

cityconfidential

sorting the bulls from the bears

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You can bank on Manx

Manx Financial Group (28.6p) has recently reported very impressive results for the year to 31 December 2022. Record financial performance was delivered despite ongoing economic uncertainty in the Isle of Man and the UK throughout the year. However, the company is by no means complacent and is looking for opportunities to drive further growth both organically and through selective acquisitions.

The company is a financial services group which includes Conister Bank Limited, Conister Finance & Leasing Ltd, Blue Star Business Solutions Limited, Edgewater Associates Limited and MFX Limited. Jim Mellon is Executive Chairman and holds a significant stake in the business.

Profit before tax in 2022 was £5.2m (2021: £3.0m), representing growth of over 70%. Diluted earnings per share jumped from 2.13p to 3.50p. For the second year running, Conister Bank Limited set a new lending milestone of £231.4m (2021: £212.6m). The cost of deposits increased in the second half of the year as the Bank of England increased interest rates but Net Interest Margin rose by £6.4m to £24.4m (2021: £18.0m). Other subsidiaries making notable contributions were Conister Finance & Leasing Limited, MFX Limited and Payment Assist Limited. Operating Income was £26.1m (2021: £20.0m) with the prior year benefitting from a £0.7m revaluation credit. Dividends are relatively modest and there is a stated commitment to return 10.0% of profit available

to shareholders each year in the form of cash and shares so this may not change for some time. For 2022 the total dividend available for payment was £0.433m (2021: £0.279m). This translates to 0.3764p per share (2021: 0.2443p).

We believe that the shares remain cheap, despite having surged over the last six months or so. A multiple of 10x historic earnings would still make the shares look appealing given potential for further growth in earnings in the coming years. The shares are tightly held and off the radar for many investors so any new buying interest could see a further spike in the price at any time. We therefore put forward a **TRADING BUY** recommendation with a near term price target of 35p.



Supermarket Income REIT at a bargain level

Although **Supermarket Income REIT (89.2p)** is by no means the only REIT to have seen its value fall in recent months, it is one which now looks appealing. A key reason for holding REITs is to enjoy a good level of dividend income and although much has changed in terms of interest rate expectations recently, a prospective yield of 6.7% makes the current share price look an attractive entry level.

Last month the real estate investment trust, which provides secure, inflation-linked, long-term income from grocery property in the UK, announced an update to the unaudited valuation of its Direct Portfolio as at 31 December 2022. The Direct Portfolio has been

independently valued as at 31 December 2022 at £1,625m. This means that there was a decline of 13.3% on a like-for-like basis over the six month period. The valuation reflects a net initial yield of 5.5% as at 31 December 2022 (30 June 2022: 4.6%).

The decline in valuation reflects the outward shift in property yields applied by valuers due to higher interest rates and the overall macroeconomic environment. It is important to note that contractual inflation-linked rental uplifts are in place and the average increase in rent from rent reviews performed during the six month period to 31 December 2022 was 3.7%. Some sales and a debt refinancing

have also been announced since the valuation update.

Upcoming interim results, due for release on 30 March, may provide further reassurance for institutional investors. Uncertainty over interest rates is likely to persist as we move through the coming months but the shares may have bottomed and 100p is an obvious psychological level for bulls to target as and when a meaningful recovery starts. The risk of further downside in the share price looks to be outweighed by this so now is a good time to **BUY FOR INCOME**.



Sureserve - 79.5p

SECTOR - AIM - INDUSTRIAL SUPPORT SERVICES

AIM-listed Social Houses Energy Services Group **Sureserve** released final results in January and despite these being solid, with upbeat accompanying commentary, the share price has drifted back since then. This appears to be harsh given the nature of the business and the financial performance which has been achieved to date. We feel that sentiment towards the company should improve in the medium term, particularly given the relatively essential nature of work undertaken. Now looks an interesting time to consider buying in, particularly given the fact that the company is on the lookout for acquisitions and the announcement of deals could spark interest.

The company delivers compliance and energy services in communities across the UK. It supplies into a range of sustainable markets including social housing, public buildings, education, energy services and industrial and commercial buildings. It has over 2,000 staff and works in highly regulated sectors that deliver significant recurring revenues. It has built good relationships with governmental contracting organisations throughout the UK. Regulatory drivers underpin much of the work carried out, meaning that there is a strong order book and visibility of future earnings.

The Compliance division comprises compliance and testing services in the areas of gas, fire and electrical, water and air hygiene and lifts. Services include planned and responsive maintenance, installation and repair. The Gas Compliance business is the UK market leader in its sector and the wider Compliance division is said to be strong in its core public sector markets. The Energy Services division comprises energy efficiency services, renewable technologies and smart metering services, delivered to private and social housing providers, public and commercial building owners, the 'Big Six' power companies, 'challenger' utility companies and both the Scottish and Welsh Governments.

Results for the year ended 30 September were released on 24 January. Group revenue from continuing operations was up 27.0% to £275.1m (2021: £216.6m), reflecting strong revenue growth across all businesses. CorEnergy was acquired in December 2021 and performed ahead of expectations, helping to drive impressive growth overall. Total revenue from continuing and discontinued operations increased by 26.8% to £309.3m (2021: £244.0m).

Group EBITA from continuing operations was 36.6% higher at £16.8m (2021: £12.3m) reflecting strong revenue growth. Total Group EBITA from continuing and discontinued operations increased by 27.4% to £18.6m (2021: £14.6m). An operating profit of £16.4m (2021: £12.1m) was recorded. Profit after tax was £13.1m (2021: £9.1m). Basic earnings per share from continuing operations were 8.0p (2021: 5.7p) and adjusted basic earnings per share were 9.0p (2021: 7.0p). Statutory profit for the year was £11.1m (2021: £11.4m). This resulted in basic earnings per share of 6.8p (2021: 7.1p) from continuing and discontinued operations. As at 30 September 2022, net cash (including cash balances in assets held for sale) excluding lease liabilities was £23.3m (2021: £16.4m). Operating cash flow for the period was an inflow of £16.4m (2021: £14.2m). No dividend was declared and none is forecast for either the current financial year or next.

On 7 December 2021, the entire issued share capital of CorEnergy Limited was acquired. The consideration paid for CorEnergy was £6.6m, plus a working capital adjustment of £1.0m, taking the total consideration paid

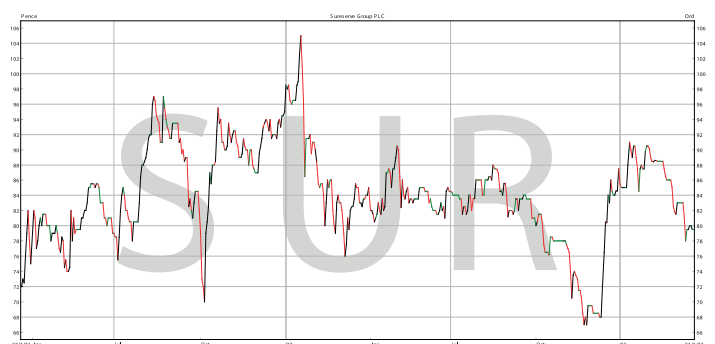
to £7.6m. Of this £3.3m was satisfied through cash and a further £3.3m via the issue of new ordinary shares, issued at an effective price of 89.4p each.

Looking to the future, the company believes its businesses are well positioned with good opportunities for growth ahead. This is supported by the Government's net zero target for carbon emissions by 2050. Current legislation provides some interesting opportunities. The current energy environment in the UK has also prompted specific actions from the Government. For example, the introduction of a new £1bn ECO+ scheme was announced in November and this will provide funding for hundreds of thousands of homes across the country to install new home insulation. The new scheme will extend support to those who do not currently benefit from any other Government support to upgrade their homes. It is in addition to the existing £6.6bn 'Help to Heat' energy schemes. Around one-fifth of the £1bn fund will also be targeted towards the most vulnerable people in the country, including those on means tested benefits or in fuel poverty. Sureserve has been active in delivering other Energy Company Obligation ('ECO') schemes.

Energy services and future energy transition is a core focus moving forward. An established presence in the installation of solar PV works, battery storage projects, energy efficient lighting, air source heat pumps and electric vehicle charging points presents attractive growth opportunities. CorEnergy is a key example of the type of strategic acquisition the company is seeking out and further acquisitions could add value as the company aims to expand its scale, service mix and geographical offering.

The company is a core service provider to customers with services such as vital emergency repair and testing services to properties. It is worth noting that nearly all of its gas contracts include annual contractual price increases. In addition to the more established gas heating services and products, there has also been increased demand for alternative heat sources such as air source heat pumps. The Government has targeted 600,000 heat pump installations per year by 2028 as part of its 2050 net zero initiative.

Good visibility over future revenue, profitability and cash flow allows longer term planning to occur, which helps drive efficiency. The company continues to target securing contracts with long term visibility and good value. It remains confident in future profitable growth with a significantly increased order book value and good visibility on future earnings. The company targets some attractive markets and should continue to benefit from Government targets and legislation, which will be helpful long into the future. At the current level there is scope for strong returns over the longer term and we rate the shares as a **BUY**.



	Year Ending 30 September	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 79.5p	2022	275	15.6	9.0	8.8	-	-
Market Capitalisation: £132m	2023 (est)	332	20.3	8.9	8.9	-	-
2022/23 Share Price Range: 105p/67p	2024 (est)	351	22.6	9.2	8.6	-	-
Website: www.sureservegroup.co.uk							

Aggressive Growth Portfolio VIII

The recent turmoil seen in financial markets caused by the failure of Silicon Valley Bank and the emergency rescue of Credit Suisse has led to falls in equity markets as one might expect. We believe that the equity markets have shown great resilience in the circumstances although it is to be hoped there are no further shocks to come. It remains to be seen if these events have an influence on interest rate policy although news on this should be available soon.

The upshot of the above has been that the Aggressive Growth Portfolio has fallen by 4.3% in the last month, a slightly better performance than the benchmark indices as can be seen from the table below. Few shares in the portfolio have gained in value this month, although we would pick out **Capita**, one of our Shares of the Year, which has risen by 36% during the

month. **Costain** is also deserving of a mention having increased by 20%!

We have decided to take our profit on **Ricardo**, selling our holding of 725 shares at 565p. This has raised net proceeds of £4,055 for a gain of £575 in just three months. The company announced good results during the month, but we believe that the share price has run ahead of itself hence the sale. We have also lost our holding of 11,000 **ANGLE**, as the share price has fallen to the stop-loss limit of 20p. This is very disappointing as this was one of our Shares of the Year and the disposal has raised net proceeds of £2,178 for a loss of £1,016.

It has been another busy period for company announcements and those we regard as most important have been covered in the News Highlights section with the others covered on the website.

No dividends have been received during the month and following the investment into the two main recommendations this month there is £1,033 left on deposit pending investment.

Performance summary

	21 March 2023	21 February 2023	Gain/(Loss) %
Portfolio Value	£63,544	£66,414	(4.3)
FTSE 100 Share Index	7,536.22	7,977.75	(4.5)
FTSE All Share Index	4,109.20	4,349.62	(4.5)
FTSE AIM All Share Index	804.96	862.16	(6.6)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	402.5	2,012	280
12,000	Renold	25.1	3,042	25.4	3,048	20
2,825	Synectics	92.5	2,639	117.5	3,319	75
2,750	Melrose Industries	117.65	3,283	153.15	4,212	95
2,000	Halfords Group	148.8	3,021	179.4	3,588	120
9,000	Speedy Hire	37.5	3,426	33.8	3,042	31
3,000	Sanderson Design	104	3,151	118.5	3,555	85
2,800	Learning Technologies	110.2	3,116	129.9	3,637	80
12,500	Made Tech	27	3,409	30.25	3,781	22
1,150	Headlam Group	280	3,268	304	3,496	225
45,000	Inspired	7.7	3,500	10.25	4,613	5.5
800	Vesuvius	402.8	3,270	397.6	3,181	320
8,000	Costain	40.4	3,280	51.6	4,218	32
11,500	Capita	27.5	3,210	38	4,370	20
1,075	Braemar	307.5	3,355	286	3,075	250
750	SThree	442.5	3,369	435.5	3,266	375
4,000	Sureserve Group	79.5	3,212	79.5	3,180	55
3,200	Kin & Carta	94	3,053	94	3,008	75
£1,033	Cash	-	-	-	1,033	-
				TOTAL	£63,544	

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

KCT

94p

KIN AND CARTA SECTOR - SOFTWARE & COMPUTER SERVICES

Shares in **Kin and Carta** have collapsed since peaking in late 2021, leaving many shareholders disappointed after they were caught up in a huge rally as markets recovered after the initial shock of the Covid-19 outbreak. Those who got their fingers burnt are unlikely to see the high water mark retested in the short to medium term but there is still scope for strong capital growth from the current level.

The company describes itself as a global digital transformation consultancy which is committed to working alongside clients to build a world that works better for everyone. It has 2,000 consultants, engineers and data scientists around the world. These bring technology, data and experience to help companies accelerate their digital roadmap, rapidly innovate, modernise their systems, enable their teams and optimise for continued growth. The company is headquartered in London and Chicago with offices across three continents. There is a strong focus on high standards

of verified social and environmental performance, public transparency and accountability.

Interim results for the six months to 31 January 2023 were released on 15 March. Net revenue was £98.7m, which was up 15% year-on-year and down 6% like-for-like due to macroeconomic headwinds. There was a record half year backlog of £124m (2022: £106m) and a sales pipeline of £166m (2022: £115m). Adjusted profit before tax was £6.5m (2022: £6.3m) but a statutory net loss before tax of £15.1m (2022: loss of £3.3m) was incurred. Net debt for bank covenant purposes was £11.8m (2022: net cash £6.2m).

The outlook statement which accompanied recent results was relatively positive. Organic growth and profitability are expected to improve in the second half. Larger Enterprise clients spending more provides confidence but macroeconomic challenges were noted. A return to more normal growth and profitability is expected in the next financial year and medium term guidance of 15%+ CAGR and adjusted EBITDA margins in the mid-to-high teens is unchanged. Past disappointment means that the shares are not without risk but the potential upside looks very interesting. **SPECULATIVE BUY.**

	Year Ending 31 July	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 94p	2022	190	17.1	8.7	10.8	-	-
Market Capitalisation: £166.4m	2023 (est)	206	20.9	8.9	10.6	-	-
2022/23 Share Price Range: 348p/93.5p	2024 (est)	231	22.9	11.0	8.5	-	-
Website: www.kinandcarta.com							

News Highlights

Vesuvius



397.6p 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..

Costain - 51.6p

In the year to 31 December 2022, the group reported revenue of £1.42bn, an increase of almost 21% over the previous year. Adjusted pre-tax profits were 30% ahead at £34.2m whilst earnings per share on the same basis were 3.1% above the previous year at 9.9p. The lower increase in earnings per share is due to a higher tax charge. Yet again, there is no dividend despite the group ending the year with net cash of £123.8m compared with £119.4m a year earlier. These are clearly excellent results with the net cash position being higher than expected and the group ended the year end with an order book of £2.8bn. Pre-tax profits for 2023 are forecast to be around £40.0m for earnings per share of 11.4p. The dividend is also likely to be re-instated this year even if only at a very modest level. On a p/e ratio of just 4.5x and with significant net cash, the shares remain a **BUY**.

Made Tech - 30.25p

The AIM-listed technology services group has announced its interim results for the six months to 30 November which have shown a sharp increase in revenue to £20.6m (2021: £11.7m) although adjusted pre-tax profits have fallen to £0.3m (2021: £1.0m). The group added a number of new clients during the period, including the Met Office, Government Digital Service and Crown Commercial Service. The company operates in a growing market and 87% of revenues are generated from either central or local government. The company has a strong sales pipeline with good visibility of future revenues and with margins set to improve in the second half we retain our recommendation of **BUY**.

Ricardo - 565p

The environmental and engineering consultancy group has announced its interim results for the six months to 31 December 2022 and these have revealed a 17% increase in revenues on continuing operations to £212.7m, whilst adjusted pre-tax profits rose by almost 24% to £9.9m. Earnings per share on

the same basis rose to 12.2p and the interim dividend was raised to 3.35p. These were clearly solid results, but the share price has risen by 19.5% since we tipped the shares in December and the shares now look expensive. Although long-term prospects remain solid, we suggest that those readers who are more active investors **TAKE PROFITS**.

SThree - 435.5p

The specialist recruitment business has issued a trading update covering the three months to the end of February 2023 and this has revealed that net fee income rose by 4% over the previous year to £102.6m. This was much in line with expectations and this is the eighth consecutive quarter that contract revenues, where the group is focusing its activities, have increased. The group remains in a healthy financial situation with net cash at 28 February of £64m. In the year to 30 November 2023, pre-tax profits are forecast to be £80m for earnings per share of 41p. This would put the shares on a p/e ratio of just 10.6x which we do not believe to be expensive especially given the net cash position. We therefore rate the shares as a **BUY**.

Vesuvius - 397.6p

The molten metal flow engineering and technology specialist has released results for the year ended 31 December 2022. Revenue was up by a quarter to £2.05bn (2021: £1.64bn) and profit before tax jumped from £128m to £207m. Adjusted earnings per share rose to 56.5p (2021: 35.3p) and the dividend rose to 22.25p (2021: 21.20p). Net debt reduced from £277m to £255m during the year. Although the shares yield 5.6%, the payout is relatively conservative given the nature of the business and on this basis the shares continue to look good value. We rate the shares as a **BUY** and see significant scope for capital growth in the coming months.

Capita - 38p

The outsourcing group Capita has announced its annual results for 2022 and these have shown that recovery at the group is continuing apace. The group returned to profitability with adjusted pre-tax profits of £73.8m being recorded (2021: loss of £122.8m) for earnings per share of 6.2p although there is no

dividend. The group also generated positive free cash flow of £29m, whilst it has raised £485m of gross proceeds from disposals of non-core businesses during the year. Net debt at the year-end has therefore fallen to £85m, although this will decline further following another sale of non-core businesses earlier this month for £21m. The group expects to be debt free by the end of the year. The group is now looking to grow rather than merely be in recovery mode, with another increase in profits on the cards for 2023. We believe the shares remain a **BUY**.

Melrose Industries - 153.15p

The automotive and aerospace group has announced its annual results for 2022 and these have revealed that revenues on continuing operations rose by almost 13% to £8.19bn, whilst adjusted pre-tax profits increased by 98% to £384m. Earnings per share more than doubled to 7.0p and the dividend was raised by 33% to 2.325p per share. These results were better than expectations and strong cash flow meant that net debt at the year end of £1.14bn was lower than expected. The timetable for the demerger of the old GKN Automotive business which is to be called Dowlais and listed separately on the stock market next month continues according to plan. Once the overall group is focused on the aerospace business we believe that the shares are likely to be re-rated given the growth prospects and we therefore maintain our recommendation of **BUY**.



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