

# cityconfidential

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sorting the bulls from the bears

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**ISSUE  
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BOWL



218p BUY



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## Give yourself a Hollywood smile

**Hollywood Bowl (218p)** released a trading update for the year ended 30 September 2022 last month. A record first half was said to have been followed by another period of strong trading and further growth. Shares in many other companies which rely on discretionary expenditure have been hard hit and although there is justification for this, those which demonstrate resilience in difficult times could become very attractive.

The company is the UK's largest ten-pin bowling operator. It has a portfolio of 73 centres across the UK and Canada, trading under the Hollywood Bowl, AMF, Splitsville and Puttstars (mini-golf) brands. It tends to operate large bowling centres in out-of-town multi-use leisure parks, typically co-located with

cinema and casual dining sites, as well as large retail parks. The centres are geared towards providing a family entertainment experience. Each centre offers bowling or mini-golf alongside on-site dining, licensed bars and games arcades.

The trading update on 10 October detailed the fact that group revenue was £184.9m for the full year recently ended, of which UK revenues were £178.7m. The company is expected to report EBITDA growth (pre IFRS-16) in excess of 40% versus the year to 30 September 2019, when EBITDA was £38.2m. This is ahead of market expectations. Net cash as at the year end was £56m and an undrawn £25m revolving credit facility is in place. A final dividend of at least 7.5p per share is anticipated.

Customer demand for this type of leisure offering has remained stronger than some would have expected and in this case ongoing investment in a better customer experience has led to higher spend per game. Hollywood Bowl positions itself as the lowest cost option of the major ten-pin bowling operators and a family of four is able to bowl for under £22. The company looks well positioned to navigate through the current challenges and sentiment towards the stock should pick up when economic conditions improve. On balance we rate the shares as a **BUY**.

SNWS



41.9p SPECULATIVE BUY

## Smiths News hit the headlines

Shares in **Smiths News (41.9p)** are on a low rating for a reason. The company distributes print media and given the shift in technology, which means physical copies of publications are often seen as unnecessary or wasteful, the point at which this becomes an uneconomical activity may not be far away. However, contrarians can point to strong profitability in the last couple of years and this looks set to continue in the short to medium term. The shares have rallied by around 50% in the last couple of months but still potentially look cheap.

Smiths News is the leading newspaper and magazine wholesaler in the UK, with a share of over half this market. Its key offering is

the delivery of newspapers and magazines, collecting and processing returns, managing retail ranges and providing market insight. The latter helps to forecast demand and minimise waste.

Final results for the 52 weeks ended 27 August 2022 were released on 9 November, with performance ahead of market expectations. Revenue was down 1.8% to £1,089.3m (2021: £1,109.6m) but on an adjusted basis profit before tax edged up from £30.9m to £31.1m. This translated into earnings per share of 10.8p (2021: 10.8p), meaning that the shares trade on a multiple of just 3.9x earnings. Free cash flow more than doubled from £24.0m to £48.2m and bank net debt was £14.2m at the

period end versus £53.2m a year earlier. A final dividend of 2.75p per share takes the total for the year to 4.15p (2021: 1.65p), with the ex-dividend date being 12 January 2023.

A 9.9% dividend yield is hard to come by and although this may not be sustainable over the long term, it is well covered for now and should help contribute to a strong return for those buying in now. The intrinsic value of the business looks higher than the current share price suggests and a value play could be a sensible bet given ongoing volatile conditions in world markets. We feel that a **SPECULATIVE BUY** rating is appropriate given the risks to the underlying business and the fact that the company could remain overlooked.

MTEC

27p SPECULATIVE BUY

## Made Tech - 27p

SECTOR - AIM – SOFTWARE AND COMPUTER SERVICES

AIM-listed **Made Tech** has been a huge disappointment to shareholders so far, having joined the market just over a year ago when it raised gross proceeds of £85.4m through a placing priced at 122p per share. Those who participated and held onto their shares are now sitting on a paper loss of 78%. With the benefit of hindsight the issue was overpriced, especially given the fact that the company only received a small part of the funds raised. However, the company still has plenty going for it and some recovery could soon be on the cards.

Made Tech is a provider of digital, data and technology services to the UK public sector. The business was founded in 2008 and now has over 480 people working within it. The company provides services that enable central government, healthcare and local government organisations to digitally transform. It describes its purpose as to "positively impact the future of society by improving public sector technology". The company has four key strategic missions, to Modernise legacy technology and working practices; Accelerate digital service and technology delivery; Drive better decisions through data and automation; to Enable technology and delivery skills to build better systems.

Results for the year ended 31 May 2022 were released on 12 September. Revenue for the year was £29.3m (2021: £13.3m), representing growth of 120%. Organic growth came from both existing key clients and winning contracts with new clients. Gross profit as a percentage of turnover increased during the year from 37.6% to 38.4%. The increase in margin was said to be pleasing given the impact of wage inflation pressures and an increased reliance on contractors at higher rates than anticipated during the period. The company claims that it has now reached a scale where it can hire at pace and is now anticipating a sustainable rate of 10% contractor usage for the current financial year onwards.

The operating loss of £0.3m for the year (2021: £0.8m operating loss) includes a £2.38m share-based payment charge and exceptional items of £0.2m. Total operating expenses were £11.5m (2021: £5.8m) and operating expenses excluding share-based payment charges increased by 54% to £8.9m (2021: £5.8m). Adjusted profit after tax was £2.3m (2021: loss of £0.8m). Basic earnings per share was negative in both years due to losses before adjustments.

Cash at year end was £12.3m, up from £0.9m a year earlier, following the receipt of net proceeds of £13.5m from the IPO and the £1.25m repayment of a coronavirus business interruption loan. Current cash reserves provide sufficient capital to fund planned product development and working capital as the business continues to grow. In line with the dividend policy set out at IPO, no dividend was declared for the year. The intention in the short to medium term is to invest in order to deliver capital growth for shareholders. The Board will review the decision to pay a dividend for the current financial year. It will provide an update with half year results, which are scheduled for announcement in February 2023.

In the period to 31 May 2022, the company acquired 12 new clients and won new mandates with existing clients such as the DVLA, the Ministry of Justice, HMRC, the Department for International Trade, the Department for Education and the Department for Levelling Up, Housing and Communities. At the time of the results announcement there were 28 active clients.

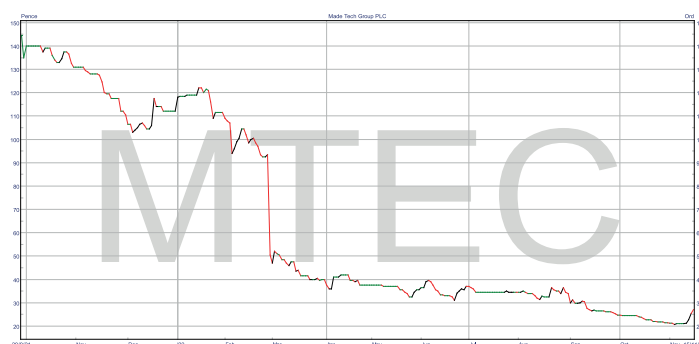
Nine of those were strategic client accounts, contributing between £1m and £10m a year on an annualised run-rate basis. Approximately 63% of revenue was derived from central government (2021: 62%), 25% from local government (2021: 20%) and 12% from healthcare (2021: 18%).

A detailed outlook statement was provided with the results. The company stated that it is mindful of recent changes within government and the potential impact on its public sector clients. Despite this, a high level of order bookings, significant proportion of contracted revenues and the embedded and long-term nature of its client relationships and contracts gave confidence in prospects for the coming year and longer term. The company continues to maintain an exclusive focus on government services and it will continue to build on its competitive advantage as a purely public sector focused provider. There are opportunities to grow market share further within the health, local government and central government sector. There are also opportunities to extend into new areas, as shown by a new contract with the Met Office.

The company has expanded regional coverage in line with the government's levelling-up agenda through recruitment in the North of England and Scotland. Additional regional hubs in Newcastle and Glasgow will enhance the company's offering and it is developing new capabilities including cybersecurity and managed services.

On 15 November the company announced that it has been awarded a new contract with the Home Office, worth around £10m over a 24-month period with a six-month extension option worth a further £2m. The Home Office is transforming its services by introducing several new digital systems. Made Tech will work alongside the Home Office team, providing a number of digital, data and technology services. The company won its first one-year contract with the Home Office in May 2021, worth approximately £4m, and secured an additional £2m for the fulfilment of a six-month extension option. The latest contract award announced represents a renewal and expansion of the initial contract.

This is an interesting business and although it has made a poor start to life as a listed company, it is clear that it has built some strong relationships which have ensured that the company has a platform to build upon. There is a lot of work to do to justify a higher share price but in time it is likely that the company will be seen in a far better light. The scope for upside over the long term is considerable and now looks an opportune time for those willing to take a calculated risk to buy in. We rate the shares as a **SPECULATIVE BUY**.



	Year Ending 31 May	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 27p	2022	29.3	2.3	1.6	16.9	-	-
Market Capitalisation: £40.3m	2023 (est)	43.0	4.5	2.3	11.7	-	-
2021/22 Share Price Range: 140p/20.75p	2024 (est)	50.0	5.4	2.6	10.4	-	-
Website: <a href="http://www.madetech.com">www.madetech.com</a>							



## Aggressive Growth Portfolio VIII

The last three issues of the newsletter have revealed falls in the value of the portfolio and so it is pleasing that this month has seen a strong rebound in its value with it rising by 10.8%. This has actually taken the value back above the level of July of £56,625. Another positive is that the portfolio has outperformed all the benchmark indices this month!

There have been a number of very good performances this month with **Melrose Industries** (up by 25%), **Halfords** (up by 22%), **Associated British Foods** (up by 17%) and **Learning Technologies** (up by 11%) all posting double digit percentage gains. However, the star of the month has been **Appreciate Group** which has received a takeover offer as detailed in News Highlights. Given the fact that the offer is a mixture of cash and shares we have chosen to sell the shares in the market at 41.1p. The disposal

of 14,000 shares therefore raised net proceeds of £5,696 for a gain of £2,444. Compared with last month's value of £3,962, this was a gain over the month of almost 44%.

A number of companies made announcements during the month, and these were **Hargreaves Services**, **QinetiQ**, **Appreciate Group**, **Synectics**, **Melrose Industries**, **Barclays**, **Speedy Hire** and **Associated British Foods**. These are covered in the News Highlights section or are covered on the website.

Dividends were received during the month from **Hargreaves Services** (£88) and **Melrose Industries** (£23) and following the purchase of shares in both companies featured in this issue, there is £2,718 left on deposit pending investment.

### Performance summary

	15 November 2022	18 October 2022	Gain/(Loss) %
Portfolio Value	£57,545	£51,942	10.8
FTSE 100 Share Index	7,369.44	6,936.74	6.2
FTSE All Share Index	4,055.88	3,792.79	6.9
FTSE AIM All Share Index	848.46	795.48	6.7

Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500 Hargreaves Services*	264	1,334	345.5	1,728	280
12,000 Renold	25.1	3,042	23	2,760	20
4,500 GetBusy	66	3,000	62	2,790	50
1,000 QinetiQ	282.4	2,866	343.2	3,432	220
2,825 Synectics	92.5	2,639	112.5	3,178	75
4,500 Finsbury Food	75.5	3,432	91	4,095	58
2,750 Melrose Industries	117.65	3,283	131.4	3,614	95
2,000 Halfords Group	148.8	3,021	208.2	4,164	120
1,500 Devro	184.4	2,807	187	2,805	150
2,350 Tinybuild	124	2,943	107	2,515	100
1,800 Barclays	163.6	2,989	157.22	2,830	130
9,000 Speedy Hire	37.5	3,426	40	3,600	31
250 Assoc British Foods	1321	3,352	1556	3,890	1175
3,000 Sanderson Design	104	3,151	113	3,390	85
2,800 Learning Technologies	110.2	3,116	122.9	3,441	80
12,500 Made Tech	27	3,409	27	3,375	22
1,150 Headlam Group	280	3,268	280	3,220	225
£2,718 Cash	-	-	-	2,718	-
			TOTAL	£57,545	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £2,222 \*after part disposal.

HEAD

280p

## Headlam Group

SECTOR - HOUSEHOLD GOODS  
AND HOME CONSTRUCTION

Floorcoverings business Headlam Group is a company which would excite few potential investors in more normal market conditions. It has built a steady track record but is a mature business which has not really delivered any meaningful growth for some time. Nevertheless, it has a solid balance sheet and given the level at which the shares now stand they look good value based on fundamentals.

The company is a leading distributor of floorcoverings and works with suppliers who manufacture a wide range of products. It provides manufacturers with an efficient, cost-effective route to a highly fragmented trade customer base. Headlam Group operates 66 businesses in the UK, France and The Netherlands, each working under its own trade name and with its own individual sales team. Support is provided by the group's network and centralised teams and processes.

Interim results covering the six months to 30 June 2022 were released in

September. Revenue was £323.8m (2021: £329.9m) and underlying profit before tax was £17.3m (2021: £16.7m). This saw underlying basic earnings per share improve from 14.7p to 16.5p, helped by share buybacks which reduced the number of shares in issue. An interim dividend of 6.2p per share (2021: 5.8p) was declared, this is payable on 28 November but the ex-dividend date was 27 October. Net funds were £6.0m at the period end, down from £53.7m as at 31 December 2021. Net assets were £213.4m as at the period end, which is not far below the current market capitalisation. At the time of the interim results announcement the company noted that it remained on track to meet market expectations although challenging trading and operational cost inflation were highlighted.

The company has been in operation for thirty years and has proven its ability to manage tough economic conditions. With the shares trading on just 7.5x prospective earnings for the current year, there should be upside ahead for patient investors. An attractive yield provides a good reason to hold until there are any developments and the company has also been buying back shares, which should offer support and help ensure that any further downside is limited. This is a solid business which is highly likely to see its share price recover, making Headlam Group 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: 280p	2021	667	35.8	31.1	9.0	16.40	5.9
Market Capitalisation: £234.2m	2022 (est)	660	40.9	37.2	7.5	18.65	6.7
2021/22 Share Price Range: 536p/231p	2023 (est)	666	41.0	35.6	7.9	18.75	6.7
Website: <a href="http://www.headlam.com">www.headlam.com</a>							

# News Highlights

## Speedy Hire



40p 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.

## Appreciate Group - 41.1p

The AIM-listed pre-payment and gifting group has announced the terms of an agreed bid for the company from Paypoint plc. This comprises 33p per share in cash together with 0.019 of a Paypoint share. The value of the bid is currently around 43p per share, but obviously with some 25% of the consideration being satisfied by shares in Paypoint, the share price of the latter is material. We have no real view on Paypoint and therefore suggest that readers take their profit and sell in the market. We recommended the shares last December at 23p and so any readers that took our advice have made almost 80% profit on their investment. **SELL**.

## Speedy Hire - 40p

The UK's leading provider of tools and equipment hire services has released interim results for the six months to 30 September 2022. Revenue was up 13.8% to £212.4m (2021: £186.6m), although adjusted pre-tax profits fell slightly to £14.1m from £14.6m in the same period in 2021. The decline in profits was due to a combination of lower gross margins and higher costs and financing charges. However adjusted earnings per share increased by over 25% to 2.27p (2021: 1.81p) due to a lower tax charge and a reduction in the number of shares in issue. The group is increasing prices to mitigate the impact of higher costs and, as a sign of confidence in the future, the interim dividend was increased to 0.80p from 0.75p. Net debt at the end of the period had increased to £86.7m from £67.5m at the end of March after spending £30.5m on the hire fleet. Full year pre-tax profits are forecast to be £33.5m for earnings per share of 5.3p and the shares remain a **BUY**.

## Melrose Industries - 131.4p

The group has issued a trading update covering the period 1 July 2022 to 31 October 2022 which has confirmed that trading is in line with expectations. Group revenue for the period is

14% higher than in the same period in 2021, whilst operating profit is substantially higher. Both divisions at the group have performed well with both recording higher revenues as well as higher operating margins with cash generation also in line with expectations. The demerger of GKN Automotive and GKN Powder Metallurgy remains on track for H1 2023. We believe that adjusted full year profits for 2022 will come in at around £305m for adjusted earnings per share of 5.6p. We then expect significant growth next year and therefore re-iterate our recommendation of **BUY**.

## QinetiQ - 343.2p

The engineering and defence group has announced its results for the six months to 30 September. Revenues for the period rose to £673m from £600m with underlying pre-tax profits increasing to £73.6m (2021: £52.5m). Earnings per share on the same basis rose to 11.4p (2021: 8.1p) and the interim dividend rose to 2.4p (2021: 2.3p). At the end of the period net cash had risen to £264m from £225m at the end of March despite capex in the period of £48.5m which demonstrates the cash generative qualities of the group. All the group's core areas of operation, the UK, Australia and the US have produced significant organic growth with the US putting in a particularly strong performance. Full year pre-tax profits are expected to be around £158m for earnings per share of 24.5p and, given the strong balance sheet with significant net cash balances, we therefore continue to rate the shares as a **BUY**.

## Barclays - 157.22p

When we recommended shares in Barclays in August, we stated that buying shares in banks was a contrary move. So far this has proved the case with the share price being weak since then. However, the third quarter results from the bank have revealed a strong performance with pre-tax profits increasing by 6% over last year, although in the year to date, pre-tax profits of £5.7bn have been recorded (2021: £6.8bn), with earnings per share falling to 24.2p (2021: 30.0p). Net assets per share were 286p at the end of September. An interim dividend of 2.25p per share was paid in September

and the bank has re-iterated the fact that this will normally represent a third of the full year total. This therefore implies a total dividend for 2022 of 6.75p per share which puts the shares on a dividend yield of 4.3%. The share price started the year at around 218p and so it has fallen by 28% since then and we rate the shares as a **BUY**.

## Associated British Foods - 1556p

The diversified international food, ingredients and retail group has released final results for the 52 weeks ended 17 September 2022. Revenue was up 22% to £17.0bn and adjusted profit before tax was £1.36bn, up 49% on the previous year. Adjusted earnings per share were up 64% to 131.1p and the total dividend for the year rose to 43.7p per share (2021: 40.5p). The company is commencing a £500m share buyback programme as it had net cash of £1.49bn at the year-end excluding lease liabilities. Despite the challenges of high inflation (particularly in energy costs), volatile exchange rates and pressure on consumer discretionary spending, these results were positive. We continue to feel that the shares offer good value. **BUY**.



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