

cityconfidential

sorting the bulls from the bears

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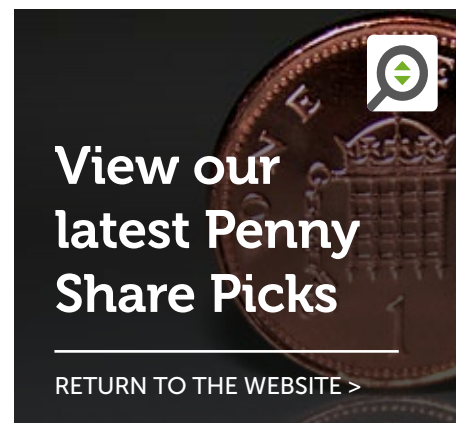
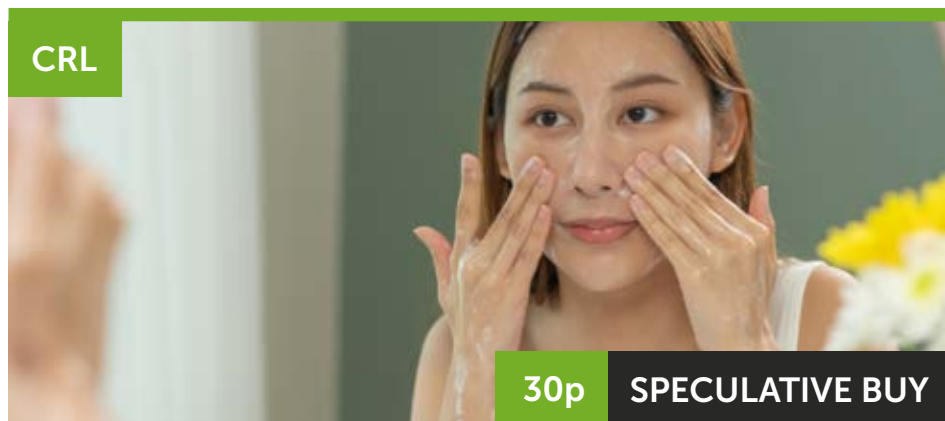
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Could you clean up with Creightons?

Although the last financial year was difficult for **Creightons (30p)**, performance in the second half was far better than the first and this provides encouragement that the current year will see improvement. Results for the year ended 31 March 2023 were only released on 7 July so there may be a wait for any real developments but the current share price offers an interesting entry point.

The company is involved in the development, marketing and manufacture of personal care, beauty and fragrance products, including some of its own brands. Operations are divided into three business streams, namely branded, private label and contract manufacturing.

The business has grown both organically and through acquisitions over the years.

In the year to 31 March 2023 revenue was £58.6m (2022: £61.2m), EBITDA was £3.0m (2022: £5.9m) and operating profit £1.4m (2022: £4.4m). Profit after tax for the year was £0.5m (2022: £3.1m) and the fall in profit combined with the issue of new shares reduced fully diluted earnings per share to 0.65p (2022: 3.98p). However, operating profit before exceptional items was £0.3m in the first half and £1.3m in the second half. Cash generated from operating activities was £1.4m in the first half of the year and £4.5m in the second half. The balance sheet is in relatively good shape

with net assets as at 31 March 2023 of £25.5m (2022: £25.7m), although broadly half of this is intangible assets.

There is a lack of research available and it is difficult to predict short term performance, adding an element of risk. However, this is an interesting niche business and a market capitalisation of just £20.5m leaves scope for considerable upside over the long term. The share price climbed dramatically as the company benefited from Covid-19 and has subsequently collapsed to what should prove to be a bargain level, meaning that the shares are a **SPECULATIVE BUY**.



Indivior set for a boost from US listing

Indivior (1780p) is due to release interim results on 27 July. Although we see the shares as being more of a long term opportunity, the announcement may spark interest and now could be an opportune time to buy in before it is too late. The shares are now also listed on the Nasdaq Global Select Market, a change which only took place on 12 June. With the company in the FTSE 250, there is a wide pool of potential investors and some could be poised to buy in once the results are announced.

Headquartered in the US, the global pharmaceutical company employs more than 1,000 individuals globally and its portfolio of products is available in 39 countries worldwide. It works to help change patients' lives by developing medicines to treat substance use

disorders and serious mental illnesses. The ultimate aim is to see all patients around the world have access to evidence-based treatment for the chronic conditions and co-occurring disorders of substance use disorders and Indivior is dedicated to transforming the issue from a global human crisis to a recognised and treated chronic disease. There is an existing portfolio of treatments and a pipeline of product candidates, designed to both expand on its existing offering and potentially address other chronic conditions and co-occurring disorders such as alcohol use disorder and cannabis use disorder.

First quarter results, covering the three months ended 31 March 2023, were released on 27 April. Net revenue was US\$253m, up from US\$207m in the first quarter of 2022.

Reported operating profit was US\$57m (2022: US\$54m). On an adjusted basis, Q1 2023 operating profit was US\$71m, a 31% increase versus the same period in 2022. Reported net income was US\$44m (2022: US\$41m). Adjusted net income was US\$56m (2022: US\$41m). Adjusted diluted earnings per share jumped from US\$0.28 to US\$0.40. Cash and investments were US\$803m as at 31 March 2023 including US\$26m restricted for self-insurance.

The business appears to be well positioned in terms of its operations and the US listing may well create additional demand from investors in the near term. This is an interesting, high quality business and one which has plenty of positive momentum. We rate the shares as a **BUY**.

TTG

155.6p BUY

TT Electronics - 155.6p

SECTOR - TECHNOLOGY HARDWARE AND EQUIPMENT

We have covered **TT Electronics** before but given recent share price weakness, which is arguably very harsh on the back of solid performance in 2022, we believe that now is an opportune time to take another look. An impressive level of growth was delivered in the last financial year with strong order intake and multi-year programme wins. Although significant supply chain and cost headwinds were noted, profit growth was ahead of expectations.

The company is a global provider of engineered electronics for performance critical applications. It supplies into growing markets including healthcare, aerospace, defence, electrification and automation. Products designed and manufactured include sensors, power management and connectivity solutions. Design and manufacturing facilities are located in the UK, North America, Sweden and Asia.

The company's stated strategy is to solve technology challenges for a sustainable world, creating solutions that enable customers to make products that are cleaner, smarter and healthier and that will benefit the planet and people. It targets value creation through supplying products and services that meet customers' sustainability ambitions in the target markets of healthcare, aerospace & defence and automation & electrification. The company had previously predicted that growth rates in its end markets should be between 3% and 5%. At the time of the company's final results announcement earlier in the year it revised this to between 4% and 6% over the medium term and it also expects TT Electronics to outpace this level of growth.

Results for the year ended 31 December 2022 were released in March. Revenue for the year was £617.0m (2021: £476.2m), reflecting strong growth which accelerated in the second half of the year. Adjusted operating profit was £47.1m, 19% higher than the prior year at constant currency. Adjusted operating margin was 7.6% and excluding zero margin pass-through revenues, adjusted operating margin was 8.1%. After the impact of adjusting items, including restructuring, pension, acquisition and disposal costs, and a non-cash asset impairment, the full-year statutory operating loss was £3.4m. Adjusted profit before tax was £40.4m versus £31.5m in the prior year.

Adjusted earnings per share increased to 18.2p (2021: 14.5p), reflecting the improved adjusted profit in the period. A basic loss per share of 7.5p was incurred on a statutory basis versus earnings per share of 7.3p in 2021 as the increase in adjusted operating profit was more than offset by the increase in non-cash adjusting items. Given strong trading performance in 2022 and a positive outlook for 2023 and beyond, a final dividend of 4.3p per share was paid at a total cash cost of around £7.6m. An interim dividend of 2.0p per share was paid, leading to an increase of 13% in the total dividend to 6.3p per share (2021: 5.6p).

During the year cash spend on a self-help programme to support margin improvement was completed. The company also invested in inventory to support high levels of growth, an increased customer order book and supply chain constraints on some component parts. On a statutory basis, cash flow from operating activity was £12.7m (2021: £14.3m). There was a free cash outflow of £13.1m (2021: £1.3m outflow). Dividend payments totalled £10.2m (2021: £11.4m). Net debt as at 31 December 2022 was £138.4m (2021: £102.5m), including IFRS 16 lease liabilities of £23.1m

(2021: £22.6m). As at 31 December 2022 leverage was 2.0x (2021: 1.7x), within the target leverage range of 1-2x, and down 0.4x from June 2022, as had been anticipated. Debt should be paid down moving forwards as EBITDA increases and a material step-up in free cash flow is expected in 2023.

In 2022 the company completed the buy-in of its UK defined benefit pension scheme. The scheme's liabilities of around £360m are now matched by an insurance policy, and the company no longer faces any investment, longevity, interest rate or inflation risk in respect of the scheme. There was a benefit to free cash flow of £6m in 2022 as a result of this and there is an equivalent annual improvement to free cash flow in future years. Clearly this is an important development and one which should not be ignored.

A trading update was released on 9 May, the day of the company's Annual General Meeting, which covered performance for the four months to the end of April. At the time it was stated that momentum from last year had continued and trading in the year to date was encouraging. This reflected the structural growth of end-markets and the strength of relationships with customers. Group revenue in the period was 16% higher than the same period in 2022 on a constant currency basis.

The performance of the Power and Connectivity division was much improved on the first half of 2022 and the Sensors and Specialist Components and GMS divisions were continuing to perform well. Order intake was returning to more normal levels, as anticipated. The order book was close to record levels and current year expected revenues were almost fully covered by orders at the time. The positive start to the year and the order book coverage meant that there was an unchanged outlook for the year. The company's focus is on executing on the order book, delivering continued strong profit growth and driving free cashflow.

This is a business which remains sensibly managed and this should ensure an outcome for the full year which is broadly in line with current forecasts. Looking ahead, analysts expect growth in profit on the back of modest improvement in revenue. The current valuation on the business looks undemanding and it may attract bid interest if the share price fails to recover from the level where it now stands. It is also interesting to note that a strong order book has led to excellent levels of forward visibility. At the end of 2022 the order book gave visibility over around 90% of planned 2023 revenues. This is a notable improvement on 77% at the end of 2021 and 59% at the end of 2020. A **BUY** rating is justified.



	Year Ending 31 December	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 155.6p	2022	617	40.4	18.2	8.5	6.3	4.0
Market Capitalisation: £274.8m	2023 (est)	628	50.2	18.6	8.4	6.7	4.3
2022/23 Share Price Range: 264p/124.8p	2024 (est)	634	55.0	20.9	7.4	7.4	4.8
Website: www.ttelectronics.com							

Aggressive Growth Portfolio VIII

Another disappointing performance from the portfolio which has fallen in value once again, making it three months in a row that this has happened. Although all the benchmark indices were also down, two did not fall by as much as the portfolio.

The fall in the value of the portfolio has been spread across the various holdings with only **Halfords** and **Costain** really bucking the trend, each rising by over 10%. We have lost four holdings which have breached the stop-loss limit as follows. Firstly, we have sold 2,800 **Learning Technologies** at 80p to realise net proceeds of £2,218 and a loss of £898. A poor trading statement from **Restore** has led to the sale of 1,250 shares at 235p for net proceeds of £2,909 and a loss of £764 whilst weakness in the sector led to shares in **Marston's** falling back, with the sale of 11,000 shares at 29.5p realising net proceeds of £3,213 and a loss of £672. Finally, the delay in the

results from **Braemar** has caused many investors to sell despite the fact that the results are expected to be good. The sale of 1,075 shares at 250p realised £2,661 for a loss of £694.

Regular readers will note that the holding of **Inspired** has fallen to 3,000 shares from 30,000 shares, but this is due to a share re-organisation with shareholders receiving one new share for every ten shares held previously. Obviously, we have changed all the other figures relating to this holding accordingly.

A number of companies have made announcements during the month and these include **Renold**, **Synectics**, **Halfords Group**, **Braemar**, **Restore**, **UP Global Sourcing** and **Galliford Try**. These are covered either in News Highlights or on the website.

Dividends were received during the month from **Learning Technologies** (£32), **Restore** (£60) and **UP Global Sourcing** (£67) and following the investment into the two main recommendations this month there is £7,617 left on deposit pending investment.

Performance summary

	18 July 2023	20 June 2023	Gain/(Loss) %
Portfolio Value	£58,838	£60,051	(2.0)
FTSE 100 Share Index	7,453.69	7,569.31	(1.5)
FTSE All Share Index	4,066.80	4,125.41	(1.4)
FTSE AIM All Share Index	754.36	785.18	(3.9)

Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500 Hargreaves Services*	264	1,334	414	2,070	280
12,000 Renold	25.1	3,042	29.3	3,516	20
2,825 Synectics	92.5	2,639	112.5	3,178	75
2,000 Halfords Group	148.8	3,021	219.4	4,388	120
1,150 Headlam Group	280	3,268	238	2,737	225
3,000 Inspired	77	2,333	88	2,640	55
800 Vesuvius	402.8	3,270	409.8	3,278	320
8,000 Costain	40.4	3,280	50	4,000	32
11,500 Capita	27.5	3,210	28.04	3,225	20
750 Aviva	419	3,189	389.6	2,922	350
2,750 UP Global Sourcing	132	3,684	128	3,520	105
1,650 Galliford Try	197.8	3,313	200	3,300	155
1,000 Babcock International	307.4	3,120	309	3,090	250
2,250 TT Electronics	155.6	3,553	155.6	3,501	110
3,000 Macfarlane Group	106.5	3,243	106.5	3,195	75
£10,278 Cash	-	-	-	10,278	-
			TOTAL	£58,838	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £3,085 *after part disposal.

MACF

106.5p

MACFARLANE GROUP

SECTOR - GENERAL INDUSTRIALS
RECOMMENDATION - BUY

Macfarlane Group is a business which appears to be in very good shape. It has built a strong track record as a listed company and the shares trade on a modest multiple of prospective earnings. Modest organic growth is likely in the coming years and acquisitions have potential to drive further shareholder value.

The company operates through two divisions. Macfarlane Packaging Distribution is the leading UK distributor of a wide range of protective packaging products. The Manufacturing Operations division, Macfarlane Design and Manufacture, designs and produces protective packaging for high value and fragile items. With headquarters in Glasgow, Macfarlane Group employs over 1,000 people at 37 sites. These are mainly in the UK, with a presence in Ireland, Germany and the Netherlands. It supplies more than 20,000 customers, principally in the UK and Europe, covering sectors including retail e-commerce, consumer goods, food, logistics, mail order, electronics, defence, automotive and aerospace.

On 9 May a trading update was released to coincide with the company's Annual General Meeting. Sales and profits in the first quarter were ahead of the same period in 2022. Packaging Distribution sales were up 4%, aided by the acquisition of PackMann in May 2022 and new business growth, offset by continuing weak demand from the e-commerce retail sector. Sales from Manufacturing Operations were 14% higher, with good recovery in some industrial markets and a boost from the acquisition of A.E. Sutton Limited in March 2023. Net bank debt as at 31 March 2023 was £0.1m versus £3.4m as at 31 December 2022.

The acquisition of Gottlieb Packaging Materials, a protective packaging distributor based in Manchester, was announced on 2 May. The maximum cash consideration is £3.55m and in the year ended 31 December 2022 the acquired business generated sales of £4.5m, with pre-tax profits of £0.7m.

The company continues to focus on organic growth in attractive end markets supplemented by quality acquisitions, strong cash generation and a progressive dividend. A significant increase in the share price is likely to be reliant on further acquisitions but even as the business stands there is scope for upside. On balance we rate the shares as a **BUY**.

	Year Ending 31 December	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 106.5p	2022	290	19.9	9.8	10.9	3.42	3.2
Market Capitalisation: £168.6m	2023 (est)	312	24.4	11.8	9.0	3.60	3.4
2022/23 Share Price Range: 135.25p/86p	2024 (est)	325	25.8	12.3	8.7	3.77	3.5
Website: www.macfarlanegroup.com							

News Highlights

Halfords Group



219.4p 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.

Halfords Group – 219.4p

In the year to 31 March, the company saw significant revenue growth to £1.59bn (2022: £1.38bn) although underlying pre-tax profit fell back to £51.5m (2022: £89.8m). The fall in the latter was largely due to cost inflation and lower prices to help customers and, in the circumstances, these look to be solid results. Adjusted earnings per share fell to 18.8p from 35.5p although the dividend was raised 11% to 10p per share. The group has increased its market share in most of its core areas and this should help profits to recover in the current financial year. Adjusted pre-tax profits are expected to move up to £53.3m for earnings per share of around 19.5p although the results are expected to be geared towards the second half of the year. The shares stand on a modest rating and with much of its revenue derived from repairs and necessary replacements the group is protected to some degree. Standing on a modest rating and sporting an attractive dividend yield of 4.6% the shares are a **BUY**.

Renold – 29.3p

The global supplier of industrial chains and power transmission products announced record results for the year to 31 March with revenue up 26.6% to £247.1m and adjusted pre-tax profits rising by 61.7% to £18.6m. Earnings per share on the same basis rose 51.2% to 6.5p. Net debt at the end of the year rose to £29.8m from £13.8m, although the company spent €24m on the acquisition of Industrias YUK during the year. This is performing ahead of expectations and has increased the group's exposure to the Iberian peninsula and other European markets. The group's order intake increased by 15% during the year to £257.5m which is clearly encouraging and, at the year-end, the order book stood at £99.5m. The new financial year has started well although some headwinds remain and new orders have been somewhat erratic. Even assuming same again profits in the current financial year, the shares stand on a prospective p/e ratio of just 4.5x

which makes the shares look cheap. Although there is no dividend, we believe the shares deserve a rating of **BUY**.

Kitwave Group – 304p

The AIM-listed wholesale business has announced interim results to 30 April revealing that revenues rose 23% over the same period in the previous year at £275m whilst pre-tax profits rose 48% to £8.3m. Earnings per share rose by 44% to 9.1p and an interim dividend of 3.75p was declared. These are impressive figures with the company benefitting from increased margins as all divisions of the group increased revenues. Net debt at the end of the period was £64.4m although the increase of £20.0m since the year end is due to a new banking facility of that amount which was utilised for the purchase of Westcountry Foods in December. The latter has been successfully integrated into the group and enables the group to deliver high quality fresh produce throughout the South-West. Trading since the end of April has been strong and ahead of forecasts and the full year results are therefore likely to be ahead of expectations. We continue to rate the shares a **BUY**.

Braemar – 233p (susp.)

In a slightly surprising announcement, the shipping and energy consultancy issued a trading statement ahead of its results for the year ending 28 February 2023, which included a request that the company's shares be suspended from trading from 3 July. The results for the year are set to be a record, with revenues likely to be at least £150m, underlying operating profit expected to be at least £20m and net cash at the year-end expected to be £6.9m. A 33% hike in the total dividend for the year to 12p is also expected. However, the company is concerned about a historic transaction from 2013, valued at \$3m which involved payments through to 2017 and is currently investigating this. As the results of the investigation were not known by 30 June, which was the latest date that the group could announce its results, shares in the company have been suspended although many investors sold ahead of this with the share price falling sharply. The transaction under consideration

is not expected to have any material impact on the results of the group going forward or its financial position. We believe that when the shares regain their quote, they will have long term attractions and are a **BUY**.

Restore – 167p

The AIM-listed records management and digital business has issued a disappointing trading update with weakness in its technology business more than offsetting growth in the records management business. The former has seen a reduction in demand for certain services, particularly bulk digital scanning, whilst the price of recycled shredded paper has fallen significantly in the last month with this trend expected to continue in the second half of the year. As a result, adjusted pre-tax profits for the year will be lower than previously expected at around £31m. Recent increases in interest rates are also expected to have an impact on the group. The chief executive has left by mutual consent and it therefore seems likely that the recent weakness in the share price will continue. This is very disappointing for investors but with uncertainty surrounding the company the shares are no more than a **HOLD**.



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