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sorting the bulls from the bears

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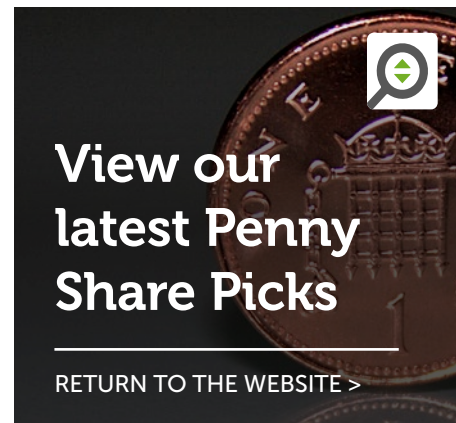
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258.5p BUY



Morgan shares poised to advance?

Morgan Advanced Materials (258.5p) released strong interim results in July but the company's share price has since moved significantly lower given the volatile market conditions which we have witnessed since then. Late last month CFO Richard Armitage bought 40,000 shares at 229p, just before they slipped to a low which had not been seen for over two years. However, they stood at over 400p little more than a year ago and a return to that level is certainly possible in the medium term, pointing to potential upside of over 50% for those buying in now.

The company describes its purpose as to use advanced materials to make the world more sustainable and to improve the quality of life. It uses deep materials science knowledge and

process capability to solve customer problems and deliver on its purpose. Its three core capabilities are materials science, application engineering and customer focus. Markets ranging from industrial to healthcare are serviced and the company aims to be CO2e net zero by 2050, which means that its green credentials should make it attractive to a wide pool of investors.

Interim results covering the six months ended 30 June 2022 were released on 29 July. Revenue was £530.2m (2021: £461.2m). Adjusted operating profit was £72.5m (2021: £59.1m) and adjusted earnings per share were 15.9p (2021: 12.7p). Cash generated from continuing operations was £45.2m (2021: £63.1m). An interim dividend of 5.3p

per share was declared versus 3.2p a year earlier. At the time the company stated that it expected adjusted operating profit for full year 2022 to be around the top end of analysts' forecasts, which were in the range of £132.9m to £139.2m.

A trading update is due to be released on 4 November and final results for the current year should be released on 28 February 2023. As long as results are broadly in line with the figures anticipated then there should be at least some further recovery in the share price in the coming weeks, subject to more normal conditions in the broad market. On balance, now looks a good time to **BUY** ahead of the upcoming trading update.



59.7p BUY

Grab your Coats

Industrial thread specialist **Coats Group (59.7p)** may not be the most exciting business in the world but it has a strong track record and some interesting recent acquisitions should drive further value for shareholders. Particularly given volatile market conditions, with many other companies impacted considerably more than in this case, the shares look an attractive proposition.

The acquisition of Texon was completed in July for an enterprise value of US\$237m and a total net cash contribution of US\$211m. Texon supplies high quality structural components such as heel counters, toe puffs and insoles to the global footwear market. It is expected to deliver high single digit growth and it

generated revenue of US\$132m in 2021. The following month the acquisition of Rhenoflex, one of the leading global manufacturers of sustainable structural material solutions for the footwear industry, was completed. The deal valued Rhenoflex at an enterprise value of €115m, approximately US\$117m, with approximately £92m being raised through the issue of new shares at 63.5p each to finance the deal.

Results for the six months ended 30 June 2022 showed revenue of US\$801m, up from US\$703m in the first half of 2021. Adjusted operating profit was US\$125m (2021: US\$97m) and adjusted earnings per share were 4.3c (2021: 3.3c). Net debt excluding lease liabilities

at the period end was US\$195m (2021: US\$168m). An increased interim dividend of 0.70c per share was declared versus 0.61c in 2021.

At the time interim results were released in early August the company noted that it expected full year results to be slightly better than previously forecast. This would put it on track for earnings per share of just over 8c and although there is considerable uncertainty in terms of the economy and other related factors such as exchange rates, the shares look good value on this basis. We rate the shares as a **BUY**.

SDG

104p BUY

Sanderson Design Group

SECTOR - AIM - HOUSEHOLD GOODS AND HOME CONSTRUCTION

Recent interim results from Sanderson Design Group were reassuring and the company remains on track to meet expectations for the full year. Given the recent economic backdrop this is impressive and with plenty of fear factored into the share price, bulls will now be hopeful that there should be recovery in the company's valuation ahead. It is obvious that there is pressure on consumers, particularly in the UK, which will have a negative impact in the coming months at least. However, this is undoubtedly priced in both in terms of caution on where trading may be heading and also sentiment towards the sector. Although there are factors out of the company's control which continue to present challenges, there is also some cause for optimism and the current share price looks like a very tempting entry point.

Sanderson Design Group specialises in luxury interior furnishings. It designs, manufactures and markets wallpapers, fabrics and paints. Licensing income is also generated from the use of its designs on products including bed and bath collections, rugs, blinds and tableware. Brands include Zoffany, Sanderson, Morris & Co., Harlequin, Scion, Clarke & Clarke and Archive by Sanderson Design. There is a strong UK manufacturing base which is made up of the Anstey wallpaper factory in Loughborough and Standfast & Barracks fabric printing factory in Lancaster. Both sites also manufacture for other wallpaper and fabric brands. The company employs around 600 people and has showrooms in London, New York, Chicago, Amsterdam and Dubai. Collaborations with Giles Deacon, Designs in Mind and Disney have all been announced in recent months.

Results for the six months ended 31 July 2022 were released on 11 October. Revenue was £57.9m, up 0.7% compared with the same period a year earlier and unchanged on a constant currency basis. Brand product revenue was 2.5% lower at £42.2m but revenue in the prior year benefited from approximately £0.6m of dispatches delayed from the financial year ended 31 January 2021 due to customs delays following Brexit. Brand product sales in Northern Europe were hit by the decision to cease trade in Russia, resulting in the loss of £0.8m of sales compared with the prior year. Overall, third-party manufacturing performed well in the period, with third-party orders down 2.5% in reported currency, reflecting a strong prior period when customers commenced restocking after disruption from Covid-19. Total licensing revenue was up 90.0% at £3.8m, driven by £1.9m of accelerated income. The progress within licensing continues and it was recently announced that a contract with NEXT has been extended, continuing its partnership with Morris & Co to 2025. The Williams Sonoma kitchenware partnership with Morris & Co has been extended by two years to 2025 with the brand and products due to launch in October 2022.

Gross profit for the period was £38.1m, compared with £35.9m a year earlier. The gross profit margin of 65.8% has improved and excluding the impact of licence income, which generates 100% gross profit, margins improved to 63.4% versus 61.1% a year earlier. The improvement was driven by movement towards higher margin brands and increased levels of digital production in the two manufacturing locations. Price increases were put through in February and August 2022 to mitigate against inflationary pressures. A fixed price gas contract was signed in June 2021 and is not due for renewal until October 2023. A fixed term electricity

agreement was due for renewal on 1 October and the company has moved onto the government capped rate. The latter represents a £700k per annum increase on previous levels and without support electricity bills would increase by a further £2m per annum. The company would seek to increase prices and reduce energy consumption in this situation.

Profit before tax for the period was £5.5m, up from £4.9m, and adjusted underlying profit before tax was £6.3m, up from £5.6m. Basic reported earnings per share for the period were 5.89p (2021: 5.31p). Adjusted underlying basic earnings per share for the period were 6.90p (2021: 6.11p) and diluted earnings per share were 5.83p (2021: 5.19p). The interim dividend was held at 0.75p for the six months ended 31 July 2022, payable on 25 November and the ex-dividend date is 27 October. The level of dividend reflects the progress made by the business in the first half and the strength of the balance sheet but also factors in uncertainty in the current macro-economic and consumer environment. Cash at the period end was £15.0m compared with £19.1m as at 31 January 2022 and £15.4m as at 31 July 2021.

It is worth pointing out that the company operates two defined benefit pension schemes in the UK. Both are closed to new members and to future service accrual but in the six month period contributions of £1.2m (2021: £1.1m) were made to these schemes. The schemes recorded a surplus of £2.6m as at 31 July 2022 versus a deficit of £4.7m a year earlier and a surplus of £2.6m as at 31 January 2022. Recent volatility in financial markets could have had an impact on these pensions and given the complexities involved in this area it is a risk factor to note carefully.

This is clearly a very sensibly managed business and it is well placed to negotiate any difficulties which it faces both in the near term and beyond. Taking into account the strength of the balance sheet and most notably the net cash position, the shares look undervalued. Negative sentiment towards equities in general and particularly those which could be hit by reduced consumer spending is no doubt holding the share price back but when this changes there could be sharp recovery. Little growth is forecast in the near term but looking further ahead there are some interesting opportunities to develop the business further. Any growth in licensing will feed straight through to the bottom line. The timing of recovery in broad markets is extremely difficult to predict but there is a good level of yield on offer to those holding the shares until equity markets turn more positive. We rate the shares as a **BUY**.



	Year Ending 31 January	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 104p	2022	112	12.5	13.8	7.5	3.50	3.4
Market Capitalisation: £73.8m	2023 (est)	115	12.6	13.9	7.5	3.83	3.7
2021/22 Share Price Range: 233.5p/88p	2024 (est)	118	12.3	13.6	7.6	3.83	3.7
Website: sandersondesign.group							



Aggressive Growth Portfolio VIII

The portfolio has fallen in value yet again, although the loss suffered was very modest in the context of world markets suffering further significant falls. Political uncertainty in the UK and the ongoing impact of global issues continue to depress sentiment. Although bulls have had little to cheer in recent months there is a high level of fear priced into the market now.

The portfolio has been resilient given this backdrop and although performance from individual holdings has been mixed, this is reassuring given how difficult it has been to find stocks which have appreciated in value, or even held their broad value, in recent months. Smaller companies have been particularly hard hit and as we have a bias towards this part of the market it is slightly surprising that overall the portfolio has held almost all its value over the past four weeks.

With a significant level of cash already held, we have decided to keep all holdings other than **Brighton Pier** and **Keller Group**, which have both fallen through their respective stop-loss limits and had to be sold. The sale of 3,125 shares in the former at 65p brought in proceeds of £2,011 for a loss of £624. Selling 400 shares in the latter at 625p brought in £2,475 and crystallised a loss of £526. This is a disappointing outcome in both cases and reflects the broad market rather than issues on a micro level.

Announcements from **GetBusy**, **QinetiQ**, **Finsbury Food**, **Halfords Group** and **Tinybuild** are all either covered in the News Update section or on the website.

A useful dividend of £168 was received from **Appreciate Group**. Following the purchase of shares in both companies featured in this issue, there is £3,588 left on deposit pending investment.

Performance summary

	18 October 2022	20 September 2022	Gain/(Loss) %
Portfolio Value	£51,942	£52,104	(0.3)
FTSE 100 Share Index	6,936.74	7,192.66	(3.6)
FTSE All Share Index	3,792.79	3,947.56	(3.9)
FTSE AIM All Share Index	795.48	855.32	(7.0)

Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500 Hargreaves Services*	264	1,334	330	1,650	280
12,000 Renold	25.1	3,042	22.2	2,664	20
4,500 GetBusy	66	3,000	56.5	2,542	50
1,000 QinetiQ	282.4	2,866	349.6	3,496	220
14,000 Appreciate Group	23	3,252	28.3	3,962	18
2,825 Synectics	92.5	2,639	105	2,966	75
4,500 Finsbury Food	75.5	3,432	87	3,915	58
2,750 Melrose Industries	117.65	3,283	105.05	2,889	95
2,000 Halfords Group	148.8	3,021	170.8	3,416	120
1,500 Devro	184.4	2,807	169.8	2,547	150
2,350 Tinybuild	124	2,943	112.5	2,644	100
1,800 Barclays	163.6	2,989	147.5	2,655	130
9,000 Speedy Hire	37.5	3,426	38.7	3,483	31
250 Assoc British Foods	1321	3,352	1327.5	3,319	1175
3,000 Sanderson Design	104	3,151	104	3,120	85
2,800 Learning Technologies	110.2	3,116	110.2	3,086	80
£3,588 Cash	-	-	-	3,588	-
			TOTAL	£51,942	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £2,111 *after part disposal.

LTG

Learning Technologies Group

110.2p
SECTOR - AIM - SOFTWARE AND COMPUTER SERVICES

Learning Technologies Group is one of many companies which arguably had a stretched valuation this time last year but has seen its share price collapse and now potentially looks very good value. In this case the share price has almost halved in twelve months, which looks harsh and with the benefit of hindsight this should prove to have been the case. The company announced updated strategic goals last week and it is useful to see clear aims stated so that progress can be judged accordingly.

The company specialises in the workplace digital learning and talent management market, offering end-to-end learning and talent solutions. This covers strategic consultancy and a range of content and platform solutions to analytical insights that enable corporate and government clients to improve workforce capability. Offices are located in Europe, North America, South America and Asia-Pacific.

Interim results were released on 22 September. In the six months to

30 June 2022 revenue was £281.8m versus £82.6m in the first half of 2021, supported a contribution of £184.9m from GP Strategies and the positive impact of a stronger US dollar. Adjusted EBIT broadly doubled to £44.1m (2021: £22.0m) and cash generated from operations was £26.8m (2021: £19.9m). Adjusted diluted earnings per share jumped from 2.310p to 3.715p. As at the period end gross cash was £71.9m and net debt £145.3m. An interim dividend of 0.45p per share was declared (2021: 0.30p).

On 13 October a Capital Markets Day was held for analysts and investors. New strategic goals were released to coincide with this and the updated aim is to achieve run-rate revenues of £850m and run-rate adjusted EBIT of £175m by the end of 2025. It is intended that this will be met through organic revenue growth of around 5%, in line with medium term targets, as well as strategic acquisitions focused primarily on SaaS businesses. It is expected that acquisitions will be funded through internally generated cash flows alongside prudent debt financing. The current share price represents a modest multiple of prospective earnings for 2022 and 2023, particularly given prospects for sustained growth in the medium to long term. The shares are a **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: 110.2p	2021	258	52.5	5.0	22.0	1.00	0.9
Market Capitalisation: £869m	2022 (est)	590	93.7	8.5	13.0	1.29	1.2
2021/22 Share Price Range: 235.8p/100.0p	2023 (est)	622	106.3	9.4	11.7	1.46	1.3
Website: www.ltgplc.com							

News Highlights

DX Group



24p **SPECULATIVE 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.

Manx Financial – 14p

Interim results covering the six months ended 30 June 2022 have been released by the AIM-listed financial services group. Profit before tax was £2.3m, up from £1.1m in the same period a year earlier. Basic total comprehensive income earnings per share were 1.94p (2021: 0.88p). Shareholder Equity was up 17% to £27.0m (£23.1m). The company has pointed out that its shares trade on an exceptionally low multiple of earnings. Although the fact that the shares are tightly held does increase some elements of risk involved with investing, the shares must be a **BUY** given such strong recent performance.

Finsbury Food – 87p

The leading UK and European baking group has announced its results for the year to 2 July and these have revealed that group revenues for the year were 13.9% higher at £357m whilst adjusted pre-tax profits rose by some 12% to £17.0m (2021: £15.1m). Adjusted earnings per share rose 17% to 10.1p and the dividend for the year was raised to 2.5p (2021: 2.4p). The growth in revenue was driven by increases in sales volumes and the introduction of new products with the recovery in the foodservices business following the end of Covid restrictions also being a contributing factor. These results were achieved in very challenging market conditions and are a testament to the management team at the group. The new financial year is clearly going to bring new challenges but the company has managed to navigate these before and its business model has proved resilient. The shares only stand on a relatively modest multiple of earnings and we therefore continue to rate them as a **BUY**.

Brighton Pier Group – 59.5p

The AIM-listed UK entertainment business has released figures for the 52 weeks ended 26 June 2022. The financial year end has

changed to December. In the period under review revenue increased to £40.1m (2021: £13.5m), a record result and an increase of 25% on the same pre-Covid period in 2019. Group EBITDA was £10.8m (2021: £5.1m) as it benefitted from a temporarily reduced rate of VAT and rates relief. Profit before tax was £7.3m (2021: £4.1m) and earnings per share were 15.4p (2021: 11.3p). Cash generation was notable and net debt was reduced to £5.0m (2021: £13.3m). Although an uncertain outlook has hit the share price, net debt as at the end of August was less than £2.0m. The current share price represents very good value and although further volatility is likely in the near term due to fears over consumer spending, we rate the shares as a **BUY**.

Coral Products – 16p

The AIM-listed specialist plastic products group has expanded its operations with the purchase of Ecodeck Grids Ltd for consideration of up to £5.6m. This will be satisfied by an initial cash payment of £3.35m and the issue of 6.25m shares at 16p and an earn out of up to £1.25m depending on the future performance of Ecodeck. The latter is a supplier of recycled plastic building and landscape products including driveway grids, gravel pathways grids and plastic shed bases. In the year to last January, Ecodeck had revenues of £6.8m and post-tax profits of £0.9m. The acquisition reinforces the group's focus on niche, speciality operators in the plastics sector and is expected to be earnings enhancing in its first year. This looks to be another solid move by the group as it expands its product offering and Corporate Development Director Paul Freud has added to his shareholding, buying 46,400 shares at 14.3p. We continue to rate the shares as a **BUY**.

QinetiQ – 349.6p

The engineering and defence group has issued a trading update covering the second quarter to 30 September confirming that trading remains strong, with an excellent level of order intake. First half orders of £800m are 18% higher than last year and the company now has 90% of revenues for the year to 31 March 2023 under contract. The interim results are due to be published on 10 November but

these seem likely to please and the shares could move back up to the high for the year of 395p if that is the case. Full year earnings per share of around 23p are anticipated and we continue to believe that the shares are a **BUY**.

DX Group – 24p

Shares in the AIM-listed provider of delivery solutions, including parcel freight, secure courier and logistics services have been restored to trading. Results for the year ended 2 July 2022 are due out in the second half of November. Ahead of that news the shares are very risky but we believe that a **SPECULATIVE BUY** rating is appropriate.

eve Sleep – Suspended

The sleep wellness brand has announced the appointment of administrators. The company had put itself up for sale and although a number of indicative offers were received this has not resulted in a transaction being finalised. It has not been possible to raise finance in time to avoid the appointment of administrators in order to preserve value for creditors. The shares are not expected to have any value and this is a disappointing outcome for shareholders with the company having held significant levels of net cash in the not too distant past.



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