

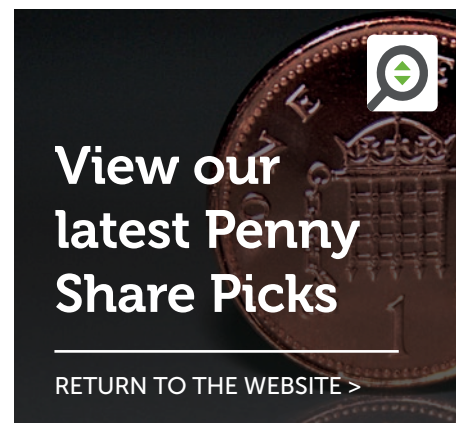
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sorting the bulls from the bears

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Monthly News Highlights



Kinovo has a bright future ahead

Interim results from **Kinovo (34p)** highlighted ongoing progress and although the company is still dealing with some historic issues, it seems that too much focus is being placed on the past by prospective investors. There are plenty of factors working in the company's favour looking forwards rather than back and now should be an opportune time to pick up some shares.

The AIM-listed company is focused on the UK and operates as a provider of specialist property services. These are based on safety and regulatory compliance, home and community regeneration and sustainable living via the installation of efficient and greener energy alternatives.

Results for the six months ended 30 September

2022 were released on 28 November. Revenue was up by a quarter to £29.8m (2021: £23.8m). Gross margin increased by 1.2% to 25.9% (2021: 24.7%) and adjusted EBITDA was 31% higher at £2.4m (2021: £1.8m). Operating profit was up 56% to £1.9m (2021: £1.2m). Net debt was £0.1m (30 September 2021: £1.7m). Basic earnings per share increased by 59% to 2.16p from 1.36p in the same period a year earlier. No interim dividend was declared.

There is an issue with a discontinued part of the business which must be highlighted. Kinovo made the decision that construction business DCB Kent Limited (DCB) was non-core and initiated a process to dispose of it. This was completed in January 2022 but the terms of the disposal included certain working capital

commitments. DCB entered administration in May 2022 and Kinovo retained commitments under parent company guarantees to complete some construction projects. The total cost of the commitment to complete the DCB construction projects is estimated at £4.3m, which has been provided for in the financial statements at 30 September 2022.

The uncertainty which surrounded the company relating to DCB has largely been cleared up now and although it was a hit to the business it should be fully factored into the share price at this stage. The company is operating in an interesting niche area and has plenty of work already in the bag for the coming years. We put forward a **BUY** rating and contrarians could be well rewarded.



Go International

MS International (475p), an impressive company which is often overlooked by the market, has recently released interim results. These were very strong given the backdrop against which it was operating and although the share price has reacted in a positive fashion there is likely to be further upside ahead.

The principal activities of the AIM-listed company and its subsidiaries are the design, manufacture, construction and servicing of a range of engineering products and structures. Activities are grouped into four areas. Defence covers the design, manufacture and service of defence equipment. Forging is the manufacture of steel forgings. Petrol Station

Superstructures is the design, manufacture, construction, maintenance and restyling of petrol station superstructures. Corporate Branding involves the design, manufacture, installation and service of petrol station and other brandings.

In the six months to 31 October 2022 the company performed well and managed to grow its international businesses profitably despite the challenges it faced. In the period revenue jumped from £33.16m to £42.03m and profit before tax was £3.46m, up from £0.77m a year earlier. Basic earnings per share were 17.4p (2021: 3.4p). An interim dividend of 2p per share was declared, up from 1.75p last year. The balance sheet is unquestionably solid

with cash of £23.88m as at the period end, up from £15.54m at the same point a year earlier. New orders received leave the company very well positioned.

Interim results released on 7 December were very strong and although the share price has already moved to reflect this, it is likely to represent a modest multiple of full year earnings. Taking into account the net cash position the valuation placed on the business looks too low. Given market conditions, this type of sound business is likely to remain popular with investors and we see the shares as being likely to continue to push higher. The shares are a **BUY** and it is advisable to act sooner rather than later.

INSE



Inspired - 7.7p

SECTOR - AIM - ALTERNATIVE ENERGY

AIM-listed **Inspired** is an interesting business which has the potential to see its share price grow significantly. Recovery to the 2022 year high is not out of the question in the medium term and it would now represent a very strong return given that the shares have slumped to their lowest level since 2013. Recent financial performance and market developments arguably make the current share price look far too pessimistic and although the shares are at the riskier end of the spectrum we feel that they are worth careful consideration at this stage. It is fair to say that the company's financials are somewhat complicated due to both the nature of the business and acquisitions. However, there is a genuine requirement for adjustments, despite the fact that cynics could question why adjusted figures look so flattering compared to statutory earnings.

Inspired is a technology enabled service provider supporting businesses in their drive to reduce energy consumption, deliver net-zero, control energy costs and manage their response to climate change. It provides expert insight and consultancy to optimise their energy cost equation by helping them reduce the price they pay, as well as reducing their consumption. With businesses facing increasing pressure to focus on sustainability, the company helps create perfect-fit utilities management solutions. It works with businesses so that they can effectively disclose their Environmental, Social & Governance (ESG) performance and improve their ESG impact. Its solutions create a clear long term plan, making investment easier to obtain and carbon reductions quicker to realise. The challenge of net-zero can present businesses with a range of opportunities.

The company announced interim results for the six-month period ended 30 June 2022 in September. Performance was in line with expectations despite considerable volatility and uncertainty in UK energy markets. Revenue was £40.45m (2021: £32.62m). This means that revenue growth of 24% was delivered with 3% growth organically in Energy Assurance and 49% organic growth in Energy Optimisation.

Adjusted EBITDA for the period was £9.7m (2021: £8.8m). After deducting charges for depreciation, amortisation of internally generated intangible assets and finance expenditure, adjusted profit before tax was £6.5m (2021: £6.0m). Under IFRS measures a profit before tax for the half-year of £2.4m (2021: £0.9m) was reported, with reported profit before tax in the period impacted by charges of £3.6m for the amortisation of intangible assets as a result of acquisitions, share-based payment charges, fees associated with acquisitions, restructuring costs and the changes in the fair value of contingent consideration. Adjusted diluted earnings per share were 0.55p (2021: 0.53p).

The order book remained consistent with levels seen at the end of 2021, standing at £67.5m as at 30 June 2022. Underlying cash generation from operations of £5.8m represented a significant improvement over the prior year as operating cash generation normalised. As at 30 June 2022, net debt was £42.9m. An interim dividend of 0.13p per share was declared, up from 0.12p a year earlier.

A detailed breakdown of trading by division was also provided. The Energy Solutions Division is made up of Energy Assurance Services and Energy Optimisation Services. Energy Assurance Services trading in the period remained in line with expectations. It generated £18.4m of revenue, representing 45% of total revenues (2021: £17.9m). Energy Assurance Services contributed adjusted EBITDA of £8.3m (2021: £8.3m). The Energy Optimisation Services division continued to gain momentum throughout the first half of 2022 with revenues increasing by 49% organically. Revenue

was £19.6m (2021: £13.2m). Energy Optimisation Services contributed adjusted EBITDA of £3.1m (2021: £1.5m) and demand for energy optimisation services continues to increase. Strong underlying drivers include high commodity prices and the drive to net-zero. As a result of this the company expects to see a continued shift in revenue mix towards Energy Optimisation Services.

The ESG Solutions Division is comprised of ESG Disclosure Services and ESG Impact Services. ESG Solutions generated revenues of £1.2m (2021: £0.4m), with strong demand reflecting the growing market for these services. ESG Solutions made a modest contribution to Adjusted EBITDA during the period, at £0.1m (2021: nil). The increasing focus of investors and businesses on Net Zero Carbon targets, along with mandatory requirements for businesses to make ESG disclosures from 2022, provides strong rationale for continued investment in the Inspired ESG division.

The Software Solutions Division delivered revenue of £1.2m (2021: £1.2m) and generated Adjusted EBITDA of £0.9m (2021: £0.9m). Although this represents a small proportion of the overall levels of revenues, margins are high and the division made a useful contribution to profit.

In March 2022 the company made an announcement relating to the potential financial risks associated with its business relationship with Gazprom Marketing and Trading Retail Limited. The parent company of these Gazprom entities in the UK, Gazprom Germania, was subsequently taken into public ownership by the German government. Due to this development the former UK Gazprom entity under the name SEFE Energy Limited is now operating independently from the Russian state, meaning that potential risks highlighted in March have now faded.

At the time of its interim results announcement the company noted that the strategic and financial initiatives delivered in the period ensured that it is well placed to deliver its strategic growth plan, whilst managing the additional risks created by the volatility and uncertainty within commodity and energy markets. Although prevailing conditions led to increased volatility in the Energy Assurance market in the short term, this was not expected to have a material net impact on performance in the remainder of 2022. Long-term opportunities in the markets which the company focuses on have been highlighted by the recent energy crisis and Inspired's strategy should enable it to capitalise on these opportunities as market conditions stabilise.

At the time of its interim results announcement the company detailed the most challenging energy market conditions that anyone in the industry has experienced. This is no exaggeration and with the company heading towards a very profitable year relative to the size of the business and its valuation, now could be an opportune time to buy in. We rate the shares as a **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: 7.7p	2021	67.9	13.4	1.30	5.9	0.25	3.2
Market Capitalisation: £75.2m	2022 (est)	79.6	15.2	1.29	6.0	0.34	4.4
2021/22 Share Price Range: 21p/6.7p	2023 (est)	91.2	16.5	1.40	5.5	0.39	5.1
Website: www.inspiredplc.co.uk							



Aggressive Growth Portfolio VIII

It is pleasing to be able to report that the portfolio has increased in value once again this month as it has risen in value by 2.9%. It has therefore outperformed all the benchmark indices for the third month running. The increase has also taken the value of the portfolio back to close to the level of 14 December 2021 when it was worth £59,777.

There have been a couple of very good performances this month with **Hargreaves Services** up by 21.6%, but the star of the month has been **Devro**, which has received a takeover offer as detailed in News Highlights. This follows on from the bid for **Appreciate Group** last month and shows that there is clearly value in the market for those prepared to look. We have decided to sell our holding of shares in **Devro** as the bid is not expected to conclude until well into 2023 and have therefore disposed of 1,500 shares

at 308p for net proceeds of £4,574 and a gain of £1,767 or 63% in just six months.

We have also decided to take the profit on **Associated British Foods** and have sold the holding of 250 shares at 1623.5p. This has generated net proceeds of £4,018 for a gain of £666, or 20% in just three months.

A number of companies made announcements during the month, and these were **Hargreaves Services**, **Renold**, **Synectics**, **Finsbury Food**, **Halfords Group**, **Devro** and **Headlam Group**. These are covered in the News Highlights section or are covered on the website.

A dividend of £23 was received from **Sanderson Design** and following the purchase of shares in both companies featured in this issue, there is £4,353 left on deposit pending investment.

Performance summary

	13 December 2022	15 November 2022	Gain/(Loss) %
Portfolio Value	£59,186	£57,545	2.9
FTSE 100 Share Index	7,502.89	7,369.44	1.8
FTSE All Share Index	4,105.09	4,055.88	1.2
FTSE AIM All Share Index	830.58	848.46	(2.1)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	420	2,100	280
12,000	Renold	25.1	3,042	21.95	2,634	20
4,500	GetBusy	66	3,000	59.5	2,678	50
1,000	QinetiQ	282.4	2,866	348	3,480	220
2,825	Synectics	92.5	2,639	110	3,108	75
4,500	Finsbury Food	75.5	3,432	90	4,050	58
2,750	Melrose Industries	117.65	3,283	130.65	3,593	95
2,000	Halfords Group	148.8	3,021	190.7	3,814	120
2,350	Tinybuild	124	2,943	116	2,726	100
1,800	Barclays	163.6	2,989	161.78	2,912	130
9,000	Speedy Hire	37.5	3,426	38.6	3,474	31
3,000	Sanderson Design	104	3,151	117.5	3,525	85
2,800	Learning Technologies	110.2	3,116	119.6	3,349	80
12,500	Made Tech	27	3,409	24	3,000	22
1,150	Headlam Group	280	3,268	304	3,496	225
45,000	Inspired	7.7	3,500	7.7	3,465	5.5
725	Ricardo	473	3,480	473	3,429	350
£4,353	Cash	-	-	-	4,353	-
				TOTAL	£59,186	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £2,245 *after part disposal

RCDO

Ricardo

473p

SECTOR - CONSTRUCTION & MATERIALS

Shares in **Ricardo** have rallied since the middle part of 2022 but still stand some way below the range at which they were trading prior to the Covid-19 pandemic. Looking at longer term trends, the current level may well represent an interesting entry point and this is certainly a high quality business which has proven its ability to stand the test of time.

Ricardo is an environmental, engineering and strategic consulting company. It provides niche high performance products and certification services, specialising in the transport, automotive, security, energy and environment sectors. The company develops advanced simulation and modelling tools for use on client projects and for sale directly to market. Clients include the world's major transportation and energy companies, original equipment manufacturers, international financial institutions and government agencies.

In the year to 30 June 2022 revenue from continuing operations was £380.2m versus £343.7m in the prior year. Revenue increased across all

operating segments with the exception of Rail. Underlying profit before tax from continuing operations was £24.2m with a total adjusted profit before tax of £26.3m and reported profit before tax from continuing operations was £12.4m. Basic earnings per share were 13.8p (2021: 2.9p) and underlying basic earnings per share were 31.2p (2021: 22.4p). The final dividend of 7.49p per share (2021: 5.11p) took the total for the year to 10.4p per share, up from 6.86p per share in the prior year. Net debt was reduced by 25% to £35.4m (2021: £46.9m). Ricardo Software has been disposed of and the maximum cash consideration receivable is US\$20.5m, of which US\$17.5m was received on completion and up to a further US\$3.0m is receivable based on Ricardo Software achieving certain revenue targets.

The company has noted that it continues to see strong momentum in its priority markets, underpinned by environmental and energy transition trends. It is well positioned and despite challenges with regards to the broad economy Ricardo addresses markets which should ensure that it continues to grow steadily in the coming years. The shares trade on a relatively undemanding multiple of 12.9x forecast earnings for the next financial year, leaving scope for meaningful capital growth. **LONG TERM BUY.**

	Year Ending 30 June	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 473p	2022	387	26.3	31.2	15.2	10.4	2.2
Market Capitalisation: £294.3m	2023 (est)	420	33.2	32.7	14.5	11.9	2.5
2021/22 Share Price Range: 485p/331.5p	2024 (est)	444	36.9	36.7	12.9	13.0	2.7
Website: www.ricardo.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.

Capita - 25p



The group has announced a trading update covering the 11 months to the end of November, and this has shown adjusted revenue growth of 2%, in line with expectations. The group has benefited from the Royal Navy training contract as well as extensions to other existing contracts and new client wins with companies such as Scottish Power. The group's disposal programme continues and on completion next year debt will be at a very low level as a result. Despite the solid progress being made by the group, the share price remains at what we regard as a depressed level. Adjusted pre-tax profits for the year to 31 December 2022 are likely to be around £45m for earnings per share of 2p. In 2023, adjusted pre-tax profits are likely to increase to £78m for earnings per share of 3.5p. This would put the shares on a prospective p/e ratio of just 7.1x which looks too cheap given the low level of gearing and growth prospects. The shares are a **BUY**.

Renold - 21.95p



In the six months to 30 September, the group increased revenues by 22% to £116.3m whilst adjusted pre-tax profits rose by 40% to £7.3m. Earnings per share on the same basis were 42% higher at 2.7p although there was no interim dividend. These results have benefited from an increase in operating margin to 8.3% from 7.5% with increases in selling prices more than offsetting higher input costs and supply chain challenges. Net debt increased during the period to £34.0m (31 March 2022: £13.8m) with the increase mainly due to the acquisition of Industrias YUK SA which cost initial consideration of €20m. The period saw a strong order intake of £121m so that at the period end the order book stood at £99m, continuing at a record high. Full year pre-tax profits could increase to £13.5m for earnings per share of 4.9p and this puts the shares on a p/e ratio of just 4.5x. This puts the shares on a very low p/e ratio and the shares are therefore a **BUY**.

Wentworth Resources

- 31.2p



The AIM-listed natural gas production company which has its operations in Tanzania has announced that it is recommending a cash offer for the company which is worth 32p per share. The acquirer is M&P, the majority owner and operator of Wentworth's main asset, a 32% stake in the Mnazi Bay gas asset in Tanzania. Wentworth shareholders will therefore be able to realise their investment at a useful premium to the prevailing share price. We suggest that any readers who followed our advice to buy at 22.5p in February last year accept the bid as they have made a profit of over 42% in under two years! **ACCEPT THE OFFER**.

Synectics - 110p

The AIM-listed surveillance and security group has announced a trading statement for the year to 30 November 2022 and this has confirmed that trading has continued as expected, with second half profits likely to ahead of the first half. This will mean that full year profits are likely to be slightly ahead of market expectations. Trading conditions in China continue to be difficult due to Covid restrictions, although the group has recently won a contract to provide the surveillance system for a new large-build casino resort in the Philippines and this is expected to be delivered next year. Business in the oil and gas sector continues to improve and whilst trading in other markets has been a bit weaker than expected the outlook remains positive. Net cash at the end of November was £4.1m. We continue to rate the shares as a **BUY**.

Halfords - 190.7p

We recommended shares in Halfords back in June at 148.8p and since then the shares have done well for us. The company has announced its interim results for the six months to 30 September and these have revealed that revenues have increased by 10% to £766m although underlying pre-tax profits halved to £29.0m (2021: £57.9m). Earnings per share on the same basis fell to 10.6p from 24.0p and the interim dividend was maintained at 3p per share. Although the decline in profits

is disappointing, the results for last year benefitted from business rates relief of £9.2m whilst the current year has also suffered from inflationary headwinds and a fall in consumer confidence. Full year profits are now likely to be at the lower end of the £65m/£75m guidance issued previously. Assuming profits of £65m, earnings per share would be around 23.5p putting the shares on a p/e ratio of just 8.1x. A full year dividend of 10p per share would equate to a yield of 5.2% and we therefore rate the shares as a **BUY**.

Devro - 308p

Our recommendation to buy shares in the collagen casing group Devro last June, at 184.4p, has paid off handsomely with the group receiving a cash offer worth 316.1p per share in cash from the Dutch group Saria. The bid has been recommended by the board of Devro and we suggest that readers accept as this will represent a gain of over 71% on our recommendation price. **ACCEPT THE OFFER**.

Associated British Foods

- 1623.5p

A trading update at the AGM revealed that little has changed since final results were released on 8 November. The company is on track for significant growth in terms of turnover in the current year but profit is set to fall. Given that the share price has had a good run there may now be better opportunities elsewhere in the near term. We reduce our rating to **HOLD**.



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