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sorting the bulls from the bears

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ANG

29.2p BUY FOR RECOVERY

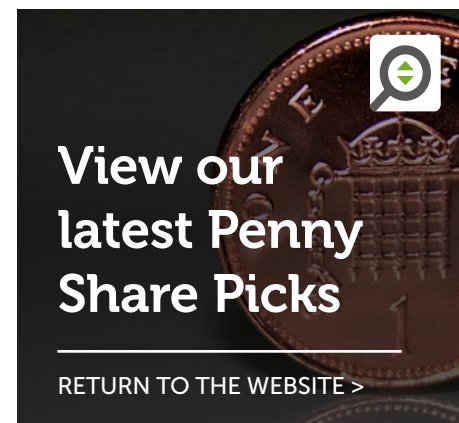
Cast your eye over Angling Direct

AIM-listed **Angling Direct (29.2p)** has released final results for the year ended 31 January 2023. The significant net cash position means that very little value is now placed on the business and although the timing of recovery in underlying trading is difficult to predict, there should be better times ahead.

The company is the leading omni-channel specialist fishing tackle retailer in the UK. It sells fishing tackle products and related equipment through its network of retail stores, its digital platform and third-party websites. It currently sells over 28,000 fishing tackle products including capital items, consumables, luggage and clothing. In January 2022 an additional

distribution centre was acquired in Venlo, Netherlands to service its growing presence in Europe.

Results for the twelve months ended 31 January 2023 showed that total revenue increased by 2.2% to £74.1m but profit before tax slumped from £4.0m to £0.7m. This saw basic earnings per share come in at 0.70p versus 3.98p. Store sales were up 6.8% as the store rollout strategy continued but like-for-like store sales were flat at £38.0m. UK online sales, which represented 90% of total online sales, decreased by 4.8%. Gross margin fell by 190 bps as there was a focus on prices to gain market share. Operating cashflow of £1.5m led to a net cash



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position of £14.1m as at the period end. In the first quarter of the new financial year there was sales growth of 11.0% with growth across all channels and accelerated growth in Europe.

This is a niche business which is well positioned to capitalise on the groundwork which has been done to establish itself in its target market. The fact that the market capitalisation is just £22.6m despite holding net cash which represents 62% of this means that there is clear potential for the share price to recover strongly. The price was over 50p this time last year and a recovery to that level is possible in the medium term. We rate the shares as a **BUY FOR RECOVERY**.



NEX

118.2p SPECULATIVE BUY

National Express moving out of reverse

Following a difficult period **National Express (118.2p)** now appears to be back on track and is well placed to return to profitability in 2023. The company has announced that it will change its name to Mobico Group, effective from early June. Although this will make no difference to its operations, it coincides with the upturn in fortunes which is already underway and may help in a small psychological way to shake off some negative sentiment towards the stock.

National Express is an international shared mobility provider with bus, coach and rail services in the UK, North America, continental Europe, North Africa and the Middle East. The proposed name change is intended to reflect the company's international nature and its diverse range of mobility services. Operating

subsidiaries will retain their customer-facing brands and National Express will still be used in connection with the UK national coach network and some other businesses.

On 19 April a trading update was released, covering the first three calendar months of 2023. Revenues were £774.4m, up 25% on the same period a year earlier and 17% on a constant currency basis, reflecting an overall performance which was in line with expectations. There was ongoing strong performance in ALSA, the group's Spanish business, with revenue up 33%. North America revenues grew by 21% and the next opportunity for a significant step change in performance will come with the start of the new school year in September. In the UK, revenue grew by 27% with scheduled coach

revenue up 87%, reflecting recovery from Covid-related network shutdown in prior year and the impact of rail strikes. The German Rail business also delivered growth of 10%.

Fuel is a key cost and hedges are in place covering 100% of 2023 volumes, 59% of 2024 volumes, and 26% of 2025 volumes. Over 80% of debt is at fixed interest rates and there is a clear path to debt reduction, with a target covenant leverage range of 1.5x to 2.0x Net Debt to EBITDA by Q1 2025. Hence, some major risks are under control in the short to medium term. Earnings per share of 14.1p are pencilled in for this year and 19.0p for 2024. This looks achievable and would leave the shares on a modest multiple of earnings. We put forward a **SPECULATIVE BUY** rating.

MARS

34.8p BUY

Marston's - 34.8p

SECTOR - TRAVEL AND LEISURE

Given that there are a number of serious challenges in the sector in which it operates, it is no surprise that shares in **Marston's** are out of favour. However, with the share price having fallen significantly in the middle part of 2022 and never properly recovered since then, there could be an opportunity for contrarians to buy in at what is potentially a very low level. The company is still generating a good level of underlying profits and has a relatively strong balance sheet despite a significant level of debt. With interim results having been released recently, now is a good time to at least consider this interesting opportunity.

Marston's is a pub operator which also has a 40% stake in Carlsberg Marston's Brewing Company (CMBC). It operates an estate of 1,440 pubs situated nationally. This is made up of managed, franchised and leased pubs which employ around 11,000 people. The company's vision is 'Pubs to be proud of', with a purpose 'to bring people together, to create happy, memorable, meaningful experiences'.

The estate is balanced across formats and locations with well-invested pubs. The primary corporate goals are to achieve two £1bn milestones by financial year 2026. The first is annual sales of £1bn, which requires around £200m of sales growth from pre-pandemic levels. The second is reducing net debt, excluding IFRS 16 lease liabilities, to below £1bn. It is hoped that this will deliver shareholder value in the medium to long term by creating a business that is growing sales, earnings and cash generation, reducing debt levels and increasing the underlying net asset value through increasing returns.

Results for the 26 weeks ended 1 April 2023 were released on 16 May. Revenue increased by over 10% to £407.0m (2022: £369.7m) due to continued recovery in trading momentum and more normalised sales trends. Like-for-like sales for the period were up 10.7%. Retail sales in the 1,191 managed and franchise pubs was up 11.1% to £375.3m (2022: £337.9m) and total outlet sales increased by 11.3% to £388.3m (2022: £348.9m). There were 246 pubs operating under the traditional tenanted and leased model, contributing revenues of £18.7m (2022: £20.8m). The remainder of the tenanted and leased estate is expected to be converted to turnover based models in the medium term. Accommodation sales were £15.0m (2022: £13.6m).

Underlying operating profit excluding income from associates was £43.1m (2022: £39.9m) and underlying EBITDA, excluding income from associates, was £65.9m (2022: £62.0m). Due to the seasonal nature of the business, the bulk of profit is typically earned in the second half of the financial year. An underlying loss before tax of £3.6m was incurred versus a loss of £7.5m in the same period a year earlier. There was an underlying loss per share of 0.5p (2022: 1.0p loss per share). A £34.5m net loss was suffered in respect of interest rate swap movements, representing a partial reversal of the £109.2m net gain in respect of interest rate swap movements reported in final results for 2022. Income from CMBC of £2.2m reflects a share of the statutory profit after tax generated by CMBC. CMBC's results show a recovery from last year and the impact of the Omicron variant. Dividends from associates of £10.6m were received. Dividends in respect of CMBC's calendar financial year are paid in September for January to June and March the following year for July to December.

The net asset value as at the period end was £620.1m, translating into approximately 98p per share. Borrowings are long-dated and asset-backed with a securitisation in place until 2035 which provides financing security and high visibility of future cash flows. The securitisation is fully hedged until 2035. Other lease related borrowings are index-linked, capped and collared at between 1% and 4%, providing protection against high inflation. Of a £300m bank facility, £120m is now hedged and overall the company is 93% hedged for interest.

There was a net cash inflow for the period of £11.5m including IFRS 16 (£9.1m excluding IFRS 16). Typically there would be an outflow and the inflow is principally due to the dividend from CMBC alongside property disposal proceeds. There was an operating cash inflow of £69.9m, significantly ahead of last year. Net debt, excluding IFRS 16 lease liabilities, was £1,204.1m and net debt £1,586.5m. The final salary scheme had a £19.3m surplus as at 1 April 2023, an improvement on the £15.1m surplus as at 1 October 2022. This was driven by a small increase in the invested asset value during the period. The net annual cash contribution is around £6m and this is only expected to continue for the next 2 or 3 years.

The company appears to have made a good start to the second half of its financial year. It has highlighted positive current trading, with like-for-like sales in the last six weeks up 7.9% on last year. The key Easter and first May Bank Holiday dates were also strong. Energy costs have been secured with electricity fixed until the end of March 2024 and gas until the end of March 2025. Other cost increases are being offset through efficiencies and pricing strategies. Trading patterns are said to be normalising and garden investment positions the estate well for the summer. Operating profit is in line with expectations, with further cash generation and debt reduction expected.

Prospects are not as bleak as many appear to believe. The magnitude of the net debt position is an obvious concern but in terms of profit, the current valuation is modest. With some key costs already under control, there is a good chance that current forecasts for this year and next will be met, which leaves scope for solid capital growth in the medium term. Some competitors may also find it difficult to manage the current difficult period as well as Marston's and there could be potential for corporate activity. There are obvious risks and favour will need to return to the sector at some point if a meaningful rally is to materialise. Looking at fundamentals the shares are undervalued though and must rank 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: 34.8p	2022	800	27.7	4.3	8.1	-	-
Market Capitalisation: £220m	2023 (est)	830	43.3	5.6	6.2	-	-
2022/23 Share Price Range: 84.75p/33.05p	2024 (est)	842	52.3	7.0	5.0	1.2	3.4
Website: www.marstonspubs.co.uk							

Aggressive Growth Portfolio VIII

After the strong rally seen in the market which we reported on last month, it has given up some of these gains in the last month as can be seen from the fall in the indices in the table below. Although the portfolio has also fallen back as a result of this, it is at least pleasing to see that its decline is by less than the indices. The recent rise in bank rate which has taken it to 4.5%, its highest level for some 15 years, may be the last in the current cycle although this is by no means certain. This factor is likely to cause some nervousness for investors in the short-term and could hold the market back.

There have been a couple of strong performers in the portfolio over the last month with shares in **Inspired** rising by over 32% and those of **Sureserve Group** rising by an even more impressive 42% to 124.25p. Although there was no news from the former, the latter company has received a takeover bid which has been recommended by the board. The shares were only

recommended in the March issue and so this is a very useful gain in a short period of time. Although the cash bid is worth 125p per share we have elected to sell the shares in the market at 124.25p as otherwise we would be waiting for months to receive the pay-out. The sale of 4,000 shares has generated net proceeds of £4,920 for a gain of £1,708.

It has not all been good news for the portfolio, and we have lost the holding in **Made Tech** as the shares fell through the stop-loss limit of 22p. The sale of 12,500 shares at that price raised net proceeds of £2,723 for a loss of £686.

It has been a quieter month for company announcements and apart from the two already mentioned those we regard as most important have been covered in the News Highlights section with the others covered on the website.

A dividend of £56 has been received during the month from **Synectics** and following the investment into the two main recommendations this month there is £3,963 left on deposit pending investment.

Performance summary

	16 May 2023	18 April 2023	Gain/(Loss) %
Portfolio Value	£63,225	£63,747	(0.8)
FTSE 100 Share Index	7,751.08	7,909.44	(2.0)
FTSE All Share Index	4,224.76	4,297.39	(1.7)
FTSE AIM All Share Index	812.04	832.44	(2.5)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	396.5	1,983	280
12,000	Renold	25.1	3,042	29.25	3,510	20
2,825	Synectics	92.5	2,639	110	3,108	75
2,000	Halfords Group	148.8	3,021	202	4,040	120
3,000	Sanderson Design	104	3,151	125	3,750	85
2,800	Learning Technologies	110.2	3,116	98.3	2,752	80
1,150	Headlam Group	280	3,268	278	3,197	225
45,000	Inspired	7.7	3,500	12.25	5,513	5.5
800	Vesuvius	402.8	3,270	409.4	3,275	320
8,000	Costain	40.4	3,280	53.2	4,256	32
11,500	Capita	27.5	3,210	31.92	3,671	20
1,075	Braemar	307.5	3,355	298	3,204	250
750	SThree	442.5	3,369	399	2,993	375
1,250	Restore	291	3,673	278	3,475	235
750	Aviva	419	3,189	410.3	3,077	350
11,000	Marston's	34.8	3,885	34.8	3,828	29.5
2,750	UP Global Sourcing	132	3,684	132	3,630	105
£3,833	Cash	-			3,833	
TOTAL					£63,225	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £2,588 *after part disposal.

UPGS

132p

UP GLOBAL SOURCING

SECTOR - HOUSEHOLD GOODS
AND HOME CONSTRUCTION

We have covered **UP Global Sourcing**, also referred to as Ultimate Products, before. This is an enterprising business which has proven its ability to build value for shareholders. The current share price arguably fails to reflect the quality on offer and following some weakness the share price stands on a modest multiple of earnings. The yield on offer also provides a strong incentive to hold the shares.

The company is the owner of a number of homeware brands including Salter, which is the UK's oldest houseware brand having been established in 1760 and Beldray, a laundry, floor care, heating and cooling brand which was established in 1872. It specialises in Small Domestic Appliances, Housewares, Laundry, Audio and Heating and Cooling. Products are sold to large national and international multi-channel retailers as well as smaller national retail chains, discount retailers, supermarkets, general retailers and online retailers. The company currently has an exclusive licence to use

the "Russell Hobbs" trademark for cookware and laundry.

Interim results covering the six months to 31 January 2023 were released in late March. Total revenue was up 2% to £87.6m (2022: £85.7m), despite no overall price inflation. Online revenue was up 78% to £22.9m (2022: £12.8m) but sales to retailers was down 11% to £64.7m (2022: £72.9m). Statutory profit before tax was down 5% to £9.3m (2022: £9.8m) and adjusted profit before tax down 5% to £9.4m (2022: £9.9m). Statutory earnings per share were down 6% to 8.4p (2022: 8.9p), with adjusted earnings per share down 5% to 8.6p (2022: 9.1p). The interim dividend per share was 2.43p (2022: 2.30p). Net bank debt as at the period end was £19.4m versus £24.3m as at 31 July 2022 and £30.1m as at 31 January 2022.

At the time interim results were released the company noted that performance for the full year was set to be in line with market expectations. If forecasts are met then critics could argue that growth is very limited. This is true but following a very unusual period, with stock levels difficult to manage, the company has shown that it can adapt to changing conditions and is well placed to deliver over the long term. The shares are a **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: 132p	2022	154	15.8	14.7	9.0	7.12	5.4
Market Capitalisation: £118m	2023 (est)	166	16.6	14.8	8.9	7.40	5.6
2022/23 Share Price Range: 199p/92p	2024 (est)	176	18.2	15.4	8.6	7.70	5.8
Website: www.upgs.com							

News Highlights

Costain



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 - 53.2p

At the time of its AGM, the support services group confirmed that trading has continued in line with expectations although no figures were revealed. Regular readers will recall that the company was one of our shares for 2023 when we tipped it in January at 40.4p. Clearly the shares have enjoyed a strong run since then, moving up to over 60p at one point for a gain of over 50%. However, with adjusted pre-tax profits of £40m on the cards for 2023 for earnings per share of 11.4p the shares still look cheap, and we maintain our recommendation of **BUY**.

Kin and Carta - 77.4p

Although we lost the holding of Kin and Carta from the Aggressive Growth Portfolio last month, as the share price fell through the stop-loss limit of 75p, we commented that it would be no surprise if the share price recovered strongly as there had been no announcement from the company to cause the share price fall. The shares have indeed recovered a little and the company has expended its service offering through the purchase of Forecast Data for initial consideration of £3m. Edinburgh based Forecast Data uses AI and machine learning to drive businesses forward and the acquisition will enhance the group's services. It is expected to be earnings enhancing in the first full year of ownership. We continue to rate the shares as a **BUY**.

Made Tech Group - 18.25p



The digital and data technical services group has announced a trading update for the year to 31 May and this has confirmed that trading in the second half of the financial year has continued as expected with a strong financial performance in March in particular. However, the company has also noted that several clients have deferred work due to be started in

April and May into the new financial year and this will mean that revenues for the year to 31 May will be closer to £40m than the £43m originally expected. Due to the high fixed cost base of the business the reduction in revenue will have a significant impact on profits with adjusted EBITDA now expected to be around £1.5m. However, the company had significant net cash balances of £7.9m at the end of April, worth around 5.3p per share, whilst it also has a strong order book worth £61m. The company continues to make solid progress although the delays to the work referred to above are clearly disappointing. However, we believe that the fall in the share price has been overdone and we believe that the shares are a **BUY FOR RECOVERY**.

Synectics - 110p

The company issued a trading update at its AGM and this has confirmed that trading is pretty much as expected. There has been a strong performance from the business in the oil and gas sector with a number of contract wins, although as project delivery cycles tend to be longer in this sector, most of this revenue will come into the second half of the year. There is also a strong pipeline of work into 2024. In the gaming sector there continues to be an increase in interest and activity levels, although expected orders and projects are still experiencing delays. One consequence of this is that the company's results for the year to 30 November 2023 are likely to be weighted towards the second half. The order book is now significantly ahead of that on 30 November 2022 and the balance sheet also remains strong with net cash at the half year end on 31 May expected to be better than previously forecast. The fact that the results for the year are to be weighted towards the second half has disappointed some investors with the shares falling back as a result. Long term investors should take advantage of this to pick up stock at these lower levels. **BUY**.

Sureserve Group - 124.25p

A new vehicle formed by Cap10 has offered 125p per share in cash for AIM-listed social housing maintenance specialist Sureserve. This values the company at £214m and

represents a 39% premium to the previous day's closing price. The deal looks likely to go ahead and having only been tipped in March readers should **ACCEPT THE OFFER**.

Learning Technologies - 98.3p

The AIM-listed digital learning and talent management specialist has released results for the year to 31 December 2022. Revenues more than doubled to £596.9m (2021: £258.2m) whilst statutory profit before tax increased 334% to £40.5m (2021: £9.3m). Adjusted diluted earnings per share jumped from 5.01p to 8.12p. A progressive dividend policy is in place and a final dividend of 1.15p per share was proposed, up 64% on 2021, leading to a full year dividend of 1.6p, representing an increase of 60%. Efficient cash conversion meant that net debt at the year-end was £119.8m (2021: £141.4m). The strong balance sheet supports the ability to make accretive acquisitions that fit the group's long-term strategy. There was moderate revenue growth in Q1 2023, and high single-digit adjusted EBIT growth is anticipated in 2023, supported by a strong order pipeline. This includes a number of significant long-term contracts for GP Strategies that are at an advanced stage. The company is on track to meet its goal of £850m run-rate revenues and £175m run-rate adjusted EBIT by the end of 2025. The shares are not without risk, but the long-term story is intact, and we believe that a **BUY** rating is justified.



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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
22nd June

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