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sorting the bulls from the bears

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Inland building for the future



AIM-listed **Inland Homes (34.25p)** has a flexible business model which allows it to adapt to suit market conditions and this is likely to prove to be very useful given the current situation. The business plan being followed includes the strategic disposal of consented land, as well as the construction and forward sales of private homes and partnership housing.

The company was incorporated in 2005 and is a specialist housebuilder and brownfield developer. It acquires brownfield land in the South and South East of England, mainly for residentially led development schemes. Land value is then increased by obtaining planning permission, before open market and affordable homes are built or surplus consented land is

sold to other developers to generate cash. The company has a good track record of brownfield site regeneration.

Interim results for the six months ended 31 March 2022 were released on 30 June. Increased revenue of £80.5m was reported (2021: £78.0m) and a loss before taxation of £8.2m was incurred versus a loss before taxation of £5.8m in the same period a year earlier, after accounting for an additional £4.0m of expected costs to complete on a partnership housing contract. There was a significant reduction in net debt to £96.2m versus £132.9m a year earlier and cash balances were £27.5m at the period end. Net gearing was 55.1% as at the period end, down

from 79.1% a year earlier. As at 31 March 2022 EPRA net tangible assets were £236.7m (31 March 2021: £222.0m), which translated into EPRA net tangible assets per ordinary share of 103.60p (31 March 2021: 97.29p).

The huge gap between the level of net tangible assets and the current share price presents an interesting opportunity. Ongoing share buybacks are also worth pointing out and given the price being paid this will drive the fundamental value of the shares higher. Prospects for housebuilding overall look tricky to predict but this is a niche player and there appears to be too much pessimism already factored in. On balance we rate Inland Homes as a **BUY**.



Packing a Punch

AIM-listed **Mpac Group (246p)** has recently announced a trading update ahead of its interim results for the six months ended 30 June 2022. This was effectively a profit warning, which saw the share price slump to a level which had not been seen for around two years. Interim results are set to be released on 8 September and given the extent of the share price fall, any positive signs at that time could see meaningful recovery.

The company is a leader in packaging automation solutions supplying high speed packaging solutions and related support services and systems. End users are primarily in the pharmaceutical, healthcare and food & beverage sectors. A fully integrated service of Make, Pack, Test and Service is offered, covering primary packaging, secondary

packaging, instrumentation and servicing of equipment. The company believes that its customer responsiveness, reduced lead times and flexible, responsive manufacturing base and supply chain leave it well positioned.

Mpac Group continued to make progress during the first half of the financial year although the challenging trading environment was noted. The company ended the period with a strong order book, ahead of the previous year, and with a prospects pipeline described as 'very encouraging'. Revenue for the six months ended 30 June 2022 is set to be ahead of last year and in line with expectations. However, more importantly, profit for the full year is now likely to be significantly below market expectations. Increasing macro-economic uncertainty and unprecedented volatility in

the global supply chain have impacted on the timing of customers' order placement. Operational challenges are also being caused, in particular relating to the sourcing of critical, customer specified electronic components. Supply chain and operational challenges are likely to continue for the remainder of 2022, before easing in 2023. The longer-term outlook for the business remains positive.

As with many other companies, there are significant challenges in the near term. Looking further ahead some interesting opportunities are in place and the strength of Mpac Group's balance sheet should mean that it can ride out the current tough period. The timing of recovery in the share price is very difficult to predict but ultimately the shares are good value and rank as a **BUY**.

KGH

136.5p

BUY

KNIGHTS GROUP

SECTOR-AIM - INDUSTRIAL SUPPORT SERVICES

Shares in **Knights Group** have collapsed in recent months. This is certainly not unusual for companies listed on AIM, some of which now trade on very low multiples of historic and prospective earnings. Knights Group is a case in point and even in the unusual market conditions which we are now negotiating, the rating on which the shares stand looks too low.

The company is a legal and professional services business with over 1,000 fee earners delivering services to over 10,000 business clients from 22 office locations across the UK. It has a vision to build the leading full service legal and professional services business outside London. Having joined AIM in 2018 the company has grown significantly, helped by a series of acquisitions.

Results for the year ended 30 April 2022 were released on 12 July. Reported revenue for the period was £125.6m versus £103.2m in the prior year, equating to a 21.7% increase. Of this increase £5.8m came from acquisitions made during the financial year and £16.9m from acquisitions in the prior financial year. Organic growth was 1.8% overall with organic growth in the first half of the year of 9.3% offset by a 4.6% reduction in organic revenues in the second half of the year. The decline was due to the impact of exceptional levels of employee sickness and disruption caused by the Omicron variant and a slight softening in business confidence due to macroeconomic pressures in the last quarter of the year. This is typically the most significant trading period of the financial year. Given the full year impact of acquisitions made during the year, as at 30 April 2022 the run rate revenue was around £132m.

Underlying profit before tax slipped to £18.1m (2021: £18.4m). This meant that the margin for the full year was 14.4%, down from 17.8% in the prior year. The decrease in margin was due to the direct impact on profit of the lower than anticipated revenue in the last two trading months of the financial year. The cost base of the business was at a level that budgeted for anticipated revenue of approximately £131m. If this level of revenue had been achieved, the additional £5m of revenue would have supported profitability and delivered an underlying profit before tax margin of around 17.7%, in line with prior years. Underlying profit before tax excludes amortisation of acquired intangibles, transaction and onerous lease costs in relation to acquisitions, disposals of acquired assets, restructuring costs as a result of the streamlining of the support function in acquisitions and restructuring undertaken in response to the Covid-19 pandemic in the year to 30 April 2021.

Reported profit before tax for the year slumped to £1.1m (2021: £5.5m) reflecting the net impact of the £0.3m decrease in underlying profit before tax, a £1.2m increase in amortisation of acquired intangibles and a £3.0m increase in non-underlying costs. Non-underlying costs increased from £10.3m in the prior year to £13.3m. Underlying earnings per share were 17.23p versus 18.30p in the prior year. The decrease of 6% is due to an increase in both the tax rate and the average number of shares in issue compared to the prior year.

Dividends were not declared during the Covid-19 pandemic but the company has decided to resume paying dividends in respect of the year ended 30 April 2022 in line with the previous dividend policy, being a total dividend payable of approximately 20% of profits after tax. The final dividend of 2.04p per share takes the total dividend for the year to 3.50p per share.

Strong cash conversion resulted in net debt of £28.9m as at 30 April 2022. This figure represents an increase in net debt from £21.1m as at 30 April

2021 due to an aggregate cash outlay of £18.0m relating to consideration for acquisitions completed during the period, deferred consideration paid in relation to acquisitions in prior years, repayment of debt on acquisitions and contingent consideration charged as remuneration. There is significant headroom to continue to support the company's growth strategy through organic recruitment and strategic acquisitions.

On 19 May 2022 contracts were exchanged for Knights Group to acquire 100% of the voting rights of Coffin Mew LLP. This was an independent law firm based primarily in Portsmouth, with offices in Southampton, Brighton and Newbury. Total consideration payable was £11.5m subject to working capital adjustments at the time of completion. This comprises £5.5 in cash, £1m of new ordinary shares in Knights Group and deferred cash consideration of £5m to be paid on over three years. This acquisition provides entry into new markets and adds scale to existing service offerings. The transaction completed on 8 July 2022 and at that time the assets and liabilities of Coffin Mew LLP were hived up into Knights Professional Services Limited.

Initial accounting for the business combination was not complete at the time of the final results announcement and the fair value of net assets acquired had not yet been determined. In its unaudited accounts for the year ended 31 March 2022, Coffin Mew reported revenue of £11.3m with a corporatised profit before tax margin of around 8%. Following full integration and realisation of all synergies, Coffin Mew is expected to contribute a profit before tax margin of around 16% which means the acquisition is expected to be immediately earnings enhancing, taking into account the typical level of revenue churn post-acquisition. On 5 July 2022, contracts were exchanged in relation to the sale of HPL, a high volume conveyancing business deemed to be non-core. The sale is expected to complete this month, subject to regulatory approval.

Given the nature of the business, the multiple of earnings on which the shares trade looks low. Further acquisitions could also be a key driver of further value and although growth in the immediate future is not expected to be spectacular, this does mean that there is scope for forecasts to be beaten. The valuation does not look excessive and with the share price having fallen by over 70% from the 2021 peak, now looks an opportune time to **BUY**.



	Year Ending 31 March	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 136.5p	2022	126	18.1	17.2	7.9	3.50	2.6
Market Capitalisation: £117m	2023 (est)	145	21.5	19.9	6.9	4.02	2.9
2021/22 Share Price Range: 465p/86p	2024 (est)	157	25.3	21.9	6.2	4.49	3.3
Website: www.knightsplc.com							

Aggressive Growth Portfolio VIII

The market seems to have regained its poise over the last month although there are still some large daily movements in the various stockmarket indices. Despite this, the FTSE 100 seems to have settled in a trading range of between 7,000 and 7,350 and it will be interesting to see which way it eventually moves when this range is broken. It is currently towards the top of the range, but it is hard to see a catalyst which would drive the market higher at the moment.

During the month, the share price of **SigmaRoc** fell through the stop-loss figure of 55p and so we have been forced to sell our holding of 3,500 shares at that price. This has generated net proceeds of £1,906 for a loss of £868. Regular readers will recall that in the May issue we reduced our recommendation on **Alliance Pharma** to hold on valuation grounds and as the shares have hardly moved since we have decided to sell our holding

of 2,800 shares at 113.6p. This has generated net proceeds of £3,150 for a gain of just £28. Finally, we have also decided to take the profit on **Serco**. This holding has been held since February last year and following a strong run in the share we now believe this is the time to take profits on valuation grounds. The company continues to perform well but following the latest trading update in May the share price has risen from 153p to 182p, and further progress is likely to prove much more difficult. We have therefore sold the holding of 2,600 shares at 182p for net proceeds of £4,685 and a gain of £1,376.

Several companies in the portfolio have made announcements during the month and these are **Renold**, **GetBusy**, **Redde Northgate**, **Appreciate Group**, **Synectics** and **Portmeirion Group**.

A dividend of £32 was received during the month from **Alliance Pharma** and following the purchase of shares in both companies featured in this issue, there is £3,974 left on deposit pending investment.

Performance summary

	19 July 2022	21 June 2022	Gain/(Loss) %
Portfolio Value	£56,625	£55,553	1.9
FTSE 100 Share Index	7,292.28	7,152.05	2.0
FTSE All Share Index	4,018.64	3,943.98	1.9
FTSE AIM All Share Index	888.70	898.40	(1.1)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	479	2,395	280
2,350	Senior	149.3	3,562	134	3,149	115
12,000	Renold	25.1	3,042	24.25	2,910	20
4,500	GetBusy	66	3,000	58.5	2,633	50
1,000	QinetiQ	282.4	2,866	383.4	3,834	220
725	Redde Northgate	397	2,921	360.5	2,614	325
14,000	Appreciate Group	23	3,252	29.45	4,123	18
3,125	Brighton Pier	83.5	2,635	81	2,531	65
2,825	Synectics	92.5	2,639	107.5	3,037	75
4,500	Finsbury Food	75.5	3,432	68	3,060	58
1,500	NWF Group	209	3,166	220	3,300	165
2,750	Melrose Industries	117.65	3,283	165.85	4,561	95
625	Portmeirion Group	475	2,999	390	2,438	350
2,000	Halfords Group	148.8	3,021	167.4	3,348	120
1,500	Devro	184.4	2,807	182.2	2,733	150
2,250	Knights Group	136.5	3,102	136.5	3,071	105
2,350	Tinybuild	124	2,943	124	2,914	100
£3,974	Cash	-	-		3,974	
				TOTAL	£56,625	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £1,773 *after part disposal

TBLD

124p

TINYBUILD

SECTOR - AIM - LEISURE GOODS

A relative newcomer to AIM, **tinyBuild** is a company which would probably be handed a far higher valuation under more normal market conditions. It operates in a high growth area which has often found favour with investors and has reported strong growth in revenue and earnings. Acquisitions also appear to have been effective so the company could generate strong growth for some time.

Founded in 2013, **tinyBuild** is a global video games publisher and developer. The company was admitted to AIM in March 2021 and on Admission the market capitalisation was approximately £340.6m, based on a Placing price of 169p per share. It has a catalogue of more than 70 premium titles across different genres. The company's strategy is to focus on its own intellectual property to build multi-game and multimedia franchises, in partnership with developers. It is headquartered in the US and has operations across the Americas and Europe.

A trading update covering the first half of 2022 was released to coincide

with the company's Annual General Meeting on 12 July. Performance in the first half was slightly ahead of expectations. There was strong catalogue performance, including **Deadside**, **Potion Craft** and **Not For Broadcast**. A record number of new titles was announced in the first half of the year and results for the full year are set to be at least in line with expectations. The release schedule is weighted towards the second half of the year. The number of staff has increased from 166 a year ago to over 400, mainly due to the acquisition of **Red Cerberus** in November 2021, which added over 200 staff in Brazil.

In the year ended 31 December 2021 revenue was US\$52.2m (2020: US\$37.7m), which was slightly ahead of expectations. Profit before tax was US\$12.5m and basic earnings per share 4.3c. Net cash as at 31 December 2021 was US\$48.8m versus US\$26.3m as at 31 December 2020. Gross proceeds from the IPO were £36.2m (US\$50m) and there was a significant increase in development costs.

Interim results for the six months ended 30 June 2022 are due to be released on 27 September and these should underline the progress which is being made. The shares are not without risk but if the anticipated growth in earnings is delivered over the next couple of years then there should be significant capital growth ahead. **SPECULATIVE BUY.**

	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: 124p	2021	43.5	10.4	3.7	33.5	-	-
Market Capitalisation: £252m	2022 (est)	52.8	19.6	7.4	16.8	-	-
2021/22 Share Price Range: 274p/116p	2023 (est)	57.3	22.2	8.5	14.6	-	-
Website: www.tinybuild.com							

News Highlights

Renold



24.25p 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.

Renold – 24.25p



The AIM-listed international supplier of industrial chains and related power transmission products has announced results for the year to 31 March and these have shown strong growth in revenues which have risen to £195.2m from £165.3m the year before. Pre-tax profits more than doubled to £12.4m (2021: £6.1m), whilst adjusted earnings per share rose to 4.3p (2021: 2.3p). No dividend has been declared and net debt at the year-end had declined to £13.8m (2021: £18.4m). These are clearly excellent results, and the positive momentum has carried through into the current year although the group acknowledges that Covid-19 is still an issue in some parts of the world whilst supply chain issues and high inflation are also a concern. However, the group is successfully passing on increased costs. Higher energy costs in the current financial year are also a concern and as a result, pre-tax profits may dip slightly to £12.0m with earnings per share unchanged at 4.3p. We believe that a prospective p/e ratio of around 10x 2023 earnings is justifiable and this would give a share price target of 43p. The shares are a **BUY**.

Carclo – 19.5p



The specialist engineering group has announced its results for the year to 31 March and these have shown that the group continues to make positive progress despite the challenging conditions. Revenue from continuing operations has increased by 19.5% to £128.6m (2021: £107.6m), whilst underlying pre-tax profits increased to £3.1m (2021: £2.2m). Earnings per share on the same basis rose to 3.1p (2021: 2.4p). Net debt increased to £21.5m (2021: £20.5m) but this was after spending £9.7m on capital expenditure whilst the group also increased inventory levels to help cope with the uncertainty of supply. The group has issued a cautiously optimistic statement regarding prospects for the current financial year, and we expect adjusted pre-tax profits to increase to around £3.4m for

earnings per share of 3.4p. A prospective p/e ratio of 5.7x looks too low in our view given the recovery potential and we rate the shares as a **BUY**.

Capita – 28.5p

The leading outsourcing group has issued a trading statement covering the first half of 2022 and this has confirmed that trading has been as expected. Further growth in revenue has been seen and there have also been important contract renewals as well as new contract wins. These include the renewal of the BBC TV licencing contract worth some £456m, further work for the Northern Ireland Education Authority worth £51m and a new contract with Scottish Power worth £63m. So far this year the group has disposed of four non-core businesses raising £750m, more than the £700m original target and six months earlier than expected. The group has confirmed that profitability in the current year will be weighted towards the second half. We have reduced our full year expectations for adjusted pre-tax profits of around £95m for earnings per share of 4.5p and this clearly puts the shares in bargain basement territory although net debt remains high with debt of some £250m expected at the year-end excluding lease obligations. Despite this, the recovery at the group remains well on track and we rate the shares as a **BUY**.

Portmeirion Group – 390p

The designer and manufacturer of high-quality homeware has provided an update on trading for the six months to 30 June, with sales for the period expected to be at least £45m (2021: £43.1m) representing an increase of 5%. However, the company has issued a note of caution over the prospects for the second half of the year with global supply chain issues, higher raw material costs and weaker sales markets all having a negative impact. Long term prospects remain encouraging though with new product launches planned for the second half. We tipped the shares at 475p in the May issue and clearly the share price has dropped back significantly since then. It is now back to the level of some two years' ago whilst it is worth pointing out that the share price was over 700p at the start of the year.

Although investors may need to be patient, we maintain our recommendation of **LONG-TERM BUY**.

Barratt Developments – 485p

The leading housebuilder has issued a trading update for the year to 30 June which has confirmed an excellent year. The number of house completions during the year rose to 17,908 from 17,243 the year before with the result that adjusted pre-tax profits for the year are likely to be ahead of expectations at around £1.05bn (2021: £919.7m). Earnings per share are likely to emerge at around 81p and the dividend should be around 36p per share. This would put the shares on a p/e ratio of just 6.0x and a yield of 7.4%. The company also ended the year with net cash of some £1.25bn. These are clearly excellent results benefitting from strong demand for housing and higher selling prices. Although the company is encountering planning delays on some sites as well as higher build costs, these factors seem to be largely accounted for in the share price which is close to a two-year low. The shares began the year at 760p and a fall of 36% in the share price since then looks overdone. The shares are a **BUY**.



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