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sorting the bulls from the bears

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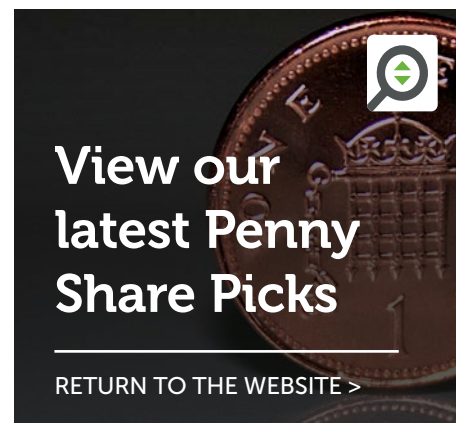
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Looking through the keyhole!

As regular readers are probably aware we have long believed that **Surgical Innovations (1p)** is a company with significant potential. However, for various reasons the company has yet to perform, and, in fact, the shares have now fallen to a ten-year low! The most recent results of the company were not particularly inspiring, and it seems that many investors have got bored of waiting for the company to produce some decent results and have therefore sold their holdings. Although some patience may be required from those investors who invest now, we do believe that there is an opportunity to make significant gains from the shares although they must be regarded as high risk.

The company is an AIM-listed medical technology company which specialises in the design, manufacture and sale of high-quality

medical products primarily used in keyhole surgery, more properly known as minimally invasive surgery. The products include surgical instruments and retraction devices as well as port access systems which relieve the pressure build-up of fluids. The group's products are sold in the UK through its subsidiary Elemental Healthcare and exported widely through a network of trusted partners. Elemental also has exclusive UK distribution rights for a select group of specialist products used in minimally invasive surgery.

The recently announced interim results to 30 June were disappointing even though they showed a modest increase in revenue to £5.65m (2022: £5.41m). A reduction in margins meant that an adjusted pre-tax loss of £204k was recorded (2022: profit of £72k) and the group has also suffered from supply chain

and operational issues. The group ended the period with net cash of £0.38m (31 Dec 2022: £0.99m), with the reduction partly due to the fact that the group has been carrying higher levels of inventory than usual to maintain service levels to customers.

The second half has started in a more encouraging fashion with key markets showing positive growth. The company has also appointed an industry expert to help with the operational issues whilst it is also undergoing a programme of destocking. These actions should have a positive impact on the second half although most benefit will be seen in 2024. We believe the company is moving in the right direction and therefore rate the shares as a **SPECULATIVE BUY**.



Buying property at a discount

The increases in interest rates that have been seen over the last two years have had a significant negative impact on the property sector which was already under pressure from the effects of the pandemic. The latter, which led to the introduction of working from home to large numbers of workers who had not had the chance before, has led to a reduction in demand for office space as hybrid working becomes more widely accepted. There has also been an increase in on-line shopping as shops were closed and although retailers have now opened for business once again, many consumers have found the convenience of shopping from the comfort of their own home too good to give up. As a result of all this many property stocks have fallen back, and some share prices now stand at a significant discount to the underlying net asset value.

One company which we think looks too cheap is **Town Centre Securities (114p)**. The company is based in Leeds and is focused primarily on the North of England, with a diversified mixed-use portfolio focused mainly on Leeds and Manchester. The company also manages an extensive portfolio of national Citipark car park branches. The latter helps to differentiate the company from other property companies in the sector.

The group has recently announced its results for the year to 30 June 2023 and, despite the challenging market conditions these have shown that the group continues to make solid progress. Gross revenue for the year increased by 7.9% to £30.4m although after taking account of the reduction in the value of the property portfolio, the group ended up

recording a statutory loss before tax of £29.5m. Despite this the company has declared a dividend for the year of 5p per share, the same as the previous year, as a sign of optimism for the future. The company has been steadily reducing its borrowings over the last three years through a programme of property sales and the group's remaining borrowings are now largely at fixed rates and so will not be affected by increases in interest rates.

The interesting part for investors is that even after the latest write down of property values, the net asset value per share is 291p per share on a statutory basis and 284p per share under EPRA accounting. The shares therefore stand at a significant discount to this and yield 4.4%. The shares have fallen from a high last year of 182p and at current levels look **GOOD VALUE**.

CCT

270p BUY

The Character Group – 270p

SECTOR - AIM - LEISURE

In common with many other companies that are focused on the consumer, **The Character Group** has seen a reduction in revenues in its last financial year as higher interest rates and the increase in the cost of living take their toll. This has been reflected in the company's share price, which has fallen back from 640p last year to now stand close to a three-year low. Although adjusted pre-tax profits in the year to 31 August 2023 are expected to be significantly lower than last year, the second half has seen a recovery in trading, and we expect this recovery to continue in the current financial year. If the company makes adjusted pre-tax profits of £7.5m in the current year for adjusted earnings per share of 28p, then the shares will stand on a single figure p/e ratio which would look cheap given the potential for further recovery and the strength of the balance sheet.

Activities

The Character Group is an independent toy company based in the UK. The company was originally formed in 1995 and its shares were listed on the London Stock Exchange that year, although in 2005 the company moved to AIM, and the shares remain quoted on this market.

The company designs, manufactures and distributes a wide range of toys, games and playthings. Many of the products feature or are based on popular film, television, comic and digital characters and these are reproduced under licence from the brand owners. Many of these brands are well-known and these include Fireman Sam, Postman Pat, Peppa Pig, Goo Jit Zu and Weebies. These brands are readily recognized by children and parents alike, thus creating long-term demand. To reduce the amount of plastic in its products, the company has developed and produced a range of wooden toys as well as ranges of 'Eco Plush' toys made with soft fabric and recycled materials. The group's strategy is to expand and refresh its existing product range whilst also developing new products for the established brands and introducing new brands to its portfolio.

The main markets for the group are the UK and Scandinavia with customers including major toy retailers and independent toy stores. There are also distributors in many key overseas territories, with the company expanding into other international markets, notably the USA and other countries in the EU. The company also partners with other overseas-based toy producers to market and distribute their products in the UK or to jointly develop and distribute toy products and ranges worldwide.

The Character Group does not own its own factories with the product portfolio being manufactured by reputable suppliers in China. The group operates from three freehold properties in the UK, with its head office being in New Malden, Surrey whilst there are two distribution warehouses near Oldham in Greater Manchester. The company's operations in the Far East are carried out from leased offices in Hong Kong and Shenzhen, China, with operations in Scandinavia managed from leased offices in Copenhagen.

Financial

In the year to 31 August 2022, the group generated record revenues of £176.4m with adjusted pre-tax profits increasing to £11.3m. Adjusted earnings per share rose to 45.7p and the total dividend for the year was

raised to 17p per share. Despite holding higher levels of inventory than usual, due to the supply chain issues that the group had experienced, the group had net cash of £20.0m at the end of the year. Nevertheless, it was already apparent that pressure was building on consumers and in the annual report the group reported that sales had slowed in the lead up to Christmas 2022. This is clearly a significant period for the group and so such a slowdown has a marked impact on its financial performance.

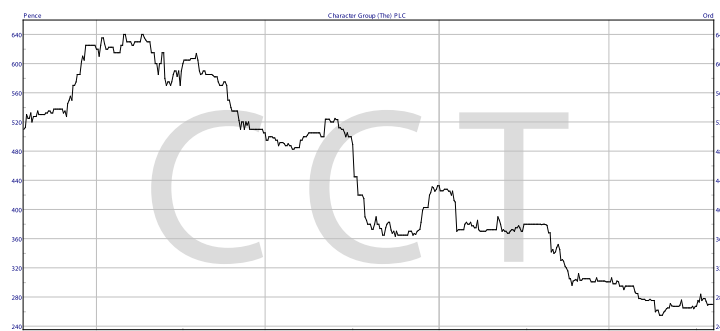
This was borne out in the interim results for the six months to 28 February, which proved disappointing. Revenues for the period fell sharply to £57.9m (2022: £90.9m) with adjusted pre-tax profits falling to just £0.5m (2022: £6.5m). Adjusted earnings per share fell to just 0.54p (2022: 25.25p) although the interim dividend was increased to 8.0p per share (2022: 7.0p) as a sign of confidence in the group's prospects. Net cash at the end of the period had fallen to £10.7m despite inventory levels falling to more normal levels.

These results reflected the challenging trading conditions that were experienced during the period as the impact of higher energy costs and interest rates took effect. It is also worth pointing out that the same period in the previous year was particularly strong due to the strong post-Covid recovery. Although gross profit fell due to lower revenues, it was encouraging that gross margins increased, helped by a reduction in freight costs. Although these results were disappointing, the group had already flagged up that the financial year was likely to be one of two halves with a significant recovery likely in the second half.

Outlook

The second half of the financial year has seen some recovery as expected with the group benefiting from its strong product portfolio. As a result, the company has confirmed that it expects to meet current market forecasts for the year to 31 August 2023 with adjusted pre-tax profits of £5m on the cards for earnings per share of some 19.0p. We would also expect the dividend to be nudged up to 18p per share, and, if we are correct, that would put the shares on an attractive dividend yield of 6.7%.

Looking further ahead, although trading conditions remain difficult, the group should continue to recover, helped by its strong product portfolio and the introduction of new products. The company has launched a range of Teenage Mutant Ninja Turtles products to coincide with the launch of the film of the same name in August and this should have a positive impact on revenues in the current year. We believe that the group's fortunes will continue to recover in the current year and that the share price will follow suit. We rate the shares as a **BUY**.



	Year Ending 31 August	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 270p	2021	140.0	11.1	40.9	6.6	15.0	5.6
Market Capitalisation: £52.3m	2022	176.4	11.3	45.7	5.9	17.0	6.3
2022/23 Share Price Range: 640p/250p	2023 (est)	130.0	5.0	19.0	14.2	18.0	6.7
Website: www.thecharacter.com							



Aggressive Growth Portfolio VIII

It is disappointing to report that after last month's modest rise, the portfolio has fallen in value once again, dropping by 2.1%. Given the fact that the FTSE AIM All Share Index fell by 7.0% the performance is actually not too bad as some of the constituents of the portfolio are in that part of the market. Given the events in the Middle East and the continuing war in Ukraine, it is surprising that the market has held up so well and we are therefore feeling rather cautious at the moment.

There have not been any stand-out performances in the portfolio over the last month with nearly all the holdings falling in value by relatively small amounts. This is symptomatic of the decline in the lower reaches of the market as can be seen from the indices in the table with only the FTSE 100

actually rising over the last month.

We have decided that we need to raise some liquidity for the portfolio and have therefore decided to dispose of the holding of **Synectics**. The company continues to make positive progress, but this is not being reflected in the share price which steadfastly refuses to move! The sale of 2,825 shares at 112.5p has raised net proceeds of £3,146 for a gain of £507.

It has been a very quiet month for company announcements as far as the portfolio is concerned with only **Galliford Try** and **Macfarlane Group** reporting news of note. These are covered either in News Highlights or on the website.

Dividends have been received during the month from **Aviva** (£82), **TT Electronics** (£48), **Vesuvius** (£54) and **Macfarlane Group** (£28) and following the investment into the two main recommendations this month there is £1,865 left on deposit pending investment.

Performance summary

	17 October 2023	19 September 2023	Gain/(Loss) %
Portfolio Value	£57,606	£58,840	(2.1)
FTSE 100 Share Index	7,675.21	7,660.20	0.2
FTSE All Share Index	4,137.26	4,155.46	(0.4)
FTSE AIM All Share Index	690.58	742.41	(7.0)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	415	2,075	280
12,000	Renold	25.1	3,042	27.55	3,306	20
2,000	Halfords Group	148.8	3,021	194	3,880	120
3,000	Inspired*	77	2,333	70	2,100	55
800	Vesuvius	402.8	3,270	413	3,304	320
8,000	Costain	40.4	3,280	52.8	4,224	32
750	Aviva	419	3,189	408.9	3,067	350
2,750	UP Global Sourcing	132	3,684	117.75	3,238	105
1,650	Galliford Try	197.8	3,313	219.5	3,622	155
2,250	TT Electronics	155.6	3,553	170	3,825	110
3,000	Macfarlane Group	106.5	3,243	104.5	3,135	75
2,650	TI Fluid Systems	137	3,684	124.8	3,307	115
1,500	MPAC Group	221.5	3,356	212.5	3,188	185
5,600	Severfield	62.6	3,559	62.8	3,517	50
850	Bloomsbury Publishing	400	3,451	394.5	3,353	325
1,250	The Character Group	270	3,409	270	3,375	225
2,150	Norcros	150	3,273	150	3,225	130
£1,865	Cash	-	-	-	1,865	-
				TOTAL	£57,606	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £3,532 *after part disposal.

NXR

150p

NORCROS

SECTOR - CONSTRUCTION & MATERIALS
RECOMMENDATION - BUY

It is some time since we have commented on **Norcros**, the supplier of kitchen and bathroom products, but the fall in the share price has alerted us once again to the potential at the group. Clearly, the group is operating in challenging markets, but the recent trading statement was relatively encouraging and the shares stand on a very modest rating and sport a very attractive dividend yield. We believe that the current share price should represent the low point for the shares and that there is scope for a significant recovery in the share price.

Norcros is a supplier of kitchen and bathroom products in both the UK (67% of revenue) and South Africa (33% of revenue). In the UK the group supplies both the domestic and commercial markets through a portfolio of well-established businesses which benefit from leading market positions and

strong brands. These include Triton, a market leader in the manufacturing and marketing of showers; Merlyn, the UK and Ireland's number one supplier of shower enclosures and trays; Vado, a supplier of taps and bathroom accessories and Johnson Tiles, a leading manufacturer and supplier of ceramic tiles in the UK. In South Africa, the group's businesses include Tile Africa, a chain of retail stores focused on tiles and associated products, House of Plumbing, which supplies specialist plumbing materials and TAL, a market leading adhesives business.

In the recent trading statement, covering the six months to 30 September, the company revealed that revenues had fallen by 8% with an increase of 1% in the UK overshadowed by a decline of 25% in South Africa. The latter has suffered from disruption to electricity supplies, which has reduced demand although this should be a relatively short-term issue.

The company has reaffirmed its confidence in the results for the full year and with a strong brand portfolio and experienced management team we believe the shares are a **BUY**.

	Year Ending 31 March	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 150p	2022	396	39.3	38.2	3.9	10.0	6.7
Market Capitalisation: £134m	2023	441	41.8	37.4	4.0	10.2	6.8
2022/23 Share Price Range: 355p/140.5p	2024 (est)	405	35.9	30.2	4.9	10.4	6.9
Website: www.norcros.com							

News Highlights

Alliance Pharma



39.85p 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.

Alliance Pharma – 39.85p

The AIM-quoted international healthcare group has announced its interim results for the six months to 30 June and these have revealed modest growth in revenue (on a see-through basis) of 1% as this rose to £82.4m. However, underlying pre-tax profit fell by 48% to £10.3m with a change in the product mix leading to a reduction in gross margin, whilst there was a significant increase in finance costs during the period. Underlying earnings per share fell to 1.58p (2022: 2.90p), but there was no interim dividend as the group is reviewing its dividend policy. Net debt at the end of the period was £94.5m, down from £102m at the start of the year, and this is expected to decline further during the rest of the year. The second half has started well and sales are expected to grow strongly during the period. The fall in the share price has taken the shares down to what we feel is a good entry point. **BUY.**

Coral Products – 14.75p

The company issued a trading update to coincide with its AGM recently and, whilst overall trading has been good so far in this financial year, there are some signs of a slowdown beginning to appear. The first quarter of the year began strongly and the four companies acquired during the previous financial year have been integrated well. The company has also announced that it is to commence a share buyback programme which may entail the purchase of up to 5m shares in the company, although the maximum amount that can be spent will not exceed £700,000. This should help to put a floor under the share price at current levels unless there is some unexpected negative news. The group remains confident of making progress in the current financial year and even assuming a maintained full year dividend of 1.1p per share the shares will be yielding 7.5%. We believe the fall in the share price has been overdone and the shares are a **BUY.**

Journeo – 218p

In the six months to 30 June, revenues at the group grew significantly to £21.8m (2022: £8.9m) and profit before tax on continuing operations was up almost tenfold at £1.66m (2022: £0.17m). Earnings per share rose to 9.03p (2022: 1.92p). These results have benefitted from acquisitions that have been made, notably that of Infotec which has expanded the company's reach into the rail sector. Cash and cash equivalents at the end of the period were £11.3m (2022 H1: £1.2m) of which £3.5m were customer payments in advance. The group order book at 30 June was a record £27m. The company has also expanded its activities with the purchase of MultiQ Denmark A/S for €2.5m. The latter provides intelligent transport systems to customers in Denmark, Sweden and Iceland. The purchase will strengthen Journeo's exposure to the region as it already has a presence in Stockholm, and the acquisition will provide cross-selling opportunities for the group's other products. This looks a good acquisition for the group and it should be a contributor to profits immediately. The second half has started well and despite the rise in the share price we believe that there is further to go. The shares remain a **BUY.**

Galliford Try – 219.5p

The company has reported its results for the year to 30 June and these have revealed that revenues have risen by almost 13% to £1.39bn, with adjusted pre-tax profits increasing by 22.5% to £23.4m. Earnings per share on the same basis rose by 18.1% to 18.9p and the full year dividend was raised by 31% to 10.5p per share. All the operating divisions of the group performed well, increasing revenues and profits, and at the year end the group had net cash of £220m. As previously announced the company is also paying a special dividend of 12p per share which is due to be paid next month. These are clearly very good results and the outlook at the group is improving with a high quality order book of £3.7bn. This means that the company is likely to achieve results in the current financial year towards the top

end of expectations with adjusted pre-tax profits of £28m on the cards for earnings per share of 22.5p. This puts the shares on a very undemanding rating and we therefore rate the shares as a **BUY.**

Manx Financial – 16.5p

The Isle of Man based financial group has issued interim results covering the six months to 30 June and these are yet another record. Pre-tax profit for the period increased by 30% to £3.0m (2022: £2.3m). The group lent a record £182.6m during the period, an increase of 65% on the amount lent in the first half of 2022. Conister Bank remains the driver of the group although all of the group's other major operating subsidiaries performed well. In what may also be a significant development, Conister Bank has also been granted a UK branch banking licence. This will enable it to take deposits in the UK for the first time (it can already do this in the Isle of Man) and will therefore provide a further source of funding. The recent fall in the share price has been overdone in our view and provides an excellent opportunity to **BUY.**



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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
9th November**

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