

# cityconfidential



sorting the bulls from the bears

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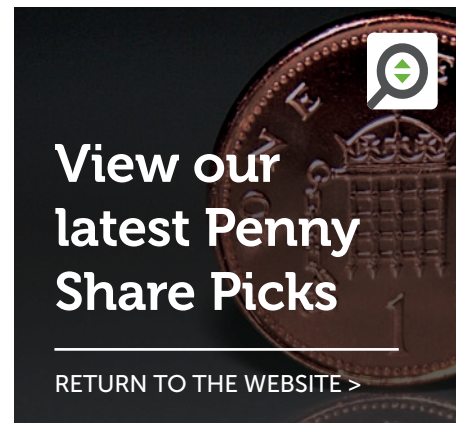
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**ISSUE**  
**FEB**  
**2023**



## Sylvania Platinum continues to shine

It is surprising that shares in **Sylvania Platinum (105p)**, a platinum group metals producer and developer with assets in South Africa, have not pushed higher in the recent past. The company is relatively well covered and has regularly been recommended in the press as an attractive investment. Longer term shareholders have done extremely well as the share price was in single figures as recently as 2017. However, it is clear that the company is thriving at the moment and recent interim results suggest that the shares are now fundamentally undervalued.

Interim results for the six months ended 31 December 2022 were released on 21 February.

Net revenue generated for the period was US\$79.9m, up from US\$69.1m in the same period a year earlier. Group EBITDA was US\$45.6m (2021: US\$36.2m) and net profit US\$32.6m (2021: US\$24.4m). A new dividend policy has been approved and an interim dividend of 3p per share will be paid on 6 April, the ex-dividend date being 2 March. A cash balance of US\$123.9m was held as at 31 December 2022.

A positive outlook statement included increased production guidance of 70,000 to 72,000 4E PGM ounces for FY2023 following strong production in the first half. The company remains debt free and continues

to generate enough cash to fund capital expansion projects, process optimisation projects, upgrade exploration and evaluation assets and to return value to shareholders.

A market capitalisation of £280m looks too low, particularly given the strength of the balance sheet. The company is focusing on factors within its control and aims to focus on improving direct operating costs, maintaining a safe, stable and efficient production environment and ensuring disciplined capital allocation and control. There are some obvious risk factors but on balance we put forward a **BUY** rating.



## Don't miss a Tern

**Tern (7.25p)**, an AIM-listed company which is focused on value creation from Internet of Things technology businesses, is a very interesting proposition. With confidence tentatively returning to equity markets, now could be an opportune time to take a close look.

Tern was previously known as Silvermere Energy, then in 2013 the sale of the company's oil and gas interests was approved. There was a change of investing policy to the IT sector and change of name to Tern on 16 August 2013. This left the company focused on the fast-changing software market with a specific interest in telecoms, mobile, cloud and internet sub-sectors. The company has since developed a model with the risk characteristics of a Private Equity Fund and the aggressive

returns model of a Venture Capital Fund. It describes this model as a hybrid of how VC and PE funds operate.

On 25 January the company provided a portfolio update, outlining the development of companies it has stakes in. Device Authority continued to make progress in 2022, with the business focusing on growing recurring revenues from KeyScaler, a software security platform. In late 2022 Wyld Networks launched its pioneering satellite IoT network service, providing 100% global connectivity for the IoT. FundamentalVR was the first of Tern's investee companies to achieve a Series B growth equity financing round in August 2022. This provided an initial £13.2m, supported by new institutional investors. Konektio is said to be seeing strong growth for its AssetMinder software

platform, releasing new AssetMinder modules in 2022. Talking Medicines is expanding the subscription base for PatientMetRx. Having redefined its market strategy to focus on larger advertising agencies that work on behalf of major pharmaceutical companies, significant revenue growth is anticipated in 2023.

Buying into Tern involves something of a leap of faith in believing in the company's strategy. Financials are somewhat unclear and future returns are likely to be lumpy. However, there could be some exceptional returns on offer and there is a strong, experienced management team in place. We believe that the shares are worth picking up and put forward a **SPECULATIVE BUY** recommendation.

BMS



307.5p BUY

## Braemar - 307.5p

SECTOR - INDUSTRIAL TRANSPORTATION

**Braemar** is coming to the end of a financial year in which it has made considerable progress and although it will be difficult to generate further growth from what may prove to be an exceptional period of profitability, some very useful acquisitions have been made and the business is in very good shape. The company is well positioned in the area in which it operates and should provide significant rewards to long term shareholders who buy in at the current level.

Braemar provides expert advice in investment, chartering and risk management to enable its clients to secure sustainable returns and mitigate risk in shipping and energy. It has experienced brokers who work in tandem with specialist professionals to form teams tailored to the needs of customers and provide an integrated service.

The latest results announced were interim results covering the six months ended 31 August 2022. These results were materially ahead of expectations at the start of the year. There was a 46% increase in reported revenue to £69.4m (2021: £47.4m) and a 95% increase in underlying operating profit to £10.9m (2021: £5.6m), including an estimated benefit of £3m from favourable foreign exchange rates. Operational cash flow more than trebled to £12.3m (2021: £3.8m). The balance sheet strengthened during the period and there was a net cash at bank position of £1.8m as at 31 August 2022 versus net bank debt of £9.3m as at 28 February 2022. An interim dividend of 4.0p per share (2021: 2.0p) was declared, reflecting strong cashflow and confidence in the business.

On 6 December the company announced that it has recruited a new tanker broking team, based in Madrid, Spain. The highly experienced team of 10 brokers previously worked for Medco Shipbrokers SL. The team specialises in crude, dirty products, clean products, and period chartering. The new desk's offering and client base will complement existing tanker desks in London and Geneva, strengthen Braemar's global coverage and bring new commercial relationships. The recruitment of the team involved the acquisition of a newly established Spanish company that has been formed to employ the brokers locally. This is wholly owned by Braemar.

On 12 December the expansion of the company's Corporate Finance desk to Athens, Greece was announced as well as the appointment of Stefanos Fragos to lead its growth in the region. This addresses a clear need in the market from shipowners in Greece and the Mediterranean for expert counsel in this area. The company sees potential in sourcing capital from Asia and making this available to smaller and medium sized Greek shipowners. Stefanos Fragos joined from alternative finance provider Yieldstreet where he ran the Athens office. He was also a senior banker in DVB Bank's Greek office for more than a decade. Braemar is now able to provide the full range of chartering, shipping investment advisory and shipping risk advisory directly from Athens to its Greek clients.

The strategic acquisition of Southport Maritime Inc. in the US was announced on 19 December. This enhanced coverage in the Americas, which has been an important strategic goal since the launch of a growth agenda in November 2021. Southport is one of the highest volume US-based shipbroking tanker companies, recognised as a leader for crude and refined products in the North American export market, as well as in Latin American and the Caribbean. The transaction is expected to be earnings

enhancing for the year ending February 2024. In the year to 31 December 2021, Southport made a profit before tax of US\$1.1m with an average of US\$1.5m profit before tax in the three years ended 31 December 2021. The consideration includes US\$7.25m in cash paid on completion, together with up to 1,888,942 ordinary shares in Braemar, which will be delivered on the third anniversary of the transaction. The share consideration is to be issued to the previous owners of the business and certain other employees. This is contingent on them remaining employed in the business for the full three-year period.

On 14 February the company released a trading update and details of a proposed capital reduction to increase its capacity to pay future dividends. The company continued to trade well since the release of interim results in November. The integration of the newly acquired Spanish and US businesses announced in December were said to have progressed well and both businesses are expected to make an immediate and strong contribution to trading in the next financial year. A more detailed update on trading for the year ending 28 February 2023 and on expectations for the following year will be released in a pre-close update, due to be announced in mid-March 2023.

Details of plans to seek shareholder approval to reduce the amount standing to the credit of its share premium and capitalise and reduce the merger reserve by approximately £75m were also outlined. The company noted that it recognises the importance of dividends to shareholders. Reflecting the strong cash generation of the business, it intends to create distributable reserves to increase capacity and flexibility to pay future dividends. As at 14 February, Braemar had an amount standing to the credit of the share premium account of £53,672,079 and an amount of £23,366,000 in its merger reserve account. Both of these accounts are non-distributable reserves and the company is unable to use these to make distributions to shareholders. The reduction of the share premium and capitalisation of the merger reserve and cancellation of the resultant share issue requires the passing of special resolutions at a General Meeting and subsequent approval of the Court.

The financial year which is drawing to a close has been a very good one for Braemar and it will be difficult to match the level of profit achieved. However, the shares trade on a very modest multiple of earnings and a growing dividend provides another incentive to remain invested. Recent acquisitions appear to be attractive additions and the long-term future of the business is bright. We rate the shares as a **BUY**.



	Year Ending 28 February	Turnover	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 307.5p	2021	101.3	8.9	22.8	13.5	9.0	2.9
Market Capitalisation: £101m	2022 (est)	129.5	20.1	41.7	7.4	11.7	3.8
2022/23 Share Price Range: 340p/220p	2023 (est)	115.9	16.4	32.8	9.4	13.2	4.3
Website: <a href="http://www.braemar.com">www.braemar.com</a>							



## Aggressive Growth Portfolio VIII

A very strong performance has been produced by the Aggressive Growth Portfolio over the last month as it has risen in value by 8.2% to £66,414. This is a record high for the portfolio and represents a gain of 32.8% since it was launched in January 2021. Over the same period, the FTSE 100 has risen by 18.8% and the FTSE All Share by 14.6%, whilst the FTSE AIM All Share has fallen in value by 27%!! We are therefore very pleased with this performance as might be expected.

The last month has seen excellent performances from **Made Tech** (up by 52.8%) and **Inspired** (up by 52.5%) with other good performances from **Synectics**, **Halfords** and **Learning Technologies**.

To raise some liquidity for the portfolio we have made two sales from

the portfolio. Firstly, we have sold the holding of 1,000 **Qinetiq** at 350.6p. This is one of the older holdings and the shares now seem to be stuck in a trading range prompting the disposal. This has raised net proceeds of £3,471 and a gain of £605. Following the announcement of uninspiring results we have then also sold the holding of 1,800 **Barclays** at 171.42p. This raised net proceeds of £3,055 for a gain of just £66.

It has been a very busy period for company announcements and all the companies in the portfolio have made an announcement of some sort during the month with the exceptions of **Halfords Group**, **Vesuvius**, **Costain** and **Capita**. These are covered in the **News Highlights** section or are covered on the website.

A number of dividends have been received during the month and these were from **Qinetiq** (£24), **Halfords Group** (£60) and **Speedy Hire** (£72). Following the investment into the two main recommendations this month there is £1,065 left on deposit pending investment.

### Performance summary

	21 February 2023	17 January 2023	Gain/(Loss) %
Portfolio Value	£66,414	£61,354	8.2
FTSE 100 Share Index	7,977.75	7,851.03	1.6
FTSE All Share Index	4,349.62	4,294.53	1.3
FTSE AIM All Share Index	862.16	858.19	0.5

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	443.5	2,218	280
12,000	Renold	25.1	3,042	26	3,120	20
2,825	Synectics	92.5	2,639	135	3,814	75
2,750	Melrose Industries	117.65	3,283	143.8	3,955	95
2,000	Halfords Group	148.8	3,021	205	4,100	120
9,000	Speedy Hire	37.5	3,426	37.85	3,407	31
3,000	Sanderson Design	104	3,151	118.5	3,555	85
2,800	Learning Technologies	110.2	3,116	140	3,920	80
12,500	Made Tech	27	3,409	40.5	5,063	22
1,150	Headlam Group	280	3,268	330	3,795	225
45,000	Inspired	7.7	3,500	10.75	4,838	5.5
725	Ricardo	473	3,480	543	3,937	350
800	Vesuvius	402.8	3,270	398.2	3,186	320
8,000	Costain	40.4	3,280	43	3,440	32
11,500	Capita	27.5	3,210	27.94	3,213	20
11,000	ANGLE	28.75	3,194	28.25	3,163	20
1,075	Braemar	307.5	3,355	307.5	3,306	250
750	SThree	442.5	3,369	442.5	3,319	375
£1,065	Cash	-	-		1,065	
				TOTAL	£66,414	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £2,476 \*after part disposal.

STEM

442.5p

STHREE

SECTOR - INDUSTRIAL SUPPORT SERVICES

**SThree** is likely to be promoted to the FTSE 250 in the near future and although this in isolation should not be seen as a key reason for buying, it is likely to create demand for the shares. Those who have been considering making an investment may wish to do so sooner rather than later as the share price may soon be pushed higher. A rally in the share price in recent weeks could also be explained, at least in part, by some buying in ahead of this technical issue arising.

The company describes itself as a global STEM-specialist talent partner which connects sought-after specialists in life sciences, technology, engineering and mathematics with dynamic organisations across the world. Uncertain economic conditions mean that larger companies are increasingly hiring high-level STEM expertise on a contract basis. The growing need for contractors means that many companies are turning to strategic recruitment partners who understand their specific needs

and have access to a wide network of contract staff who can meet their requirements. There is a key role for companies such as **SThree** in the process of hiring on-demand STEM expertise.

Results for the year ended 30 November 2022 were released on 30 January. Reported profit before tax was £77.0m, up 23% on the previous year in constant currency and up 28% on a reported basis excluding discontinued operations. Reported and adjusted earnings per share were 41.0p (2021: reported 31.9p and adjusted 31.8p). A final dividend of 11.0p per share (2021: 8.0p) was declared. This took the total dividend for the year to 16.0p per share (2021: 11.0p). Net assets increased to £200.4m (2021: £158.2m) and the business model remains highly cash generative. Net cash as at the period end was £65m, up from £58m a year earlier.

This is a solid business with a sound track record. It is carefully managed and downside is protected by the strength of the balance sheet. Growth may be relatively limited in the short to medium term but the shares are on an undemanding rating. Any meaningful growth, potentially as a result of acquisitions, could drive further shareholder value but the shares are cheap even based on historic earnings. We have no hesitation in ranking the shares as a **BUY**.

	Year Ending 30 November	Turnover	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 442.5p	2022	1,639	77.0	41.0	10.8	16.0	3.6
Market Capitalisation: £595m	2023 (est)	1,647	73.7	38.3	11.6	16.0	3.6
2022/23 Share Price Range: 491p/317.5p	2024 (est)	1,588	85.5	43.2	10.2	17.0	3.8
Website: <a href="http://www.sthree.com">www.sthree.com</a>							

# News Highlights

## Sanderson Design



118.5p **GOOD VALUE**

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.

## Headlam Group - 330p

The floorcoverings distributor has provided a trading update for the year to 31 December 2022, revealing that revenue and underlying profit before tax are both expected to be marginally ahead of market expectations. Performances from the commercial sector and Continental Europe were said to be pleasing and there was support from product price inflation. Larger customer wins and effective execution of the early stage of the trade counter roll out were positive factors and these helped offset weaker residential demand in the UK. The company also concentrated on efficiency measures given high operational cost inflation. The shares remain good value despite a rally in the share price since late October. **BUY**.

## Hargreaves Services - 443.5p

The diversified industrial group has announced interim results to 30 November, and these have shown further significant growth. Revenues rose to £116.5m (2021: £76.1m) and pre-tax profit has increased to £18.7m (2021: £10.4m). Earnings per share emerged at 52.2p (2021: 31.0p) although the interim dividend is only increased marginally to 3.0p (2021: 2.8p). Cash at the end of the period was £18.1m compared with £13.8m at the end of May. The growth at the business has been particularly strong at the group's Services division which has been a major beneficiary of the HS2 project. Hargreaves Land benefited during the period from another sale of land at its Bindwells development in Scotland whilst the German commodity trading business also reported good results helped by strong commodity prices. Although the latter business may see some slowdown in the second half of the financial year the overall group has strong momentum and so prospects remain excellent. The shares remain a **BUY**.

## Learning Technologies - 140p

The AIM-listed digital learning group has issued a positive trading update for the year to 31 December which has revealed that both revenues and profits will be above expectations. Revenues for the year are expected to be at least £595m compared with forecasts of £588m and a figure of £258m in 2021. Although most of this growth is due to acquisitions, the group has still generated underlying organic growth. Adjusted EBIT is expected to be at least £100m compared with forecasts of £97.5m and net debt has fallen to under £120m, again a better figure than expected. These figures have been achieved through a combination of revenue growth and an improvement in margins and this strong momentum has carried on into this year. Although the share price has moved up from 110.2p when we tipped the shares in October, it was around 235p in autumn 2021 so the shares have fallen a long way. A non-executive director has recently bought shares at 151p and for longer term investors the shares remain a **BUY**.

## Inspired - 10.75p

The company has announced a trading update for the financial year to 31 December 2022, with strong momentum in the second half helping to achieve a strong trading performance for the full year. Total revenue is expected to be 10% ahead of market expectations at around £88m, and adjusted EBITDA is in line with market expectations. Net debt fell through the second half to around £37.0m at the year-end. A number of directors have also bought shares in the company, with

four of them buying a total of almost 1.15m shares at prices of around 10.3p/10.4p, thus showing their confidence in the prospects of the group. The group supports businesses in the growing markets of energy efficiency/managing climate change which is clearly an area with considerable growth potential. There is obvious upside in the share price but also a relatively high level of risk, so a **SPECULATIVE BUY** rating is appropriate especially following the rise in the company's share price recently.

## Ricardo - 543p

A trading update has been released by the strategic, environmental and engineering consulting company, covering performance in the first half of the financial year to 31 December 2022. Revenue for the period was over £210m, in line with expectations and representing growth of 17% on the prior period. Order intake in the period was £290m, up 34% on the six months to 30 June 2022 and at the period end the order book was over £410m compared with £311m a year earlier. The group has also announced the acquisition of a specialist consultancy advanced modelling business, which has worked with the group for over ten years, for £24m. This looks a good strategic fit and is expected to be earnings enhancing. The overall business has good momentum, and we feel that the shares have further to run despite moving up since our tip. **BUY**.

## Sanderson Design - 118.5p

The luxury home furnishings group, which supplies wallpapers, fabrics and paints, has announced a trading update for the financial year ending 31 January 2023, with sales expected to be similar to the previous year at £112m. Adjusted pre-tax profits are expected to be around £12.5m, the same as last year, and adjusted earnings per share should be 13.8p, putting the shares on a p/e ratio of just 8.6x. The expected dividend of 3.75p also puts the shares on a yield of 3.2%. Net cash at the year-end was £15.2m compared with £15.0m on 31 July 2022 which is clearly encouraging. The company has also recently signed a licensing agreement with NEXT for its Clarke & Clarke homeware brand extending the group's working relationship with the retailer. This is clearly further good news for the group and if consumer spending holds up better than expected the shares look **GOOD VALUE**.

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VAT No: GB 607 1818 48

Independent Financial Publications, 1 Skipton Road, Ilkley, West Yorkshire, LS29 9EH

Designed and published by Westbrook Agency © 2023  
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Next issue out  
23rd March**

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