

cityconfidential

sorting the bulls from the bears

In This Issue

Tharisa

Life Science REIT

Melrose

Portmeirion Group

Plus

Aggressive Growth Portfolio

Monthly News Highlights



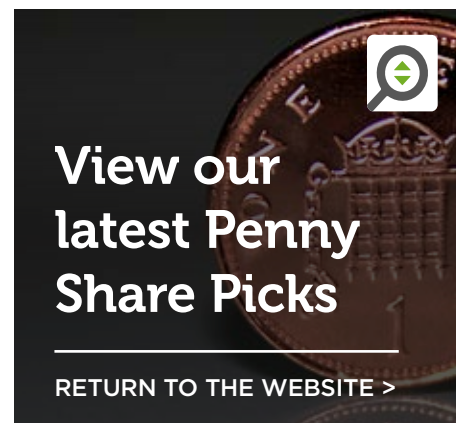
Tharisa digging into bumper production

Shares in **Tharisa (133.5p)** have now dropped by more than 20% from their recent high and historically there has been plenty of volatility in the company's valuation so there may well be a rebound soon. Recent weakness appears to be more to do with the sell-off of smaller companies rather than any new concerns on a micro level.

The company is an integrated resource group which is dual listed in London and Johannesburg. With headquarters in Cyprus, it produces platinum group metals and chrome concentrates from the Tharisa mine in South Africa. Tharisa is a low cost producer with a vertical structure which incorporates

processing, beneficiation, marketing, sales and logistics.

The most recent news from the company was a Q2 production update, covering the months of January, February and March. Recoveries were steady despite secondary mill breakdowns, which meant that there was slightly lower quarterly production in Q2 versus the record Q1. Platinum group metals (PGM) production was 44.1 koz (Q1: 47.7 koz) at an improved average PGM basket price of US\$2,806/oz (Q1: US\$2,394/oz). Chrome production was 374.9 kt (Q1: 401.8 kt) at an improved average metallurgical grade chrome price of US\$177/t (Q1: US\$161/t). As at the



period end the cash balance was US\$101.5m and net cash was US\$25.9m.

Prospects for the current financial year look extremely good. At the time of the Q2 production update on 12 April, production guidance of between 165 koz to 175 koz PGMs (6E basis) and 1.75 Mt to 1.85 Mt of chrome concentrates was maintained. This means that the shares stand on a very low multiple of likely prospective earnings and although the level of profits in the longer term is more difficult to estimate, the solid balance sheet should allow the company to cope with periods where trading conditions are less favourable. We rate the shares as a **SPECULATIVE BUY**.



That's Life

Given recent turmoil in financial markets, some investors may be looking for relative safe havens and we feel that **Life Science REIT (101.75p)** is an attractive proposition for those looking for a steady return. The company aims to provide shareholders with a good level of total return with a focus on capital growth, although it should also pay out a growing level of income.

The company aims to invest primarily in a diversified portfolio of UK properties that are leased or intended to be leased to tenants operating in the life science sector. There is a focus on opportunities in the "Golden Triangle" covering research and development hubs of Oxford, Cambridge and London St Pancras. It is not limited in terms of the types of properties it acquires or develops but these are likely to

be laboratories, offices, incubators and co-working space, manufacturing and testing facilities and data centres. There is flexibility to acquire individual buildings, groups of buildings across a single science park or entire science parks. The location, tenant profile and demand, rental growth prospects, lease terms and asset management or enhancement opportunities will all be weighed up. Life Science REIT joined AIM on 19 November 2021, having raised £350m in its IPO.

A couple of interesting acquisitions have been announced in May. On 16 May details of the acquisition of Oxford Technology Park, a 20 acre science and technology park, were announced. Once fully developed, this will comprise up to 450,000 sq ft of mixed-use life science space and amenity assets. The

purchase price was £120.3m including debt of £33.8m and the company will also provide up to £62.7m of forward funding to complete the park's build-out. This followed news that on 6 May it completed the acquisition of 7-11 Herbrand Street, an iconic Art Deco building close to University College Hospital and University College London in London's Knowledge Quarter.

Results for the period ended 31 December 2021 will be announced on 23 May and although these are academic given the infancy of the company, the news may highlight the investment case to more potential investors. On balance, now looks a good time to buy in and although spectacular returns are unlikely, long term capital growth is highly probable. The shares are a **LONG TERM BUY**.

MRO

117.65p BUY

Melrose Industries

SECTOR – GENERAL INDUSTRIALS

Melrose joined AIM in 2003, raising £11.8m net of expenses. It has since grown to a multiple of the valuation at the time, with new equity raised along the way but the share price has also grown considerably and those who backed the company from the start have been very well rewarded. The current share price represents less than half the peak level reached in recent years though and there is now an opportunity to buy in at a sensible price. There is scope for meaningful recovery and the company appears determined to ensure that loyal shareholders continue to benefit.

Melrose's goal is simple and clearly stated. It aims to buy good manufacturing businesses with strong fundamentals, whose performance can be improved. It finances acquisitions using a low level of leverage, improves the businesses through investment and changed management focus, then sells them and returns the proceeds to shareholders. The company has a strong track record and has grown to such an extent that it is now a FTSE 100 constituent. It is now made up of four divisions.

GKN Aerospace supplies the global aerospace industry as a multi-technology developer and manufacturer of airframe and engine structures and electrical wiring systems. This covers both civil and defence platforms. Its products enable aircraft to fly safely and more efficiently. GKN Aerospace is structured according to its core customer markets, which are Civil Airframe, Defence Airframe and Engines. Its technology is used throughout the aerospace industry including in high-use single aisle aircraft, the longest haul passenger planes, business jets, helicopters, advanced fighter jets and space launchers.

GKN Automotive is the global leader in drive systems through its Driveline and ePowertrain divisions. It works with most of the world's automotive OEMs and specialises in developing, manufacturing, and supplying leading drive systems for conventional and electric vehicles. It is based in the UK and operates in 20 countries. It has a leading presence in China due to its long-standing joint venture Shanghai GKN HUAYU Driveline Systems Co Limited, operating alongside local partner HASCO.

GKN Powder Metallurgy is a global leader in metal powders and precision powder parts for the automotive and industrial sectors. It is involved in the design and production of advanced powder metals. It also uses innovative production technologies to create unique metal and polymer products.

The Other Industrial division now consists of Ergotron and the newly formed GKN Hydrogen business with Brush and Nortek Control having been sold during the last financial year.

Final results for 2021 were released in early March. Solid performance was delivered and sales grew modestly, up 2% year-on-year at constant currency. Statutory revenue was £6,883m (2020: £7,132m), with adjusted operating profit coming in at £375m (2020: £141m). All businesses returned to growth and delivered an increase in sales towards the end of the year. Aerospace was up 18% in the second half year-on-year and Automotive sales were up 12% from the third quarter to the fourth quarter. Improvement actions increased adjusted operating profit margins at Aerospace and more than doubled those at Automotive and Powder Metallurgy.

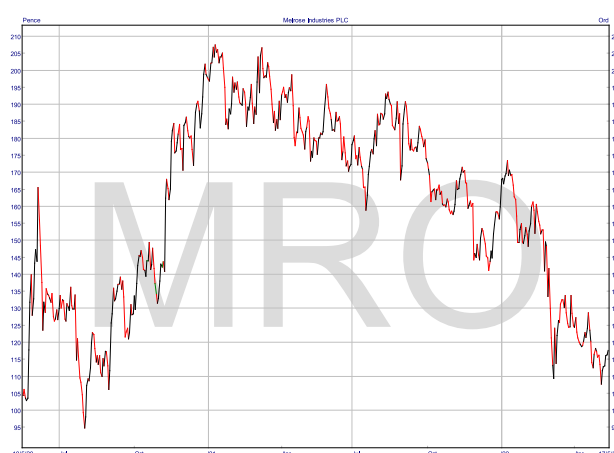
An adjusted profit before tax of £252m was delivered in the period versus a loss before tax of £41m in 2020. Adjusted earnings per share were 4.1p on both a basic and diluted basis. A year earlier an adjusted loss per share of 0.6p was incurred. A final dividend of 1.0p per share (2020: 0.75p) took the total for the year to 1.75p per share (2020: 0.75p). The final dividend will be paid on 20 May.

Strong free cash flow generation, which has been a feature throughout the company's ownership of the GKN businesses, continued. This, coupled with disposal proceeds, allowed debt drawn to fund the GKN acquisition to be repaid. This means that year end net debt was reduced to below £1bn. Leverage was equal to 1.3x adjusted EBITDA, significantly below the group's long-term average.

During the year around a fifth of the group was sold. This included Brush, the last business from the FKI acquisition. Three of the four businesses from the Nortek acquisition in 2016 were also disposed of. Following the Brush and Nortek sales, a £729m return of capital to shareholders was completed in September 2021. The company had been planning to return proceeds from disposals to shareholders by announcing a capital return alongside the latest final results. However, due to the conflict between Russia and Ukraine, the timing of the additional return was put under review.

A trading update covering the first four months of 2022 was released on 5 May, to coincide with the company's Annual General Meeting. Trading was said to be in line with expectations for the year. The Aerospace division is experiencing continued growth with like-for-like sales up 6%. The Automotive and Powder Metallurgy divisions were still being constrained by supply, with combined like-for-like sales down 4%. This was significantly below underlying consumer demand levels. The company is confident that its restructuring actions ensure that all its businesses are positioned to deliver their full potential as supply constraints ease. Substantial progress is also said to have been made in recovering inflation. Due to the time lag effect, financial performance will be second half weighted but the company believes the impact of inflation can be offset by the measures taken.

This is a company with a strong focus on generating returns for shareholders. It has a solid plan to create value and although it remains exposed to macroeconomic factors, it is doing all it can to maximise performance. The level of dividend payments has been modest recently but should not be ignored altogether. Taking dividends, potential capital returns and capital growth into consideration, overall returns should be attractive in the coming years. Interim results are not expected to be released until September and in terms of the share price, much will depend on the direction of equity markets overall between now and then. However, the current level is a very tempting entry point and now looks a good time to BUY.



	Year Ending 31 December	Adjusted Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 117.65p	2021	7,496	252	4.1	28.7	1.75	1.5
Market Capitalisation: £5,144m	2022 (est)	7,634	392	6.8	17.3	2.58	2.2
2021/22 Share Price Range: 207.5p/107.6p	2023 (est)	8,186	600	10.6	11.1	3.60	3.1
Website: www.melroseplc.net							

Aggressive Growth Portfolio VIII

As we report regularly on the website, the stockmarket remains very volatile and so it perhaps comes as no surprise that the Portfolio has fallen in value by 4.2% this month, following the rise of 3.6% reported in April. The conflict in Ukraine, rising interest rates, higher energy costs and surging inflation have all served to put pressure on equities. Indeed, a recent Bank of America survey of fund managers found that cash balances were at the highest level in over 20 years with exposure to equities at the lowest since May last year. It is interesting to note that this move away from risk is reflected in the performance of the AIM market which has fallen sharply in the last month as shown in the table.

We have lost two companies from the Portfolio this month with shares in

Premier Miton falling through the stop-loss limit of 130p. The sale of 1,850 shares at that price resulted in net proceeds of £2,381 and a loss of £673. Similarly, the sale of 1,275 Lucecco at the stop-loss limit of 170p generated net proceeds of £2,146 and a loss of £895. Sadly, there were few positive performances from the portfolio constituents over the last month with most share prices declining.

Several companies in the portfolio have made announcements during the month and these are Hargreaves Services, GetBusy, Redde Northgate, Appreciate Group, Alliance Pharma, Synectics, Fisher (James) & Sons, NWF Group and SigmaRoc.

Dividends were received during the month from both Synectics (£42) and Finsbury Food (£37) and following the purchase of shares in both companies featured in this issue, there is £1,474 left on deposit pending investment.

Performance summary

	17 May 2022	19 April 2022	Gain/(Loss) %
Portfolio Value	£55,945	£58,408	(4.2)
FTSE 100 Share Index	7,518.35	7,601.28	(1.1)
FTSE All Share Index	4,149.88	4,219.72	(1.7)
FTSE AIM All Share Index	961.72	1,055.72	(8.9)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	550	2,750	280
2,600	Serco Group	125.4	3,309	149.8	3,895	105
2,350	Senior	149.3	3,562	127.8	3,003	115
12,000	Renold	25.1	3,042	26	3,120	20
4,500	GetBusy	66	3,000	61.5	2,768	50
1,000	QinetiQ	282.4	2,866	360.6	3,606	220
725	Redde Northgate	397	2,921	368	2,668	325
14,000	Appreciate Group	23	3,252	26.75	3,745	18
2,800	Alliance Pharma	110.4	3,122	113.8	3,186	85
4,250	Topps Tiles	62.4	2,692	53	2,253	48
3,125	Brighton Pier	83.5	2,635	83	2,594	65
2,825	Synectics	92.5	2,639	110	3,108	75
725	Fisher (James) & Sons	423	3,113	382.5	2,773	340
4,500	Finsbury Food	75.5	3,432	69.5	3,128	58
1,500	NWF Group	209	3,166	217	3,255	165
3,500	SigmaRoc	78.5	2,774	69	2,415	55
2,750	Melrose Industries	117.65	3,283	117.65	3,235	95
625	Portmeirion Group	475	2,999	475	2,969	350
£1,474	Cash	-	-		1,474	
TOTAL					£55,945	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £1,601 *after part disposal.

PMP

475p

PORTMEIRION GROUP

SECTOR – AIM – HOUSEHOLD GOODS
AND HOME CONSTRUCTION

We covered Portmeirion Group last September when its share price was 670p and believe that the current price represents even better value. Clearly much has changed in the world in recent months and the company is not alone in seeing its share price fall significantly. However, we feel that the factors which have become well-documented headwinds are fully factored in and there should be capital growth ahead for those buying in now. Any further weakness in the broad market could see the share price move even lower in the near term but this is a high quality business with a strong track record. There is little to suggest that it should not continue to build value for shareholders over the longer term.

The AIM-listed company is based in Stoke-on-Trent. It is a manufacturer and distributor of homewares under the Portmeirion, Spode, Royal Worcester, Nambé, Pimpernel and Wax Lyrical brands. The range of products offered includes ceramic tableware, cookware, giftware, glassware, barware, home fragrance products and associated homewares.

Final results for the year ended 31 December 2021 were released on 17

March. Record revenue of £106.0m was achieved, an increase of 21% versus the prior year (2020: £87.9m) and 14% over two years earlier (2019: £92.8m). Sales from the company's own ecommerce platforms increased by 16% over 2020 and were 81% above 2019 levels. Online sales represented around 50% of total sales in the core UK and US markets in the year to 31 December 2021 (2020: 47%, 2019: 30%). Headline profit before tax was £7.2m (2020: £1.4m, 2019: £7.4m) and headline basic earnings per share were 38.85p (2020: 4.96p, 2019: 56.32p). A final dividend of 13.00p per share was declared bringing total dividends to 13.00p (2020: nil, 2019: 8.00p). Net cash was £0.7m as at 31 December 2021 (2020: net cash £0.7m, 2019: net debt £12.3m).

The shares trade on a modest multiple of prospective earnings and although there must be some doubt as to whether forecasts for the current year will be met, historic levels of profit suggest that they are realistic. The dividend is also being rebuilt and again, looking at the level of dividends in past years, there is likely to be support from investors seeking income. The company has issued a trading statement to coincide with its Annual General Meeting, noting that sales for the first four months of 2022 were up 2% on the prior year with slightly better gross margin. For anyone looking to hold for the medium to long term the current share price offers good value and we put forward a BUY rating.

	Year Ending 31 December	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 475p	2021	106	7.2	38.8	12.2	13.0	2.7
Market Capitalisation: £66.4m	2022 (est)	110	10.0	56.5	8.4	18.8	4.0
2021/22 Share Price Range: 710p/460p	2023 (est)	118	11.9	65.9	7.2	22.0	4.6
Website: www.portmeiriongroup.com							

News Highlights

Synectics



110p BUY

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.

Redde Northgate – 368p

The leading integrated transport mobility group, which offers a range of services including van and vehicle rental, accident management and vehicle repairs and fleet management has announced a trading statement for the year to 30 April 2022. The group ended the year well and therefore expects to report results for the year in line with expectations, with underlying pre-tax profits for the year expected to be around £150m. This would translate into earnings per share of around 48.5p whilst the dividend for the year is expected to be 24.25p, being a payout ratio of 50%. If these figures are correct, then the shares will stand on a p/e ratio of just 7.6x whilst the dividend yield would be almost 6.6%. The group has benefited from the strength in the used vehicle market as it has made higher profits on the disposal of such vehicles and the impact of this is likely to diminish in the current financial year. Nevertheless, with the group continuing to make solid progress elsewhere in the business it seems likely that pre-tax profits in the year to 30 April 2023 should be at least at a similar level to the year that has just ended. We therefore maintain our recommendation of **BUY**.

Alliance Pharma – 113.8p

The company has confirmed that trading in the first four months of 2022 has been satisfactory with customer demand remaining strong, whilst the integration of ScarAway and the rights to Kelo-cote in the US (acquired in March 2022) is progressing well. The group has emphasised once again that the performance for 2022 will be weighted towards the second half of the year with increased sales from Amberen and Nizoral expected whilst the first half has seen some supply chain issues due to lockdowns in China. We therefore maintain our forecast of pre-tax profits of £45m for the year for earnings per share of 6.8p. However,

although the long-term prospects at the group remain strong, the slight note of caution in the statement, together with the high valuation of the shares (prospective p/e ratio of 16.7x) leads us to reduce our recommendation to **HOLD**.

Barratt Developments – 487.8p

The company's trading update, covering the period from 1 January to 1 May, has confirmed that it continues to trade strongly with sales ahead of last year with higher volumes and higher selling prices being key factors. During the period the company completed on 4,625 sales compared with 4,481 in the same period last year although the financial year to date has seen a reduction to 12,692 from 13,558 as a result of the end of the stamp duty holiday and the tapering of Help to Buy. Nevertheless, this is a very encouraging statement and net cash at the end of April was £735m. The recent strong trading means that the financial year to the end of June 2022 is likely to see an increase in total completions of between 4% and 6% as these rise to over 18,000. Adjusted pre-tax profits for the year to 30 June 2022 are therefore likely to come out at around £1.05bn for earnings per share of 82.5p. With the dividend expected to be around 41p the shares stand on a p/e ratio of just 5.9x and yield of 8.4%. Having started the year at around 760p, the shares have fallen by some 36% and we believe that this is a good entry point. **BUY**.

Synectics – 110p

The security and surveillance systems group has announced a trading statement at its AGM which has confirmed that trading in the first quarter of the financial year has been in line with expectations. Although the Security division has had a slower start to the year due to projects being delayed by clients, this has been compensated for by a better performance from the Systems division. The latter includes the National Grid contract announced recently. The Security division is expected to catch up its delayed sales later in the year and the combined order book on

31 March was £29.0m (30 November 2021: £28.4m). The balance sheet remains in good shape with net cash of £3.9m on 31 March (30 November 2021: £4.6m) and a solid performance for the year is expected although the second half is likely to be better than the first. The shares remain a **BUY**.

Appreciate Group – 26.75p

A trading update has been provided by the AIM-listed financial services group which provides a range of services including gifting and pre-payment solutions such as vouchers and savings plans. The final quarter of the financial year to 31 March 2022 saw a third consecutive quarter of double-digit growth in underlying billings versus two years ago, which is used for comparison given Covid-related disruption. Underlying billings for the year were £222.0m, which represents an increase of 8.9% on two years ago and 5.5% more than last year. As a result, pre-tax profits for the year are expected to be higher than previous expectations at £8.3m for earnings per share of 3.6p. The dividend for the year is expected to be 2.0p per share putting the shares on a p/e ratio of just 7.4x and a dividend yield of 7.5%. The annual results are due out on 28 June and ahead of this announcement the shares are a **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 © 2022
www.westbrookagency.co.uk



Thanks for reading
Next issue out
23rd June

[RETURN TO THE WEBSITE >](#)

