

cityconfidential

sorting the bulls from the bears

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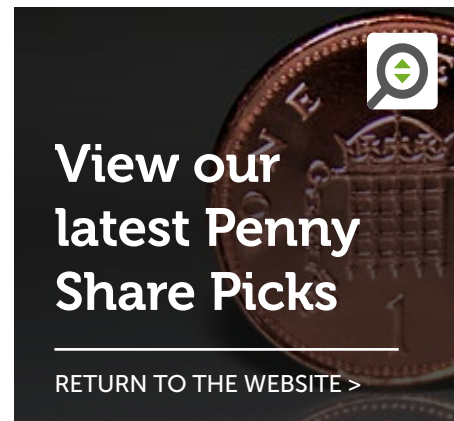
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Potential for short-term recovery?

On the basis that it is better to buy shares when they are standing at a relatively low point, we believe that shares in **Abrdn (157.35p)** are worth a look. Since the announcement of the group's interim results on 8 August, the share price has fallen from 218p to 157.35p, a fall of 28%. This has taken the shares to pretty much the low point of the year and, at this level, we feel there is significant recovery potential.

Abrdn was formed through the merger of Standard Life and Aberdeen Asset Management in 2017. It was felt that by merging two large investment management companies that there would be positive synergies and economies of scale whilst each company had its own areas of expertise. Sadly, this proved to be anything but the case with contrasting management styles

proving conflicting and the merger has turned into a classic example of value destruction. The merged company was originally known as Standard Life Aberdeen which at least made some sense, but in July 2021 it changed its name to Abrdn in a move that can only be described as both mystifying and pointless.

Since the merger the company has been beset with issues. As an active fund management group, it has suffered from the growth of passive investment vehicles which are taking an increasing slice of the investment market. It has also suffered from the poor performance of many of its funds which has seen a steady stream of withdrawals from investors – as the company charges fees on the funds that it manages this also results in lower

levels of income.

Despite the above and the slightly disappointing interim results we believe that the shares have fallen too far. Assets under management only fell by around 1% and the interim dividend was maintained at 7.3p per share. This implies a maintained full year dividend of 14.6p per share which, if paid, would mean the shares are yielding 9.3%. This in itself makes the shares attractive. To stop the long term decline in the group's fortunes may take something radical such as a break up of the group or takeover, but we believe there is definitely scope for a bounce in the share price in the short-term. **BUY.**



The time is right!

The announcement by Rolex at the end of August that it was acquiring the Swiss retailer Bucherer caused shares in **Watches of Switzerland (578p)** to fall sharply. As Rolex is a major supplier to the company, the fact that it was moving into the retail space itself is bound to cause some uncertainty. However, both Rolex and the company have been keen to emphasise that there will be no change to the business. Rolex and Bucherer have been partners for around 100 years, but the current owner of Bucherer, the grandson of the founder, is now 86 and there is no family succession. Thus, the acquisition of the company by Rolex therefore provides a solution.

Rolex will have no operational involvement with Bucherer going forward whilst the relationships that Rolex has with its other retail

partners will continue unchanged. At least, this is the party line and the directors of Watches of Switzerland have sought to reassure investors that all is well by making significant share purchases in the company. Four directors picked up shares worth around £890,000 in total at prices between 584p and 588p.

The company has a history which can be traced back to 1775 and it now has over 200 showrooms in the UK, USA and Europe. The company is recognised as the leading luxury watch specialist in the UK where it also trades as Goldsmiths and Mappin & Webb. It supplies leading brands such as Rolex, Omega, Patek Philippe, Cartier and Breitling.

In the year to the end of April, revenues were £1.5bn with pre-tax profits of £155m being recorded. The company has benefited from well-known watch enthusiasts showing their

watch collections on social media with these celebrities including the likes of Cristiano Ronaldo, Ed Sheeran and Harry Kane. There are waiting lists for many of the watches that the company sells which clearly underpins prices whilst profit margins are also healthy. There is considerable scope for expansion, especially in the US where there are under 50 stores and yet which accounts for over 40% of revenue.

The current year could see revenues expand to £1.7bn with pre-tax profits of £170m and earnings per share of 54p on the cards. That would put the shares on a prospective p/e ratio of just 10.7x, the lowest rating for some time. Although there is no dividend, we believe the shares are good value especially as they have fallen from £14 at the beginning of last year. **BUY.**

SFR



Severfield – 62.6p

SECTOR - ENGINEERING

The recent trading update from structural steel group **Severfield** on 6 September, ahead of its AGM, provided reassurance that trading continues to be in line with expectations. Although the share price has recovered from the nadir of under 50p last year, following the budget of Liz Truss's government, it has fallen back from the high of 76.2p at the end of July and a move back up to that level would represent a gain of some 22%. Given the fact that even at that price the shares would be on a modest multiple of earnings and attractive dividend yield, we think that over the medium term there is even greater upside potential and therefore rate the shares as a buy.

The company was formed in 1978 as Severfield Reeve, joining the stockmarket some ten years later. Severfield, as it has been known since 2014, has steadily expanded through a combination of organic growth and acquisition and it is now a company with a market capitalisation of £194m, with a full market listing. Over the years the company has been involved in a number of well-known projects, providing the structural steel used in the construction of football stadiums (for Arsenal and Fulham), the Lord's Cricket Ground extension, the 2012 Olympic Stadium, Wimbledon No 1 Court as well as the First Direct Arena in Leeds and the V&A in Dundee. It was also involved in the construction of the Shard in London.

Activities

Severfield is the largest specialist structural steelwork group in the UK with an annual capacity to produce over 150,000 tonnes of fabricated steelwork. The company now operates from six sites in the UK, including its original site at Dalton near Thirsk in North Yorkshire and Enniskillen in Northern Ireland, has a subsidiary in the Netherlands and it also has a joint venture in India with the country's largest steel producer JSW Steel.

The company has over 1,800 employees and has expertise in large, complex projects over a range of sectors. Apart from the well-known buildings mentioned earlier, the company has also been involved in the construction of 30m sq. ft. of warehouse space over the last five years. The company is involved in the whole process of a project from the design and manufacture through to the final construction. It employs teams of structural and civil engineers in the design phase, whilst the project management team work with the construction workforce to ensure a satisfactory conclusion for each project.

It is not just large structures that are constructed by the company. It also has a number of other products and these include Severstor units, which are robust, steel-framed modules that house critical systems equipment such as electrical switchgear. These are supplied to a wide range of customers in sectors such as nuclear, power, gas and rail and ensure the safety and protection of systems from weather, tampering and more. The company also has a range of material handling products including the Rotoflo silo discharge units and bin activators.

Financial

In the year to 25 March 2023, the company increased its revenues by almost 22% to £492m (2022: £404m), with underlying profit before tax rising by 20% to £32.5m (2022: £27.1m). Earnings per share on the same basis were 18% higher at 8.5p (2022: 7.2m) and the dividend for the year was increased by 10% to 3.4p (2022: 3.1p). At the year end, the company had net cash of £2.7m (excluding IFRS 16 leases) and this compared with

net debt of £18.4m a year earlier. The improved cash figures were due to an improvement in working capital.

These were clearly excellent results and were achieved despite a number of headwinds that were encountered by the group. The results have benefited from strong operating performances in both the UK and India, which also produced strong operating cash flow. The total UK consumption of constructional steel in 2022 was 894,000 tonnes as measured by the British Constructional Steelwork Association and Severfield produced 115,000 tonnes, around 13% of the total, giving it a market leading position. In India, the group's joint venture, JSSL, continues to grow with revenues rising by 37% to £138m, although the group's after-tax share of profit rose to only £1.3m (2022: £0.8m).

At 1 June, the group's order book for the UK and Europe was £510m (1 November 2022: £486m) whilst in India the order book at 1 June was £139m (1 November 2022: £143m).

After the year end, in April, the group increased its exposure to Europe with the acquisition of Voortman Steel Construction Holding BV, an innovative, market-leading Dutch steel fabrication company, for €24m. This will strengthen the group's market position in Europe and help to accelerate its growth strategy.

Outlook

Over the last five years the revenue at the group has grown by an average of 16% per annum and a similar increase is forecast for the current financial year. On 6 September, the company announced a trading update to coincide with its AGM and this confirmed that trading in the first five months of the financial year had been in line with expectations and the balance sheet remains strong.

At 1 September, the order book for the UK and Europe had fallen slightly to £479m of which £337m is due for delivery in the next twelve months. The order book is well diversified across a number of projects with 90% due in the UK and the balance in Europe and the Republic of Ireland. The acquisition of Voortman is being integrated well and the company is contributing to the order book. In India, the order book has increased to £170m, which is a record for the group.

Although trading conditions have become more challenging of late, the company is comfortable with current forecasts for the year. The shares stand on a modest prospective p/e ratio of just 7.3x and yield of 5.6%. They look cheap and we therefore rate them as a **BUY**.



	Year Ending 25 March	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 62.6p	2023	492	32.5	8.5	7.4	3.4	5.4
Market Capitalisation: £194m	2024 (est)	570	35.5	8.6	7.3	3.5	5.6
2022/23 Share Price Range: 76.2p/46.5p	2025 (est)	590	37.6	9.0	7.0	3.7	5.9
Website: www.severfield.com							



Aggressive Growth Portfolio VIII

Although the portfolio has only risen in value by 0.2% over the last month, at least it has not fallen again as it had done for the previous four months. Despite the rise in value in the portfolio, it has significantly underperformed both the FTSE 100 Share Index and the FTSE All-Share Index over the period. These indices have performed well, despite the continuing uncertainty over the economy, with further increases in interest rates still seeming likely which will put further pressure on many consumers. But it is worth remembering that the FTSE 100 Share Index includes a large number of companies, such as those in the oil and mining sectors, which have little correlation with the UK economy.

It is interesting to note that the portfolio has outperformed the FTSE AIM All-Share Index, which actually declined in value over the month. As readers will appreciate, six of the holdings in the portfolio are quoted on AIM and so it is hardly surprising that it has underperformed the major

market indices.

There have been few stand out performances in the portfolio this month with most share prices being at similar levels to last time, although shares in **Costain** deserve a mention, having moved up by over 25% to 57.8p.

Rather surprisingly, there have been no disposals from the portfolio this month although following some disposals recently the cash balance stands at an unusually high level. We do not wish to hold large amounts of cash, however, as this is not the point of the portfolio.

A number of companies have made announcements during the month, and these include **Renold**, **Halfords**, **Inspired**, **Costain**, **Aviva**, **UP Global Sourcing**, **Macfarlane**, **TI Fluid Systems** and **MPAC**. These are covered either in News Highlights or on the website.

Dividends have been received during the month from **Halfords** (£140) and **TI Fluid Systems** (£52) and following the investment into the two main recommendations this month there is £5,188 left on deposit pending investment.

Performance summary

	19 September 2023	15 August 2023	Gain/(Loss) %
Portfolio Value	£58,840	£58,747	0.2
FTSE 100 Share Index	7,660.20	7,389.64	3.7
FTSE All Share Index	4,155.46	4,039.10	2.9
FTSE AIM All Share Index	742.41	749.93	(1.0)

	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	30.1	3,612	20
2,825	Synectics	92.5	2,639	112.5	3,178	75
2,000	Halfords Group	148.8	3,021	193.4	3,868	120
3,000	Inspired*	77	2,333	80.5	2,415	55
800	Vesuvius	402.8	3,270	442.8	3,542	320
8,000	Costain	40.4	3,280	57.8	4,624	32
750	Aviva	419	3,189	397.2	2,979	350
2,750	UP Global Sourcing	132	3,684	119.75	3,293	105
1,650	Galliford Try	197.8	3,313	207.5	3,424	155
2,250	TT Electronics	155.6	3,553	172	3,870	110
3,000	Macfarlane Group	106.5	3,243	110	3,300	75
2,650	TI Fluid Systems	137	3,684	124.2	3,291	115
1,500	MPAC Group	221.5	3,356	200	3,000	185
5,600	Severfield	62.6	3,559	62.6	3,506	50
850	Bloomsbury Publishing	400	3,451	400	3,400	325
£5,188	Cash	-	-		5,188	
				TOTAL	£58,840	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £3,319 *after part disposal.

BMJ

400p

BLOOMSBURY PUBLISHING

SECTOR - MEDIA

RECOMMENDATION - BUY

Regular readers will know that we have covered **Bloomsbury Publishing** in the past and the shares have done well for us and our subscribers. However, the share price has drifted lower for most of 2023, having been as high as almost 500p last December as the company attracted investors in the run up to Christmas. This is obviously a busy time as consumers buy books as presents and there are invariably a number of new releases with chefs such as Tom Kerridge and Paul Hollywood, whilst the major authors on the group's roster also often time the launch of their next bestseller to coincide with this time. Last year, the share price of the company moved up from around 370p in October to 492.5p in December. This is not certain to happen again this year, but we do think that investors will look at the company as a possible beneficiary of seasonal purchases.

Bloomsbury Publishing was founded in 1986, joining the stock market in 1994. It has expanded significantly over the years through a mixture of organic growth and acquisition. It is perhaps best-known for being the publisher of the Harry Potter series of novels, which have clearly been a significant profit earner for the group over many years and which still sell well to this day. Apart from cookery books and fiction the company also has an academic publishing division and sales here tend to be less volatile as there is steady demand for the books throughout the year. This provides a nice balance to the group and improves the quality of earnings.

The recent trading statement confirmed that trading in the period to 30 June was in line with expectations with sales growth of 9% over the period. New releases from the likes of Katherine Rundell and Ann Patchett will help the group's sales in the run-up to Christmas. At the end of February the group had net cash of £51.5m providing the ammunition for further acquisitions if these can be identified. On a modest p/e ratio and with such a strong balance sheet the shares are a **BUY**.

	Year Ending 28 February	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 400p	2022	230	26.7	25.9	15.4	10.74	2.7
Market Capitalisation: £328m	2023	264	31.1	30.6	13.1	11.75	2.9
2022/23 Share Price Range: 492.5p/328p	2024 (est)	273	32.5	32.1	12.5	12.75	3.2
Website: www.bloomsbury.com							

News Highlights

DX Group



43.2p HOLD/TAKE PROFITS

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.

DX Group – 43.2p

The courier and logistics group has revealed that it has received a possible offer worth 48.5p per share in cash. This has been made by HIG. European Capital Partners and this has the support of shareholders owning 31.6% of the equity. The offer is subject to due diligence and at this stage is only an indicative offer, but as the largest shareholder in the company, Gatemore Capital Management, has supported the bid we believe that it is more likely than not to go through. We have regularly recommended these shares in the past at prices significantly lower than this and just under a year ago the shares had dropped to 20.55p. Readers who bought shares will have made significant profits and although we believe the bid is likely to go through we could not blame anyone for selling all or part of their holding. **HOLD/TAKE PROFITS.**

MPAC – 200p

The global packaging specialist has announced its interim results for the six month period to 30 June and these have revealed that group revenue rose 4% for the period to £52.8m. Underlying pre-tax profit rose to £1.9m (2022: £1.1m) with earnings per share on the same basis increasing to 6.5p (2022: 3.6p). The group ended the period with net cash balances of £2.2m, a vast improvement on the net debt figure of £4.7m at the start of the year, and this was largely due to improvement in working capital as supplier lead times reduced compared to the previous year. The order intake in the first half was up 90% to £62.4m (2022: £32.8m) and the order book at the end of the period was £77.5m (1 January 2023: £67.2m). All areas of the business are performing well and management has been strengthened with new appointments in the UK and North America. These are clearly very good results and current trading is in line with expectations. The current year will see a weighting to the second half and the company expects to meet profit forecasts for the year. The shares remain a **BUY.**

Renold – 30.1p

The AIM-listed supplier of industrial chains and related power transmission products has expanded its operations in Australia acquiring Davidson Chain PTY for cash consideration of AU\$6m. This will increase the group's access to this market in Australia where it already has a strong market position. Opportunities exist for manufacturing synergies between Davidson and Renold's existing operations. The acquisition is expected to be earnings enhancing immediately.

The group has also issued a strong trading update covering the four months to 31 July with revenues rising by 16.6% to £85.1m (2022: £73.0m). Order intake for the period was down slightly to £74.2m (2022: £76.3m) reflecting the fact that orders are returning to more normal levels now global supply chains have improved. However, the order book at 31 July of £86.0m remains high by historic standards. Net debt at 31 July had fallen by £6.5m to £23.3m compared to 31 March reflecting strong cash generation during the period although this is expected to increase going forward due to payments for acquisitions. Although trading conditions remain challenging, the strong momentum at the group and the benefits of recent acquisitions mean that it is likely to exceed current expectations for the year to 31 March 2024. The shares have not really moved on the announcement and the shares remain a **BUY.**

Macfarlane – 110p

The packaging group has issued its interim results for the six months to 30 June and these have shown a slight increase of 2% in revenue to £141.6m although pre-tax profit rose by 13% to £9.99m. Earnings per share were 9% higher at 4.74p and the interim dividend was raised 4% to 0.94p. The packaging distribution division, which is by far the larger of the group's two businesses, saw revenue grow marginally to £124m, with contributions from acquisitions and growth in Europe making up for weak customer demand in the UK and Ireland. The smaller manufacturing division increased revenues by 13% to £17.7m, with a good contribution from Suttons, acquired earlier this year. Tight control of costs helped margins

to improve with the benefit being seen in the improved profit figure. These are clearly solid rather than spectacular results and although trading conditions remain challenging the group seems well equipped to cope with these. The shares remain **ATTRACTIVE.**

Costain – 57.8p

In the six months to 30 June, revenues were unchanged on the previous year at £664m with adjusted pre-tax profits increasing by 19.5% to £15.9m (2022: £13.9m). Earnings per share on the same basis were up 12.8% at 4.4p (2022: 3.9p) and an interim dividend of 0.4p per share was declared. Net cash balances at the end of the period were £132.1m (1 January 2023: £123.8m). These were very solid results as the group continues its recovery from the woes of a few years ago and consensus forecasts are looking for earnings per share for 2023 of around 11p. Clearly that puts the shares on a very low rating and with significant amounts of net cash we continue to believe that the shares are cheap. This is a view obviously shared by Kate Rock, the non-executive chair of the group, as she has purchased 50,000 shares in the company at 59.2p per share. This helps to support our recommendation of **BUY.**



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