cityconfidential

sorting the bulls from the bears



In This Issue

Volex
Target Healthcare REIT
Restore
Aviva

Plus

Aggressive Growth Portfolio
Monthly News Highlights

cityconfidential
sorting the bulls from the bears

ISSUE
APR
2023



View our latest Penny Share Picks

RETURN TO THE WEBSITE >

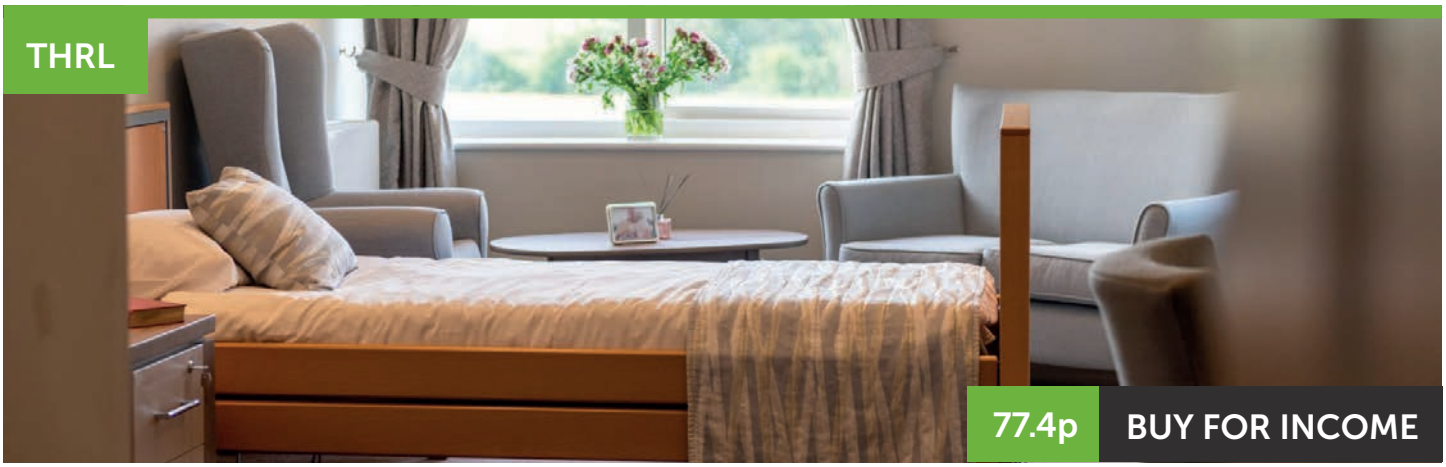
Volex could power further ahead

AIM-listed Volex (252.5p) is a high quality business and the shares have arguably represented good value for some time. A recent trading update provided a boost to the share price but we believe that there is still considerable upside ahead. This is a very interesting niche business, led by Executive Chairman Nat Rothschild. Over the longer term acquisitions could add significant value and given the relatively modest rating the bull case looks appealing.

Volex is a leading integrated manufacturer of critical power and data transmission products. It is a trusted brand which holds leading positions in two critical areas of the interconnect space. Operating across 19 sites, it has a team of over 8,000 people working across 22 countries. The business was originally established in Gorton, Manchester in the late 1800s by Meyer Hart Goldstone and James Henry Ward. It was formally incorporated in 1919.

The full year trading update covered the 52 weeks ended 2 April 2023. Revenue for the period is now expected to be at least US$710m, up at least 15.5% relative to the prior year. Underlying operating profit is now expected to be at least US$66m, at least 17.4% higher than the prior year. Operating free cash flow in the second half of the financial year was substantially higher than the first half. Pre-IFRS 16 net debt is expected to be approximately US$76m at the period end. This means there was a reduction of US$22m in the second half of the financial year. Continued outperformance of underlying markets provides strong momentum entering the new financial year.

The company is well positioned to continue investing in sustainable organic growth and there is said to be an active acquisition pipeline of value enhancing opportunities. There is a stated five-year strategy to grow revenues to US$1.2bn by the end of FY2027. Prior to the trading update revenue for last year was expected to be in the range of US$690.5m to $695.0m and underlying operating profit in the range of US$62.3m to US$64.0m. With positive momentum continuing, we believe that now looks like a good time to **BUY**.



Moving Target?

Shareholders of Target Healthcare REIT (77.4p) have had a tough twelve months or so, along with those invested in many other REITs or similar companies focused on property. In this case the fall probably looks overdone and there is a very attractive yield on offer for those willing to take a long term view.

This is an externally managed Real Estate Investment Trust (REIT) which aims to provide shareholders with an attractive level of income, as well as the potential for capital and income growth by investing in a diversified portfolio of modern, purpose-built care homes. As at the end of 2022 there was a portfolio of 100 assets let to 33 tenants. Purpose-built care homes are let to high quality tenants who demonstrate strong operational capabilities and a strong care ethos. The goal is to build collaborative, supportive relationships with tenants to raise standards of care and help tenants build sustainable businesses.

Results for the six months ended 31 December 2022 were released last month. The portfolio market value fell to £867.7m (30 June 2022: £911.6m). After the period end there was a £22m disposal of four assets for above carrying value, representing a full exit from Northern Ireland. EPRA NTA per share decreased by 8.3% to 103.0p (30 June 2022: 112.3p). The weighted average unexpired lease term is 26.8 years and 99% of leases benefit from upwards only inflation-linked rent reviews, the other 1% having fixed uplifts. Net LTV increased to 25.1% (30 June 2022: 22.0%). Adjusted EPRA Earnings per share were 3.01p (2021: 2.36p). The annual dividend target has been rebased to 5.60p per share, commencing with the third interim dividend payable in May 2023, providing a sustainable dividend level which will be fully covered by earnings whilst allowing for annual growth.

We believe that the yield on the shares, which is now 7.2%, provides a very compelling reason to hold for those seeking income. Some modest recovery in the share price is likely moving forwards and there may also be an opportunity for investors more focused on capital growth but we rate the shares as a **BUY FOR INCOME**.



Restore - 291p

SECTOR - AIM - INDUSTRIAL SUPPORT SERVICES

We have followed AIM-listed Restore for many years and always been impressed by the business. At times it has looked fully valued and particularly with the benefit of hindsight, there have been times when it has been extremely cheap. It is certainly a company where the timing of investing has been critical in determining whether long term holders are showing gains or losses. It is possible to be on either a huge gain or significant loss as the share price currently stands and the long term share price chart has seen some dramatic movements in both directions. Of far more significance at this point is what the future holds and we feel that the current entry level potentially offers very good value.

The company is the leading provider of digital & information management and secure lifecycle services in the UK. It is number one or two in its markets with class leading capabilities, providing mission critical services which enable organisations to protect, manage and utilise their valuable data, information and assets. There are five businesses organised across Digital & Information Management and Secure Lifecycle Services divisions. The company has already built a track record of sustained growth as a listed entity and as one of the larger companies on AIM is also on the radar of institutional investors. The business has a high proportion of recurring income and strong cashflows, which provide capacity for investment.

Results for the year ended 31 December 2022 were released last month. There was strong revenue and profit growth in the year with a 19.1% increase in revenues to £279.0m (2021: £234.3m). Significant recurring organic revenue expansion was a notable and welcome feature of performance in 2022. There were five acquisitions completed during the course of the year, for consideration of £12.3m net of cash. These led to increased capability in Restore Technology and added further scale to Restore Records Management and Restore Harrow Green. Restore Technology acquired Ultratec (Holdings) Limited, a hard drive recovery business, for £9.0m net of cash in May. There were three bolt on acquisitions in Restore Records Management for a total of £0.7m and a small acquisition of a commercial storage and logistics business, CAMA Workspace Ltd, by Restore Harrow Green. The consideration for the latter was £2.6m net of cash, with the deal being completed in October.

Adjusted EBITDA increased by 9.8% to £81.5m and despite the headwind of increasing interest costs in the year a record adjusted profit before tax of £41.0m (2021: £38.1m) was delivered. Statutory profit before tax was £23.3m, up marginally on 2021. Taking into account a prior year equity raise and the impact on the weighted average number of shares in issue in 2022 versus 2021, good adjusted basic earnings per share growth of 4.7% was delivered. Adjusted earnings per share were 24.3p (2021: 23.2p) with statutory basic earnings per share 12.3p per share (2021: 8.7p).

Moving into periods of higher inflation the cost base of the company increases at a slightly faster rate than its ability to take further actions to reduce cost and also increase pricing. This means that there was some impact from the time lag between fast rising inflation and pricing. This means that as inflation eases cost and price effects will first neutralise and then move to a tailwind as cost pressure falls but price amendment remains at the higher rate. This is due the lag effect of backward-looking price mechanisms. In the current year the net effect of pricing and inflation is anticipated to be neutral to positive on profit, assuming inflation reduces in the coming months as is widely forecast at the moment.

Net debt as at the year end was £103.5m with an improved leverage ratio of 1.7x. The cash generation capability, future profitable growth and bank facilities should ensure that there is significant capacity to pursue accretive and strategic acquisitions when they arise. The proposed final dividend is 4.8p per share and this will be paid on 7 July. The ex-dividend date is 8 June and the payment is subject to shareholder approval at the forthcoming Annual General Meeting on 16 May.

The outlook statement at the time of the final results announcement was quite upbeat. There has been a good start to 2023 with good momentum following contract wins, cost reduction actions and pricing changes implemented in the second half of 2022 and early 2023. Records Management expect that net box numbers will continue to grow strongly and within the guided range of 1% to 2% for the current year. Annual price rises for a significant proportion of revenues were successfully implemented from 1 January 2023, with further pricing to be introduced during the first half for the remainder. Pricing and cost actions should at least offset the inflationary cost pressures. As previously announced, good progress is being made on cost reductions.

The acquisition pipeline for 2023 remains strong but the focus in the first half will be on executing price rises, cost management and organic contract wins. The macro-economic environment and inflationary environment remains uncertain but plans are in place to more than overcome these challenges. Trading since the start of the year has been in line with expectations. Despite the solid results and reassuring commentary which accompanied them, the share price has eased back and stands close to the recent low of 270p.

It is clear that this is a very well managed business and the nature of it should ensure that financial performance is resilient even in difficult times. Acquisitions should help grow value for shareholders and although the timing of any deals being completed is impossible to predict, now should be a good time to invest when there is little attention being paid to the company. The current valuation looks modest and it is also feasible that the shares will move onto a significantly higher multiple of earnings in the medium term. Taking all factors into consideration we feel that the shares offer very good value and put forward a **BUY** recommendation.



Share Price: 291p
Market Capitalisation: £398m
2022/23 Share Price Range: 494p/270p
Website: www.restoreplc.com

Year Ending 31 December	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2022	279	41.0	24.2	12.0	7.4	2.5
2023 (est)	307	56.4	24.9	11.7	7.7	2.6
2024 (est)	321	60.8	27.5	10.6	8.3	2.9

Aggressive Growth Portfolio VIII

The market has rallied strongly over the last four weeks as it recovers from the weakness caused by the banking issues which we reported on last month. Unfortunately, whilst the overall market has bounced back, the Aggressive Growth Portfolio has seen a much weaker recovery as can be seen from the table below.

There have not been any real stand out performers in the portfolio over the period. However, we have had to sell two of the holdings in the portfolio as the share price of each fell to the stop-loss limit. We have therefore disposed of 9,000 Speedy Hire at 31p to raise net proceeds of £2,762 for a loss of £664. We have then also had to sell the recent purchase of Kin & Carta, disposing of 3,200 shares at 75p to raise net proceeds of £2,376 for a loss of £677. We are a little surprised by these share price falls as Speedy Hire had a positive trading update during the month and Kin & Carta has not released any news at all. Do not be surprised to see each share price rebound!

Following a good run in the price we have also decided to take the profit on Melrose Industries. Although there is probably scope for the share price to improve when the demerger of the old GKN Automotive business takes place in the next few weeks, the recent rise in the share price has taken the shares to the highest level for over a year. The sale of 2,750 shares has raised net proceeds of £4,468 for a gain of £1,185.

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.

Dividends have been received during the month from Hargreaves Services (£15) and Melrose Industries (£41) and following the investment into the two main recommendations this month there is £3,833 left on deposit pending investment.

Performance summary

	18 April 2023	21 March 2023	Gain/(Loss) %
Portfolio Value	£63,747	£63,544	0.3
FTSE 100 Share Index	7,909.44	7,536.22	5.0
FTSE All Share Index	4,297.39	4,109.20	4.6
FTSE AIM All Share Index	832.44	804.96	3.4

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	428	2,140	280
12,000	Renold	25.1	3,042	27.1	3,252	20
2,825	Synectics	92.5	2,639	117.5	3,319	75
2,000	Halfords Group	148.8	3,021	193	3,860	120
3,000	Sanderson Design	104	3,151	138.5	4,155	85
2,800	Learning Technologies	110.2	3,116	131	3,668	80
12,500	Made Tech	27	3,409	28	3,500	22
1,150	Headlam Group	280	3,268	310	3,565	225
45,000	Inspired	7.7	3,500	9.25	4,163	5.5
800	Vesuvius	402.8	3,270	410	3,280	320
8,000	Costain	40.4	3,280	55	4,400	32
11,500	Capita	27.5	3,210	34.24	3.938	20
1,075	Braemar	307.5	3,355	305	3,279	250
750	SThree	442.5	3,369	416	3,120	375
4,000	Sureserve Group	79.5	3,212	87.4	3,496	55
1,250	Restore	291	3,673	291	3,637	235
750	Aviva	419	3,189	419	3,142	350
£3,833	Cash	-	-		3,833	
				TOTAL	£63,747	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £2,532 *after part disposal.

AV.
419p

AVIVA

SECTOR - LIFE INSURANCE

Aviva is by no means a 'hidden gem' but is an opportunity which is certainly worth looking closely at. The company has a very long history and benefits from the track record which it has built to date. It is also well placed to benefit from the way in which the market for financial services is shaping up in the UK, as well as demographics. Given all this it is somewhat surprising to see the shares trading at a low multiple of earnings and providing a high dividend yield. It is surely a matter of time before the price is pushed higher, with share buybacks mopping up any loose shares.

The company is one of the UK's leading Insurance, Wealth and Retirement businesses, with franchises in Ireland and Canada. It is the largest life insurer in the UK, holding a 20% share of the market and products covering Insurance, Wealth and Retirement. In terms of general insurance it is the leading insurer in the UK and number three in Ireland, providing insurance solutions to around 6 million customers in the combined market.

Results for 2022 were released on 9 March. The business is complex and adverse market movements in the year resulted in an IFRS loss of £1,139m versus a profit of £2,036m on the same basis in 2021. However, operating profit was up 35% to £2,213m (2021: £1,634m) and the capital position is strong. A £300m share buyback programme is underway and the level of dividend payments is very attractive. A final dividend of 20.70p per share (2021: 14.70p) took the total payment for the year to 31.00p (2021: 22.05p), in line with previous guidance. Allowing for payment of the 2022 final dividend and the £300m share buyback the Solvency II shareholder cover ratio is estimated to be 196%.

The shares look very good value and there are plenty of factors which suggest that the intrinsic value of the business should continue to grow over the long term. Share buybacks will offer support to the current share price and with such a healthy dividend yield, there is a strong incentive for investors to buy and hold. There is little not to like about the company and although challenges will crop up from time to time, it is likely that Aviva will be in a strong position to cope. We rate the shares as a **LONG TERM BUY**.

Share Price: 419p
Market Capitalisation: £11,666m
2022/23 Share Price Range: 467.9p/370p
Website: www.aviva.com

Year Ending 31 December	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2022	18,919	(2,379)	(38.2)	-	31.0	7.4
2023 (est)	25,645	2,200	55.5	7.5	33.1	7.9
2024 (est)	27,651	2,402	63.6	6.6	35.0	8.4

News Highlights



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..

Renold - 27.1p

The AIM-listed supplier of industrial chains and related power transmission products has announced a trading update covering the year to 31 March. This has confirmed that the strong trading seen in the first nine months of the financial year has continued through the first three months of 2023, meaning that revenues for the financial year were 26.6% ahead of last year at £247.1m. As a result, the company expects that underlying profit before tax for the year will be higher than current forecasts of £14.3m. The latter figure had already been increased and with this figure now expected to be exceeded, earnings per share for the year could be over 5.5p. It is encouraging to see that order intake through the year was greater than revenue at £260.3m as the company continues to grow. Net debt at the year-end was £29.8m, a reduction of £4.2m since 30 September 2022. The share price clearly stands on a very low multiple of earnings and with further progress expected in the financial year that has just begun we continue to rate the shares as a **BUY**.

Surgical Innovations - 1.95p

The AIM-listed supplier of medical instruments and associated products used in minimally invasive surgery has announced its results for 2022 and, as expected, these have shown considerable growth over the previous year. Revenues increased by 24.3% to £11.34m whilst the pre-tax loss fell to just £55k from a loss of £585k in 2021. Thanks to a tax credit, adjusted earnings per share were 0.03p compared with a loss in 2021. Net cash at the year-end was £0.99m (2021: £1.76m) with the decline mainly due to increased capital expenditure. These were clearly good results and they have benefited from the increase in elective surgery following the removal of Covid restrictions. The group has started 2023 in a positive manner with a significant backlog of operations in the UK whilst it is also seeing progress in overseas markets, with India, Germany and the US also offering potential. Shareholders have had to be very patient (no pun intended!) getting to this point but the group is well placed to see another increase in revenue this year as recovery continues and new products are introduced. We believe the shares remain a **BUY**.

Speedy Hire - 32.25p

The UK's leading tool and equipment hire company has issued a trading update for the financial year ending 31 March 2023 and this has confirmed that trading is in-line with expectations. Revenue for the year is expected to be some 14% ahead of last year at £440m, whilst adjusted pre-tax profits are expected to rise by over 8% to £32.5m. Earnings per share should be 5.3p and the dividend could be increased to 2.4p. The company has reported that it has seen some softening in demand over recent weeks as trading conditions become more challenging, although it has a strong pipeline of new business and enters the new financial year with confidence. Regular readers will recall that the company identified a shortfall in the value of its non-itemised assets of some £20m in February, but an asset count at the end of March did not reveal the need for any further provision. The shares are on a very low p/e ratio and sport an attractive dividend yield - standing at around half last year's high point the shares are a **BUY**.

Inspired - 9.25p

The AIM-listed alternative energy group has announced its results for the year to 31 December and these have revealed revenue of £88.8m (2021: £67.9m), whilst adjusted pre-tax profits rose to £14.0m (2021: £13.4m). Adjusted diluted earnings per share rose marginally to 1.31p (2021: 1.30p) and the dividend was nudged up to 0.27p (2021: 0.25p). Net debt at the year-end was £37.2m (2021: £32.9m) with the increase due to payments of £10.8m of deferred consideration. These were very solid results with all four divisions reporting growth, whilst the new financial year has started well. Further growth is therefore expected in 2023 and with the shares standing on a very modest rating they remain a **BUY**.

Braemar - 305p

A trading update has been provided by the provider of expert investment, chartering, and risk management advice to the shipping and energy markets. This covers the year ended 28 February 2023 and record revenue and profitability were achieved on a simplified business strategy. The company expects to report revenue of not less than £150m (2022: £101.3m), with underlying operating profit of not less than £20m (2022: £10.1m). Cash generation has also been strong with a net cash positive position of around £6.9m as at the period end anticipated (2022: net debt of £9.3m). The net cash figure is after the payment of the acquisition consideration for Southport Maritime Inc. in the US and the recruitment of the new team in Madrid, both of which were announced in December. Trading in the first few weeks of the new financial year has started well and the company is upbeat about the remainder of the year. A final dividend of 8p per share (2022: 7p) will be recommended. Together with the interim dividend of 4p per share, this equates to a total dividend per share for the year of 12p, up from 9p. Results for the year ended 28 February 2023 are due to be released by the end of May. The shares are a **BUY**.

Want more tips, ideas & insight?

RETURN TO THE WEBSITE >



cityconfidential
sorting the bulls from the bears

cityconfidential is published by Independent Financial Publications, which is authorised and regulated by the Financial Conduct Authority. Independent Financial Publications has taken every step to ensure the accuracy of the information contained in this publication but cannot accept any liability for any errors or any loss arising from the use of this publication or its contents. Independent Financial Publications or individuals associated with it may have a position or engage in transactions in any of the securities mentioned. The price of investments and the income derived from them can fall as well as rise and investments in smaller companies have a higher risk factor. Past performance is not necessarily a guide to future performance. The investments in this publication are not suitable for everyone. Before taking any action you should obtain expert advice from your adviser.

VAT No: GB 607 1818 48

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

Designed and published by Westbrook Agency © 2023
www.westbrookagency.co.uk

Thanks for reading
Next issue out
18th May

RETURN TO THE WEBSITE >