

# cityconfidential

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sorting the bulls from the bears

New Year Special  
**Our Shares of the  
Year for 2023**

**2022: Last year's  
share tips in review**

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Featured Companies  
**Costain Group**  
**ANGLE**  
**Vesuvius**  
**Capita**

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Plus  
**Aggressive Growth Portfolio**  
**Monthly News Highlights**

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**ISSUE**  
**JAN**  
**2023**

**COST**

**40.4p**

## Costain Group

SECTOR - INDUSTRIAL SUPPORT SERVICES

Shares in **Costain Group** trade on a very low multiple of adjusted earnings, partly reflecting the fact that it operates in a segment of the market which is out of favour with investors. There are reasons for this though and there have been some significant bumps in the road in the fairly recent past, most notably relating to Peterborough & Huntingdon and A465 contracts. Costly provisions have had to be made to rectify issues surrounding these contracts and although exceptional in nature, this type of news does little to help the cause. We appreciate why the shares are unloved but feel that fair value is well above the current level.

The company describes itself as helping to create connected, sustainable infrastructure that enables people and the planet to thrive. It has a long, interesting history having been founded in 1865 and is now split into Transportation and Natural Resources divisions. The former covers Road, Rail and Integrated Transport with much of the work involved coming from High Speed 2 (HS2), National Highways and Network Rail. The latter covers Water, Energy and Defence.

Interim results covering the six months ended 30 June 2022 were released on 24 August. Revenue was £665m versus £557m in the same period a year earlier. Adjusted profit before tax was £13.3m, up from £9.4m in 2021 and this translated into adjusted basic earnings per share of 3.9p (2021: 2.8p). No dividend was declared but the company stated that it is committed to returning to dividend payments at the appropriate time. Net cash was £95.9m as at the period end and it is also reassuring to note that the company's pensions scheme surplus improved further. Net assets increased to £218.9m and although this includes the pension



scheme surplus and over £52m of intangible assets the balance sheet is in good shape.

Past performance has been mixed and there are no doubt some investors who have had their fingers burnt already. Anyone who bought five years ago would have seen the value of their shares fall by more than 90% and those who bought at the peak of a more recent rally in April 2020 have lost more than 50% as things stand. However, recovery could well be on the cards and those with patience should be rewarded by tucking some shares away. **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: 40.4p	2021	667	35.8	31.1	9.0	16.40	5.9
Market Capitalisation: £111.1m	2022 (est)	660	40.9	37.2	7.5	18.65	6.7
2022/23 Share Price Range: 56p/32.7p	2023 (est)	666	41.0	35.6	7.9	18.75	6.7
Website: <a href="http://www.costain.com">www.costain.com</a>							

**AGL**

**28.75p**

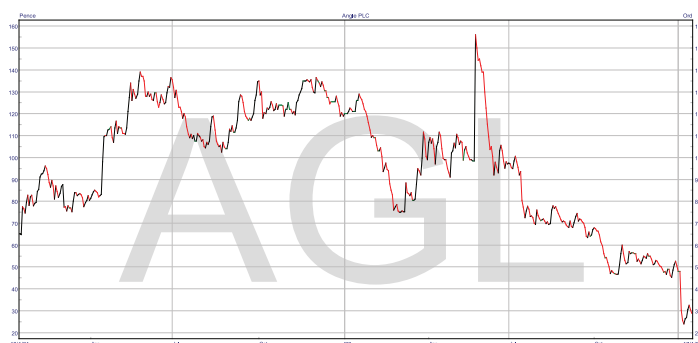
## ANGLE

SECTOR - AIM - HEALTH

The share price of AIM-listed **ANGLE** hit a 10 year low earlier this month following a disappointing trading update. In common with many businesses in the sector, the company has faced a number of economic and market headwinds which worsened during the second half of 2022. The result is that revenues will be lower in the short-term than previously expected and the share price almost halved on the news. However, we continue to believe that there is significant long-term potential at the group although more patience may be required from investors before this is realised.

ANGLE is a world-leading liquid biopsy company which was founded in 1994. The company has developed its own proprietary platform, Parsortix®, which can capture and harvest rare blood cells from a blood sample. This enables the identification of cancer cells which in turn can allow more effective treatment for the patient. Solid tumour cancers, such as breast cancer and prostate cancer, shed cancer cells into a patient's blood stream and these cells, known as Circulating Tumour Cells (CTCs), are very rare (maybe one cell in a billion) and are therefore very difficult to isolate. The Parsortix® system is able to capture and harvest CTCs from a patient's blood.

The development of the Parsortix® system has taken many years but the company has made significant progress in gaining approvals and validation of the system. The company has spent over six years in dialogue with the US FDA, submitting over 400 technical reports and documents and processing over 16,000 samples to demonstrate the performance of the system. These efforts were rewarded last year with the first FDA product



clearance for a system to harvest cancer cells from patient blood for subsequent analysis.

The company has also undertaken detailed studies which have shown the effectiveness of the Parsortix® system which has significantly outperformed standard cancer detection techniques. These achievements have placed ANGLE in a very strong position to play a leading role in the emerging \$100bn liquid biopsy market for personalised cancer care. The company is looking at ways to commercialise the system and last July raised £18.9m (net of expenses) to support these plans through to mid-2024. Cash at the end of 2022 is expected to be around £32m. Although the shares are not without risk, there is clearly enormous potential and we therefore rate the shares 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: 28.75p	2021	1.0	(15.0)	-	-	-	-
Market Capitalisation: £75m	2022 (est)	1.0	(22.0)	-	-	-	-
2022/23 Share Price Range: 155p/24p	2023 (est)	3.0	(23.0)	-	-	-	-
Website: <a href="http://www.angleplc.com">www.angleplc.com</a>							



## Vesuvius - 402.8p

SECTOR - INDUSTRIAL ENGINEERING

In 2023 there may well be an increasing focus on the intrinsic value of companies rather than growth, on which there has been a heavy emphasis in recent years. Economic conditions, as well as some well documented falls in value relating to very large companies in the US, should mean that more weight is given to historic performance and tangible assets. We feel that this shift in thinking could benefit Vesuvius and the shares look modestly valued so there is scope for meaningful capital growth from the current level.

The company is a specialist in molten metal flow engineering and technology, mainly serving process industries operating in challenging high-temperature conditions. It offers innovative, customised solutions which tend to be used in very demanding industrial environments. This enables customers to make their manufacturing processes safer, more efficient and more sustainable. Flow control solutions, advanced refractories and other consumable products are supplied. Technical services such as data capture are also increasingly offered.

Vesuvius has a network of manufacturing plants located close to customers' facilities and it places its industry experts within their operations. The company believes that it has a competitive edge due to market and technology leadership as well as strong customer relationships. It also has a strong global presence including an established presence in developing markets. It aims to create value for customers and to deliver sustainable, profitable growth for investors.

Interim results covering the six months to 30 June 2022 were released in July. Revenue of £1,016m (2021: £808m) represented an increase of 21% on an underlying basis and trading profit (adjusted EBITA) was £127.4m (2021: £73.3m), up 69% on an underlying basis. Headline profit before tax was £121.8m (2021: £70.3m) with headline earnings per share 31.4p (2021: 17.9p). An interim dividend of 6.5p per share, up from 6.2p a year earlier, was declared. Net debt was 1.3x adjusted EBITDA as at 30 June 2022 versus 1.4x as at 31 December 2021. Cash generated from operations was £69.0m versus £50.2m in the first half of 2021. The 2025 target for carbon footprint reduction was increased from 10% to 20% versus 2019 levels. An additional 2035 target of a 50% reduction versus 2019 levels was introduced.

Perhaps of even more relevance than interim results given an eventful year in 2022 for the economy and broad markets, the latest trading update was in November. As had been anticipated, both steel and foundry end markets were continuing to weaken at that time. However, due to continuing market share gains, dynamic price management, cost reduction actions and a more gradual unwind of inventory, the company stated that it expected to deliver results somewhat above the analyst range of expectations for the year to 31 December 2022. Prior to the announcement, consensus for trading profit was £199.7m, with a range of between £194.0m and £209.4m. Looking ahead, visibility was low and the timing of a return to growth was said to be very difficult to predict. The unwind in inventory levels was expected to continue into the first half of the current year.

In line with expectations, steel production weakened everywhere except in India, where there was moderate growth. The impact of rising energy prices is particularly impacting European steel producers, with some shutdowns of blast furnaces announced and output curtailment from

electric arc furnace mills. The impact in NAFTA had been less severe as at 15 November, when the trading update was released. Although the light vehicle market was showing slight signs of improvement from an historically low level, most other Foundry markets were weakening. In EMEA the negative differential in energy prices with other world regions was impacting upon the competitiveness of the industrial sector.

Trading had been relatively resilient and the company continued to outperform and gain market share. It believes that this was due to the technological differentiation of its products and solutions, resulting from ongoing investment into research and development. Dynamic management of prices has also counterbalanced the increase of costs resulting from the general inflationary environment. Cost reduction action plans have been put in place to prepare for an uncertain 2023. Looking further ahead, market fundamentals for both steel and foundry markets remain positive, meaning that there should be potential for growth in the medium term. Strategic expansions of capacity in high margin Flow Control products to support growth in Turkey, Middle East Africa, India and South-East Asia are on track and should be fully operational by the end of 2023. A new Flux plant is due to be commissioned in India in early 2024.

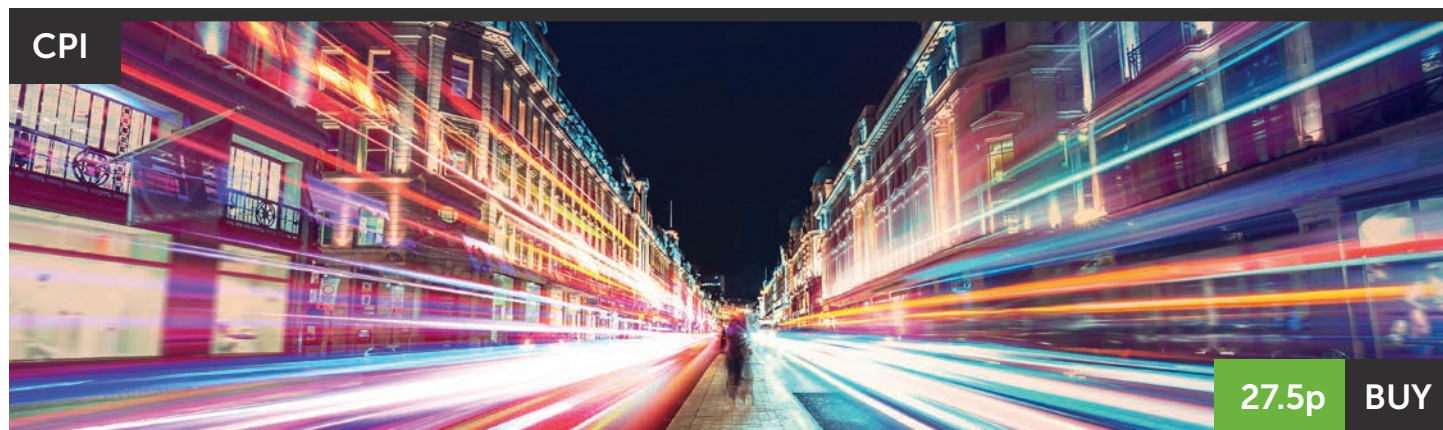
Cash generation was good in the period between the end of June and the middle of November as the company continued to focus on reducing inventory. A positive cash in-flow was anticipated in the second half as working capital accumulated in the first half was unwound. As at the end of 2022 net debt should have been broadly equal to EBITDA versus a level of 1.3x as at 30 June 2022.

Bayuquan Magnesium Co, a world class basic monolithic refractory plant in China, was acquired in October 2022. The acquired business had revenues of around £14m in 2021 and was a long-standing manufacturing partner of Vesuvius Advanced Refractories, supplying 100% of its production volumes in recent years. The deal has secured strategically valuable basic monolithic volumes at a plant which benefits from very competitive local raw material access. It will support further development in China, South-East Asia and North Asia.

Although it is likely that 2023 will see some challenges, there is perhaps too much focus on the near term outlook and ultimately this is a business where value should be built for shareholders over the long term. Looking at fundamentals, earnings may well start to grow again from 2024 onwards and the shares should arguably be on a higher multiple of prospective earnings. Dividend payments should also support a higher valuation. If the share price were to rise to 550p then the dividend yield would still be 4% based on forecasts for the current year. We see this as a realistic target and put forward a BUY recommendation.



	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: 402.8p	2021	1,643	128	35.3	11.4	21.2	5.3
Market Capitalisation: £1,088m	2022 (est)	1,946	211	51.9	7.8	21.6	5.4
2022/23 Share Price Range: 490p/284.6p	2023 (est)	1,863	175	43.9	9.2	22.0	5.5
Website: <a href="http://www.vesuvius.com">www.vesuvius.com</a>							



CPI

27.5p BUY

## Capita - 27.5p

SECTOR - SUPPORT SERVICES

To say that shares in **Capita** have been a disappointing investment is probably something of an understatement. Go back all the way to 2015 and the share price was over 800p and so it can be seen how far the share price has fallen. However, despite the slow progress which has been made with the restructuring of the group, we believe that 2023 could be the year that the company finally emerges from the problems of its past and starts to move forward in a positive manner.

Capita was formed in 1984 as a division of the non-profit organization CIPFA, the Chartered Institute of Public Finance and Accountancy. It became an independent company in 1987, listing on the stockmarket in 1991. The company grew rapidly over the next few years with the result that it joined the FTSE 100 in 2006. The company continued to grow, making numerous acquisitions along the way, and building up significant debt as a result. Having once been a stockmarket darling, a spate of profit warnings and fund raisings led to a steady decline in the company's share price from the peak in 2015. The company appointed a new management team in 2017 with a strategic review of the business resulting in a multi-year transformation plan. A rights issue in 2018 raised £701m (gross) as part of this process. However, the shares fell sharply in 2020, dropping below 50p for the first time in over 20 years and the share price has struggled ever since.

It is clear that the restructuring of the company is taking longer than had been hoped, even though at the outset it was obvious that this would take years and not months. The group has reduced the number of divisions in its portfolio from eleven to just two, with a third consisting of businesses that are now deemed non-core, and which are gradually being sold.

Capita is now a consulting, transformation and digital services business. It operates in the UK, Europe, India and South Africa through two divisions, Capita Public Service and Capita Experience. Capita Public Service is the number one strategic supplier of Business Process Services and Technology Services to the UK Government. It operates in five vertical hubs – Education & Learning; Local Public Services; Health & Welfare; Defence, Security and Fire; Justice, Central Government and Transport. Services provided include recruitment for the British Army, collection of the London Congestion Charge and the administration of the Teachers' Pension Fund for the Department of Education. Capita Experience provides support to a number of companies in their dealings with customers to improve the quality of service and the overall customer experience. Services include IT support and the operation of call centres as well as the collection of the TV licencing fee for the BBC.

The group has identified a number of businesses which are now deemed to be non-core, and these are gradually being sold off. These are held in the Capita Portfolio division although it is hoped that most of these disposals will have been completed during the course of 2023.

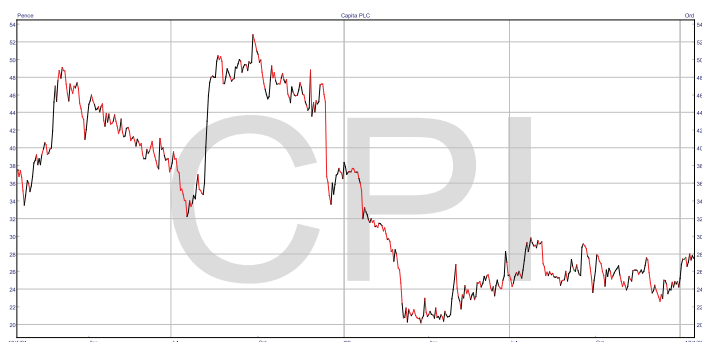
The most recent results for the group are the interim results covering the six-month period to 30 June 2022. These revealed that turnover for the period was almost the same as the previous year at £1.48bn (2021: £1.47bn), although adjusted pre-tax profits increased to £37.0m

(2021: £1.1m). Diluted adjusted earnings per share rose to 3.25p (2021: 2.75p) although there was still no dividend as expected. Positive operational cash flow and the proceeds of disposals of non-core businesses meant that net debt at the end of the period fell by £169.4m from 31 December 2021 to £710.4m. These results came in pretty much in line with expectations and a number of key contracts were renewed during the period with new orders of £1.6bn being won. These include the renewal of the contract with the BBC to collect the TV licence fee as well as contracts with Scottish Power and the Northern Ireland Education Authority.

Last month the group issued a trading statement covering the eleven months to 30 November and this was also in line with expectations. The period saw growth in adjusted revenue of 2%, with Capita Public Service increasing revenues by 2% helped by the delivery of a training contract with the Royal Navy and revenue growth in Justice, Central Government and Transport. Capita Experience reported similar levels of revenue to the previous year which was a marked improvement on the 9% decline in revenues reported in 2021. The impact of contract losses in the prior year have started to be offset by new client wins such as those with Scottish Power, Irish Water and Trade Republic. Further progress has been made with the group's disposal programme with proceeds of £462m received in 2022 meaning that debt at the year end will be much reduced.

Although the rebuilding of Capita has taken much longer than expected, much of this has been due to factors outside the control of the company with the Covid pandemic having a serious impact on the business. As things have gradually returned to normal though, the core business has stabilised with better performances from each of the two operating divisions. One negative factor that has deterred investors in the past has been the high level of gearing, but the disposal programme that has seen many non-core businesses sold is addressing this issue. The company is hoping to dispose of the rest of its businesses for sale by the end of June and net debt at that time is expected to be very low.

We believe that the shares are now set to recover strongly as profits begin to increase again in 2023 and helped by the reduction in gearing. As the evidence of this comes through the shares seem set to be re-rated and a prospective p/e ratio of just 8.1x for 2023 looks too low. Putting the shares on a relatively modest ratio of 12x would imply a share price of 40.8p – an increase of almost 50% from the current level. The shares are a **BUY**.



	Year Ending 31 December	Turnover (£bn)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 27.5p	2021	3.18	93.5	4.3	6.4	-	-
Market Capitalisation: £460m	2022 (est)	2.57	50.0	2.1	13.1	-	-
2022/23 Share Price Range: 38.25p/20.5p	2023 (est)	2.65	80.0	3.4	8.1	-	-
Website: <a href="http://www.capita.com">www.capita.com</a>							

# 2022: Last year's share tips in review

As readers will know, 2022 was a difficult year for many financial markets and the UK stockmarket was no exception. Although the FTSE 100 held up well, actually rising from 7,384.54 at the end of 2021 to close at 7,451.74 on 30 December 2022 (a gain of just under 1%), the year was very mixed in terms of individual share price performance. Strong commodity prices saw shares in oil companies and miners do well, whilst retailers and housebuilders struggled.

The share prices of many smaller companies also struggled and this is perhaps one reason why there were a number of takeovers in this part of the market. At least one of our tips benefited from this as we tipped **Devro** in June at 184.4p and the company has received a cash offer worth 319p per share (including the 2.9p interim dividend). This gain of 73.0% made this the best performing share of the year for us.

Overall, in the newsletter, we tipped 50 companies last year – six in January and four in every other month. Although 26 of the tips increased in value, we are disappointed to report that 24 companies declined in value. However, what is interesting is that since August, of the 20 companies that have been tipped, 17 have increased in price and just three companies have seen share price falls. It is hard to identify the reason for this although it is obviously encouraging that latterly our record has improved significantly.

In the table below we list our best and worst performers from those companies which have been the subject of main features in the newsletter and have therefore featured in the Aggressive Growth Portfolio.



## Best and Worst tips from 2022

	Buying Price (p)	Selling/Closing Price (at 17 Jan 2023) (p)	Gain/(Loss) %
<b>Gaining Stocks</b>			
Devro	184.4	308*	67.0*
Synectics	92.5	122.5	32.4
Melrose Industries	117.65	150.2	27.7
<b>Losing Stocks</b>			
Sigmaroc	78.5	55	(29.1)
Luceco	235	170	(27.7)
Knights Group	136.5	105	(23.1)

\* these figures differ from the text above as we sold the shares before the takeover concludes as this will not happen until next month

Although we have stated that the overall market has held up well, it is worth pointing out that larger companies have done much better than their smaller brethren. As can be seen from our review of The Aggressive Growth Portfolio, whilst the FTSE 100 has reported a small gain over the last year, shares in AIM stocks have fallen back sharply. This clearly provides scope for recovery in the latter. As many of our tips come from the lower reaches of the market, including AIM, we are hopeful that our tips for 2023 will perform better than they did in 2022 and clearly the fact that our tips in the last few months of 2022 have shown some useful gains is encouraging.

As we have stated above, the UK market has held up pretty well over the last year given the headwinds that it has faced. These include the invasion of Ukraine by Russia, the subsequent increase in energy prices and the resulting rise in inflation. There have also been sharp rises in food prices, with supplies of grain from Ukraine being halted by the war which has exacerbated the inflationary pressure.

This in turn has led to increases in interest rates from central bankers as Governments try to curb inflation. In the UK, the economy has also been hit by industrial action from a range of workers including rail staff, workers at Royal Mail, nurses and teachers.

## Review of Shares of the Year - 2022

We thought that we should review our Shares for the Year for 2022 although this does not make for pleasant reading. Three of the four companies that we picked last year had to be sold from the Aggressive Growth Portfolio as the share price of each fell through the stop-loss limit that we had applied to each company. Both **Saga** and **Carclo** were sold in March following the news that Russia had invaded Ukraine which caused considerable volatility in financial markets and some severe movements in share prices.

**Brighton Pier** shares performed well for most of the year, peaking at 115p in April, but then they gradually drifted lower so we had to sell them in October after the prices fell through the stop-loss limit of 65p. The only success was in **Synectics** which has seen its share price move up 32.4% during the year – these shares are still held in the portfolio.

Our four tips for 2023 will hopefully do a lot better than last year although only time will tell.

	Selling Price or Closing Price (p) at 17 Jan 2023	Opening Price (p)	Gain/(Loss) (%)
Brighton Pier	65	83.5	(22.2)
Saga	240	307	(21.8)
Carclo	27	34.35	(21.4)
Synectics	122.5	92.5	32.4

## Aggressive Growth Portfolio VIII

For the first review of the Aggressive Growth Portfolio for 2023, it is pleasing to be able to report that this has increased in value. This is the third successive month that we have been able to report growth in the portfolio.

There have not been any stand-out performances over the last month although most of the holdings in the portfolio have increased in value as they have benefitted from the strong run in equity markets seen over recent weeks. Unfortunately, not all share prices have increased though and we have lost the holding of **Tinybuild** as the share price of the company fell through its stop-loss limit of 100p. We have therefore had to sell our holding of 2,350 shares at 100p and this has realised net proceeds of £2,326 for a loss of £617.

In order to raise some liquidity for the portfolio we have also decided to take our profits on both **GetBusy** and **Finsbury Food**. We have therefore disposed of 4,500 shares in the former at 73.5p for net proceeds of £3,275 and a gain of £275. The sale of 4,500 **Finsbury Food** at 90.5p realised net proceeds of £4,032 for a gain of £600.

It has been a pretty quiet period for company announcements as one might expect, with the Christmas period always seeing a dearth of company news. Those companies that did make announcements during the period were **Renold**, **QinetiQ** and **Halfords Group**. These are covered in the News Highlights section or are covered on the website.

A dividend of £75 was received from **Finsbury Food** and following the purchase of shares in all the companies featured in this issue, there is £1,107 left on deposit pending investment.

Performance summary					
	17 January 2023	13 December 2022	Gain/(Loss) %		
Portfolio Value	£61,354	£59,186	3.7		
FTSE 100 Share Index	7,851.03	7,502.89	4.6		
FTSE All Share Index	4,294.53	4,105.09	4.6		
FTSE AIM All Share Index	858.19	830.58	3.3		

Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500 Hargreaves Services*	264	1,334	431.5	2,158	280
12,000 Renold	25.1	3,042	24.65	2,958	20
1,000 QinetiQ	282.4	2,866	344.2	3,442	220
2,825 Synectics	92.5	2,639	122.5	3,461	75
2,750 Melrose Industries	117.65	3,283	150.2	4,131	95
2,000 Halfords Group	148.8	3,021	180.5	3,610	120
1,800 Barclays	163.6	2,989	180.94	3,257	130
9,000 Speedy Hire	37.5	3,426	38.55	3,470	31
3,000 Sanderson Design	104	3,151	117.5	3,525	85
2,800 Learning Technologies	110.2	3,116	123.8	3,466	80
12,500 Made Tech	27	3,409	26.5	3,313	22
1,150 Headlam Group	280	3,268	326	3,749	225
45,000 Inspired	7.7	3,500	7.05	3,173	5.5
725 Ricardo	473	3,480	518	3,756	350
800 Vesuvius	402.8	3,270	402.8	3,222	320
8,000 Costain	40.4	3,280	40.4	3,232	32
11,500 Capita	27.5	3,210	27.5	3,162	20
11,000 ANGLE	28.75	3,194	28.75	3,162	20
£1,107 Cash	-	-	-	1,107	-
			<b>Total</b>	<b>£61,354</b>	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £2,320 \*after part disposal.

## Annual Performance

We thought that it would be useful to detail the performance of the Aggressive Portfolio VIII over the last year and see how this has compared with the benchmark indices. We have therefore compared the relevant figures from the valuation today with those of 18 January 2022 and these are shown in the table below.

It is clearly disappointing that the portfolio has declined in value over the year although a fall of 1.4% is hardly disastrous. What is interesting from the table is the variation in performance of the different indices. Clearly, the FTSE 100 Share Index has been a major beneficiary of strong performances

from the large oil and mining stocks such as **BP**, **Shell** and **Rio Tinto**. On the other hand, the very poor performance of the FTSE AIM All Share index shows how smaller companies have been badly affected over the last year. Given the fact that most of our tips are smaller companies, the relatively good performance of the portfolio is actually quite impressive.

Going into 2023, we do not believe that the outlook is as bad as has been painted by some commentators and are therefore quietly optimistic that the portfolio will have a better year. Fingers crossed!

Performance summary			
	Closing Value	Opening Value	Gain/(Loss) (%)
	17 Jan 2023	18 Jan 2022	
Portfolio Value	£61,354	£62,196	(1.4)
FTSE 100 Share Index	7,851.03	7,563.55	3.8
FTSE All Share Index	4,294.53	4,263.04	0.7
FTSE AIM All Share Index	858.19	1,154.20	(25.6)

# News Highlights

## DX Group



28p 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.

## Barratt Developments

- 457p

**Barratt Developments** has announced a trading update for the six-month period to 31 December 2022 and as might have been expected this has confirmed a slowdown in activity due to political and economic uncertainty, with increases in mortgage rates and financial pressures on consumers also playing their part. The six-month period saw an increase in the number of completions which rose to 8,626 (2021: 8,067) including joint ventures and the average selling price was also higher at £330k (2021: £288k). However, the rate of sales has slowed sharply over recent weeks. There is some good news though as mortgage rates are now falling once again from the high of last October whilst the company had net cash of £965m at 31 December. We believe that pre-tax profits may come in lower than currently expected but even so these should be over £900m for earnings per share of 66.5p. Assuming a maintained dividend of 36.9p per share gives a divided yield of 8.1%. Clearly there are some uncertainties going forward, but on balance we think that the relatively low level of the share price (it was 760p at the start of 2022) means that the shares are a **BUY**.

## QinetiQ – 344.2p

The engineering and defence group has issued a trading statement covering the three months to 31 December and this has confirmed that trading continues in line with expectations. The latest acquisitions of Air Affairs and Avantus in October and November are in the process of being integrated into the group and both businesses continue to perform well. The company continues to win new business as demonstrated by a recent £80m contract with the UK Ministry of Defence. The current financial year to 31 March is likely to see adjusted pre-tax profits of £165m for adjusted earnings per of 24.9p. A prospective p/e ratio of 13.8x does not look expensive given the growth prospects and the shares remain a **BUY**.

## Renold – 24.65p



The AIM-listed global supplier of industrial chains and power transmission products has won a contract worth £8.7m to supply flexible couplings to the Royal Australian Navy over the next seven years. These will be installed on the Navy's Hunter class frigates which are to be built by BAE Systems Australia in South Australia. This contract further extends the group's collaboration with BAE Systems for the supply of flexible couplings for naval vessels. This contract is clearly good news for the company, and we continue to re-iterate our recommendation of **BUY**.

## The Character Group

- 425p

The AIM-listed toys, games and giftware group has announced its annual results for the year to 30 September and these have come in as expected. Revenue increased by 26% to £176.4m, with adjusted pre-tax profits rising by just 2% to £11.3m. Earnings per share on the same basis were almost 12% higher at 45.7p and the dividend was raised by over 13% to 17p per share. Net cash at the year-end was £20m, down from £35.9m a year earlier, although this was largely due to the share buyback programme costing £13.6m which completed in February 2022 and an increase in stock levels. The first half of the current financial year has seen a slowdown in trading whilst the weakness of sterling in September and October has put pressure on margins. As a result the interim results are likely to be disappointing although now that sterling has recovered the second half should see a better result. The company also aims to use its excess cash to buy in more of its shares over the coming months. Although there is some short-term uncertainty, we continue to believe that long term prospects are good and the shares are a **LONG-TERM BUY**.

## Halfords – 180.5p

The cycling and motor group has released a very disappointing statement covering trading in the quarter to 30 December 2022. Although revenues have increased (no actual numbers were revealed), the company has encountered

difficulties in recruiting enough trained and skilled technicians to its Autocentres business meaning that there will be less sales of higher margin products and services. There has also been weakness in the consumer tyre market and retail sales in the cycling business have also suffered due to falling consumer confidence. The company has therefore reduced profit guidance for the current financial year and assuming pre-tax profits of £55m (compared with our previous forecast of £65m) then earnings per share would be in the order of 19.7p. Although this puts the shares on a p/e ratio of just 9.2x, in the short-term the shares may struggle to regain some momentum. However, the company is making the right moves expanding its Autocentres business and reducing its exposure to cycling. The shares are a **LONG-TERM BUY**.

## DX Group- 28p



The AIM-listed delivery and logistics group has announced the opening of another new depot in Plymouth, the fourth of eight new depots expected to be opened by summer 2023. This will primarily be dedicated to the Parcels business, thus supporting the growth of the DX Express division. DX Express previously shared the Plymouth premises of DX Freight and moving to a standalone facility will allow each division to expand their operations in the area. The recent AGM has confirmed that trading continues to be in line with expectations with a healthy pipeline of new business opportunities. The company also remains in a healthy financial position with significant levels of net cash. We continue to believe the shares are undervalued and that they are a **BUY**.

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