

cityconfidential

sorting the bulls from the bears

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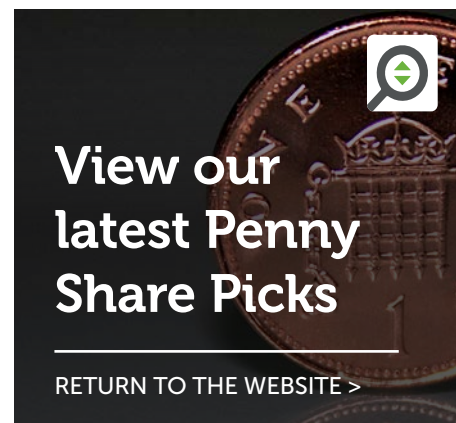
Aggressive Growth Portfolio

Monthly News Highlights



CURY

47.5p BUY



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Tune in for Christmas!

Many readers may be surprised that we are recommending shares in the electrical goods retailer **Currys** (47.5p). The company has suffered over recent years from high levels of competition whilst pressure on consumer spending has also had a negative impact. This has resulted in a poor financial performance and the company moved into the red in the year to 30 April 2023 with no final dividend being paid as the company moved into cash preservation mode. However, the news that the group is to sell its business in Greece for £175m will provide some much-needed capital for the group and should encourage investors to hold on for prospects at the company to improve.

Currys is a leading multi-channel retailer of technology products and services operating both online and through over 820 stores in eight countries. Following the disposal of the Greek business the focus will be on the UK and Ireland and its business in the Nordics – which includes Norway, Sweden, Finland and Denmark. The business enjoys market leading positions, and these operate as Currys in the UK and Ireland and Elkjop in the Nordics.

The troubles of the company have been well documented, and the shares have been very poor performers falling from a high of around 500p in 2016. Even as recently as 2021 the share price stood at almost 160p and the current price represents an all-time low. Although

recovery in the shares is not guaranteed, we feel that the disposal of the business in Greece could prove to be a turning point in the group's fortunes. Black Friday is almost upon us and with Christmas around the corner it may be that consumers release the purse strings a little and the company is well placed to benefit.

The proceeds of the disposal will help to reduce the debt at the group whilst the management team will be able to focus on its remaining businesses in the UK and Ireland and the Nordics. It would not take much for the group to move back to reasonable levels of profitability given the operational gearing at the group and we therefore believe that the shares justify a recommendation of **BUY**.



HERC

25.5p SPECULATIVE BUY

The strength of Hercules!

Last month's positive trading update from **Hercules Site Services** (25.5p) has confirmed that the company enjoyed a strong end to the year with the company confirming that its results for the year to 30 September will be ahead of market expectations. Despite this positive news, the shares failed to react and languish close to an all-time low. Revenues are now expected to be in excess of £80m for the year as against expectations of £73.1m with this representing growth of over 60% compared with the previous year.

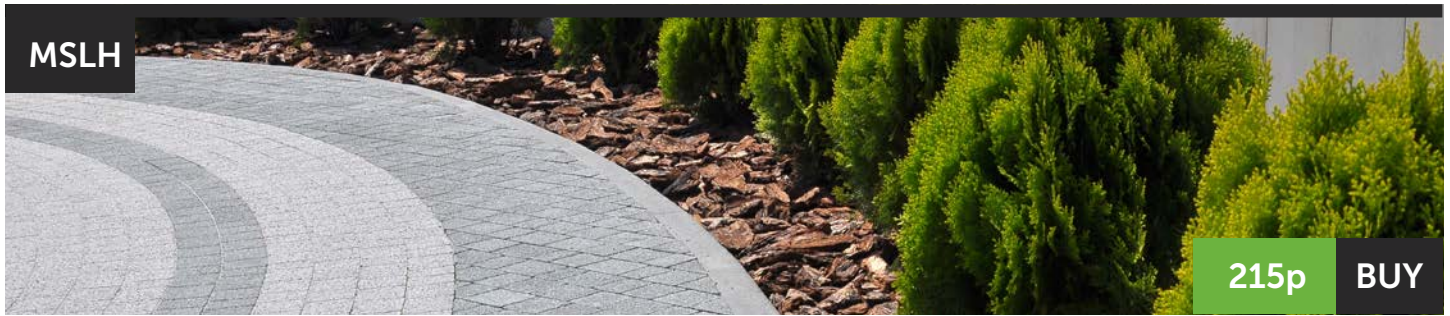
Hercules Site Services was founded in 2008 and joined AIM last year with the shares priced at 50.5p. The company is a leading tech enabled labour supply company for the UK infrastructure sector. The company has established a track record of profitability and has built up a blue-chip client base which

includes well-known names such as Balfour Beatty, Costain and Kier Group. The company has provided labour to work on a number of large infrastructure projects including the M3 and M4 Smart Motorway Projects and the Peterborough Gas Compressor Station upgrade as well as work on various sewage treatment plants. The company has also been involved with the HS2 project. In addition to supplying labour the group also has a fleet of suction excavators which it hires out to companies in the construction sector.

In its most recent trading statement, the company has confirmed that it continues to make good progress and the continued growth in the infrastructure sector will continue to provide opportunities for the company. Although the cancellation of the northern part of HS2 will reduce opportunities

going forward, the company is still involved in the first section of the project between London and Birmingham and there are over 400 Hercules operatives currently working on the project.

Going forward there is clearly scope for the group to continue to grow with increasing investment in the water sector for example likely to provide further opportunities. The group is likely to see profits increase over the next couple of years with the year to 30 September 2024 seeing adjusted pre-tax profits of £1.0m for earnings per share of 1.7p. Although superficially this does not make the shares look cheap the scope for profits to increase rapidly makes the shares a **SPECULATIVE BUY**.



Marshalls – 215p

SECTOR - CONSTRUCTION AND MATERIALS

The slowdown in the construction sector has obviously had a negative impact on companies in general in the sector and Marshalls has been no exception. The share price of the company has fallen from 750p just two years ago and we now believe that this fall has been overdone. We acknowledge that trading conditions are difficult at the moment, but the company looks set to make adjusted pre-tax profits of £52.5m in 2023 for earnings per share of 15.7p. This would put the shares on a prospective p/e ratio of 13.7x and, assuming a total dividend of 7.9p per share, a yield of 3.7%. However, it must be remembered that just last year the company made record adjusted pre-tax profits of £90.4m and earnings per share on the same basis of 31.3p. Clearly, a return to this level of profitability would make the shares look very cheap and we therefore believe they are good value.

Activities

Established in the late 1880s, Marshalls plc is a leading UK manufacturer of products for the built environment. It operates through three trading divisions: Marshalls Landscape Products; Marshalls Building Products; and Marley Roofing Products. Marshalls Landscape Products (2022: 55% of revenues; 43% of operating profit) is the UK's leading manufacturer of superior natural stone and innovative concrete hard landscaping products, supplying the construction, home improvement and landscape markets. Products supplied include walling, paving and protective street furniture. Marshalls Building Products (2022: 27% of revenues, 25% of operating profit) is a supplier of concrete drainage products, concrete bricks, ready-to-use mortars and aggregates. Marley Roofing Products (2022: 18% of revenues, 32% of operating profit) is a leader in the manufacture and supply of pitched roofing systems, including clay and concrete tiles, timber battens, roof integrated solar solutions and roofing accessories. The Group operates through a national network of manufacturing and distribution sites across the UK.

Marley was acquired in April 2022 and is transformational for the group in its objective of becoming the UK's leading manufacturer of products for the built environment. It has extended the group's product range into the pitched roofing market with an extensive range of products and solutions across the full roofing system with highly recognised and market leading brands.

Marshalls is committed to quality in everything it does, including the achievement of high environmental and ethical standards and continual improvement in health and safety performance. Its strategic goal is to become the UK's leading manufacturer of products for the built environment.

Financial

The financial year to 31 December 2022 saw the group post record levels of revenue and profit. Group revenue rose by 22% to £719.4m (2021: £589.3m), with adjusted pre-tax profits increasing by 25% to £90.4m (2022: £72.1m). Earnings per share on the same basis were 9% higher at 31.3p (2021: 28.6p) and the dividend for the year was also raised 9% to 15.6p per share (2021: 14.3p). The lower increase in earnings per share over 2021 was due to a higher tax charge for the year as well as an increase

in the number of shares in issue following the acquisition of Marley. The latter was acquired in April 2022 for £535m with the consideration being satisfied through a mixture of cash and new shares. At the end of 2022, the group had net debt of £191m on a pre-IFRS 16 basis compared with net cash of £0.1m a year earlier, with the significant increase being due to the acquisition of Marley.

In the six month period to 30 June 2023, group revenues rose by just 2% to £354.1m (2022: £348.4m) although the latest period has benefited from a full contribution from Marley, whereas last year Marley only contributed for two months. On a like for like basis revenues fell by 13%. Adjusted pre-tax profit fell by 26% to £33.2m (2022: £44.6m) with earnings per share on the same basis falling by 38% to 10.2p (2022: 16.4p). The interim dividend more than halved to 2.6p per share (2022: 5.7p per share). Net debt on a pre-IFRS 16 basis fell to £184.6m (2022: £208.2m). As can be seen the level of net debt is gradually reducing and this is expected to continue. However, these results show that trading conditions have been extremely challenging during the period and the company has taken action to reduce its cost base which has resulted in annual cost savings of £9m. This has been achieved by streamlining manufacturing capacity although the group has maintained flexibility in its manufacturing operations so that it can respond rapidly to increase production when trading conditions improve.

Outlook

The difficult trading conditions are not expected to improve any time soon and it may not be until well into 2024 that the company sees a pick-up in business. However, the company has taken action to reduce its cost base whilst also ensuring that as and when trade picks up it can respond quickly to increase its levels of production.

The group benefits from having strong market positions in the various areas in which it operates whilst its strong brand portfolio should also prove beneficial. These factors should help the group to ride out the current challenging markets and will also stand it in good stead when trading conditions return to more normal levels – at that time the group expects to report a material increase in profits.

As we have stated above, the share price has fallen from a high of some 750p a couple of years ago but we are not suggesting that the shares can return to that level in the short to medium term. However, when investors see some signs of recovery we believe the shares have the potential to recover strongly and a move back to the 315p level seen just six months ago is certainly possible – that would represent a gain of over 46%. The shares are 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: 215p	2022	719.4	90.4	31.3	6.9	15.6	7.3
Market Capitalisation: £544m	2023 (est)	672.5	52.9	15.7	13.7	7.9	3.7
2022/23 Share Price Range: 735p/197p	2024 (est)	685.0	61.7	18.5	11.6	9.1	4.2
Website: www.marshalls.co.uk							

Aggressive Growth Portfolio VIII

It is pleasing to see that the portfolio has increased in value over the last month even though it has only risen by 1.8%. As can be seen from the table, the portfolio has outperformed all the benchmark indices but it is interesting to point out that the only positive performance from the indices has come from the FTSE AIM All Share Index. Yet again, the portfolio has outperformed when the overall market has fallen in value, a feature that we have mentioned before.

As the cash balance is low we have needed to raise some liquidity for the portfolio and so we have decided to make two disposals. Firstly, we have sold the remaining 3,000 shares in *Inspired*, disposing of these at a price of 64.5p. This disposal has raised net proceeds of £1,916 for a loss of £417.

It is worth pointing out that we sold part of this holding in June and made a gain of £423 at that point and so overall we have broken even on this holding. We have also sold the holding of 800 *Vesuvius* at 407.8p. This has raised net proceeds of £3,229 for a loss of just £41.

During the month there have been announcements from *Hargreaves Services*, *Halfords Group*, *Ultimate Products*, *TI Fluid Systems* and *Bloomsbury Publishing* and these are either covered in News Highlights or on the website as usual.

Dividends have been received during the month from *Hargreaves Services* (£90), *Costain* (£32) and *Galliford Try* (£198). Rather unusually, there have been special dividends of 12p per share from both *Hargreaves Services* and *Galliford Try* whilst the former also paid a final dividend of 6p per share. Following the investment into the two main recommendations this month there is just £63 left on deposit pending investment.

Performance summary

	7 November 2023	17 October 2023	Gain/(Loss) %
Portfolio Value	£58,643	£57,606	1.8
FTSE 100 Share Index	7,417.76	7,675.21	(3.4)
FTSE All Share Index	4,017.63	4,137.26	(2.9)
FTSE AIM All Share Index	698.63	690.58	1.2

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	430	2,150	280
12,000	Renold	25.1	3,042	30	3,600	20
2,000	Halfords Group	148.8	3,021	218.4	4,368	120
8,000	Costain	40.4	3,280	50	4,000	32
750	Aviva	419	3,189	405.8	3,044	350
2,750	Ultimate Products	132	3,684	129	3,548	105
1,650	Galliford Try	197.8	3,313	237	3,911	155
2,250	TT Electronics	155.6	3,553	156.4	3,519	110
3,000	Macfarlane Group	106.5	3,243	107	3,210	75
2,650	TI Fluid Systems	137	3,684	132.4	3,509	115
1,500	MPAC Group	221.5	3,356	205	3,075	185
5,600	Severfield	62.6	3,559	61.8	3,461	50
850	Bloomsbury Publishing	400	3,451	414.5	3,523	325
1,250	The Character Group	270	3,409	265	3,313	225
2,150	Norcros	150	3,273	152	3,268	130
1,700	Marshalls	215	3,710	215	3,655	175
1,200	Volex	285.5	3,477	285.5	3,426	230
£63	Cash	-	-		63	
				TOTAL	£58,643	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £3,842 *after part disposal.

VLX

285.5p

VOLEX

SECTOR - AIM - INDUSTRIALS
RECOMMENDATION - BUY

The recent trading statement from *Volex*, the power supply and connectivity group, has confirmed that the company remains on track to meet market forecasts for the current year. If this is the case, then in our view the shares look attractive standing on a very modest rating and yet operating in markets which have steady growth potential.

Volex is a global leader in the manufacture and supply of critical power and data transmission products serving a diverse range of markets and customers. The products supplied by the group include power cords, plugs and connectors, cable assemblies and other power products. These are used in a variety of applications including consumer electricals, electric vehicles and the medical industry to name just a few. The company operates from 27 manufacturing locations across 24 countries in Europe, North America and Asia with a global workforce of over 11,500 employees. Its

products are sold either through its own sales force or through a network of authorised distributors.

In the year to 31 March, the group reported that revenues for the year had increased by 18% over the previous year to \$723m, whilst adjusted pre-tax profits were 15% higher at \$59.3m. Earnings per share on the same basis were 12% higher at \$0.302 and the dividend for the year was raised by 8% to 3.9p per share. Net debt at the end of the year, excluding operating leases, was \$74.4m (2022: \$76.4m) and this was after investing \$27m in gross capital expenditure.

The recent trading statement covering the 26 weeks to 1 October revealed a 4% increase in revenues on an organic constant currency basis. The group has stated that its intention is to grow revenues to \$1.2bn by 2027 with \$200m being generated by acquisitions. This continues the recent strategy of seeking growth both organically and through acquisition. Adjusted pre-tax profits in the current year should reach \$72.0m for earnings per share of \$0.36. This would put the shares on a prospective p/e ratio of under 10x and we therefore rate the shares as a **BUY**.

	Year Ending 31 March	Turnover (US\$m)*	Adjusted Pre-Tax Profit (US\$m)*	Adjusted Earnings Per Share (USc)*	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 285.5p	2022	615	51.4	26.9	13.1	3.6	1.3
Market Capitalisation: £518m	2023	723	59.3	30.2	11.6	3.9	1.4
2022/23 Share Price Range: 340p/202p	2024 (est)	860	72.0	36.0	9.5	4.3	1.5
Website: www.volex.com							

*£1 = US\$1.23

News Highlights

Bloomsbury Publishing



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.

TI Fluid Systems – 132.4p

The specialist automotive engineering group has announced a third quarter trading update covering the period to 30 September and, whilst revenues in the third quarter only increased by 0.6%, at constant currency they were up by 7.0%. Looking at the first nine months of the year, reported revenues were up by 8.9% whilst at constant currency the increase was 12.4%. Both of the group's divisions have performed well and this is reflected across all geographic regions. The strength of the Euro against most other currencies has been a negative factor for the group. At constant currency, Fluid Carrying Systems saw revenue growth of 14.3% with Fuel Tanks & Delivery Systems seeing revenue rise by 9.8%. Particularly strong growth was seen in the businesses in North America and Europe and Africa reflecting growth in volumes and new product launches. The group remains confident of the outlook for the year as a whole and, although the shares have so far failed to perform for us, we continue to rate them as a **BUY**.

Bloomsbury Publishing – 414.5p

The independent publishing house has announced its interim results for the six months to 31 August and for the fourth year running it has shown an increase in revenues and profits. The latest results are a record for the first half with revenue rising 11% to £136.7m and adjusted pre-tax profits also increasing by 11% to £17.7m. Earnings per share on the same basis rose by 14% to 17.47p per share and the interim dividend was raised by 162% to 3.7p per share. The exceptional increase in the dividend is due to the fact that the company's earnings are going to be split more evenly

this year rather than the normal bias to the second half and the total dividend for the year is expected to be in line with existing forecasts. The company had net cash of £39.1m at the end of the period. As we said in our recent recommendation, last year the shares enjoyed a good run between October and Christmas and we expect a similar performance this year given the fact that the shares have fallen back from over 490p a year ago. The shares are a **BUY**.

Ultimate Products – 129p

The company, which has changed its name from UP Global Sourcing, has announced its results for the year to 31 July and these have revealed record revenues and profits. Revenue for the year rose by 8% to £166.3m with online revenue increasing by 64% to £41.4m. Although sales to retailers fell by 3% during the year, the second half of the year did see an increase in sales of 8% although this was not enough to overturn the fall of 11% seen in the first half. Adjusted pre-tax profits increased by 6% to £16.8m with adjusted earnings per share up 4% at 15.4p. The full year dividend was also raised 4% to 7.38p per share. Net debt at the end of the year had fallen to £14.8m from £24.3m a year earlier due to the group's strong cash flow. These are clearly excellent results given the challenging trading conditions and yet the shares have not really reacted to them. The current year has started well and net debt should continue to reduce going forward. Standing on a very low multiple of earnings, we believe that the shares could move back up to the 2023 high of over 170p at some point in the coming months for a gain of over 30%, **BUY**.

Hargreaves Services – 430p

The diversified industrial and property group has issued an encouraging statement at its AGM confirming that all three divisions are

doing well. The Services business has had a strong start to the year with over 60 term and framework contracts with blue chip clients providing good visibility of earnings. Regular readers will know that the group is involved with HS2 although the cancellation of the Northern part of the line will have no impact on the group as the uncertainties surrounding this meant that it was never included in future revenue forecasts. At Hargreaves Land, the business continues to realise value from its portfolio of land with the previously announced sale of 20 acres of residential land expected to complete in January 2024 with proceeds of £18.5m being received in four instalments over three years. A slowdown in activity and weaker commodity prices mean that the returns from the German joint venture will be lower than last year. At the end of September the group had net cash of £16m. With the group expected to meet market forecasts for the year the shares remain a **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
14th December

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