks too low with profits set to increase going forward. The shares are a BUY.

Alliance Pharma – 113.2p

The AIM-listed healthcare group has announced its annual results for the year to 31 December 2021 and these have shown further impressive growth. Revenues for the year rose by 26% to £163.2m (2020: £129.8m) with underlying pre-tax profits rising by the same amount to £42.2m (2020: £33.5m). Earnings per share on the same basis were 25% higher at 6.39p (2020: 5.11p) and the dividend has been raised by just 5% to 1.69p (2020: 1.61p). Strong cash flow from operations has meant that net debt has reduced to £87.0m (2020: £109.4m). These are excellent results given the challenging trading conditions with Consumer Healthcare performing well helped by growth in e-commerce activity which now accounts for 25% of group revenue. The acquisition of Amberen™ in the US has been fully integrated into the group with other brands also doing well. The new financial year has started in line with expectations and the strong cash flow at the group and reduced level of debt will allow acquisitions to be made if suitable opportunities can be found. The company is currently in talks about the potential acquisition of two new products in the US although these would cost no more than $20m if a deal can be agreed. Pre-tax profits in the current year could increase to £45m in 2022 for earnings per share of 6.8p. Although by no means in the bargain basement the long-term record of the company is very sound, and we rate the shares as a LONG-TERM BUY.

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