cityconfidential

sorting the bulls from the bears

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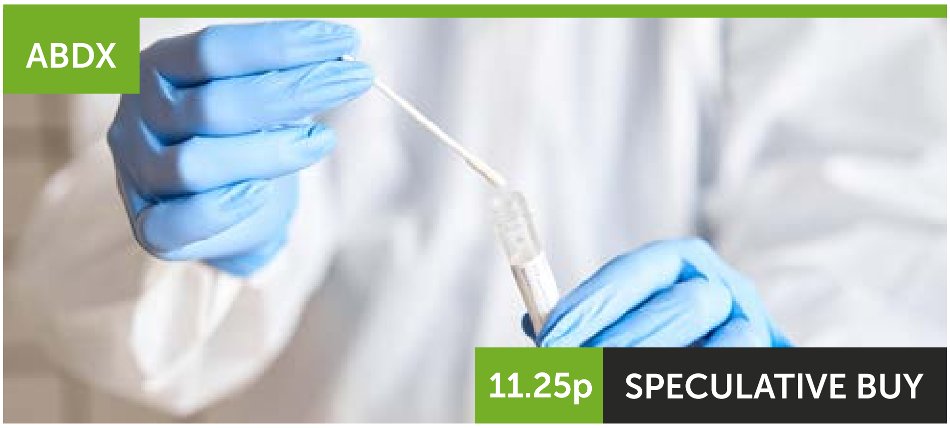

Testing for babies!

Regular readers with long memories may recall the name Abingdon Health (11.25p) from two or three years ago when the company saw its share price rise to over 120p. This was during the height of the pandemic as the company was making rapid lateral flow tests that were used to detect COVID-19. Obviously at the time these were in high demand and investors quickly latched on to the company as a beneficiary of the virus. However, since the world has settled down to live with the virus and testing demands have been relaxed, the demand for these tests has fallen sharply and the share price of the company has followed suit.

What is suddenly making the shares a potentially interesting punt is the latest news that it is to supply Tesco with the Salistick™ pregnancy test. This is the first-ever saliva pregnancy test which offers women an improved user experience with high accuracy for early pregnancy detection. The revolutionary patented technology allows saliva to be used as a sample rather than the traditional urine sample. This offers the ability to test anywhere, anytime, and for the testing experience to be shared with a partner and other loved ones. It is estimated that 12.5m pregnancy tests were carried out in the UK in 2022, whilst the global market for pregnancy tests was valued at $1.7bn in 2022.

Abingdon Health is the exclusive distributor of Saiistick™ in the UK and Ireland on behalf of Salignostics Limited, an Israeli developer of innovative saliva-based diagnostic tests. As well as distribution, Abingdon is also providing contract development services to scale up production of Salistick™ and will continue to provide Salignostics with contract manufacturing services going forward. Tesco intends to sell the product in almost 300 stores and online from late August 2023 – this follows on from the initial launch of the product with Superdrug, where it is sold in 400 stores and online.

Clearly, the company remains very small with revenues of just £4m expected in the year to 30 June 2023. However, it looks to have significant potential for growth through its contract manufacturing services going forward with the current financial year expected to see further significant growth in revenues. At the year end the group had net cash of £3.2m and we believe the shares deserve a recommendation of SPECULATIVE BUY.

Buying US assets at a discount!

It seems unusual for us to be recommending an investment trust in the newsletter, but we believe that we have identified a very attractive investment opportunity which is too good not to share with our subscribers. The company in question is Baillie Gifford US Growth Trust (154p) the shares of which have fallen from a peak of 400p just over two years ago. This fall in value looks overdone to us, especially as the net asset value per share is around 187p. Thus the shares stand at a discount of 17.6% to the net asset value which looks a harsh valuation to us.

As the name implies, the company invests in the US with the objective of generating capital growth over the long-term. However, the fact that the company is a long-term investor will have little impact on the short-term movement of the share price and it would be no surprise for this to move back up towards the net asset value figure in the short-term. Any upward movement in US share prices will only add to this effect.

The company has a relatively concentrated portfolio and, at the end of July, the largest 30 holdings accounted for 75% by value of the total portfolio. The largest ten holdings which made up 41.9% of the portfolio included some familiar names such as Shopify, NVIDIA, Amazon.com, Tesla Inc and Netflix. As can be seen, the portfolio is invested in companies which are expected to show significant growth going forward being in high-growth industries which have potential for significant expansion. By their very nature, companies such as this can experience significant volatility in their share prices and this can result in sharp fluctuations in the net asset value of the Trust. This helps to explain the sharp fall in the share price from 2021, when in fairness the share price was looking extended anyway.

Although the company does not pay any dividend we believe that the growth prospects of the company more than make up for this fact. The company does have exposure to private companies and at the end of July there were 24 such investments accounting for 30.4% of total assets. Investments such as these have been a cause for concern for investors but given the track record of the fund we are relatively relaxed about this and feel that the large discount of the shares to the net asset value provides sufficient incentive to buy the shares. BUY.

TI Fluid Systems – 137p

SECTOR - AUTOMOBILES & PARTS

With market conditions being somewhat uncertain at the moment, there are not many companies surprising on the upside and so these companies are worth watching out for. One such company is TI Fluid Systems which surprised investors with better than expected first half results last week. Although this prompted a 15% increase in the share price to 149.75p, the results and accompanying statement led many analysts to increase forecasts and, in our view, the shares have significant upside having fallen back once again.

Activities

TI Fluid Systems is essentially a manufacturer of automotive parts such as fuel tanks and brake and fuel lines. The company has over 100 years of experience in fluid systems and it now operates from 98 locations in 28 countries. The group has two main areas of operation and these are as follows:

Fluid Carrying Systems: this division manufactures brake and fuel lines, thermal management fluid systems (including hybrid electric vehicle (HEV) and battery electric vehicle (BEV)), thermal management products and powertrain products. In 2021, the company represented 30% of the global brake and fuel line market.

Fuel Tank and Delivery Systems: this division produces fuel tank systems and pumps and module fuel delivery systems, including HEV pressure-resistant fuel tanks. The group is a leading supplier of plastic fuel tanks and in 2021 had a 16% share of the global market.

The company supplies every major OEM across the world having developed long-term relationships with them all. These clients include VW Group, BMW, Toyota, Ford and KIA-Hyundai Group. This ensures that the group's customer base is widely diversified whilst the group also generates its revenue from different geographic regions. In Europe and Africa, the group has operations in sixteen countries including the UK, Germany, France, Poland, Italy, South Africa and Morocco, whilst in the Americas it has operations in countries including the USA, Canada, Mexico and Brazil. Elsewhere it operates in a number of countries including South Korea, India, China and Japan.

Financial

The company has recently announced its interim results covering the six months to 30 June. These showed that revenue for the period had increased by over 13% compared with the previous year to €1.77bn (2022: €1.56bn), whilst pre-tax profits almost trebled to €58.9m (2022: €19.8m). Adjusted earnings per share increased sharply to €12.12 cents (2022: €5.73 cents). The interim dividend was raised to €2.3 cents (2022: €1.0 cents) as part of a new capital allocation policy which will see the full year dividend increased to €35m (2022: €13m) as the company aims to increase the returns to shareholders. The company has also announced that it plans to buyback up to €40m of shares in the second half subject to regulatory and shareholder consent.

These were impressive results with strong revenue growth being seen in all regions with the company benefitting from an increase of 11.2% in global light vehicle production over the same period in 2022. The company has also benefited from an improvement in lead times for microchips which has led to a more stable supply chain for the automotive industry. Demand in the first half has remained strong as OEMs continue to work through their order backlog whilst there has also been some inventory restocking.

Both divisions of the group reported an increase in revenues with Fluid Carrying Systems seeing revenues rise by 17.2% to €1,028m, whilst the Fuel Tank and Delivery Systems division saw .revenues increase by 8.4% to €740.1m.

Looking at the performance in geographic terms, the largest increase in revenues came from the smallest region, with Latin America increasing revenues by 21.2% to €28.6m, whilst the largest region of Europe and Africa saw revenues rise by 17.8% to €702.8m. The second largest region, Asia Pacific, saw revenues increase by just 4.9% to €540.2m, whilst in North America revenues rose by 17.0% to €496.5m. The improvement in Europe and Africa was largely driven by higher volumes which had suffered the year before due to the Russia/Ukraine conflict whilst in Asia Pacific, strong trading in India, Thailand and Japan was offset by a more disappointing performance from China.

At the end of the period, net debt excluding IFRS 16 leases was €668m, up €43.1m from the year end and this was largely due to the build up of working capital throughout the period. This debt is expected to gradually reduce going forward, even allowing for the increase in dividend payments and the share buyback programme.

Outlook

The interim results came in above expectations as stated earlier and this led to a sharp rally in the share price to 149.75p – the shares had been languishing at a low of 93p earlier this year. However, it is worth bearing in mind that some two years ago the share price was over 320p,

These results have benefited from an increase in operating margins with a majority of the 2023 price and cost recovery agreements now completed. The increase in margins was helped by an improvement in efficiency at the group. Although the company is moving towards the electric vehicle market it is important to remember that the traditional fuel engine is still here and this market remains strong. The company is expanding its exposure to the electric vehicle market with new facilities opening in South Korea and Japan with another expected to be built in the second half of the year.

The new capital allocation policy has demonstrated the group's confidence in the future which is clearly a positive for investors. Although the shares have been a disappointing investment at times in the recent past, we believe that there are better times ahead and the shares stand on a very modest p/e ratio whilst they also sport a very attractive dividend yield. We therefore believe that they are a BUY.

Share Price: 137p
Market Capitalisation: £695m
2022/23 Share Price Range: 275p/90p
Website: www.tifluidsystems.com

Year Ending 31 December	Turnover (€bn*)	Adjusted Pre-Tax Profit (€m*)	Adjusted Earnings Per Share (€ cents*)	P/E Ratio	Net Dividend (€ cents*)	Net Yield (%)
2022	3.27	41.7	8.5	18,8	2.54	1.6
2023 (est)	3.45	175	22.0	7,3	6.50	4.1
2024 (est)	3.65	200	25.3	6.3	7.40	4.6

*£1 = €1.1654

Aggressive Growth Portfolio VIII

It is some time since the portfolio fell in value for four consecutive months, but this is what has happened following yet another decline. Although this was relatively modest, with the value down by 0.2%, it is little consolation that it has outperformed all the benchmark indices as can be seen from the table below. These have all shown modest declines as well, as can be seen, demonstrating the lacklustre nature of the market over the last month.

During the month we have lost two holdings which have breached the stop-loss limit. Firstly, we have sold 1,150 Headlam Group at 225p to realise net proceeds of £2,562 and a loss of £706. The shares have fallen following a disappointing trading update with profits now set to be below expectations. A trading statement from Capita has led to the sale of 11,500 shares at 20p for net proceeds of £2,277 and a loss of £933. We are very disappointed about this as in our view the statement was not too bad as discussed in News Highlights. Investors seem concerned that cash flow was a little disappointing and yet the group continues to increase revenues and profits. However, a stop-loss limit is in for a reason and the shares therefore have to be sold.

Following a strong run in the share price, we have also decided to dispose of the holding of 1,000 Babcock International at 392.6p. This has raised net proceeds of £3,887 for a gain of £767. The company recently announced its final results for the year to 31 March prompting a surge in the share price. The shares were only tipped in the June issue at 307.4p and so the gain of 27.7% in just two months is simply too tempting to ignore!

A number of companies have made announcements during the month and these include Hargreaves Services, Headlam Group, Inspired, Vesuvius, Capita, UP Global Sourcing, Babcock International and TT Group. These are covered either in News Highlights or on the website.

A dividend of £42 was received during the month from Inspired and following the investment into the two main recommendations this month there is £12,006 left on deposit pending investment.

Performance summary

	15 August 2023	18 July 2023	Gain/(Loss) %
Portfolio Value	£58.747	£58,838	(0.2)
FTSE 100 Share Index	7,389.64	7,453. 69	(0.9)
FTSE All Share Index	4,039.10	4,066.80	(0.7)
FTSE AIM All Share Index	749.93	754.36	(0.6)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	470	2,350	280
12,000	Renold	25.1	3,042	30.45	3,654	20
2,825	Synectics	92.5	2,639	110	3,108	75
2,000	Halfords Group	148.8	3,021	191	3,820	120
3,000	Inspired	77	2,333	92	2,760	55
800	Vesuvius	402.8	3,270	432.2	3,458	320
8,000	Costain	40.4	3,280	46	3,680	32
750	Aviva	419	3,189	379.9	2,849	350
2,750	UP Global Sourcing	132	3,684	128.75	3,541	105
1,650	Galliford Try	197.8	3,313	195.2	3,221	155
2,250	TT Electronics	155.6	3,553	177.2	3,987	110
3,000	Macfarlane Group	106.5	3,243	112	3,360	75
2,650	TI Fluid Systems	137	3,684	137	3,630	115
1,500	MPAC Group	221.5	3,356	221.5	3,323	185
£12,006	Cash	-	-		12,006	
				TOTAL	£58,747	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £3,127 *after part disposal.

MPAC

221.5p

MPAC

SECTOR - AIM

RECOMMENDATION - BUY

The share price of MPAC has fallen from a high of 560p at the beginning of last year and we now feel that the shares look an attractive proposition ahead of the interim results' announcement due on 7 September.

MPAC is a global leader in supplying high-speed packaging machinery and associated products and services. The company serves blue-chip customers around the world and is focused on the essential and growing sectors of clean energy, food and beverages, pharmaceutical and healthcare. Whilst the group is based in the UK it has manufacturing and servicing locations in Europe, Asia and North America.

It has not all been plain sailing for the group over recent years, with negative economic factors having an effect on the company whilst global supply chain issues have also had an impact. Nevertheless, the group's strategic plans to deliver growth from the resilient food and beverage and healthcare markets have made significant progress. In addition to these markets, the company has also established the foundations to access the potential of the emerging clean energy battery production sector.

In the results for 2022, the company revealed group revenue of £97.7m (2021: £94.3m), with 54% of revenues in the Americas, 38% in Europe, Middle East and Africa and 8% in Asia. Underlying pre-tax profit fell to £3.5m (2021: £8.6m) with the group being significantly impacted by the global supply chain crisis and earnings per share on the same basis fell to 13.3p (2021: 39.7p). As usual there is no dividend although the group will consider the dividend position when the results for 2023 are known. Net debt at the end of the year was £4.7m.

The company recently issued a trading statement for the six months to 30 June confirming that trading had been in line with expectations with profitability for the year expected to be skewed towards the second half. Order intake in the first half rose significantly to £62.4m (2022: £32.8m) and the order book at the end of the period was £78.4m compared with £67.2m at the start of the year.

Full year profits are likely to show a much-improved figure on last year, with £7.0m on the cards for adjusted earnings per share of 25p. This would put the shares on a p/e ratio of just 8.9x. Although there is no dividend, we believe the potential for further growth in profits makes up for this and we recommend that the shares are bought before the results are announced on 7 September. BUY.

Share Price: 221.5p
Market Capitalisation: £45.2m
2022/23 Share Price Range: 560p/210p
Website: www.mpac-group.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	97.7	3.5	13.3	16.7	-	-
2023 (est)	105	7.0	25.0	8.9	-	-
2024 (est)	115	10.0	37.0	6.0	-	-

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.

Inspired – 92p

The technology group which is focused on helping businesses reduce energy costs as well as their carbon emissions has announced a positive trading update for the six-month period to 30 June. As such, the company expects to report robust results for the period whilst its full year figures should meet current market expectations for revenue of £110m and adjusted EBITDA of £24.2m. This is clearly a positive statement and although the shares have risen strongly it would appear that there is further to go. BUY.

Hargreaves Services – 470p

The diversified industrial and property group has announced its results for the year to 31 May and these have shown an increase in revenue to £211.5m (2022: £177.9m) although underlying pre-tax profit declined to £27.3m (2022: £30.4m). Earnings per share on the same basis from continuing operations fell to 86.3p from 96,1p. The decline in profitability was expected and was due to a lower contribution from the German commodity trading joint venture, HRMS, which fell to £15.5m (2022: £25m) due to softening commodity markets. There were improved performances from the Services business and Hargreaves Land which helped to mitigate this. The dividend for the year was raised to 9.0p (2022: 8.4p) whilst there is an additional dividend of 12p (2022: 12p) from HRMS. The company has revalued its portfolio of renewable energy land assets which are now valued at around £28m compared with a cost of just £6.6m as shown on the balance sheet. The company aims to dispose of these over the next five years and distribute the proceeds to shareholders. At the end of the year, excluding leases, the company had net cash of £21.9m (2022: £13.8m). A positive statement about prospects bodes well for the future of the group and with a strong balance sheet we believe the shares remain a BUY.

TT Electronics – 177.2p

The specialist electronics group has announced its interim results for the six months to the end of June and these have revealed a 15% increase in revenue to £309.1m, with adjusted profit before tax rising 38% to £20.7m. Earnings per share on the same basis were 33% higher at 8.8p and the interim dividend was raised by 7.5% to 2.15p per share. These are clearly solid results with strong revenue growth seen across all of the group's businesses and cost inflation has been largely mitigated through price increases. It is pleasing to report that operating margins increased in the first half and further margin improvement is expected in the second half. Net debt at the end of the period was hardly changed from 31 December at £138m although leverage is expected to reduce further in the second half. Order intake remains robust with 15 new contracts won during the period which could generate lifetime revenues of £150m and the order book provides visibility of revenue for the rest of the year. The shares have moved up since our tip, but they remain a BUY.

Vesuvius – 432.2p

The molten metal technology group has released interim results for the six-month period to 30 June and this has revealed a 2% decline in revenue to £995m although adjusted pre-tax profits fell to £99.9m from £121.8m. Earnings per share on the same basis fell to 24.5p from 31.4p, although the company raised the dividend to 6.8p from 6.5p per share. Net debt at the end of the period fell to £268m from £328m a year earlier. Given the difficult trading conditions these are pretty solid results and full year profits should be around £175m for earnings per share of 53p. This would put the shares on a relatively modest multiple of earnings and the shares remain a BUY.

Babcock International – 392.6p

The defence and engineering group Babcock has announced its results for the year to 31 March and these have revealed revenues of £4.4bn with underlying profit before tax coming out at £220m. Underlying earnings per share were 33.8p although there was no dividend. Net debt fell sharply during the year to £346m from £556m thanks to better than expected cash generation. These were very solid results and show that the recovery at the group is continuing. Profits in the current year could increase again to around £250m for earnings per share of 36p. Although the shares would not look expensive, they have risen strongly since our tip at 307.4p in June and so we are tempted to take a short-term profit of over 27% in two months. TAKE PROFITS.

Capita – 19.75p

The leading outsourcing group has announced interim results for the six months to 30 June and these have shown that adjusted revenue has increased by 6% to £1.4bn, whilst adjusted pre-tax profits have risen 34% to £33.1m. Earnings per share on the same basis fell by 16% to 3.34p with the decline due to an increased tax charge. As usual there is no dividend. It was disappointing to see that net debt increased during the period with net cash flow being much weaker than expected. The company has also announced the disposal of its travel and events businesses from which it expects to receive cash proceeds of £16m. The share price has fallen back from over 42p in March which we feel is harsh given the steady progress that the group is making and we re-iterate our view that the shares are a BUY.

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