cityconfidential

sorting the bulls from the bears

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Up and coming Airea?

On the face of it there are more exciting opportunities than AIM-listed Airea (28.5p). The floor coverings business is at the bottom end of the market both in terms of the value of the business and the level of interest shown towards it. However, the current share price reflects these factors and interim results covering the first half of 2022 suggest that there may well be hidden value.

Airea is a specialist flooring company which designs, manufactures, markets and distributes products. Its core brand is burmatex, which offers a wide range of eco friendly flooring solutions to the contract, commercial and leisure sectors in the form of carpet tiles, sheets and planks. Products are designed to give a classic, contemporary style and manufactured to comply with strict industry standards, making them a durable solution for environments such as schools, offices and hospitals.

Interim results for the six months to 30 June 2022 were released in late July. Revenue for the period was £8.6m (2021: £7.4m) and net profit was £611k (2021: £440k), translating into basic earnings per share of 1.58p (2021: 1.14p). Operating cash flows before movements in working capital were £0.8m (2021: £0.5m). Net cash increased by £0.3m and stood at £2.5m as at 30th June 2022. No interim dividend was declared. Net assets as at the period end were £16.74m, the equivalent of around 40p per share.

The selection process for a new CEO is ongoing following an untimely death and the company noted at the time of its interim results that it expects to be in a position to make an announcement with regards to this in the coming months. Given the strong balance sheet there is protection against downside and financial performance in the recent past has been reassuring. Now looks a good time to pick shares up at an attractive price, although patience is likely to be required and there could be bumps in the road. We rate the shares as a LONG TERM BUY.

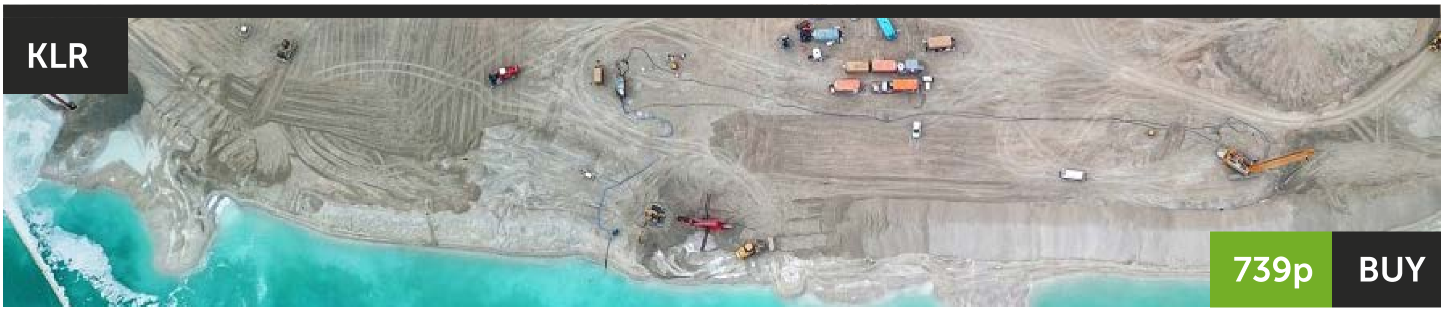
Pensions expert XPS working well

XPS Pensions Group (141p) is a solid niche business which currently has a relatively undemanding rating placed upon it. Given market conditions, with many companies facing considerable uncertainty, the shares look an attractive proposition. Although final results were released in June and there may not be any meaningful news in the immediate future, now looks an interesting time to consider buying in.

The company is the largest pure pensions consultancy in the UK. It specialises in pensions actuarial & consulting, pensions investment consulting and pensions administration. The business addresses the needs of both pension trustees and sponsoring companies for over 1,500 pension schemes, on an ongoing or project basis. Clients include 47 schemes with over £1bn of assets. Pensions administration is undertaken for over 950,000 scheme members.

Results for the year ended 31 March 2022 showed revenue of £138.6m (2021: £127.9m) and profit before tax of £16.9m, up from £11.4m a year earlier. Adjusted diluted earnings per share were 10.2p (2021: 9.8p). A final dividend of 4.8p per share took the total for the year to 7.2p. Following two years where the total dividend was maintained, an increase of 7% reflects confidence in prospects. The cash balance increased by £1.5m over the course of the year to close at £10.1m. The company had drawn down £64m of its £100m revolving credit facility as at 31 March 2022, resulting in net debt of £54.6m. This was an increase of £4.2m versus one year earlier.

The current valuation placed on the business looks on the low side even given weakness in the broad market. This is a company operating in an area which should prove to be resilient and it should continue to grow value for shareholders. Final results in June demonstrated the visibility of earnings, with a high proportion of revenues being non-discretionary and recurring. At the time of the results announcement the company pointed out that recent client wins and a strong pipeline of opportunities will support further growth. It was said to have made a good start to the new financial year. The shares are a BUY.



Keller Group

SECTOR - CONSTRUCTION AND MATERIALS

Keller Group released interim results earlier this month and these provided details of record first half performance. This was impressive given some of the challenges faced and a record order book of £1.6bn as at the end of June was also comforting. Inflation and supply chain issues are obvious areas of concern and these could have a significant negative impact but the company still appears to be making good progress. Although the outlook remains somewhat uncertain, negative factors are priced in already. The results announcement has reduced risk to some extent and now is arguably a good time to buy in.

The company, which was founded in 1860, operates as a geotechnical specialist contractor in North America, Europe, the Middle East, Africa, and Asia-Pacific. It offers ground improvement services, grouting, deep foundations, earth retention, marine and instrumentation and monitoring services. It also provides solutions, such as containment, excavation support, stabilisation, marine structures, seepage control, slope stabilisation, remediation and monitoring, as well as bearing capacity. Services are provided to the construction sector for infrastructure, industrial, commercial, residential, power, and institutional/public projects. Keller Group has built a strong track record of delivering a wide variety of projects on time. There are interesting specific examples of some of the work undertaken on the company's website.

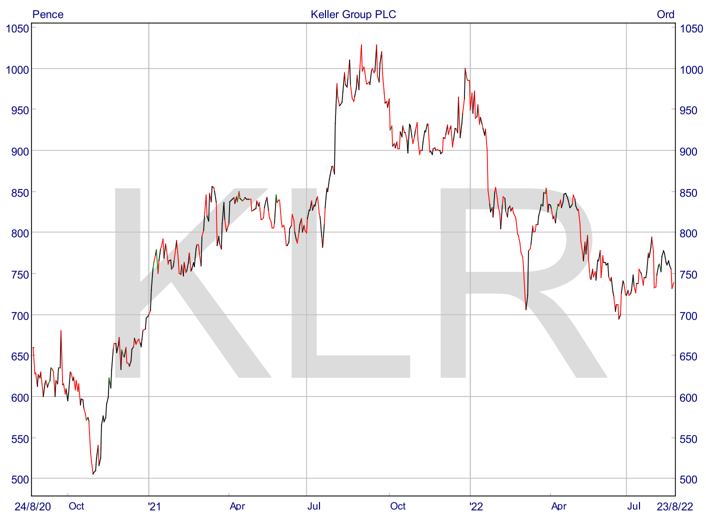
Interim results were released on 2 August. Revenue of £1,337.4m (2021: £984.1m) was 36% up due to growth in all three divisions, with some benefit from foreign exchange tailwinds. On a constant currency basis revenue increased by 31% and on an organic constant currency basis, excluding the impact of RECON, revenue increased by 20%. RECON was acquired in the second half of 2021. North America reported a revenue increase of 39% at constant currency, positively impacted by RECON, price increases at Suncoast and increased volumes in the US Foundations business. Constant currency revenue growth excluding RECON was 22%. In Europe revenue increased by 26% at constant currency. Business activity levels increased compared to the prior year, when restrictions relating to Covid-19 were still in place. Revenue in AMEA increased by 7% on a constant currency basis. Higher activity levels in Australia, India and the Middle East more than offset weakness in Indonesia and Malaysia. A strength of the business is a diversified spread of revenues across geographies, product lines, market segments and end customers. Customers tend to be market specific and the largest customer represented less than 5% of revenue for the half year. The top 10 customers represented 18% of revenue during the same period.

Underlying operating profit was £49.6m (2021: £39.5m). North America underlying constant currency operating profit decreased by 27% due to pressure from the increased cost of materials and labour as well as availability constraints that affected productivity and some project execution issues. Europe constant currency operating profit was up 144%, reflecting recovery after Covid-19 restrictions were lifted as well as the ability of the business to respond to disruption due to the war in Ukraine. AMEA constant currency operating profit increased significantly due to a recovery in trading in Middle East and Africa as well as Australia following the impact of the pandemic. An underlying post-tax profit of £0.9m was recognised in the period (2021: £0.3m) from the company's share of the post-tax results from joint ventures. Statutory operating profit, comprising underlying operating profit of £49.6m (2021: £39.5m) and non-underlying items comprising net costs of £11.9m (2021: £6.0m), increased by 13% to £37.7m (2021: £33.5m).

Net finance costs increased by 16% to £5.0m (2021: £4.3m) as a result of a higher average net debt during the half year. Average net borrowings, excluding IFRS 16 lease liabilities, were £217.8m during the period versus £123.4m in the equivalent period ended 27 June 2021. Underlying diluted earnings per share were up 31% to 46.5p (2021: 35.6p) in line with the increased operating profit, combined with a reduced effective tax rate in the period. Statutory diluted earnings per share were 33.5p (2021: 28.2p). An interim dividend of 13.2p per share (2021: 12.6p) was declared. There was a free cash outflow of £46.8m in the period versus an inflow of £26.9m in the same period a year earlier. This was impacted by the volume growth in the business and the related increase in working capital requirements.

The ongoing strategy is to be the preferred international geotechnical specialist contractor with a focus on sustainable markets and attractive projects. During 2020 and 2021 progress was made in terms of rationalising and restructuring geographic and service activities to create a more focused, higher quality portfolio of businesses. This year the company has exited two of its more peripheral geographies in the Europe Division as it continues to sharpen its focus. It is also looking at its South West Europe and Middle East and Africa business units with a view to further rationalisation and reorganisation. A key part of the strategy is to further in-fill chosen local markets, both organically and through bolt-on acquisitions, to accelerate growth. The bolt-on acquisition of GKM Consultants Inc, a small geo-structural measurements and monitoring business based in Quebec, Canada, was completed in May. GKM will integrate into the Specialty Services business in the North America Division and will help drive growth in this specialist segment.

The timing of buying in is difficult to judge, with the next scheduled news being a trading update on 17 November. Ahead of that announcement the share price is likely to be driven by the broad market and some volatility is likely on that basis. However, for anyone with a longer term investment horizon, now looks an interesting time to invest. The shares also provide a very useful dividend yield, which based on current forecasts is over 5% on a prospective basis. This should not be ignored and the level of dividend income is likely to be a useful component of overall returns in the coming years. The shares are not without risk but we put forward a BUY rating.



Share Price: 739p
Market Capitalisation: £538m
2021/22 Share Price Range: 1028p/700p
Website: www.keller.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	2,224	83.9	88.4	8.4	35.9	4.9
2022 (est)	2,672	99.0	99.5	7.4	38.5	5.2
2023 (est)	2,787	107.6	107.0	6.9	40.2	5.4

Aggressive Growth Portfolio VIII

Although the overall market has held up remarkably well over the last month, it is disappointing to have to report that the portfolio has fallen in value. As can be seen from the table below, the result is that it has significantly underperformed all the benchmark indices during the period, as it has dropped in value by 3.8%.

The largest fallers during the month have been Melrose Industries (down by 16.5%), Halfords Group (down by 23.4%) and Knights Group (down by 23.1%). In fact the fall in the share price of the latter took it through the stop-loss limit of 105p and so we have sold the holding of 2,250 shares at that price. This raised net proceeds of £2,339 for a loss of £763.

We have also decided to sell the holding of Senior following the announcement of the interim results for the six months to 30 June. These showed that trading at the company is improving, but as we say in News Update the shares still look expensive and we see little scope for upside in the short term. We have therefore sold the holding of 2,350 shares at 144p for net proceeds of £3,350 and a loss of £212.

As well as Senior, several other companies in the portfolio have made announcements during the month and these are Hargreaves Services, Renold, Qinetiq, Appreciate Group, Brighton Pier, Finsbury Food, NWF Group, Portmeirion Group and Devro. These are covered in the News Update section or are covered on the website.

No dividends were received during the month and following the purchase of shares in both companies featured in this issue, there is £3,673 left on deposit pending investment.

Performance summary

	23 August 2022	19 July 2022	Gain/(Loss) %
Portfolio Value	£54,486	£56,625	(3.8)
FTSE 100 Share Index	7,488.11	7,292.28	2.7
FTSE All Share Index	4,108.39	4,018.64	2.2
FTSE AIM All Share Index	899.69	888.70	1.2

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	480	2,400	280
12,000	Renold	25.1	3,042	23.5	2,820	20
4,500	GetBusy	66	3,000	56.75	2,554	50
1,000	QinetiQ	282.4	2,866	353	3,530	220
725	Redde Northgate	397	2,921	350.5	2,541	325
14,000	Appreciate Group	23	3,252	30.75	4,305	18
3,125	Brighton Pier	83.5	2,635	74.5	2,328	65
2,825	Synectics	92.5	2,639	118.5	3,348	75
4,500	Finsbury Food	75.5	3,432	70.5	3,173	58
1,500	NWF Group	209	3,166	227	3,405	165
2,750	Melrose Industries	117.65	3,283	138.65	3,813	95
625	Portmeirion Group	475	2,999	390	2,438	350
2,000	Halfords Group	148.8	3,021	128.3	2,566	120
1,500	Devro	184.4	2,807	199.2	2,988	150
2,350	Tinybuild	124	2,943	115	2,703	100
400	Keller Group	739	3,001	739	2,956	625
1,800	Barclays	163.6	2,989	163.6	2,945	130
£3,673	Cash	-	-		3,673	
				TOTAL	£54,486	

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

BARC 163.6p Barclays

SECTOR - BANKS

As one of the most established brands in the UK, readers will need little introduction to Barclays. Many investors are still wary of banks given events in the past which saw the valuation of many UK banks, including Barclays, collapse between 2007 and 2009. Although some concerns remain valid, tight regulation should ensure that the downside risk which came under the spotlight at that time has been protected against in more recent years.

Barclays is a well-known global financial services provider which offers retail banking, credit cards, wholesale banking, investment banking, wealth management and investment management services. The two divisions, Barclays UK and Barclays International, are supported by service company Barclays Execution Services. Barclays UK covers UK Personal Banking, UK Business Banking and the Barclaycard Consumer UK businesses. Barclays International consists of its corporate and investment bank and consumer, cards, and payments businesses. Barclays Execution Services provides technology, operations, and functional services to businesses.

Interim results covering the six months ended 30 June 2022 were released on 28 July. Total income increased to £13,204m (2021: £11,315m). Profit before tax of £3,733m (2021: £4,902m) was achieved, which translated into earnings per share of 14.8p (2021: 21.9p). An interim dividend of 2.25p per share was declared, up from 2.0p last year. The tangible net asset value per share at the period end was 297p (31 December 2021: 291p) primarily reflecting 14.8p of earnings per share, partially offset by net negative reserve movements driven by higher interest rates. The company is also buying back shares quite heavily and a further £500m buyback was announced at the time of the interim results' announcement.

Buying shares in banks remains a contrarian move but we feel that there is now potential for considerable upside. On a very basic level, shares in Barclays trade on a low multiple of earnings and provide a high dividend yield. Rising interest rates should be helpful in the near term and could see more focus return to banks as a potential opportunity. There is scope for the sector to return to favour at some point and now looks a good time to BUY.

Share Price: 163.6p
Market Capitalisation: £26,405m
2021/22 Share Price Range: 217.1p/133.5p
Website: www.barclays.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	21,940	8,414	37.4	4.4	6.0	3.7
2022 (est)	24,477	7,856	32.3	5.1	7.3	4.4
2023 (est)	24,918	7,561	31.7	5.2	9.0	6.1

*£1:US$1.20

News Highlights

Hargreaves Services

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.

Senior – 144p

Regular readers will be aware that we tipped these shares at 149.3p in June last year after the company had rejected an indicative cash offer of 200p per share. We felt the directors would need to get the shares up towards that level to justify the bid rejection and although the share price rose to over 180p it has since fallen back. The company has recently announced interim results for the six months to 30 June, revealing that revenues rose by 21% to £402.2m, whilst adjusted pre-tax profits rose to £8.8m from £0.9m in 2021. Adjusted earnings per share rose to 1.92p from 0.10p and the interim dividend was re-instated at 0.3p. Net debt excluding leases fell slightly to £72.9m (2021: £79.9m). Although the group's end markets are recovering, the shares have failed to perform for us and although profits are set to increase significantly this year and going forward, the shares look expensive on forecast earnings per share for 2022 of 3.7p. We therefore see little scope for growth in the short-term and therefore reduce our recommendation to SELL.

Devro – 199.2p

This leading producer of collagen products for the food industry has released interim results for the six months to 30 June which have shown an 8.3% rise in revenue to £129.8m, although underlying pre-tax profits have declined to £15.9m (2021: £17.7m). Earnings per share on the same basis have declined to 7.5p from 8.7p although the group has raised its interim dividend to 2.9p (2021: 2.8p). The results were adversely affected by foreign currency movements and higher input costs although the group is increasing prices to deal with the latter. The company suffered from capacity constraints in both the China and Czech plants as new capacity was introduced although the new production lines are now in operation which will benefit the second half. We maintain our full year forecast of pre-tax profits of £39.8m for earnings per share of 18.1p. In addition, a full year dividend of 9.6p would leave the shares on a dividend yield of over 4.8%. Given the relatively low rating and attractive dividend yield we continue to rate the shares as a BUY with a share price target of 240p.

Hargreaves Services – 480p

The group has announced its results for the year to 31 May, with revenues on continuing operations rising by over 19% to £177.9m, with underlying pre-tax profits increasing to £32.7m (2021: £21.2m). Earnings per share on the same basis increased to 103.2p (2021: 70.7p) and the dividend was raised to 8.4p (2021: 7.2p) whilst it is also proposing a special dividend of 12p per share (2021: 12p). The group's German joint-venture HRMS has benefited from very strong commodity prices during the period, whilst the Services business has benefited from the commencement of the HS2 contract. Hargreaves Land continues to progress its major development at Blindwells in East Lothian near Edinburgh, with the sale of a 12.9 acre plot to Persimmon taking place in January. There are another 120 acres still to be sold and this site will provide a steady stream of earnings for many years. The group ended the year with no bank debt and cash and cash equivalents of £13.8m. These are excellent results, and the group has a solid platform from which to make further progress despite the uncertainties in the economy. We maintain our recommendation of BUY.

NWF Group – 227p

The AIM-listed specialist distributor of feed, fuel and food has announced its results for the year to 31 May and these have shown a 30% rise in revenue to £876.6m with adjusted pre-tax profits increasing to £20.9m (2021: £11.9m). Diluted earnings per share on the same basis rose by over 70% to 34.8p (2021: 20.4p). The dividend for the year was raised to 7.5p (2021: 7.2p). Strong cash flow during the year meant that net cash at the year-end was £9.0m (2021: net debt of £5.7m). These results have benefited from an exceptional performance from the fuels business due to the volatility in oil prices and lack of supply. The food business also performed well whilst the feeds business recovered well in the second half after a poor first half performance. The current financial year has started well although with a return to more normal trading conditions likely we expect pre-tax profits to fall to £12m for earnings per share of 18.5p. The shares remain attractive and are a BUY.

QinetQ – 353p

The defence and engineering company has issued a positive trading update covering the three months to 30 June with revenues, profits and cash being in line with expectations as the group benefits from increased defence spending. It has also announced the acquisition of US group Avantus Federal LLC for some £483m. Avantus provides cyber, data analytics and software development solutions to the US Department of Defense and other agencies in the US. The purchase will double the size of the group's US operations, whilst also strengthening the group's activities in the areas of cyber technology and information solutions. The acquisition is expected to be earnings enhancing immediately and profit forecasts have been increased accordingly. This is more good news for the group and we maintain our recommendation of BUY.

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